

Bekaert

Indy - Industrial, Diversified / Belgium

Target Price EUR 40.00**Expected performance (12 mth) 6.7%****BUY EUR 37.48 (Closing price 28-Jun-16)**

Stronger-than-expected self-help momentum prevails

30 June 2016

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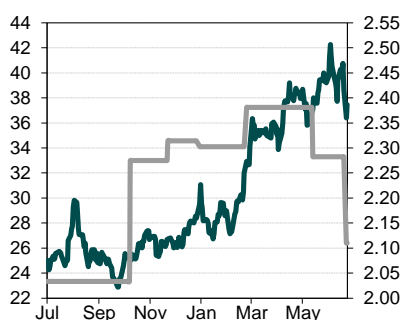
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Opinion on qualitative criteria

Accounting	IFRS 01/01/2004
Quality of track record	Neutral
Solvency	High
Currency risk	High
Risk of asset write-off	Neutral

Share price performance/EPS revision (EUR)

Price ABN AMRO EPS est. 2016



Source: FactSet, ABN AMRO Equity Research

Market capitalisation (EUR m)	2,253.2
No. of shares (m)	60.1
Free float	63.8%
1/3/12 mth perf. (%)	(5.1)/7.1/42.1
High/low 52 weeks (EUR)	42.26/22.87
Next results due	
Price/book value (x)	1.6
Volatility (β) (5yrs/)	
Reuters symbol	BEKB.BR
Bloomberg symbol	BEKB BB

Website www.bekaert.com

Bekaert is not immune to GDP headwinds in Europe. However, we do not expect this to be visible in the earnings, which are in a strong recovery mode on the back of internal improvement measures. Per the recent CMD, it appears that the self-help momentum is even stronger than previously expected. Highlighting very strong 1H16 earnings momentum as a positive short-term catalyst, we continue to rate the stock Buy with a target price raised to EUR 40/share (from EUR 39).

Changes in estimates

Bekaert generates c.34% of sales from Europe, with the main sectors being automotive (50%), construction (25%) and energy (15%). With the consolidation of the Bridon JV from mid-2016 onwards, Bekaert now also has direct exposure to the UK, which we estimate to account for 2-3% of sales going forward. While having pencilled in Brexit-related headwinds, this should be more than offset by stronger-than-expected momentum of the self-help Manufacturing Excellence programme, portfolio restructuring, and product mix improvements. We have raised our REBIT forecasts for 2016 and 2017 by 3% and 1%, respectively. We now expect the company to meet the REBIT margin target of 7% originally set for 2017 this year.

Investment case

We highlight Bekaert as a self-help recovery play with strong earnings momentum (14% CAGR REBIT estimated over 2016-2018).

Valuation and recommendation

The stock still trades at an attractive 2017E valuation of 12.7x on P/E, a 9.6% free cash flow yield, and EV/EBITDA of 5.6x. We maintain our Buy recommendation.

Year to December	2014	2015	2016e	2017e	2018e
Sales (EUR m)	3,215.7	3,671.1	3,813.8	4,091.5	4,233.8
EBITDA (EUR m)	341.9	441.8	479.6	520.7	549.8
Net profit excl. extr. & amort. (EUR m)	93.2	115.2	118.2	163.2	189.6
Net profit (EUR m)	87.2	102.0	118.2	163.2	189.6
EBITDA margin (%)	10.6	12.0	12.6	12.7	13.0
ROCE (incl. goodwill) (%)	4.3	6.3	6.0	6.6	7.4
Net gearing (%)	64.3	63.2	67.0	52.2	39.5
EPS before extr. & amort. (EUR)	1.62	2.06	2.11	2.91	3.38
EPS (EUR)	1.51	1.83	2.11	2.91	3.38
DPS (EUR)	0.85	0.90	0.86	1.04	1.10
% change sales	0.9	14.2	3.9	7.3	3.5
% change EPS (excl. extr. & amort.)	185.1	27.5	2.3	37.8	16.2
EV/Sales	0.79	0.71	0.83	0.74	0.68
EV/EBITDA	7.4	5.9	6.6	5.8	5.3
P/E (excl. extr. & amort.)	16.8	12.7	17.8	12.9	11.1
P/E	17.9	14.3	17.8	12.9	11.1
PE/growth (excl. extr.)	0.0	0.1	1.0	0.5	0.4
Free cash flow yield (%)	(0.3)	21.3	10.2	8.4	8.4

