



Bekaert (EUR 20.5 - Hold): Reassuring H1 numbers

Reassuring H1 numbers but highly uncertain environment and absence of detailed information on the cost cutting measures

Facts

- This morning Bekaert released reassuring H1 2012 figures with sales reaching EUR 1,783m compared to EUR 1,731m expected.
- EMEA sales reached EUR 557m vs EUR 571m expected, North America was at EUR 351m vs EUR 352m expected. Latin America EUR 397m compared to EUR 388m. Asia Pacific performed well realizing sales of EUR 478m while we expected EUR 421m.
- EBITDA came in at EUR 161m compared to EUR 165m expected (Cons EUR 146m), implying a margin of 9.0% (Pcam 9.5% but Cons 8.1%). The restructuring charges amounted to EUR 81m, composed of EUR 114m cost (mainly restructuring costs in Belgium) and non-recurring gains of EUR 33m. As a consequence, EBIT stands EUR 4m while we were at EUR 9m.
- Financial charges and taxes were significantly more elevated than expected, resulting in a net loss of EUR -70m vs EUR -20m expected (Cons EUR -47m).
- No further information was provided on the study to reduce cost structure by EUR 100m annually in the forthcoming years, except that the implementation has started (mainly in China).
- On the outlook, the company underlines: "Declining confidence and high uncertainty in a context of persistent turbulence in the global financial systems, tight financing for our customer base, and a lack of consistent indicators of global economic recovery have created a downward trend and impose a cautious outlook for the coming months. This environment reinforces the need for the ongoing cost reductions that are pursued at a global scale with a view to restoring the Group's desired profitability by 2014. Bekaert confirms its determination to remain a market and technological leader and to take all measures needed to secure its unchanged strategic ambitions of sustainable profitable growth"

Our view

- Numbers are in line with our estimates, but as we were higher than consensus they will come as a positive surprise. The underlying profitability shows some interesting developments with EBIT margin going from 2.5% in H2 2011 to 4.8% in H1 2012 (Pcam 4.9% and Cons 4.6%). We see this improvement of underlying margin as reassuring.
- Asia Pacific performed better than expected in H1, both on top line as other activity platforms (mainly tire cord) reached higher sales volumes. The company however indicates that it operates in an increasingly competitive environment.
- By keeping net debt stable compared to the end of 2011, Bekaert is in line to reach its objective for a stable net debt at the end of 2012 despite the inclusion of Peru, Chile and Canada in the consolidation scope.
- Visibility on H2 remains low and we hope to get more indications in the analyst meeting later today. Furthermore, we will try to get more color on the EUR 100m cost savings program on which we continue to lack details.

Conclusion

We believe this is a reassuring set of numbers posted by Bekaert, especially as they exceed consensus estimates. They might inflect momentum on the stock to some extent. However, with a market environment still characterized by high uncertainty and a valuation offering limited upside, we maintain our Hold.



in EUR m	H1 2011	H1 2012	H/H %	Actual	vs. Est
Combined sales (m)	2,412	2,199	-9%	2,255	2.6%
Consolidated sales (m)	1,780	1,731	-3%	1,783	3.0%
EMEA	615	571	-7%	557	-2.5%
North America	354	352	-1%	351	-0.2%
Latin America	172	388	125%	397	2.4%
Asia Pacific	639	421	-34%	478	13.7%
EBITDA (m)	344	165	-52%	161	-2.4%
EMEA	73	43	-41%	34	-20.9%
North America	35	23	-35%	26	15.6%
Latin America	22	44	100%	57	29.5%
Asia Pacific	256	83	-68%	101	21.7%
Other	-41	-28	-33%	-57	107.3%
EBIT (m)	232	9	-96%	4	-55.6%
<i>% margin</i>	13.0%	0.5%		0.2%	
EMEA	45	-40		-14	-65.0%
North America	28	10	-65%	8	-15.8%
Latin America	16	34	113%	47	38.2%
Asia Pacific	185	33	-82%	18	-45.5%
Other	-41	-28	-33%	-55	100.0%
REBIT (m)	242	84	-65%	85	1.2%
<i>% margin</i>	13.6%	4.9%		4.8%	
PBT	197	-29		-49	68.6%
Equity results	14	7	-50%	6	-14.4%
Net earnings	144	-19	-113%	-70	274.1%