

29 July 2015

Bekaert (EUR 24.935 - Hold) - What about Chinese margins?
Preview

Period	2015 H1 results
Date/Time	Friday, July 31
Recommendation	Hold
Target price	26.0

in EUR	2014 H1	2015 H1e	yoy	Consensus
Combined sales (m)	2,003	2,309	15.3%	
Sales group (m)	1,609	1,918	19.2%	1,894
EMEA	554	637	14.9%	647
North America	281	318	13.2%	314
Latin America	295	397	34.5%	387
Asia Pacific	478	565	18.4%	545
EBITDA (m)	190.5	179.5	-5.8%	198.0
REBIT (m)	100.9	96.0	-4.9%	108.0
EMEA	63.5	70.1	10.4%	72.0
North America	14.1	11.1	-20.7%	13.0
Latin America	11.1	21.8	97.3%	22.0
Asia Pacific	42.5	25.4	-40.1%	31.0
Other	-30.2	-32.5	7.6%	-30.0
EBIT (m)	117.5	88.5	-24.7%	104.0
Fin result (m)	-27.5	-38.0	38.1%	-38.0
Associates	12.5	10.0	-20.0%	12.0
Net profit (m)	78.2	39.8	-49.1%	51.0

Analyst Meeting 2pm

Key items

1. Bekaert's H1 results should show a similar trend as Q1 at topline level with Europe performing strongly, the US facing some production issues and import related price pressure, Latam doing relatively well but with a weaker Brazilian market and China facing continued price pressure. Sequentially, we expect volumes in China to have picked-up from a weak Q1 when organic sales declined by 11%, although it remains to be seen how the quarter ended.
2. We expect H1 sales to have grown by 19.2% against 16% in Q1. The 2 main growth drivers are favourable forex and the consolidation of the Pirelli business. We expect volumes to have been positive again in Q2 but still slightly down for H1.
3. Key question will be the margin impact from continued price pressure in Chinese tire cord. Wire rod prices have been on a continued down slope, mainly because of lacklustre demand from the construction sector, which could short term be positive for margin. In the end, however, overall Chinese business has to improve to eliminate tire cord price pressure. With 4.5%, we are above the 4.3% Asian margin level of H2 2014, but clearly below 2014 H1 level of 8.9%.

Conclusion

We are the low end of analyst consensus for H1 but for the FY we are roughly in line with consensus at REBIT level. At 14x EV/EBIT 2015 and 11x 2016, we believe the shares are fairly valued. Hold.