

27 February 2013

Bekaert (EUR 20.77 - Hold) - Operating in a very difficult global business environment**Facts: REBIT EUR 118m against EUR 128m expected**

- Bekaert released weaker than expected results with REBIT coming in at EUR 118m against EUR 128m anticipated and a REBIT consensus number we believe was higher.
- REBIT included, as expected, EUR 14m bad debt provision for sawing wire in China but our expected EUR 10m costs related to Venezuela were not included in REBIT yet.
- Sales (+3.6%) were almost exactly in line with expectations at EUR 3.46bn, but organic sales were down 10.8%. Sawing wire accounts for 80% of this decline.
- EBITDA amounted to EUR 275m against EUR 286m expected.
- EBIT was negative for EUR 49m, being impacted by a total of EUR 167m of net non-recurring items. The gross EUR 202m non-recurring costs (EUR 84m cash-out) were compensated by EUR 35 non-recurring income.
- Net debt was strongly down at only EUR 700m vs. EUR 856m a year ago. Significant measures on working capital were taken, especially in China, where reduced payment terms did not seem to hurt customer relationships. As such, part of the WC improvements seem structural.
- On a divisional level, REBIT EMEA was EUR 63m, as expected. EMEA suffered from unfavourable product mix caused by weak demand in Southern Europe automotive, in stainless steel and sawing wire.
- REBIT North America was EUR 30m vs. EUR 34m expected. NA clearly had a difficult second half with demand delay in tire replacement and increased imports from Asia.
- REBIT Latam EUR 64m vs EUR 52m anticipated. Peru performed very well but Venezuela was faced with supply issues.
- REBIT Asia EUR 37m vs. EUR 50m expected. The decline versus EUR 224m REBIT 2011 is, of course, due to the sawing business implosion but, currently, also the domestic truck market is weak with resulting price pressure.
- The company is very prudent in its outlook, stating that: "The Group is on track with the implementation of its cost reduction programs. The continued weak economic environment, the lack of consistent indicators of a global recovery, overcapacity in most markets and the corresponding overall price pressure, will however weigh on profitability."

Our View: Too early to give it a call

Bekaert clearly operates in a difficult business environment today. Bekaert's H2 was clearly weaker than its H1, and as such 2013 will have a difficult start. In Asia, business pick-up after Chinese new year will be crucial to get a better indication for 2013.

The group is certainly moving ahead with further cost measures, but we still wait for more feedback on the additional measures that will be taken.

In these conditions we believe it will be hard for Bekaert to reach the 7% REBIT target in 2014. For this to be reached, business conditions will have to improve.


Conclusion: Hold maintained

With 60% of combined sales being recorded in Latam and Asia, Bekaert has a high emerging market exposure. However, results are currently blurred by a difficult and unstable worldwide economic environment and, of course, the backlash from the sawing wire business collapse. The latter impact will fade in 2013 and the main question mark remains the margin improvement potential in China on which we should get more visibility in the coming months/quarters. Assuming 7% operating margin 2014, which is not a given, the shares trade at 8.8x EV/EBIT 2014. This is in-line with Benelux mid caps and, combined with the difficult business environment, we therefore keep our Hold rating unchanged.

Details

in EUR	2011	2012e	Actual	vs. Exp
Combined sales (m)	4,601	4,384	4,387	0.1%
Sales group (m)	3,340	3,458	3,461	0.1%
EMEA	1,170	1,040	1,044	0.4%
North America	665	671	659	-1.8%
Latin America	372	813	812	-0.1%
Asia Pacific	1,134	934	945	1.2%
EBITDA (m)	480.0	286.1	275.0	-3.9%
REBIT (m)	281.0	128.0	118.0	-7.8%
EMEA	66.0	63.0	63.0	0.0%
North America	32.0	34.0	30.0	-11.8%
Latin America	35.0	52.0	64.0	23.1%
Asia Pacific	224.0	50.0	37.0	-26.0%
Other	-76.0	-71.0	-76.0	7.0%
EBIT (m)	269.0	-27.9	-49.0	75.5%
Fin result (m)	-65.8	-103.7	-82.0	-21.0%
Associates	25.4	11.0	10.4	-5.5%
Net profit (m)	193.1	-140.9	-194.9	38.4%