

29 August 2014

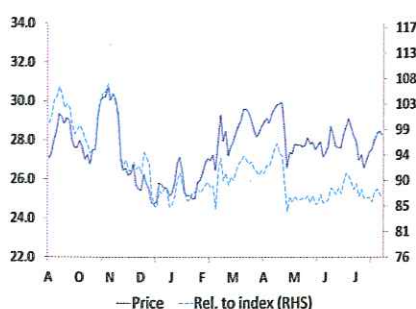
BEKAERT

Read-through from Xingda and Shougang

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 28.26
TARGET PRICE € 30.00

ACCUMULATE
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg	BEKB.BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 1,692.3m
Shares outst.	60.1m
Volume (daily)	€ 2,235,149
Free float	62.0%

Next corporate event

Trading update 3Q14: 14 November 2014

(€ m)	2013	2014E	2015E
Sales	3,185.6	3,167.2	3,391.1
REBITDA	297.0	340.9	380.1
Net earnings	24.6	100.4	113.7
Adj. EPS (€)	0.78	1.57	2.08
P/E (x)	31.7	18.0	13.6
EV/REBITDA	7.5	7.7	6.8
FCF Yield	13.3%	6.5%	4.5%
Dividend yield	3.4%	3.0%	3.0%

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Yesterday, after market, both Xingda and Shougang reported 1H14 results.

Xingda: volumes up 10.9%, 5.7% decline in ASP

Sales volumes increased by 10.9% to 290,600 tonnes, with radial tire cords up 10.6% to 251,400 tonnes (166,300 tonnes for trucks and 85,100 tonnes for cars), bead wires up 14.4% to 37,300 tonnes and sawing wire down 9.5% to 1,900 tonnes.

Xingda increased the annual capacity of its Jiangsu factory from 520 to 550,000 tonnes. However, trial production of the new Shandong plant (50,000 tonnes) has been postponed to 2015.

Revenues increased by 4.0% to RMB 2,817.3m while gross profit declined by 1% to RMB 664.0m (gross profit margin from 24.8% to 23.6%), reflecting declined average selling prices. EBITDA was down by 3.4% to RMB 592.2m.

Based upon Xingda reported revenues and production numbers by product category we calculate the decline in ASP at 5.8% to RMB 10,254/t for tire cord with decline of 6.0% for truck tire cord and 5.3% for passenger car tire cord. Xingda indicated that "as from the second quarter, unexpected price competition started to place downward pressure on radial tire cord margins."

Shougang: volumes up 8.9%, 4.4% decline in ASP

Shougang reported an 8.9% volume increase to 56,200 tonnes with steel cord for truck and off-road truck tires up respectively 17% and 13% to 43,667 and 2,208 tonnes while tire cord for passenger cars was down 16.3% to 10,325 tonnes. The company reported a 4.4% decline in ASP as "price pressure had not relieved during the period due to overcapacity".

Revenues for steel cord increased by 6.2% to HK\$ 710.7m while gross profit was up 16.9% to HK\$ 84.0m (margin from 10.7% to 11.8%).

Conclusion:

Xingda and Shougang reported annual volume increases by 10.9% and 8.9% with annual declines in ASP for tire cord of 5.7% and 4.4%. Recall that Bekaert realised strong volume growth in Asia Pacific of about 10% in 1H14. With regards to the outlook, Bekaert perceived an acceleration of price erosion in China from "mid-single digit %" (which is confirmed by both Xingda and Shougang numbers) to "around 10% on an annual basis currently".

It is interesting to note that Xingda has postponed trial production of its new plant to next year while its comments seem to suggest it was surprised by the increased price competition (a bit contradictory to consensus that Xingda is putting pressure on prices in order to fill its new plant). We finally note that all three players seem to have realised similar volume growth during the period.

No change to our rating and target price.