

14 May 2014

**Bekaert (EUR 29.66 - Hold) - In-line Q1 and target price reached - Downgrade to Hold****Facts: Q1 sales EUR 782m against EUR 801m expected and css of EUR 790m**

- Bekaert reports in-line Q1 trading update with sales coming in at EUR 782 against EUR 801m expected and css median of EUR 790m.
- No major trend changes in the quarter. Volume growth remained at high single digit in China and very solid in Europe but this was partially offset by weak demand in the US and a slowdown in Latam with significant currency headwinds, as expected.
- In EMEA, sales were exactly in-line at EUR 275m (+6%). The upward trend in demand from automotive markets in Europe as of the second half of 2013, continued at the start of 2014. This led to robust volume growth for tire cord and other steel wire products serving the automotive sector in Europe. Bekaert's activity platforms in EMEA also recorded solid growth in other markets, such as the oil and gas sector.
- Asia Pacific sales came in at EUR 226m (+5%) against EUR 228m anticipated. Volume growth was +8% (+/- same level of growth as in H2 2013) and Bekaert regained market share and has come close to Xingda again in terms of market share. However, Xingda and other players are currently reacting with lower prices. As such, on the margin front, and despite lower wire rod input prices, we do not bank on an improvement in margin. Truck tire demand is relatively weak and passenger car demand is strong.
- In the US, no improvement was witnessed with sales down 5% to EUR 139m against EUR 144m anticipated and Latam continued to suffer from a general slowdown in growth, currency headwinds and continued supply problems in Venezuela. The latter could have a negative impact on REBIT of some EUR 6 to 7m this year.
- Net debt increased to EUR640m from EUR 574m at year-end 2013, as a result of an increase in working capital, in line with seasonal effects.
- In its outlook, Bekaert states that "Bekaert expects sustained solid demand in Europe and will continue to defend and grow its strong positions in China. The company does not expect major changes in North American markets and anticipates a continued slowdown in Latin America, in line with the GDP trend for the region. Currency movements are expected to cause an unfavourable translation impact also in the second quarter of 2014."

**Our View: No major trend changes**

Bekaert reports a solid Q1 trading update, in-line with consensus to slightly below our estimates. We likely will reduce our estimates for Latam and the US markets and keep our limited margin increase for Asia unchanged, with good volume growth partially compensated by reduced pricing levels in the later market, which could have a negative impact on margin despite lower wire rod prices. We will increase our estimates for Europe.

All in all, we will not materially alter our FY estimates.

**Conclusion: From ADD to Hold - Target Price EUR 30**

We will not materially alter our estimates and slightly increase our target price from EUR 29 to EUR 30 based on higher peer group multiples. Bekaert is performing well but the positives in some markets are compensated by difficulties in other markets. With the stock price having reached our target price, we move from ADD to Hold.


**Details**

in EUR m	2013 Q1	2014Q1e	Actual	Diff
<b>Consolidated sales</b>	<b>798</b>	<b>801</b>	<b>782</b>	-2.3%
EMEA	260	276	275	-0.2%
North America	146	144	139	-3.1%
Latin America	176	154	141	-8.4%
Asia Pacific	216	228	226	-0.7%
<b>Combined sales (incl ass.)</b>	<b>1,035</b>	<b>988</b>	<b>990</b>	<b>0.2%</b>
EMEA	259	273	273	-0.2%
North America	146	144	139	-3.1%
Latin America	404	333	340	2.2%
Asia Pacific	226	239	237	-0.7%