

26 March 2012

BEKAERT

Shougang and Xingda results

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 25.31
TARGET PRICE € 25.00

HOLD
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg BEKB.BB
Reuters BEKB.BR

www.bekaert.com

Market Cap € 1,515.4m
Shares outst. 59.9m
Volume (daily) € 7,541,702
Free float 62.0%

Next corporate event

General Assembly 11: 9 May 2012

(€ m)	2011	2012E	2013E
Sales	3,340.0	3,337.8	3,466.2
REBITDA	475.7	329.8	401.7
Net earnings	192.6	13.3	78.9
Adj. EPS (€)	2.81	1.44	1.67
P/E (x)	19.5	17.6	15.1
EV/REBITDA	8.5	6.9	5.5
FCF Yield	-2.1%	4.3%	6.7%
Dividend yield	2.1%	3.0%	4.0%

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Thursday and Friday, after market, Shougang Concord Century and Xingda International reported their FY11 results. As both companies already issued a profit warning and Bekaert already reported its FY11 results ahead of its Chinese competitors, we were especially interested in the detailed comments, rather than headline numbers.

Shougang reported a 43.8% decline in its gross profit for the tire cord segment to RMB 151.4m (margin from 21.5% to 11.1%). The average selling price declined by 8.3%, reflecting a change in mix (increased sales of tire cord for passenger car tires vs. truck tires) and intensified market competition. Decline of gross profit margin reflects this decline in ASP together with increase in production costs. Production volumes at Shougang are up 11.3% to 94.8kt. We finally note the more limited growth of steel cord for truck tires (+1.9%) vs. passenger car tires (+36.4%)

Xingda's revenues are up 2.2% to RMB 5,551.4m. Gross profit declined by 20.6% to RMB 1,298.5m with gross profit margin down from 30.1% to 23.4%, reflecting higher raw material costs and decline in average selling price for both tire cord and sawing wire. EBITDA declined 20.5% y/y to RMB 1,183m with margin declining from 27.4% to 21.3%. The net profit decreased by 46.7% to RMB 562.7m. On a comparable basis (excluding exceptional items), the decline would have been 36.1%.

Total sales volume increased by 3.1% to 455,600 tonnes. Volumes are split 383,400 tonnes tire cord (+3.0%), 68,300 tonnes bead wire (-2.1%) and 3,900 tonnes sawing wire (new). Volumes in tire cord are split into 255,300 tonnes truck tire cord (-7.5%) and 128,100 passenger car tire cord (+33.2%).

Production capacity at the end of the year amounted to 500kt tire cord, 100kt bead wires and 12kt sawing wire. Xingda indicated it will cautiously monitor its capacity expansion plans to accommodate future market trends.

Conclusion:

A read-through of the Shougang and Xingda results especially provided interesting information of the evolution in ASP and volumes at two major Chinese competitors. Interesting to note was the split in volume growth between steel cord for passenger car tires and truck tires. Also Bekaert indicated to see better growth prospects in steel cord for passenger car tires. While in recent years the company might have neglected a bit the low-end of the market, we would not rule out Bekaert trying to recapture some market share here.