

22 August 2013

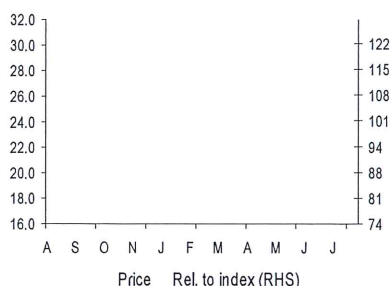
## BEKAERT

### Xingda reports strong set of results

GENERAL INDUSTRIES  
BELGIUM

CURRENT PRICE € 27.65  
TARGET PRICE € 22.00

**HOLD**  
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg BEKB.BB  
Reuters BEKB.BR  
www.bekaert.com

Market Cap € 1,655.8m  
Shares outst. 59.9m  
Volume (daily) € 3,422,629  
Free float 62.0%

Next corporate event

Trading update 3Q13: 14 November 2013

(€ m)	2012	2013E	2014E
Sales	3,460.6	3,231.8	3,321.1
REBITDA	274.8	314.7	353.9
Net earnings	-194.9	26.9	62.8
Adj. EPS (€)	-1.17	0.62	1.19
P/E (x)		44.6	23.2
EV/REBITDA	8.3	7.9	6.8
FCF Yield	8.6%	9.8%	6.2%
Dividend yield	3.8%	3.1%	3.6%

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Yesterday, after market, Xingda reported 1H13 results.

The company reported a strong set of numbers. Volumes were up by 8% y/y to 262.1kt. Tire cord volumes increased by 10.2% to 227.4kt. Truck tire cord volumes increased 11.6% to 150.5kt against 7.6% to 76.9kt for passenger car tire cord. Bead wire volumes were stable at 32.6kt. Sawing wire volumes declined from 3.7kt to 2.1kt. Revenues were down by 2.0% but gross profit increased by 18.1% y/y with gross profit margin up from 20.6% in 1H12 and 20.2% in 2H12 to 24.8%. EBITDA is up 22.8% y/y to 613m RMB with margin increasing from 18.1% in 1H12 and 17.0% in 2H12 to 22.6%.

Capacity utilisation in tire cord increased from 84% in the same period last year to 89%. The company currently has 500kt of annual tire cord capacity at its Jiangsu factory. By early 2014, the company expects its new factory at Shandong to become operational with initial capacity of 50kt.

In its outlook statement, Xingda refers to a favourable environment driven by burgeoning replacement demand for truck tires and rising need for passenger vehicles in China.

As a reminder, Bekaert Asia Pacific sales declined by 1.7% y/y to € 470m, reflecting the integration of the acquired Malaysian activities (impact of 7%) and an organic volume increase of 4% that was more than offset by lower selling prices due to cheaper wire rod (-3%) and a negative price/mix impact (-9%). EBITDA was down 16.8% y/y to € 84m.

#### Conclusion:

Xingda reported a strong set of numbers with sales slightly down but gross margin and EBITDA margin up on increased volumes/capacity utilisation.

Recall that in its outlook statement, Bekaert warned that "the volatile and increasingly competitive environment in Asia may lead to renewed price pressure". This volatile and increasingly competitive environment is coming from competition (i.e. Xingda) gaining market share as well as more capacity coming on stream (e.g. Baosteel entered the market with a new plant, new Xingda plant becoming operational early 2014).

Bekaert has made attempts to stabilise or even increase prices in 2Q13. However, these attempts have not been followed by some of its key rivals, allowing them to gain market share. Bekaert is determined to defend/regain market share, which is expected to result in lower prices and margin erosion in the second half.