

14 November 2013

**Bekaert (EUR 27.50 - ADD): Q3 sales below expectations****Facts: Q3 sales EUR 773m versus EUR 827m expected**

- Bekaert released a Q3 trading update below expectations with sales coming in at EUR 773m for the third quarter against EUR 827m expected.
- Combined sales amounted to EUR 1,003m vs. EUR 1,066m expected with Bekaert indicating strongly performing Brazilian joint ventures.
- Sales in EMEA were in-line at EUR 258m with improved demand in Q3 and a good performance from the tire business and stainless technology platforms. Volumes were up 1.8%.
- North American sales came in at EUR 129m, below our expectations of EUR 142m. Unfavourable market evolutions in some sectors, such as the continued investment delays in energy and construction markets, combined with fierce competition from Asian imports and a significant unfavourable currency translation effect due to the strong euro, drove revenues further down in North America. Volumes were down more than 17%.
- The decline in US volumes is partially to the benefit of the Chinese business after US import duties have been terminated. In Asia Pacific, sales reached EUR 241m vs. EUR 238m expected with a strong volume acceleration to more than 10% yoy in Q3. Tire cord prices were down, some 1 to 2%.
- Latam sales were also weaker at EUR 144m vs. EUR 189m expected. Sales volumes in Venezuela remained strong but were translated at lower exchange rates. Ex-forex impact, Latam sales declined by 2.5% with higher volumes compensated by lower prices for the first 9 months but with a volume decline of 2.3% in Q3. The Brazilian jv's performed strongly.
- For Q4, Bekaert will see the typical seasonal weakness in Europe and North America and it will defend its market position in Asia. In Latam, business is expected to slow down. The group does not yet perceive consistent signs of global economic recovery but is ready to seize growth opportunities.

**Our View: A mixed bag**

Business in North America and Latam is clearly sub-par. Europe shows some modest recovery but volumes in Asia were strong in Q3. It looks like Asian volumes are supported by increased exports and some catch-up demand. While wire rod prices are down more than tire cord prices, Bekaert remains prudent on margin recovery in Asia, indicating it is a progressive recovery. H2 group margins will remain below H1, as indicated before.

**Conclusion: ADD maintained and target price maintained at EUR 29.00**

Bekaert's Q3 sales numbers are not supportive. However, Chinese volumes were strong and we believe the short term margin spread should be rather positive. However, this is compensated by very weak performance in US and Latam markets (ex-Brazil). After today's negative share price reaction, we maintain our ADD rating, having indicated before it was time for a pause.


**Details**

in EUR m	Q3 2012	Q3 2013e	Q3 2013a	Diff
<b>Consolidated sales</b>	<b>865</b>	<b>827</b>	<b>773</b>	-6.6%
EMEA	253	258	259	0.4%
North America	166	142	129	-9.0%
Latin America	212	189	144	-23.8%
Asia Pacific	234	238	241	1.1%
<b>Combined sales (incl ass.)</b>	<b>1,105</b>	<b>1,066</b>	<b>1,003</b>	-5.9%
EMEA	252	255	257	0.8%
North America	166	142	129	-9.0%
Latin America	442	421	364	-13.5%
Asia Pacific	245	248	253	1.9%