Source: Company, ABN AMRO Equity Research

P & L Statement (EUR m) Year to December	2009	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e
Net sales	2,437.3	3,262.5	3,340.0	3,460.6	3,185.6	3,215.7	3,671.1	3,813.8	4,091.5	4,233.8
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Personnel costs	(499.1)	(596.9)	(618.6)	(712.4)	(603.6)	(610.1)	(742.9)	(768.6)	(801.4)	(828.4)
Other operating costs										
EBITDA	385.7	725.3	475.7	274.2	297.0	341.9	441.8	479.6	520.7	549.8
Depreciation	(139.8)	(173.0)	(200.8)	(229.1)	(151.1)	(164.6)	(208.4)	(231.4)	(239.1)	(236.0)
EBITA	245.8	552.2	274.9	45.1	145.9	177.3	233.4	248.1	281.5	313.8
Reported provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation	(13.6)	(18.0)	(6.5)	(95.0)	(8.7)	(6.1)	(13.3)	0.0	0.0	0.0
EBIT	232.2	534.3	268.4	(49.9)	137.3	171.3	220.1	248.1	281.5	313.8
Net financials	(65.6)	(32.4)	(18.5)	(83.2)	(83.5)	(66.7)	(96.2)	(87.1)	(50.7)	(43.9)
Profit Before Taxes (PBT)	166.6	501.9	249.9	(133.2)	53.7	104.6	124.0	161.0	230.8	270.0
Taxes	(33.9)	(139.5)	(68.1)	(67.7)	(47.9)	(42.4)	(36.4)	(54.8)	(78.5)	(91.8)
Income from associates	37.8	36.1	25.4	10.4	30.2	25.3	18.3	21.9	24.8	27.8
Minorities	(18.6)	(30.9)	(14.6)	(6.4)	(11.5)	(0.4)	(3.9)	(10.0)	(14.0)	(16.4)
Net profit before extraordinary	151.8	367.6	192.6	(196.9)	24.6	87.2	102.0	118.2	163.2	189.6
Extraordinary items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net reported profit	151.8	367.6	192.6	(196.9)	24.6	87.2	102.0	118.2	163.2	189.6
% change in Sales	(8.5)	33.9	2.4	3.6	(7.9)	0.9	14.2	3.9	7.3	3.5
% change in EBITDA	(6.4)	88.1	(34.4)	(42.4)	8.3	15.1	29.2	8.6	8.6	5.6
% change in EBITA	(0.2)	124.7	(50.2)	(83.6)	223.9	21.5	31.6	6.3	13.5	11.5
% change in PBT	3.3	201.3	(50.2)	ns	ns	94.6	18.5	29.9	43.3	17.0
% change in Net profit before extraordinary	(12.8)	142.2	(47.6)	ns	ns	254.7	17.0	15.9	38.1	16.2

