

28 February 2014

Bekaert (EUR 26.46 - ADD) - Solid final results, comforting outlook and attractive acquisition

Good results and qualitative outlook but provision reversal in China supporting reported numbers

Facts: FY REBIT of EUR 166m vs. EUR 169m expected

- Bekaert released final results almost exactly in-line with our expectations with sales of EUR 3.2bn and REBIT of EUR 166m.
- EBIT after non-recurring items was EUR 137m also in-line with our expected EUR 137m.
- Divisionally, EMEA sales reached EUR 1,040m vs. EUR 1,030m expected and REBIT was in-line at EUR 88m. Automotive demand remained strong.
- North America was relatively in-line, while Latam sales and EBIT falling short. Sales in latam, heavily impacted by the Venezuelan Bolivar, reached EUR 645m vs. EUR 682m expected and REBIT of EUR 44m vs. EUR 53me.
- In Asia, volumes remained high in Q4 at +10 to +12% and REBIT was in-line at EUR 77m, with price pressure of some 5 to 6%. However, in China, Bekaert recovered part of the written-off receivables from sawing wire customers, which inflated REBIT for the FY by EUR 24m.
- The company significantly reduced net debt to EUR 574m vs. > EUR 700m expected.
- In its outlook, Bekaert sounds relatively positive, stating that: "With a view to further improving the Group's profitability, Bekaert is taking all measures needed and is responding in the most effective way to global challenges; and will continue to do so. The company's solid volume increases in the fourth quarter of 2013 reflect the enhanced competitiveness of Bekaert's activities. With a regained financial and business power to invest in future growth, and with the actions in place to adjust the performance of the North American activity platform, Bekaert is ready to seize the opportunities that will support the long-term strength of its core businesses."
- In a separate press release Bekaert announces the acquisition of Pirelli tire cord business. The business generates about EUR 300m in sales and represents an Enterprise Value of EUR 255m. No details are disclosed but we estimate Bekaert pays 5 to 6x EV/EBITDA. This business is higher-end tire cord business with above average margins. EBITDA margins probably around 15%. Long term contracts are signed with Pirelli.

Our View: Qualitative outlook supportive but provision reversal supports REBIT

Bekaert's reported numbers are solid but quality is somewhat lower than initially expected with a provision reversal of EUR 24m supporting Asian REBIT.

Bekaert's outlook is certainly supportive but remains largely qualitative in nature. Tire cord volumes in China were strong in H2 and probably even accelerated slightly in Q4 vs. Q3. We are too early in the year to have a clear trend on 2014. In China, Bekaert is continuously looking for the right trade-off between pricing, payment conditions and market share. In Q4, working capital was reduced significantly.

As a result, net debt was much better than expected, which is important in light of the announced acquisition. This acquisition looks like an attractive deal. Bekaert itself trades at around 6.7x EV/EBITDA 2014 and the acquisition was probably carried out at between 5x to 6x EV/EBITDA.

Conclusion: ADD maintained with TP of EUR 29

Bekaert released in-line to solid Q4 results with an attractive acquisition. The outlook is relatively supportive but the earnings quality is lower than expected. We maintain our ADD rating.


Details

in EUR	2012	2013e	Actual	vs. Exp
Combined sales (m)	4,387	4,158	4,111	-1.1%
Sales group (m)	3,461	3,214	3,186	-0.9%
EMEA	1,044	1,030	1,040	0.9%
North America	659	539	548	1.7%
Latin America	812	682	645	-5.5%
Asia Pacific	945	963	953	-1.0%
EBITDA (m)	274.8	309.6	297.0	-4.1%
REBIT (m)	117.8	169.6	166.0	-2.1%
EMEA	63.0	85.7	88.0	2.7%
North America	30.0	22.4	19.0	-15.3%
Latin America	64.0	53.3	44.0	-17.5%
Asia Pacific	37.0	77.9	77.0	-1.2%
Other	-76.0	-69.7	-62.0	-11.0%
EBIT (m)	-49.2	139.6	137.0	-1.9%
Fin result (m)	-79.1	-63.7	-83.5	31.2%
Associates	10.4	26.1	30.2	15.9%
Net profit (m)	-195.0	23.7	24.6	3.8%