

8 November 2013

## Bekaert

### Preview trading update

General Industries  
Belgium

Current price € 30.40  
Target price € 22.00

**Hold**  
Rating Unchanged

Thursday, before market, Bekaert will release its 3Q13 trading update. The Company will release (consolidated and combined) sales data for the quarter with some qualitative comments.

At publication of 1H13 results, 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.

The prudent message from Bekaert contrasts with Xingda who referred in its outlook statement to a favourable environment driven by burgeoning replacement demand for truck tires and rising need for passenger vehicles in China. The company recorded 8% y/y volume growth in H1 with capacity utilisation up from 84% to 89%.

In its Q3 trading update, Michelin mentioned positive market trends for both the passenger car tire as well as truck tire market. Global passenger car tire volumes were up respectively 4% and 5% y/y in the OEM and replacement market. Global truck tire volumes were up by 6% y/y in both the OEM and replacement markets. Strong growth was recorded in Asia Pacific (8%).

We expect Bekaert to report consolidated sales of € 830m, down 4.0% y/y. Consolidated sales at EMEA, North America, Latin America and Asia Pacific are seen at respectively € 260m (+2.8%), € 155m (-6.6%), € 185m (-12.7%) and € 230m (-1.7%). Sales in Latin America will continue to be impacted by Bekaert applying hyper-inflation accounting for its activities in Venezuela.

#### Conclusion:

Bekaert traditionally provides a qualitative outlook statement. While we do not expect a dramatic change in its outlook statement we do not rule out a lightly less bearish tone given more recent comments from players such as Xingda and Michelin. While we have slightly upped our scenario, allowing an increase in our target price from € 22 to € 26 per share, we continue to regard current share price levels as full and hence stick to our hold recommendation.