Cash Flow Statement (EUR m)	2009	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e
EBITDA	385.7	725.3	475.7	274.2	297.0	341.9	441.8	479.6	520.7	549.8
Change in provisions excluding tax provisions	(44.5)	1.8	(22.7)	(10.1)	(11.7)	(35.3)	(29.8)	0.0	0.0	0.0
Change in net working capital	195.6	(276.9)	(199.8)	226.8	78.5	(54.6)	212.3	16.4	(29.5)	(34.1)
Gross operating cash flow	536.8	450.1	253.2	490.8	363.8	252.0	624.3	496.0	491.2	515.7
Taxes paid	(31.1)	(113.3)	(129.3)	(59.2)	(51.5)	(45.8)	(56.7)	(54.8)	(78.5)	(91.8)
Capex	(173.8)	(249.1)	(277.7)	(127.3)	(96.8)	(154.5)	(176.6)	(159.2)	(172.9)	(190.5)
Free cash flow	331.9	87.7	(153.7)	304.3	215.5	51.6	391.0	282.0	239.8	233.5
Net interest received	(39.2)	(43.5)	(59.0)	(77.8)	(65.3)	(55.7)	(57.0)	(52.1)	(50.7)	(43.9)
Other	172.3	16.6	283.4	(282.6)	(84.8)	38.5	24.7	(272.1)	19.2	21.3
Acquisitions	(3.4)	(29.9)	(17.9)	8.1	0.0	(110.5)	(239.4)	0.0	0.0	0.0
Divestments	(0.5)	12.6	101.3	22.8	6.7	3.1	30.8	0.0	0.0	0.0
Share issues/buybacks	(0.5)	(57.7)	0.7	0.0	(15.3)	(72.1)	1.2	0.0	0.0	0.0
Dividend (adj. stock dividend)	(50.6)	(118.5)	(163.1)	(46.1)	(58.3)	(66.4)	(55.6)	(54.1)	(52.0)	(62.8)
Extraordinary items (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in interest-bearing debt	(252.5)	299.8	241.8	(148.1)	(53.5)	282.2	(156.5)	96.3	(156.3)	(148.1)
Change in cash & cash equivalents	157.5	167.1	233.5	(219.4)	(55.1)	70.7	(60.7)	0.0	0.0	0.0

Balance Sheet (EUR m)	2009	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e
Net intangible fixed assets	105.0	131.1	103.5	99.2	87.4	116.6	145.1	234.8	227.5	220.7
Net tangible fixed assets	1,127.7	1,295.1	1,433.6	1,377.5	1,239.1	1,432.8	1,490.5	1,523.6	1,464.7	1,426.0
Financials fixed assets (FFA)	311.7	339.6	398.4	269.9	284.3	301.5	285.1	285.1	285.1	285.1
Inventories	358.4	507.7	577.9	567.7	539.3	640.8	628.7	694.8	700.7	725.1
Trade debtors	479.6	774.3	828.3	751.8	693.4	821.7	754.4	830.6	851.9	881.6
Other debtors	171.2	182.4	150.9	144.5	135.0	171.7	165.3	191.4	204.6	217.2
Cash & securities	275.8	442.9	676.5	457.1	402.0	472.7	412.0	412.0	412.0	412.0
Total Assets	2,829.5	3,673.1	4,169.1	3,667.7	3,380.5	3,957.7	3,881.1	4,172.2	4,146.5	4,167.6
Shareholder's equity	1,284.8	1,610.7	1,693.9	1,422.0	1,346.3	1,366.8	1,384.7	1,448.8	1,559.9	1,686.7
Other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	88.7	86.0	72.5	181.6	157.6	199.4	131.2	177.2	185.6	195.4
Provisions	329.9	379.9	351.6	402.3	361.8	436.9	444.0	444.0	444.0	444.0
Long-term interest bearing debt	598.1	700.5	907.6	850.1	688.2	910.1	792.1	888.4	732.1	584.0
Short-term interest bearing debt	151.4	320.3	648.5	342.5	321.9	441.6	494.7	494.7	494.7	494.7
Trade creditors	247.1	341.7	290.6	321.8	338.9	390.9	456.8	504.8	509.1	526.8
Other non-interest bearing liabilities	129.4	234.2	204.4	147.4	165.8	212.0	177.6	214.3	221.1	235.9
Total Liabilities & Capital	2,829.5	3,673.1	4,169.1	3,667.7	3,380.5	3,957.7	3,881.1	4,172.2	4,146.5	4,167.6
Enterprise Value (EV)	2,473.6	5,644.2	2,246.5	2,122.3	2,115.5	2,527.8	2,615.2	3,178.0	3,030.0	2,891.8
Net debt/(Net cash)	473.7	577.9	879.6	735.5	608.1	878.9	874.8	971.1	814.8	666.7
Capital Employed incl. goodwill (avg.)	1,969.4	2,148.5	2,522.5	2,599.0	2,389.0	2,443.7	2,628.3	2,720.6	2,807.6	2,785.4
Cumulative goodwill (as of 1991)	76.6	77.5	40.4	41.6	41.1	43.2	60.4	60.4	60.4	60.4
Capital Employed (avg.)	1,893.9	2,071.4	2,463.6	2,558.0	2,347.6	2,401.6	2,576.5	2,660.2	2,747.2	2,724.9
Net working capital	632.7	888.5	1,062.1	994.8	863.0	1,031.2	914.1	997.6	1,027.1	1,061.2
Discounted value of leases	28.9	43.9	35.7	34.7	32.9	35.1	41.7	44.4	46.1	48.1
Adjusted equity	1,361.4	1,688.2	1,734.2	1,463.6	1,387.4	1,410.0	1,445.1	1,509.2	1,620.3	1,747.1

