Bekaert (EUR 20.6 - Hold): Q2 12 preview

Period	2012 H1 results
Date/Time	Friday, July 27, before opening
Recommendation	Hold
Target price	25

in EUR m	**H1 2011**	**H1 2012**	**H/H %**
Combined sales (m)	**2,412**	**2,199**	**-9%**
Consolidated sales (m)	**1,780**	**1,731**	**-3%**
EMEA	615	571	-7%
North America	354	352	-1%
Latin America	172	388	125%
Asia Pacific	639	421	-34%
EBITDA (m)	**344**	**165**	**-52%**
EMEA	73	43	-41%
North America	35	23	-35%
Latin America	22	44	100%
Asia Pacific	256	83	-68%
Other	-41	-28	-33%
EBIT (m)	**232**	**9**	**-96%**
% margin	*13.0%*	*0.5%*	
EMEA	45	-40	
North America	28	10	-65%
Latin America	16	34	113%
Asia Pacific	185	33	-82%
Other	-41	-28	-33%
REBIT (m)	**242**	**84**	-65%
% margin	*13.6%*	*4.9%*	
PBT	197	-29	
Taxes	-54	8	
Equity results	14	7	-50%
minorities	-13	-5	-63%
Net earnings	**144**	**-19**	

Key items

1. Early February, Bekaert announced a major restructuring consisting of two parts, an adjustment of the industrial footprint (incl. the impairment and the reorganization of its sawing wire assets in Belgium), and an additional cost cutting program of EUR 100m annually.
2. At this moment it remains unclear to what extent this will have affected the H1 results. As the company refused to provide information on the program prior to the publication of the H1 results. What we know, however, is that the cost associated with the industrial adjustment will be at least EUR 100m (Pcam EUR 105m), mainly taken in H1 (Pcam EUR 75m), and 2/3 non-cash (i.e impairments) and 1/3 in cash (i.e. redundancy packages).

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3. Starting in H2, Bekaert will carry the positive impact of lay offs in Belgium. However we do not expect the additional EUR 100m cost savings ambition to contribute significantly in H2.
4. Q1 revenues surprised positively, supported by the Americas where activity levels were strong. In most regions we expect the Q2 performance to be slightly weaker than in Q1 as the general environment deteriorated. In Asia, we built in a stronger decline due to continuing pressure on sawing wire and even tire cord. Compared to last year, the Latin American operations will be favorably impacted by the change in consolidation scope thanks to which Bekaert now fully consolidates Chile, Peru and Canada.
5. The visibility on margins is poor in H1 but we nevertheless expect some form of improvement compared to the bottom of H2 2011 (2.5% recurring EBIT margin) supported by top line growth. The comparison base with H1 2011 will be very tough, as it still included a strong positive contribution of the sawing wire which since then collapsed.
6. We expect reported EBIT to be around break-even although we recognize the timing and size of the restructuring measures can have a significant impact at this level. We have assumed EUR 75m of non-recurring charges in H1, i.e EUR 55m impairments on assets and EUR 20m cash expenses.
7. Given the above, underlying EBIT (excluding the one-offs), is expected at around EUR 84m, implying a 4.9% margin. In the same period last year, margin reached 13.6%. Considering the general environment we believe it won't be straightforward to reach the guidance of 7% EBIT margin by 2014. It will largely depend on the success of the cost cutting program, on which we hope to receive somewhat more insight with this reporting.

Conclusion

Visibility on the performance in H1 2012 is limited as the company refrained to provide any information on the cost cutting and restructuring measures. As such, the reported numbers could vary from our estimates. From an underlying perspective, we believe that there will be some sequential improvement from H2 2011 to H1 2012. Nevertheless, the way to reach the guided 7-9% EBIT margin on the medium term is still long. All in all, given the lack of visibility, especially at this point in time, and a valuation offering limited upside – trading at EV/EBIT of 12.1x in 2012 and 9.5x in 2013, we keep our Hold recommendation and target price of EUR 25.

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