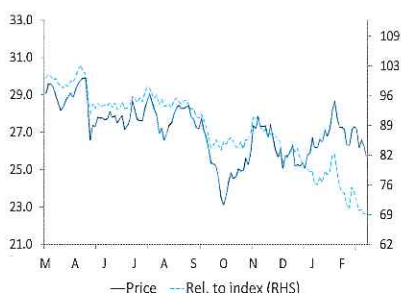


27 March 2015

BEKAERT

Read-through Xingda and Shougang results

GENERAL INDUSTRIES
BELGIUMCURRENT PRICE € 25.71
TARGET PRICE € 30.00ACCUMULATE
RATING UNCHANGED

Source: Thomson Reuters Datastream

Bloomberg BEKB.BB
Reuters BEKB.BR

www.bekaert.com

Market Cap € 1,539.3m
Shares outst. 60.1m
Volume (daily) € 2,261,397
Free float 62.0%

Next corporate event

Trading update 1Q15: 13 May 2015

(€ m)	2014	2015E	2016E
Sales	3,215.7	3,441.7	3,535.3
REBITDA	341.9	359.3	365.5
Net earnings	87.2	88.0	103.5
Adj. EPS (€)	1.41	1.64	1.90
P/E (x)	19.2	15.7	13.5
EV/REBITDA	7.9	7.6	7.3
FCF Yield	-1.5%	2.1%	6.9%
Dividend yield	3.1%	3.3%	3.9%

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Yesterday, both Xingda and Shougang released their FY14 results.

Xingda: 8% volume growth, 6.9% decline in ASP

Xingda realised 8% volume growth to 592,600t. Volumes of tire cord increased by 8.5% to 513,900t with 5.3% growth in tire cord for trucks (335,300t) and 15.0% growth in tire cord for passenger cars (178,600t). At the end of 2014, annual production capacity of the Jiangsu facility was increased from 520 to 560kt p.a. Trial production of the new Shandong plant with initial capacity of 50kt has started in 1Q15. Revenues increased by 0.2% to RMB 5,594.9m. The ASP for tire cord declined by 6.9% last year to RMB 9,979/t with 7.0% decline in ASP of tire cord for trucks against 6.2% decline in ASP of tire cord for passenger cars. Gross profit decreased by 8.1% to RMB 112.5m (margin from 24.8% to 22.8%). With regards to the outlook, Xingda still sees fierce industry competition. This price competition might lead into industry consolidation and may eliminate some small-to-midsized enterprises.

Shougang: 4.4% volume growth, 8.4% decline in ASP

Shougang Concord Century reported a 3.8%, 37.6% and 41.0% decline in revenues, gross profit and adjusted EBITDA to resp. HK\$ 1.79bn, 133.8m and 116.9m. The company reported EBITDA and net earnings of HK\$ -52.2m and -275.8m also reflecting significant non-recurring items incl. allowance for inventories, allowance for debt and doubtful debt and impairment losses. Steel cord volumes increased by 4.4% to 118,554t while the ASP declined by 8.4%, reflecting overcapacity in the market. Steel cord volumes for truck tires increased by 2.4% to 86,235t while volumes for passenger car tires were up by 12.2%. Shougang is not optimistic on the outlook for FY15, expecting continued price pressure given excess capacity in the market.

Acquisition of Pirelli's Chinese tire cord plant completed

Bekaert this morning announced it has completed the acquisition of Pirelli's tire cord plant in China. The Chinese plant will be consolidated in Bekaert's results as from 1 March 2015. Bekaert now has fully closed the acquisition of the Pirelli tire cord plants, which are to lift Bekaert's annual tire cord capacity by 150kt to close to 1mt p.a. The activities are expected to add approximately € 300m in revenues and € 28m in REBIT. At an estimated 5 to 6x EV/EBITDA (EV of about € 255m), we consider the deal attractively priced.

Conclusion:

In a very challenging market with excess capacity and continued price erosion, Xingda realised a relatively strong performance with high capacity utilisation, expanding its market share. Performance of Shougang continues to significantly lag on Xingda and Bekaert. Both players are relatively prudent on the outlook for the Chinese tire cord market, referring to excess capacity and expectations for continued price erosion. This fits with comments from Bekaert at the FY14 results presentation. At the other hand, Bekaert will benefit from the integration of the Pirelli activities this year while its activities in EMEA are expected to remain firm.