Per Share Data (EUR)	2009	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e
Avg. no. of shares (m)	59.2	59.2	58.9	59.1	58.5	57.6	55.8	56.0	56.1	56.1
Eoy. no. of shares (m)	59.5	59.9	60.0	60.0	60.1	60.1	60.1	60.1	60.1	60.1
Avg. no. of shares fully diluted (m)	59.4	59.6	59.3	59.2	58.7	58.9	56.1	56.2	56.3	56.3
Enterprise Value (EV)	41.57	94.25	37.46	35.37	35.22	42.05	43.50	52.86	50.40	48.10
Net debt less FFA plus minorities	4.21	5.41	9.23	10.79	8.02	12.92	11.99	14.36	11.90	9.60
Sales	41.16	55.06	56.67	58.60	54.44	55.83	65.74	68.10	72.89	75.43
EBITDA	6.51	12.24	8.07	4.64	5.08	5.94	7.91	8.56	9.28	9.80
EBITA	4.15	9.32	4.66	0.76	2.49	3.08	4.18	4.43	5.02	5.59
EBIT	3.92	9.02	4.55	(0.85)	2.35	2.97	3.94	4.43	5.02	5.59
Net profit before extr. & amort. (EUR)	2.79	6.51	3.38	(1.73)	0.57	1.62	2.06	2.11	2.91	3.38
Net profit before extraordinaries (EUR)	2.56	6.21	3.27	(3.33)	0.42	1.51	1.83	2.11	2.91	3.38
Cash Flow (EUR)	5.15	9.43	6.79	2.15	3.15	4.48	5.80	6.24	7.17	7.58
Gross Dividend (EUR)	0.98	1.67	1.17	0.85	0.85	0.85	0.90	0.86	1.04	1.10
Book value (EUR)	21.59	26.90	28.24	23.70	22.41	22.74	23.03	24.10	25.94	28.05
Adjusted equity	22.88	28.19	28.92	24.39	23.10	23.46	24.03	25.10	26.95	29.06
Free Cash Flow	5.60	1.48	(2.61)	5.15	3.68	0.90	7.00	5.04	4.27	4.16
% change in EPS before extr. & amort.	(21.26)	133.02	(48.09)	ns	ns	185.13	27.47	2.25	37.78	16.20
Valuation										
P/E (excl. extr. & amort.)	9.0	8.2	16.2	nmf	43.8	16.8	12.7	17.8	12.9	11.1
P/CF (x)	4.9	5.7	8.1	10.5	7.9	6.1	4.5	6.0	5.2	4.9
P/Book (x)	1.7	3.2	0.9	0.9	1.1	1.2	1.2	1.6	1.4	1.3
Dividend yield (%)	3.9	3.1	2.1	3.8	3.4	3.1	3.4	2.3	2.8	2.9
Free cash flow yield (%)	19.6	1.4	(6.5)	16.7	10.0	(0.3)	21.3	10.2	8.4	8.4
EV/Sales (x)	1.0	1.7	0.7	0.6	0.7	0.8	0.7	0.8	0.7	0.7
EV/EBITDA (x)	6.4	7.8	4.7	7.7	7.1	7.4	5.9	6.6	5.8	5.3
EV/EBITA (x)	10.1	10.2	8.2	47.1	14.5	14.3	11.2	12.8	10.8	9.2
EV/EBIT (x)	10.7	10.6	8.4	nmf	15.4	14.8	11.9	12.8	10.8	9.2
EV/Capital Employed (x)	1.3	2.7	0.9	0.8	0.9	1.1	1.0	1.2	1.1	1.1
