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Bekaert (EUR 25.99 - Hold) - Sales up 16% but organicly down 4%

Facts: Sales EUR 904m in-line with consensus but below our expectations

- Bekaert releases Q1 sales below our expectations but in-line with average consensus.
- Sales reached EUR 904m versus EUR 962m expected by us and in-line with average consensus.
- The 16% growth rate is thanks to favourable forex for 10%, acquisition impact of 10% also, and -4% organic sales decline. The latter breaks down in a small positive price/mix impact but with volume decline as such exceeding the 4% level.
- EMEA sales reached EUR 313m (+13%) vs. EUR 322m expected (css EUR 321m). In EMEA, compared with a strong first quarter of 2014, organic sales were stable across the region. Bekaert anticipates continued solid demand and performance in most European markets, especially those related to the automotive sector.
- North America sales reached EUR 153m (+10%) against EUR 169m anticipated and css of EUR 153m. Currency effects drove up sales by 18%. Half of this gain was offset by the organic decline due to the anticipated volume losses of bead wire following significant fire damage to the Rome plant in November 2014, the plant closure in Surrey (Canada) at the end of the first quarter of 2014, and a continued tough business climate in industrial steel wire markets. Bekaert perceives continued price pressure in industrial markets, especially when in competition with imports.
- Latam sales amounted to EUR 195m (+39%) vs. EUR 201m expected (css EUR 195m). Bekaert anticipates continued modest organic sales growth for its consolidated businesses in the second quarter of 2015. The Brazilian JV's did well in Q1.
- Asia Pacific sales increased by 8% to EUR 243m vs. EU 270m anticipated and EUR 252m css. In comparison with a strong first quarter in 2014, Bekaert's activities in Asia Pacific recorded a significant organic sales decline (-11%) mainly as a result of the demand slowdown in Chinese tire markets since the last quarter of 2014 and of continued price erosion. Bekaert anticipates continued price pressure in Chinese tire markets in the second quarter of 2015 but believes demand has bottomed out, as the company recorded a volume pick-up from March onwards. This trend seems to be confirmed at the start of Q2.
- Group net debt increased, mainly due to the acquisitions and WC increase, and reached EUR 1.084bn.
- In its outlook, Bekaert expects a volume pick-up in China but with continued strong price pressure, weaker demand from oil related products for steel ropes and industrial wires. EMEA should remain strong in Automotive.

Our View: Solid sales but competitive pressure in Chinese market remains intense

Bekaert's Q1 trading update offers a mixed picture as does the outlook. Chinese price pressure and oil sector related demand are a negative but forex and acquisition tailwinds remain positive and volumes in China are improving.

We will slightly reduce our estimates based on these numbers but the trading update offers no insight on margin evolution. Even if volumes in China improve, the continued strong price pressure is expected to have a negative impact. Europe remains strong but the margin potential looks limited, while Latam margins should improve and North America risks to remain difficult on margin front in H1 due to the factory fire and cheap imports due to the strong dollar.

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Investment Conclusion: We stick to our Hold rating and EUR 26.00 target price

We will slightly but not materially reduce our FY estimates. On our estimates, the shares trade at EV/EBIT '15 of 14.7x and 11.1x 2016. Hold rating maintained.

Details

in EUR m	2014Q1	2015 Q1e	Actual	Diff. vs. est.	Diff. vs. Css
Consolidated sales	**781**	**962**	**904**	**-6.1%**	**0.0%**
EMEA	275	322	313	-2.8%	-2.5%
North America	139	169	153	-9.6%	-1.9%
Latin America	141	201	195	-2.8%	11.4%
Asia Pacific	226	270	243	-10.1%	-3.6%
Combined sales (incl. ass.)	**969**	**1,146**	**1,106**	**-3.5%**	
EMEA	273	320	311	-2.8%	
North America	139	169	153	-9.6%	
Latin America	320	375	393	4.9%	
Asia Pacific	237	282	249	-11.8%	

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