

Maintained
Hold

Price (31/07/14) €27.94

Maintained
Target price (12m) €29.00
Forecast total return 7.0%

Market cap €1,634.8m
Bloomberg BEKB BB

Bekaert: 9% beat on 1H14 REBIT, bit more caution on 2H14F

Conclusion. Bekaert reported a 9% beat on 1H14 REBIT, mainly driven by an even better than expected European performance. At the same time, management sounds a bit more cautious on 2H14 price erosion in Chinese tyres and a moderate slowdown in European tyres. At first look, we expect a low single digit upward revision of consensus estimates and expect the shares up 3-4% (after a lacklustre performance in the past three months (-5%)).

1H14 highlights (€m)

	1H13	1H14F	1H14A	% ch.	Cons.
Sales	1,649	1,632	1,609	-2.4	1,626
REBIT	91	94	101	11.0	93
REBIT margin (%)	5.5	5.8	6.3	13.7	5.7
Non-recurring	-2	-8	17	-849.9	-8
EBIT	89	87	118	33.0	85
Financial result	-41	-31	-27	-34.5	-33
Taxes	-30	-25	-23	-22.9	-20
Result from JV's	17	14	12	-27.5	13
Minority interest	-9	-8	-2	-77.2	-7
Net income	26	37	78	199.2	38
EPS (€)	0.45	0.63	1.34	200.4	
Net debt (ING def.)	800	712	708	-11.5	
Regional sales					
EMEA	532	563	555	4.3	562
North America	295	285	281	-4.7	283
Latam	352	297	295	-16.2	298
Asia Pac	470	487	478	1.7	483
Regional REBIT					
EMEA	46	53	64	39.1	53
North America	13	13	14	7.7	13
Latam	28	18	11	-60.7	19
Asia Pac	39	41	43	10.3	40
Other	-35	-31	-31	-11.4	-32

Source: Company data, ING estimates

Sales were broadly in line with expectations and declined 2.4% to €1,609m. Consistent with 1Q14, the company reported good volume growth of 4%, offset by currencies (-5%).

REBIT went up 11% YoY to €101m (6.3% margin), which implies a solid 9% beat on company compiled consensus. The growth was mainly driven by the cost savings and a better mix (more tyre cord sales).

EBIT went up 33% YoY to 118m and came in 39% above consensus, as the company booked a positive €17m in non-recurring elements (instead of the typical €5-10m negative). The non-recurring elements consist of a €14m gain on the sale of property and the reversal of environment provisions in Belgium, €11m from the acquisition in Latam and -€9m from impairments on assets and restructuring. Consequently, net income came in at €78m (€1.34 EPS), materially above ING (€37m) and consensus (€38m).

EMEA reported 4% sales growth YoY and 39% REBIT growth to €64m (11.5% margin) and came in 21% above consensus. This surprisingly strong result is mainly driven by good demand across sector (and certainly in tyre cord), coupled to high utilisation rates in the plants (thanks to past restructuring). Bekaert expects a moderate slowdown in demand from the tyre industry in 2H14, next to normal seasonality.

North America reported a 5% sales decline (due to the weaker US\$) an 8% REBIT growth to €14m (5.1% margin) and came in 8% above consensus. Rope activities performed well and demand from the automotive markets increased as of 2Q14. Agri and construction markets however did not recover from the harsh winter in 1Q14 and demand from cable armoring remained low. Margins improved a bit YoY, but remained low due

to low capacity utilisation and price pressure from imports. Bekaert expects the upward trend in the automotive markets to continue and demand in other sectors to remain stable.

Latam reported a 16% sales decline (due to weaker currencies, passed on lower raw material prices and a weaker mix) and a 61% drop in REBIT to €11m (3.9% margin) and came in 42% below consensus. Latam markets have become more competitive and continue to be impacted by a downturn in mining and public infrastructure activities. Fiscal reforms and election in several countries added to the uncertainty, while Venezuela came to a complete standstill. Bekaert maintained its market share at the expense of some price pressure. On the positive side, Bekaert believes Latam markets have bottomed out and anticipates a modest upturn in 2H14.

Asia Pac reported 2% sales growth (8% organic, yet forex -6%) and a 10% REBIT growth to €43m. This implies an 8% beat on consensus. REBIT growth came from cost savings and positive mix effect, partly offset by further price pressure (c.1% per month in tyre cord). Tyre cord China reported 10% volume growth and Bekaert maintained its market share. Growth in the rest of Asia was solid also, but Bekaert was not yet able to turn around the newly acquired businesses in China and Malaysia. Bekaert is seeing an acceleration of the price erosion in Chinese tyre markets and expect the recently initiated US anti-dumping measures against exports of Chinese tyres could affect activities negatively.

Filip De Pauw, Brussels +32 2 557 16 92