25 February 2013

Bekaert (EUR 21.685 - Hold) - Looking at margins in growth markets

Preview

Period	FY 2012 results
Date/Time	Wednesday, February 27
Recommendation	Hold
Target price	25.0

in EUR	2011	2012e	yoy	Consensus
Combined sales (m)	**4,601**	**4,384**	**-4.7%**	
Sales group (m)	**3,340**	**3,458**	**3.5%**	**3,474**
EMEA	1,170	1,040	-11.1%	
North America	665	671	0.8%	
Latin America	372	813	118.5%	
Asia Pacific	1,134	934	-17.6%	
EBITDA (m)	**480.0**	**286.1**	**-40.4%**	**311.0**
EMEA	116.0	110.0	-5.2%	
North America	45.5	52.0	14.3%	
Latin America	48.0	89.0	85.4%	
Asia Pacific	346.5	174.0	-49.8%	
Other	-76.0	-94.0	23.7%	
REBIT (m)	**281.0**	**128.0**	**-54.4%**	
EMEA	66.0	63.0	-4.5%	
North America	32.0	34.0	6.3%	
Latin America	35.0	52.0	48.6%	
Asia Pacific	224.0	50.0	-77.7%	
Other	-76.0	-71.0	-6.6%	
EBIT (m)	**269.0**	**-27.9**		**-33.0**
Fin result (m)	-65.8	-103.7	57.5%	
Associates	25.4	11.0	-56.7%	
Net profit (m)	**193.1**	**-140.9**	**-172.9%**	
EPS	3.26	-0.93	-128.6%	

Analyst Meeting	2pm

Key items

1. While Bekaert's H1 results provided some higher comfort level, the company was very prudent in its outlook after the Q3 results.
2. The prudence is related to an unfavorable product mix due to the automotive and stainless steel activity slowdown in Europe, a continued difficult environment in the US, supply issues in Venezuela and sustained price pressure in China.

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3. Bekaert also announced EUR 100m additional non-recurring expenses for H2, related to further impairments in the solar business, bad debt provisions and the raw material supply issue in Venezuela.
4. No company collected consensus has been distributed and as such some confusion on reported and underlying numbers could arise. Below REBIT we have EUR 50m impairments in H2 and EUR 25m restructuring costs. We have taken EUR 10m costs related to Venezuela in our REBIT with also EUR 15m bad debt on sawing wire. As such, clean REBIT should come in around EUR 153m.

Conclusion

Bekaert's FY results will offer a blurred picture with quite some one-offs. However, more important will be to get some long term comfort on Asian margin recovery potential as well as profitability in Latam. Both regions combined represent 50% of group sales and 60% of combined sales and margins in these growth regions are crucial for valuation. At 8.89x 2014 EBIT (REBIT margin 7%) the shares are not too expensive. However, we first want to increase our comfort level on the competitive environment and, hence, also long term margin potential in these regions before changing our Hold recommendation.

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