

24 February 2012

Bekaert (EUR 27.065 - Hold) - Also Europe and US very weak

Facts: FY EBIT EUR 268m vs. EUR 298m expected

- Bekaert released a weak set of results with sales a bit higher for the FY at EUR 3,340m against EUR 3,315m expected and EBIT below expectations for the FY at EUR 268m against EUR 298m expected.
- This implies a H2 operating margin of 2.3% against 4.3% expected by us.
- This shows that next to sawing wire, also the other businesses had below par profitability in H2.
- Net earnings reached EUR 193m against EUR 174m expected thanks to the capital gain on the divestment of the Specialty Films.
- Net debt reached a high level of EUR 850m but was more or less stable versus the level at the end of H1.
- Remarkable is the shortfall on EBIT in EMEA and NA rather than Asia versus expectations. FY EBIT EMEA was EUR 63m vs EUR 85m expected and North America EUR 31m vs. EUR 48m expected.
- This shows the significant negative impact from: i. the new sawing wire product initiatives that were carried out in Belgium (Aalter) and which will be fully stopped; ii. the new capacity and related start-up costs in Russia and Slovakia; iii. and the Stainless steel wire losses in Europe. There was also a EUR -9m FIFO adjustment impact in H2, mainly in EMEA. The restructuring plan should close the Aalter and stainless steel wire businesses and is one of the main items in the restructuring plan.
- Also in the US, several "non-recurring" items had a negative impact on H2.
- Latam EBIT was EUR 35m vs EUR 30m anticipated and Asia EUR 217m vs EUR 212m expected.
- The dividend is set at EUR 1.17 vs. EUR 0.98 expected after the profit warning.
- On the outlook: Bekaert perceives persistent competitive pressure in mature markets and in China, but is convinced that its strong position in emerging markets, in particular in Latin America and South-East Asia, will continue to produce solid growth. The company expects that the measures announced in early February will produce positive effects as of mid-2012, and drive at restoring Bekaert's long-term profitability by 2014.

Our View: Weak results

The H2 results are clearly below expectations. The shortfall in EMEA and NA, indicate that Bekaert faces more issues than just Chinese sawing wire. However, the low margin in EMEA is also largely due to the losses related to the stopped sawing wire product developments in the Belgian Aalter factory. Volumes in Europe were still satisfactory.

We expected an EBIT margin of 6.1% in 2012 and 7.2% in 2013. Based on these results, we will further reduce our 2012 EBIT estimate by some 18% (to EUR 161m, cons: 176m before results) and EPS by some 25%. Probably we will keep our 2013 estimates unchanged.

Conclusion: Hold maintained

The H2 results are clearly even weaker than expected. We will also further reduce our 2012 estimates. However, the announced restructuring measures should start having a positive impact as from H2 2012 and as such, our 2013 EBIT margin of 7.2% seems reasonable. On 2013, the shares trade at 7.7x EV/EBIT. Our target price is reduced from EUR 28 to EUR 27.

Details

in EUR m	FY 10	FY 11	Actual	vs. Est
Combined sales (m)	4,465	4,595	4599	0.1%
Consolidated sales (m)	3,262	3,315	3340	0.7%
EMEA	1,066	1,163	1169	0.5%
North America	637	687	665	-3.3%
Latin America	311	352	372	5.8%
Asia Pacific	1,248	1,113	1134	1.9%
EBITDA (m)	728	496	476	-3.9%
EMEA	143	139	117	-15.8%
North America	50	68	46	-31.9%
Latin America	39	43	48	11.6%
Asia Pacific	561	323	346	7.3%
Other	-63	-76	-81	6.6%
EBIT (m)	534	298	268	-9.9%
EMEA	86	85	63	-25.9%
North America	32	48	31	-34.7%
Latin America	14	30	35	16.7%
Asia Pacific	467	212	217	2.6%
Other	-63	-76	-78	2.6%
PBT	502	235	249.9	6.4%
Taxes	-140	-64	-68.1	6.1%
Equity results	36	33	25.4	-22.6%
minorities	-31	-29	-14.6	-50.3%
Net earnings	367	174	192.6	10.6%