

26 July 2013

Bekaert (EUR 26.95 - ADD) - Strong H1 results*Comment of update:*

Correction in Our View: ...Bekaert is likely to follow price declines in China...

Facts: H1 REBIT EUR 91m against EUR 65m expected and EUR 73m consensus

- Bekaert recorded better than expected H1 numbers with sales of EUR 1.65bn vs. EUR 1.63bn expected and benchmark REBIT coming in at EUR 91m against EUR 65m anticipated and EUR 73m consensus. REBIT was pretty clean apart from a EUR 3m bad debt reversal in China. Combined sales reached EUR 2.14bn vs. EUR 2.099bn expected.
- Bekaert does provide a very cautious outlook statement for the coming months: "The lack of consistent indicators of a global economic recovery and the usual seasonal effects in the second half of the year are expected to weigh on profitability. Moreover, the volatile and increasingly competitive environment in Asia may lead to renewed price pressure, imposing a cautious outlook for the coming months."
- Non-recurring items remained limited to EUR 2m but Bekaert still expects EUR 30m for FY.
- The joint-venture results were much higher than expected at EUR 17m. Brazil improved but the JV results also included a EUR 6m tax related one-off benefit.
- Net debt increase versus 31/12 from EUR 700m to EUR 770m on the back of higher volumes related WC requirements.
- Geographically, EMEA outperformed with sales of EUR 532m against EUR 507m anticipated and REBIT of EUR 46m vs. EUR 25.3m expected. In Europe, Q2 showed better volumes at stable prices and margin reached 8.5% thanks to cost savings.
- Asia sales reached EUR 470m against EUR 463m expected with REBIT of EUR 39m vs. EUR 37m anticipated. Volume growth was 4% and REBIT margin reached 8.4% thanks to cost savings.
- North America sales came in at EUR 295m vs. EUR 305m. Business conditions in NA remain difficult but REBIT was EUR 13m against EUR 9m expected, and also an improvement versus H2 2012.
- Finally, Latam sales were in-line, as was profitability with a REBIT of EUR 28m.

Our View: Excellent cost management

In difficult conditions, Bekaert managed to beat consensus thanks to strong cost management. This was especially apparent in the EMEA region and Asia.

For H2 and the coming months, management is prudent. In China, competitors have recently reduced prices and Bekaert is likely to follow. Wire rod prices remain volatile, recent increases in China could, however, hamper competitors from further reducing prices.

Conclusion: ADD reiterated - Increasing estimates and target price

Bekaert released solid numbers but management is prudent for coming months. Cost management was excellent and we expect a further gradual improvement in business conditions despite Bekaert's short term prudence on pricing in China. We will increase our below consensus estimates by some 10%-15% at first sight and will further increase our target price after the analyst meeting of 2pm.


Details

in EUR	2012 H1	2013 H1e	Actual	vs. Exp
Combined sales (m)	2,255	2,099	2,139	1.9%
Sales group (m)	1,783	1,631	1,649	1.1%
EMEA	557	507	532	5.0%
North America	351	305	295	-3.1%
Latin America	397	357	352	-1.4%
Asia Pacific	478	463	470	1.5%
EBITDA (m)	161.1	138.8	172.0	24.0%
REBIT (m)	85.0	64.8	91.0	40.5%
EMEA	36.0	25.3	46.0	81.5%
North America	21.0	8.8	13.0	47.2%
Latin America	29.0	28.5	28.0	-1.9%
Asia Pacific	35.0	37.0	39.0	5.3%
Other	-36.0	-35.0	-35.0	0.0%
EBIT (m)	4.1	44.8	91.0	103.3%
Fin result (m)	-52.8	-29.0	-41.2	42.0%
Associates	6.0	7.0	17.1	144.5%
Net profit (m)	-78.6	10.2	26.2	157.5%