

Maintained

Buy

Price (12/11/15) €26.70

Maintained

Target price (12m) €34.00

Forecast total return 30.7%

Market cap €1,490.6m

Bloomberg BEKB BB

Bekaert: 3Q sales impacted by pass-on of lower wire rod prices, cash generation better

Event: 3Q15 trading update

Outcome: Neutral

Conclusion: 3Q15 sales rose 10.3% to €898m, 5% below company compiled consensus. In our view, the shortfall was mostly due to lower wire rod prices (-6%) which were passed on to clients. This effect was overlooked by ourselves and consensus, but should not have a meaningful impact on margins, in our view (just a pass-on of lower input costs). The positive effect from volumes and price/mix (+1%) is encouraging. The outlook statement remains broadly the same: (1) ongoing solid demand from automotive in 4Q, (2) ongoing subdued demand in oil & gas and a difficult macro environment in Latam, (3) strong performance of the recent acquisitions, (4) confirmation of no major sales decline in China, as opposed to 4Q14 (which eliminates the bear case in our view) and (5) confirmation that margins should improve in 2H15F. The most positive in the press releases is the €117m fall in net debt to €906m, due to a decrease of working capital and solid cash generation. Management now guides for net debt of c.€900m at year-end. This is c.€100m below our forecast and Bloomberg consensus and equates to c.€2 per share. All said, we expect sales estimates to be revised down, but cash flow estimates to be revised up. In case of share price weakness today because of the sales miss, we would consider this an opportunity to enter the shares: we believe the company has room to beat 2015F REBIT consensus and on our estimates the shares trade at an undemanding 5.3x EV/EBITDA and 11.2x PER 2016F (vs. 9.7x EV/EBITDA and 15.3x PER for the Stoxx 600 Industrial Goods & Services index).

3Q15 consolidated sales (€m)

	3Q14	3Q15	% chg	INGF	Cons.
Sales	814	898	10.3	955.0	943.0
- EMEA	264	296	12.1	308.9	313.0
- North America	140	146	4.3	151.1	156.0
- Latam	163	180	10.4	196.0	191.0
- Asia Pac	247	277	12.1	299.0	283.0

Source: Company data, ING estimates, Bloomberg consensus

Highlights:

- EMEA: The segment reported 12% YoY consolidated sales growth to €296m in 3Q15, but came in 6% below our estimates. The growth was driven by acquisitive growth and firm demand. Organic growth was flat, driven by higher volumes, with normal seasonality partly offset by a negative impact of passed-on lower raw material prices. The company anticipates continued solid demand and performance for the next quarter, mainly driven by automotive markets.
- North America: Missing consensus by 6%, segment sales came in at €146m (up 4% YoY), mainly driven by favourable currency impacts (+15%) offset by organic growth decline due to the volume loss from the fire damage at the Rome plant. Bekaert expects 4Q15 to remain stable in its key sectors.
- Latin America: Sales improved 10% YoY to €180m, 6% below the consensus estimate of €191m. The YoY growth was driven by acquisitions, organic volume growth and an improved price-mix, partially offset by declining passed-on raw material prices. Currency impacts remained neutral as the negative impacts of the weaker Euro was offset by regional currency devaluations. Going forward, the company expects continued negative impacts from economic evolutions in the region as well as negative effects from exchange rates and raw material prices.
- Asia Pacific: Sales in the region missed consensus of €283m and came in at €277m (up 12% YoY), driven by acquisitions (+7%) and favourable currency impacts (+13%). Organic sales declined mainly as a result of price erosion due to the passed-on lower wire rod prices. Bekaert anticipates a higher run rate to continue in 4Q15, compared to the weak 4Q14.

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