31.07.2009

Bekaert (EUR 84.46 - ADD) - Better despite higher raw material impact

Facts: EBIT EUR 10m higher despite EUR 20m higher negative impact from raw materials

- Bekaert's H1 sales came in at EUR 1,200m against EUR 1,215 expected, a decline by 8%.
- On a regional level no surprises. EMEA sales amounted to EUR 410m vs 403m expected, North America 263 vs 288 expected, Latam EUR 160m vs EUR 157m expected and Asia Pacific EUR 367m against EUR 366m anticipated.
- Volume, price and currency trends were in-line with expectations.
- Sales were, of course, impacted by much lower wire rod prices. As a result of this, Bekaert had to write down inventory for EUR 40m against EUR 20m expected by us.
- Despite this higher than expected impact, EBIT came in at EUR 79m against EUR 69m expected, i.e. a margin of 6.6%. EBIT before non-recurring items amounted to EUR 86m, i.e. a margin of 7.2% which is within the company's long term guidance range despite the impact of wire rod prices and low capacity utilization in EMEA and the US due to the economic crisis.
- The group's earnings were pulled by China. Asia Pacific EBIT reached EUR 128m (EUR 107m in H1 08) or an EBIT margin of 34.9%. From April onwards, record volumes and sales were reached with very high capacity utilization.
- In Latin America EBIT reached EUR 9m (EUR 11m in H1 08) with an inventory write down impact of a few millions.
- In EMEA the EBIT was negative for EUR 21m (EUR +53m in H1 08) but the negative raw material impact was most pronounced in this region for EUR 25m.
- The US also faced a relatively negative impact of some EUR 5 - 10m, resulting in a negative EBIT of EUR 5m (EUR 21m in H1 08).
- EBITDA came in at EUR 145m versus our estimate of EUR 133.6m.
- Net earnings amounted to EUR 52.4m against EUR 43.5m anticipated.

Our View: China pulls earnings in an extremely odd year

In H1 09, earnings are clearly pulled by China with Asia Pacific recording an EBIT of EUR 128m against a group EBIT of EUR 79m. China benefited from strong government incentive programs but also did not face a negative impact from raw material price declines. This impact was most pronounced in Europe and the US. Without this odd impact, earnings would have been distributed more evenly, as also highlighted by the more balanced breakdown in H1 08.

In recent months, raw material prices have started to stabilize or increase slightly. As a result, in H2 there will be no negative impact from inventory write downs anymore. This would provide a EUR 40m higher starting base, explaining why H2, apart from some economic improvements, will be better than H1.

Conclusion: ADD rating maintained

We keep our ADD rating on Bekaert unchanged. We bank on a much better H2 although H1 was already more resilient than anticipated. We will upgrade our target price of EUR 85 after the analyst meeting. The shares trade at 5.5x 2010 EV/EBITDA.

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