

29 August 2011

BEKAERT

Xingda and Shougang H1 results

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 36.31
TARGET PRICE € 54.00

ACCUMULATE
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg	BEKB.BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 2,174.1m
Shares outst.	59.9m
Volume (daily)	€ 9,776,223
Free float	62.0%
Next corporate event	

Trading update 3Q11: 10 November 2011

(€ m)	2010	2011E	2012E
Sales	3,262.5	3,472.4	3,655.7
REBITDA	724.7	612.8	614.6
Net earnings	367.6	245.8	241.4
Adj. EPS (€)	6.52	4.42	4.35
P/E (x)	5.6	8.2	8.3
EV/REBITDA	3.8	4.8	4.6
FCF Yield	0.0%	-3.5%	9.2%
Dividend yield	4.6%	4.6%	5.1%

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Friday, Chinese competitors Xingda (before market) and Shougang (after market) reported their 1H11 results.

Xingda reported a 10.5% y/y increase (4.4% decline sequentially) in sales volumes to 226.6k tonnes. Revenues are reported at 2,805m RMB, up 10.5% y/y but down 3.0% sequentially. Gross profit declined by 7.0% y/y and 7.7% sequentially to 758m RMB. Gross profit margin amounted to 27.0%, down from 32.1% in 1H10 and 28.4% in 2H10.

The company increased its radial tire cord capacity to 500kt and targets total production capacity exceeding 600kt by 2012, reaching 700kt by 2013. The company commenced mass production of sawing wire in December 2010 and currently has a production capacity of 12k tonnes. Xingda realised a sales volume of 2.0kt of sawing wire (0.9% of Group total) corresponding to 131m RMB in revenues (4.7% of Group total). As a result, Xingda's ASP of sawing wire corresponds to 65,500 RMB/t in the first half.

Shougang, which issued a profit warning end of June, increased its sales volume by 6.1% y/y to 44,065 tonnes of steel cord. In addition, the company started production of half products for sawing wire (709 tonnes) and commenced trial production and sales of sawing wire (4 tonnes). Steel cord production at JEsc (Jiaying Eastern Steel Cord) amounted to 33,299 tonnes and 10,766 tonnes at TEsc (Tengzhou Eastern Steel Cord). As a reminder, TEsc is currently in ramp up with a target capacity of 100kt.

Revenues (steel cord segment) increased by 7.6% y/y to 660.0m HK\$ while the gross profit was down 40.3% y/y to 94.9m HK\$ (margin from 25.9% to 14.4%). Gross profit at JEsc amounted to 90.2m HK\$ (17.9% margin, down from 30.8%) and 2.9m HK\$ at TEsc (1.8% gross profit margin). The ASP of steel cord declined by 5.9% vs. the same period last year.

Conclusion:

Bekaert's 1H11 sales in Asia Pacific increased by 15.8% y/y to € 639m (-8.2% sequentially). EBITDA (AP) increased by 1.6% y/y to € 256m corresponding to a margin of 40.1%, down from 45.7% in 1H10 and 44.3% in 2H10. When comparing with key competitor Xingda, one must note the differences in mix (Xingda does mainly reflect the market for tire cord) and Bekaert still had a very strong first quarter in sawing wire. The Shougang numbers came very weak and are very much company specific (ramp-up of the new TEsc plant in a market which did slow down, higher exposure to commoditised market).

Both results announcements did not trigger a revision of our earnings estimates for Bekaert. For the current year, we bank on 6.4% top-line growth to € 3,472.4m, a 24.9% decline in recurring EBIT at € 422.6m and a 33.1% decline in the net result to € 245.8m. For the second half, we bank on recurring EBIT of € 180.3m (10.7% margin), down from € 242.3m in the first half and € 300.5m in the same period last year.