

Friday, 14 November 2014

BEKAERT: 3% beat on 3Q14 sales

Conclusion: Bekaert reported a 5% sales growth in 3Q14 to €814m and came in c.3% above expectations. Sales were driven by solid volumes (+4% vs. INGF +5%) and a surprisingly favorable price/mix/wire rod effect (+2% vs. INGF -4%). Regionally, sales went up most in the Americas (+8% North and +13% Latam), which is a positive surprise, as both regions continued to lag other regions in previous quarters. In its outlook statement (which typically reads cautious), Bekaert broadly reiterated what it said at mid-year, with some nuances. In China, management continues to flag price erosion (but 3Q showed its not -10% annualised) and adds a comment of a weakening industrial demand (in line with recent macro data). For EMEA management continues to anticipate a moderate slowdown in tire cord, coupled to normal seasonality. For Latam, the tone is slightly more upbeat: from 'markets have bottomed out' to 'project turnaround to maintain, coupled to a mitigation of adverse currency effects on a year-to-date basis'. We expect consensus estimates to be revised up by a low to mid-single digit percentage and expect a similar share price reaction. Bekaert is currently trading at 12x consensus PER 2015F, in line with the forward looking multiple of the last decade.

Bekaert 3Q14 highlights (€m)

	3Q13	3Q14A	% ch.	INGF	Cons.
EMEA	259	264	1.9	262	268
North America	129	140	8.5	130	135
Latam	144	163	13.2	152	146
Asia Pac	241	247	2.5	244	245
Consolidated sales	773	814	5.3	787	794

Source: Company data, ING estimates

EMEA: Bekaert reported 2% YoY revenue growth to €264m in 3Q14, slightly above our estimate of €262m, and was supported by strong demand from Europe, particularly in the automotive, energy-related and other industrial markets. For 4Q14, Bekaert expects a moderate slowdown in demand from the tire industry, on top of the typical seasonal effects, which should not come as a surprise.

North America: Beating INGF and consensus by 8% and 4% respectively, North America posted revenue growth of 8.5% YoY to €140m in 3Q14. Revenue growth was primarily driven by volume growth supported by the automotive and construction markets. Demand in 4Q14 is expected to remain stable in its key end-markets, while taking into account seasonality effects.

Latam: Bekaert also positively surprised with its Latam revenue, which grew 13% YoY to €163m, above INGF (€152m) and consensus (€146m), despite negative forex developments. Organic growth amounted to +9% during the quarter, driven by higher volumes (+4%) and higher prices (+5%). Bekaert expects a confirmation of the upward trend in its markets in Latin America in 4Q14, with the exception of Brazil.

Asia Pac: Growing 2.5% YoY, Asia Pac reported revenue of €247m during the quarter, and was c.1% above our and consensus estimates. The increase in revenue was explained by volume growth in the highly competitive tire markets (+9%), partly offset by price pressure. Management expects continued price erosion in Chinese tire markets, and an overall slowdown of demand in its key end-markets in 4Q14.

Net debt amounted to €717m at the end of 3Q14, slightly below the level of 3Q13 (€730m), but up vs end 2013 due to higher working capital and the share buyback.

On the **Pirelli** acquisition finally, after a rapid approval in Europe and Brazil, the company does not anticipate a deal closing in 2014, due to an extension of the applicable control procedure in Turkey. We currently have consolidation of Pirelli as of 1 January 2015 in our model, hence this could be (partly) delayed.

Price: €24.9. Last published: target price: €29.0; recommendation: Hold

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