



9 May 2012

## **Bekaert (EUR 22.7 - Hold): Stronger Q1 sales but from low expectations**

### **Facts**

- This morning Bekaert released a stronger than expected trading update with consolidated sales coming in at EUR 895m while we expected only EUR 813m and consensus stood at EUR 833m.
- Year on year sales were down by 2.5%. Organic consolidated sales were down by 13.7%, the net effect of acquisitions contributed positively by 8.3% and currency movements had a 2.9% positive effect.
- The outperformance compared to our expectations is mainly driven by a stronger than expected performance in Latin America (EUR 197m vs EUR 161m expected), where Venezuela and Peru performed well. In North America (EUR 176m vs 146m expected) activity levels were also good in steel cord and building products. EMEA and Asia Pacific come in as expected. Net debt remains stable compared to year end 2011 (EUR 879m).
- No additional details were provided regarding the cost saving measures but the company believes the first impacts of the realignment measures will be seen as of mid 2012. On the outlook the company highlights the limited visibility in most markets.
- In a separate press released, Bekaert (55%) announced the creation of joint venture with Southern Steel Berhad (45%) from Malaysia. Bekaert will bring in the galvanized wire activity platform (Indonesia) and SSB will inject its Malaysian wire assets. The deal (enterprise value of EUR 47m) will focus on serving customers in the fast growing ASEAN with value added products. The joint venture is expected to generate EUR 60m in annualized sales.

### **Our view**

- Bekaert published stronger than expected sales figures with some interesting regional developments. Strong activity levels in North America, especially in the building and automotive sector, could point to a turning point in this region of the world. Latin America offers interesting prospects with strong performances in Venezuela and Peru. In Brazil efforts have been focused on improving the competitive position (against cheaper imports) and this starts to bear fruit.
- The underlying business performance is solid, especially compared to the very weak Q4 2011 with nearly all regions posting growth. Asia Pacific and China in particular continue to suffer from the collapse of the sawing wire market. However, Bekaert is willing to compensate for this by looking for relays of growth in surrounding ASEAN area (cf. transaction with Southern Steel).
- This being said, despite the beat on top line, we will not materially modify our estimates. We believe margins – on which no information was provided in this trading update - will remain poor in H1.

### **Conclusion**

Strong Q1 trading update showing some interesting underlying developments. However, with the lack of visibility and the absence of detailed information on the cost saving measures we remain prudent. Trading at 11.6x and 9.2x EV/EBITA in respectively 2012 and 2013 valuation offers limited upside. Hold and EUR TP 25 maintained.



<b>in EUR m</b>	<b>Q1 2011a</b>	<b>Q1 2012e</b>	<b>Q1 2012a</b>	<b>Yoy</b>
<b>Consolidated sales</b>	<b>918</b>	<b>813</b>	<b>895</b>	<b>-2.5%</b>
EMEA	307	281	290	-5.5%
North America	176	146	176	0.0%
Latin America	82	161	197	140.1%
Asia Pacific	353	225	232	-34.3%
<b>Combined sales (incl ass.)</b>	<b>1,233</b>	<b>1,123</b>	<b>1,136</b>	<b>-7.9%</b>
EMEA	305	279	290	-4.9%
North America	174	143	176	1.1%
Latin America	401	475	423	5.5%
Asia Pacific	353	226	247	-30.0%