

Bekaert (EUR 90.81 - ADD) - Volumes improving thanks to emerging markets

Sales in line to slightly better thanks to emerging markets. China remains strong and Latin America improves nicely. Q3 volumes are up yoy. ADD maintained.

Facts: Q3 consolidated sales EUR 619m versus EUR 606m expected

- Bekaert's Q3 consolidated sales of EUR 619 were in-line with consensus (EUR 618m) and slightly better than our expectations of EUR 606m.
- Combined sales reached EUR 857m, above our estimate of EUR 825m and consensus of EUR 849m. The strong combined sales are due to a better than expected performance of the non-consolidated Brazilian business with combined sales of EUR 326m against EUR 305m expected.
- North America was weak with consolidated sales of EUR 106m against EUR 117m expected on the back of continued weak market demand, especially in the automotive sector.
- EMEA was in-line with expectations at EUR 198m for the quarter. As in the US, Bekaert is adding volumes of basic products to drive up capacity utilization.
- Asia Pacific continued its excellent performance thanks to China, with sales up 8.5% in the first 9 months and 10% in Q3.
- In the third quarter overall volumes were up thanks to China and prizes were down 40% yoy but have stabilized.
- With high margin regions doing well, profitability should be supported. In Q3, FCF generation was strong with net debt being reduced to EUR 500m (EUR 622m June 30). We believe this is thanks to good inventory management and good profitability.
- Traditionally Bekaert is quite vague in its outlook: "Although Bekaert's automotive-related sales figures have been impacted by an overall weak demand in mature markets, the trend is gradually improving. In line with earlier guidance the substantially lower raw material prices year-on-year will continue to have a corresponding impact on Bekaert's sales for the last quarter of 2009. Notwithstanding this pricing impact as well as the forecasted negative effect of the strong euro, Bekaert expects fourth quarter consolidated sales in line with previous quarters."

Our View: In-line but underlying volumes better than expected

The yoy decline in Q3 is very significant on the back of raw material price declines of 40%. These raw material price declines will still have an important yoy impact in Q4 but are gradually improving sequentially. Volumes on the other hand surprised positively with already positive group volumes in Q3 thanks to China. Also Latin America is doing well with a sequential combined sales increase of 9%.

We will not alter our estimates materially. We will increase our volume assumption for Q4 but also expect a more negative raw material price impact on the topline in Q4. While currencies had a positive impact in the first 9 months they will turn negative in Q4.

Conclusion: ADD rating maintained

In Q4 Bekaert will still be faced with significant yoy raw material price declines and exchange rate movements will turn negative. However, thanks to China and Latin America, volumes evolve better than expected. We will not materially alter our estimates. Sequentially improving volumes should support momentum. At 5.9x 2010 EV/EBITDA we keep our ADD rating.

Details

	Q3 08	Q3 09e	Q3 09a	% change vs. Exp.
Consolidated sales (m)	751	606	619	2.1%
EMEA	302	192	198	3.1%
North America	172	120	106	-11.8%
Latin America	49	81	87	7.1%
Asia Pacific	221	213	228	7.2%
Combined sales (incl ass.)	1,149	825	857	3.9%
EMEA	299	189	197	4.2%
North America	171	117	105	-10.3%
Latin America	453	305	326	6.8%
Asia Pacific	226	214	229	7.1%