

Bekaert (EUR 30.5 - Add): Better than expected results thanks to Asia Pacific**Facts – REBIT 6% ahead of css – net debt lower, despite step up in capex and M&A**

- Bekaert reports a solid set of results, with REBIT at EUR 223m, 4% ahead of our estimates and 6% better than consensus. Sales at 3.67bn is in line with expectations and was favourably impacted by acquisitions, FX and product mix.
- REBIT was up 36%, driven by an increased share of steel cord and sawing wire in the mix and the exit from loss-making product groups. On a divisional basis:
 - China and LATAM performed well, despite recent macro. Note that the beat vs. consensus was mainly driven by a strong performance in Asia Pacific where REBIT was 30% ahead of market expectations. 1/ Bekaert improved its position in tire cord in China, and filled up capacity more aggressively 2/Higher contribution from sawing wire 3/ improved momentum for tire cord in South East Asia and 4/ the turnaround of the industrial wire business in Malaysia.
 - As expected, EMEA (32% of sales) continued to improve on the back of the integration of Pirelli, strong volume growth and favourable mix effects. In this region, REBIT margin expanded to 11.3% from 10.9% last year.
 - North America (16% of sales) was somewhat below expectations but contribution is too small to have a material impact on the Group results. REBIT came in at EUR 20m, while css was banking on EUR 25m. Volumes were down 9% in EMEA, while FX drove sales 7% higher. The lower volumes are explained by weakness in agricultural and industrial steel wire markets.
 - LATAM (21% of sales) was strong but in line with expectations. The increase in profitability, came from M&A, price mix and persistent cost savings.
- Strong OCF and a EUR 212m WC inflow, more than compensated the step up in capex and acquisitions. Hence, net debt fell to EUR 832m from EUR 853 in 2014. This results in a leverage position of 1.89x EBITDA.
- Going forward Bekaert remains cautious in view of the global over capacity. Nevertheless, low oil prices drive up automotive spending, which in turn should support demand for tirecord (40% sales). Steel prices will have a 5% negative impact on H1 results vs. the same period last year. The 7% REBIT target remains in place, however, no timing was given. The continuous improvements will come from acquisitions, exit of loss making product groups and the global transformational programs, which aim at increasing competitiveness.
- This gives comfort to increase the dividend to EUR 0.90ps from EUR 0.85ps last year (3.0% yield).

Our view – measures paying off

- Bekaert's results were strong on the operational front but stellar in terms of cash generation. It is our understanding that the EUR 212m WC inflow is to a large extent structural in nature.
- The results show that Bekaert's actions to improve competitiveness are paying off. The margin is expanding nicely and leverage reduced significantly, despite EUR 209m of acquisitions. In addition to this, management states that there is upside to the current margin, while also WC can be further improved. We are banking on a REBIT margin of 7% at YE 2017.

Investment conclusion – Increased estimates –TP to EUR 36 – Add maintained

All in all, results slightly ahead, mainly driven by strong performance in China. We see room to increase our estimates (mainly on 2016 numbers). In addition to this, the strong FCF generation lowers valuation further. Hence we increase our TP to EUR 36, which implies a REBIT multiple of 11.5x. We maintain our add rating.

Industrials

in EUR	2014	2015e	2015a	y/y	vs. Exp	CSS
Combined sales (m)	4,037	4,458	4,404	9%	-1%	
Sales group (m)	3,216	3,682	3,671	14%	0%	3,676
EMEA	1,063	1,216	1,227	15%	1%	1,217
North America	555	605	593	7%	-2%	603
Latin America	631	776	764	21%	-2%	765
Asia Pacific	966	1,085	1,086	12%	0%	1,092
EBITDA (m)	341.7	406.0	441.0	29%	9%	
REBIT (m)	164.1	214.5	223.0	36%	4%	211.0
EMEA	114.4	145.9	139.0	22%	-5%	144.0
North America	20.1	25.1	20.0	0%	-20%	21.0
Latin America	25.9	42.7	46.0	78%	8%	42.0
Asia Pacific	63.0	65.7	82.0	30%	25%	63.0
Other	-59.2	-64.8	-64.0	8%	-1%	-60.0
EBIT (m)	170.7	204.0	220.0	29%	8%	205.0
Fin result (m)	-62.9	-67.0	-96.2	53%	44%	-79.0
Associates	25.3	25.1	18.3	-28%	-27%	22.0
Net profit (m)	86.7	99.6	105.9	22%	6%	96.0