EV/CE (incl. goodwill) (x)	1.3	2.6	0.9	0.8	0.9	1.0	1.0	1.2	1.1	1.0
Share price : High (EUR)	36.35	86.69	87.43	33.27	30.91	29.93	29.83	42.26		
Share price : Low (EUR)	12.62	33.67	23.95	17.51	20.09	22.90	22.87	26.73		
Share price : Average (EUR)	25.11	53.68	54.78	22.59	24.89	27.16	26.12	37.48	37.48	37.48
Share price : Year end (EUR)	36.17	85.90	24.79	21.88	25.72	26.35	28.39	37.48	37.48	37.48
Capital Efficiency/Solvability										
Sales/CE (incl. goodwill)	1.2	1.5	1.3	1.3	1.3	1.3	1.4	1.4	1.5	1.5
Sales/Fixed assets (x)	2.2	2.5	2.3	2.5	2.6	2.2	2.5	2.5	2.8	3.0
Sales/Net working capital (x)	3.9	3.7	3.1	3.5	3.7	3.1	4.0	3.8	4.0	4.0
Inventories/Sales (days)	53.7	56.8	63.2	59.9	61.8	72.7	62.5	66.5	62.5	62.5
Trade debtors/Sales (days)	71.8	86.6	90.5	79.3	79.5	93.3	75.0	79.5	76.0	76.0
Trade creditors/Sales (days)	37.0	38.2	31.8	33.9	38.8	44.4	45.4	48.3	45.4	45.4
CAPEX/Depreciation (%)	124.3	144.0	138.3	55.6	64.1	93.9	84.7	68.8	72.3	80.7
Equity/Total assets (%)	45.4	43.8	40.6	38.8	39.8	34.5	35.7	34.7	37.6	40.5
Net debt/Equity (%)	36.9	35.9	51.9	51.7	45.2	64.3	63.2	67.0	52.2	39.5
Interest cover (x)	4.0	9.5	3.9	0.6	2.2	2.7	3.4	4.3	4.9	6.2
Dividend payout (%)	35.3	25.9	35.2	(50.1)	153.7	54.8	47.0	44.0	38.5	35.0
ROCE (average) (%)	10.3	19.3	8.1	2.7	0.7	4.4	6.4	6.2	6.8	7.6
ROCE (incl. goodwill) (average) (%)	9.9	18.6	7.9	2.6	0.7	4.3	6.3	6.0	6.6	7.4
Operating Efficiency & Profitability ratios										
Sales per FTE employee ('000s)	139.0	163.2	150.8	153.9	143.7	140.1	153.6	158.1	166.7	171.1
Wage costs per FTE employee ('000s)	28.5	29.9	27.9	31.7	27.2	26.6	31.1	31.9	32.7	33.5
EBIT per FTE employee ('000s)	13.2	26.7	12.1	(2.2)	6.2	7.5	9.2	10.3	11.5	12.7
Gross margin (%)										
EBITDA margin (%)	15.8	22.2	14.2	7.9	9.3	10.6	12.0	12.6	12.7	13.0
Operating margin (%)	9.5	16.4	8.0	(1.4)	4.3	5.3	6.0	6.5	6.9	7.4
Net margin (%)	6.0	11.7	5.6	(3.1)	0.5	2.1	2.7	2.8	3.7	4.2
Tax rate (%)	20.4	27.8	27.3	(50.8)	89.2	40.5	29.4	34.0	34.0	34.0

Source: Company, ABN AMRO Equity Research