



31 July 2015

Bekaert (EUR 25.66 - ADD from Hold) - Solid performance in H1 and H2 should be better**Facts: REBIT EUR 112m against EUR 108m consensus expectation**

- Bekaert reported results slightly ahead of consensus and ahead of our expectations.
- Sales came in at EUR 1,897m (+18%) against EUR 1,918m expected and coss of EUR 1,894. Acquisitions (Pirelli tire cord) contributed 10%, favourable forex 11%, price-mix +4% while volumes were down -3% and prices -4%.
- REBIT of EUR 112m was ahead of our expectations of EUR 96m and consensus of EUR 108m, mainly driven by a strong performance in Europe and too low expectations for Asia from our side.
- EMEA performed very strong with sales roughly in-line at EUR 644m (+16%) but REBIT at EUR 80m against EUR 70m expected. Acquisition contributed to 14% of sales growth. Compared with a strong first half of 2014, demand from European markets remained solid. This applied to automotive and construction markets in particular, while energy-related markets showed a slowdown in demand due to a downturn in the oil and gas sector.
- Asian sales were in-line but showed a strong margin recovery. REBIT reached EUR 30m against EUR 25m expected, but in-line with consensus. Profitability improved in the past months but was tempered by building up bad debt reserves for solar customers, in line with the company's prudent valuation rules, and by continued weak performance in South-East Asia. Bekaert expects the tire cord market to remain stable at the level of the second quarter.
- North America was in-line with solid automotive markets but difficult conditions in other industrial markets. Latam was also in-line but Bekaert is prudent for the remainder of the year.
- Net debt was in-line at EUR 1.023bn.
- In its outlook, Bekaert is not too negative and states that: "Bekaert expects continued strong demand from automotive and construction markets in EMEA and North America for the rest of the year, but perceives subdued demand in oil and gas markets worldwide. The tire cord market in China is expected to remain stable at the level of the second quarter. Low oil and commodity prices affect government budgets and public spending in Latin American markets where economic conditions are weakening. We expect to see more benefits from recent acquisitions and investments come into effect in the second half of 2015. These benefits will partially offset the normal seasonality impact."

Our View: Good H1 despite several costs that will no re-occur in H2

Bekaert released a solid performance in H1 with margins in China holding up relatively well despite weak volumes in the first quarter. The declining wire rod prices likely have had a favourable impact in the short term but this also had a negative FIFO impact. The Chinese economy is having difficulties, but the tire cord business is also largely export business and tire cord volumes should be able to outperform the overall Chinese economy.

Europe is doing excellent and in H2 we expect an even stronger relative contribution from Pirelli tire cord. With the first consolidation, inventories were valued at market value, stripping away profits from a couple of months in H1. In H2, also the EUR 7m bad debt reserve in Asia should not re-occur and Bekaert had a large consulting invoice in H1 related to the strategic review, which will not weigh on profitability anymore in H2.

The Sawing wire business in China continues to improve with good volumes and profitability above Asian average. We assume sawing wire again represents about 20% of EBIT in Asia.


Conclusion: Upgrade to ADD - Raising estimates mid-single digit and target price to EUR 29.00

A solid margin performance by Bekaert in H1 despite several "non-recurring" costs. Bekaert is not too negative in its outlook and we believe the Chinese tire cord business is likely to outperform the overall economic environment in China. We will raise our FY estimates and raise our target price to EUR 29.00. At 11x EV/EBIT 2016 we believe valuation is not demanding in view of the further earnings improvement potential.

in EUR	2014 H1	2015 H1	Actual	vs. Exp
Combined sales (m)	2,003	2,309	2,304	-0.2%
Sales group (m)	1,609	1,918	1,897	-1.1%
EMEA	554	637	644	1.1%
North America	281	318	313	-1.7%
Latin America	295	397	400	0.7%
Asia Pacific	478	565	541	-4.3%
EBITDA (m)	190.5	179.5	217.0	20.9%
REBIT (m)	100.9	96.0	112.0	16.7%
EMEA	63.5	70.1	80.0	14.2%
North America	14.1	11.1	12.0	7.7%
Latin America	11.1	21.8	22.0	0.7%
Asia Pacific	42.5	25.4	30.0	17.9%
Other	-30.2	-32.5	-32.0	-1.5%
EBIT (m)	117.5	88.5	110.0	24.3%
Fin result (m)	-27.5	-38.0	-44.0	15.8%
Associates	12.5	10.0	12.6	26.0%
Net profit (m)	78.2	39.8	52.3	31.4%