

Friday, 27 February 2015

BEKAERT: No further surprises

Event: FY14 results

Outcome: Neutral

Conclusion: After last week's profit warning, today's results announce should not come as a surprise, and as expected, the dividend proposal is kept stable at €0.85. Hence we do not expect a material share price reaction today. 2H14 REBIT declined 16% YoY, mainly due to a 47% drop in Asia Pac REBIT (price erosion in China). This had led to a 2014 REBIT decline of 1% and a disappointing 5.1% margin. Management is taking a set of actions to drive value creation over time (we expect some more colour on this during the analyst meeting). Bekaert expects the low running rate of the 4Q14, mainly in Asia, to continue in 1Q15. However, the impact from forex should be positive as of 1Q15 and management expects improved demand in the balance of the year. We will review our estimates post the analyst meeting (today at 2pm CET)

2H14 and 2014 key numbers (€m)

	2H13	2H14	% ch.	2013	2014	% ch.
Sales	1,537	1,607	4.6%	3,186	3,216	1.0%
EMEA	508	509	0.2%	1,040	1,064	2.3%
North America	253	274	8.3%	548	555	1.3%
Latam	293	336	14.7%	645	631	-2.2%
Asia Pac	483	488	1.0%	953	966	1.4%
REBIT	75	63	-16.2%	166	164	-1.2%
EMEA	42	50	19.0%	88	114	29.5%
North America	6	6	-3.3%	19	20	5.3%
Latam	16	15	-8.8%	44	26	-40.9%
Asia Pac	38	20	-46.6%	77	63	-18.2%
Other	-27	-28	n/a	-62	-59	n/a
EBIT	48	53	10.8%	137	171	24.6%
EPS (€)	-0.03	0.17	n/a	0.91	1.51	66.0%
DPS (€)				0.85	0.85	
Net debt	574	853	48.6%	574	853	48.6%

Source: Company data, ING estimates

Highlights:

- EMEA: sales came in at €1,064m in 2014, up 2.3% YoY, while REBIT increased 30% YoY to €114m, primarily driven by higher volumes and a favourable product mix. Most end markets in Europe saw strong demand throughout 2014, particularly the Automotive market, which boosted volume growth for tire cord and other steel wire applications.
- North America: sales increased only 1.3% YoY to €555m in 2014, as higher demand from automotive markets could not compensate for lower demand in the industrial, construction and agricultural markets. REBIT came in at €20m and was negatively impacted by underutilized production capacity and price pressure from imports. Bekaert was also affected by a fire which caused structural damage to parts of its production plant in Rome. Although slight improvements are expected in 2015, Bekaert sees continued price pressure and higher transportation expenses and partial volume losses due to the fire, to affect its profitability during the year.
- Latin America: Affected by increased competition from Asian imports, coupled with political uncertainty in the region, Latam saw its sales declining by 2.2% and REBIT declining by 40.9% YoY in 2014. Excluding the impact of acquisitions, and of Venezuela, where volumes declined by over 40% due to forced shutdowns, the region saw stable volumes YoY. In 2H14 however, revenue increased 15% YoY benefitting from a favourable price-mix and a much lower impact of adverse currency effects (vs. 1H14).

- Asia Pacific: Driven by 6% volume growth, sales came in at €966m in 2014 (1.3% YoY). Volume growth was however hampered by the effects of price erosion, currency movements and passed-on lower wire rod prices. The region saw strong sales in the first 9 months, but was followed by a weaker 4Q due to a slowdown in demand in Chinese tire markets. Bekaert held on to stable prices in China in 4Q14, and lost some market share in truck tire markets. REBIT came in at €63m, 18% lower than in 2013.

Price: €27.3. Last published target price €29.0 and recommendation HOLD

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