Bekaert (EUR 20.1 - Hold): Q3 in line but EUR 100m additional one-off charges

Facts: Q3 sales in line with expectations

- Bekaert reported Q3 numbers in line with expectations. Consolidated sales came in at EUR 864m while we expected EUR 861m and consensus stood at EUR 869m. Combined sales reached EUR 1,105m for Q3 against EUR 1,086m expected, so also in line.
- Regionally, Latin America performed stronger than expected driven by a solid performance in Peru and consolidation effects. In Venezuela the company is confronted with production issues due to a lack of supply. North America was below expectations reflecting the difficult environment and a deterioration of the product mix. Other divisions were merely in line.
- At the end of September net debt was reduced to EUR 790m thanks to a favorable working capital evolution and so Bekaert is on schedule to deliver a stable net debt at year end compared to last year.
- Regarding the outlook, Bekaert highlights that the declining business activity in most industries, and highly competitive market conditions in all regions, impose a cautious outlook for the months to come. It sees sustained price pressure in Asia and unfavorable product mix evolutions in Europe.
- Due to a further deterioration of the environment in the solar industry, Bekaert expects to increase the bad debt provision and book additional impairments on the sawing wire activities for an estimated amount at of EUR 100m (EUR 15m bad debt and EUR 85m impairments) in H2.
- Bekaert has started the implementation of the measures identified to reduce its global cost structure by EUR 100m annually in the forthcoming years. The full impact on results is expected by 2014.

Our View: Still a lot of uncertainty

- The Q3 numbers are in line with expectations and should not come as a surprise. The comments on the outlook are very cautious and clearly indicate a further deterioration of the business conditions. This will result in margin pressure over H2. Our estimates already reflect a drop in recurring EBIT margins from 4.8% in H1 to 4.0% in H2. Given the above, even this might be too optimistic. Therefore we will adjust our numbers which will result in an estimated EPS cut of around 0.15 in 2012 and 0.20 in 2013
- Not only is visibility limited on the business conditions, we also lack clarity on the measures introduced by Bekaert. The EUR 100m one off charge announced today is only a first estimation. It however implies that all sawing wire assets from the company will be off the books (including Slovakia). This was necessary as the conditions remain very difficult and EBITDA approached break even levels. Obviously, this absence of details will continue to create an unfavorable environment.
- The net debt evolution is encouraging and should allow Bekaert to reach its target of a stable yoy debt at year end despite the consolidation of Chile and Peru (EUR 40m additional net debt). Compared to the current level we expect net debt to move up slightly in Q4.

Conclusion: Hold maintained

Clearly, there is still considerable uncertainty surrounding the case. Even allowing for a progressive improvement in the markets and a timely implementation of the announced cost saving initiatives, the medium term objective to reach 7% EBIT margins by 2014 (4.8% in H1 2012) will not be straightforward to reach. In the absence of short term triggers and with a valuation offering limited upside (trading at EV/EBITDA 2013 5.9x), we keep a wait and see attitude on the stock. Hold confirmed and TP cut to EUR 23 on our revised estimates.

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in EUR m	Q3 2011	Q3 2012e	Q3 2012a	Yoy	Diff
Consolidated sales	**816**	**861**	**865**	6.0%	0.4%
EMEA	293	263	253	-13.7%	-3.8%
North America	172	185	166	-3.7%	-10.3%
Latin America	97	180	200	106.2%	11.3%
Asia Pacific	254	234	246	-3.2%	5.3%
Combined sales (incl ass.)	**1,140**	**1,086**	**1,105**	**-3.1%**	1.7%
EMEA	290	260	252	-13.1%	-3.1%
North America	169	182	166	-2.0%	-8.8%
Latin America	426	410	442	3.8%	7.9%
Asia Pacific	255	235	245	-3.9%	4.4%

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