

1 August 2014

Bekaert (EUR 28.43 - Hold) - Strong margin performance but Chinese price pressure a risk factor**Facts: H1 REBIT EUR 101m against EUR 86m expected and EUR 93m css**

- Bekaert released a solid set of H1 results with sales slightly shy but higher than expected margin, mainly in Europe and Asia.
- In its outlook, Bekaert assumes an unchanged overall global business climate but remains cautious because of further margin erosion in Chinese tire and first signs of a moderate slowdown in Europe. The group also expects some benefits from recent investments.
- Sales came in at EUR 1,609m (-2%) vs. EUR 1,621m expected and EUR 1,626css.
- REBIT was ahead of expectations and came in at EUR 101m against EUR 86m expected and css of EUR 93m.
- The main margin beat came from EMEA with sales in-line at EUR 555m (+4%) but REBIT coming in at EUR 64m vs. EUR 50m expected and css of EUR 53m. Most sectors did well, but in particular the automotive business performed well and is bearing the benefits from the previous years' restructuring measures.
- Asia Pacific sales (+2%) were also in-line at EUR 478m against EUR 477m expected and css of EUR 483m. REBIT reached EUR 43m against EUR 36m expected and css of EUR 40m. Volumes in Chinese tire cord increased by 10% but was partially cancelled out by further price pressure. Bekaert perceives an acceleration of price erosion in the Chinese tire markets and expects that the recently initiated US anti-dumping measures against imports of passenger and light truck tires from China, will affect the activities of export-driven Chinese tire makers. Bekaert therefore is cautious on the outlook for the coming months.
- North America sales were in-line at EUR 281m with REBIT in-line at EUR 14m. This market seems to have bottomed out in H1.
- Finally, Latam, sales were slightly shy at EUR 295m vs. EUR 303m expected and cs of EUR 298m and REBIT fell short at EUR 11m vs. EUR 19m expected. Local economies and political and monetary instability are the main culprits.
- EBIT came in at EUR 118m against EUR 85m css thanks to positive one-offs for EUR 17m.
- With financials and associates roughly in-line, net earnings reached EUR 78.4m vs. EUR 37m expected.

Our View: Good results but Chinese price pressure limiting earnings revision

Bekaert released a solid set of H1 results, benefiting from strong demand in Europe and Asia but also from the dedicated restructuring measures in recent years.

We were below consensus because of our fear for Chinese margin pressure in tire cord. However, Bekaert indicates that they perceive an acceleration of price erosion with prices declining at an accelerated pace of 1%/month. New US anti-dumping measures could also have a negative impact, although this is not necessarily lost business for Bekaert group.

The slowdown in Europe looks not frightening but we see little room for further margin recovery beyond the excellent 11.5% in H1.

Conclusion: Limited upwards earnings revision – Target price unchanged at EUR 30.00

Bekaert released good H1 results. We will slightly increase our FY estimates (REBIT +3% to +5%) but our 2015 estimates not materially. At about 10.2x 2015 EBIT we stick to our Hold rating as price pressure in China continues and we expect Europe to slow in H2.



in EUR	2013 H1	2014H1e	Actual	vs. Exp
Combined sales (m)	2,140	2,039	2,023	-0.8%
Sales group (m)	1,649	1,621	1,609	-0.7%
EMEA	532	560	555	-0.8%
North America	294	281	281	-0.1%
Latin America	352	303	295	-2.7%
Asia Pacific	470	477	478	0.3%
EBITDA (m)	173.1	165.5	190.0	14.8%
REBIT (m)	91.1	86.0	101.0	17.5%
EMEA	46.3	50.4	64.0	27.1%
North America	12.7	12.7	14.0	10.6%
Latin America	27.8	19.7	11.0	-44.2%
Asia Pacific	39.5	35.7	43.0	20.3%
Other	-35.2	-32.5	-31.0	-4.6%
EBIT (m)	89.1	78.5	118.0	50.3%
Fin result (m)	-32.8	-33.0	-27.0	-18.1%
Associates	17.1	13.0	12.5	-3.9%
Net profit (m)	26.4	37.1	80.4	116.5%