

8 May 2013

Bekaert (EUR 23.91 - Hold) - Weak Q1 trading update**Facts: Q1 sales EUR 799m vs. EUR 845m expected**

- Bekaert released a weak Q1 trading update.
- Consolidated sales came in at EUR 799m against EUR 845m expected by Petercam. Consensus was at EUR 870m with a high of even EUR 900m.
- Organic consolidated sales were down by 8.2%, 2.8% of which was from lower volumes. Unfavorable currency movements (-3.2%) added to the decline and were fully attributable to the Venezuelan currency. The net effect of acquisitions and divestments was slightly positive (0.6%).
- Combined sales came in at EUR 1,36m vs. EUR 1,038 expected, as non-consolidated Brazilian sales were above expectations.
- In EMEA, demand was down for almost all business platforms. EMEA sales reached EUR 260m against EUR 262m expected.
- North America was a negative surprise with sales coming in at EUR 146m vs. EUR 161m expected as the market faced increased competition from Asian imports (Kiswire), low demand in tire replacement and less high voltage cable projects.
- Latam sales came in at EUR 176m vs. EUR 195m expected. This was largely due to the decline of the Venezuelan Bolivar, while underlying business remained relatively solid. We had taken the exchange rate impact from Venezuela and the inflation accounting into account but the impact seems more important.
- In Asia Pacific, price levels continued to slide due to overcapacity but Bekaert witnessed a prudent trend to price stabilization. Last 3 months, prices seem to stabilize.
- Net debt increased from year end level of EUR 700m to EUR 746m.
- In the outlook, Bekaert reiterates that it is on track with its restructuring program but overall price pressure will weigh on profitability.

Our View: Still a difficult environment

The Q1 trading update clearly confirms the difficult market environment indicated by management. Underlying business in Latam seems to do fine and there are some first indications of price stabilization in China. However, given the existing over capacity, we do not bank on a short term revival and the US and European markets remain very subdued.

Throughout the year, cost measures should have a positive impact and Bekaert will face significantly reduced depreciation charges on sawing wire equipment this year.

Conclusion: Hold maintained

Supported by monetary stimulus, financial markets try to anticipate an economic recovery, which should be supportive for industrial companies. However, we see too little signs of structural improvement today to change our rating. We will slightly reduce our 2013 estimates but not our 2014 estimates. We anticipate a 2014 operating margin of 6.1%. On our 2014 estimates, Bekaert trades at 9.6x EV/EBIT and 4.9x EV/EBITDA. Hold maintained.


Details

in EUR	2012 Q1	2013 Q1e	Actual	vs. Exp
Combined sales (m)	1,135	1,038	1,036	-0.2%
Sales group (m)	895	845	799	-5.4%
EMEA	290	262	260	-0.9%
North America	176	161	146	-9.2%
Latin America	197	195	176	-9.6%
Asia Pacific	232	227	216	-4.7%