

BUY (vs. ADD)

Price (31/08/2016)	EUR 37.03
Target price	46.00
Risk	High
Reuters	BERTt.BR
Bloomberg	BEKB BB
Shares number (m)	60.10
Market cap. (m)	2,226
Net debt 12/16e (m)	1,022
Net debt/EBITDA 12/16e	2.01
1 year price perf.	43.1%
Diff. with Euro Stoxx	4.3%
Volume (sh./day)	128,855
Free Float	54.9%
H/L 1 year	42.26 - 22.87

Company description

Bekaert is a technological market leader in advanced solutions based on metal transformation and coatings, and the world's largest independent manufacturer of drawn steel wire products. Bekaert employs 30,000 people and serves customers in 120 countries.



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Bekaert

Strong H1 with consensus beat but shares down 13%

- On July 29, Bekaert released H1 REBIT in line with our expectations of EUR 157m but ahead of consensus of EUR 150. However, consensus numbers had been revised upwards ahead of the release in the month of July while the stock price peaked early June.
- Today we expect a FY 2016 REBIT of EUR 297m against EUR 240m consensus early June. The stock price is, however, down 13% since the peak.

Outlook remains strong

- In the meantime, the company's outlook has not drastically changed. Bekaert expects strong demand from automotive, solar and construction markets in H2 but offers some cautious comments on oil and gas markets and Latam, which was no surprise.
- It also targets a FY REBIT margin of 7% to 8%. We are at 7.9%, while we believe consensus is closer to 7.5%. For 2017, our margin estimate drops back to 7.7%, i.a. due to the FY consolidation of Bekaert Bridon Ropes, but we do expect further absolute REBIT growth.
- Beyond 2017, margin improvement at Bridon Ropes and the further implementation of the transformation program (15 of 80 plants reviewed so far) should support margin.
- We expect the CEO to come up with a new margin target early 2017, which we expect to point to a range of 8% - 9% for 2018. We are at 8.2% currently for '18.

Xingda confirms positive outlook despite profit warning

- While Xingda last week released a strange profit warning related to a non-recurring benefit that was recorded in '2015', it also provided positive outlook comments in its H1 results release.
- Xingda states that selling prices have hit bottom in Q2 and that orders from radial tire manufacturers maintained a very strong momentum. It also states that obsolete capacities of some small players are unable to come on stream, at the advantage of large players.
- Since these comments, Xingda shares have spiked to new recent highs, while Bekaert's stock price continued to drop.
- Xingda comments are similar to some Bekaert comments, which also stated that tire cord demand remains strong. More importantly, Bekaert also stated that small manufacturers with idle capacity are unable to bring this capacity on stream and that, as such, the excess capacity is likely far less than previously feared. For the first time since long, non-wire rod related price increases seem to take place.

EUR	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Sales	3,461	3,186	3,216	3,680	3,763	4,036	4,194
EBITDA	275	298	342	443	508	521	555
Adj. profit	-76.9	44.8	86.7	102	149	173	196
EPS	-1.30	0.76	1.46	1.77	2.58	3.00	3.41
Div.	0.85	0.85	0.85	0.90	0.90	0.90	0.00
EV/EBITDA	7.9	7.3	7.6	6.0	6.6	6.2	5.5
P/E	nm	34.0	18.0	16.1	14.3	12.3	10.9
FCF Yield	24.9%	14.4%	-3.0%	10.6%	-3.9%	8.7%	10.7%
Div. Yield	3.9%	3.3%	3.2%	3.2%	2.4%	2.4%	0.0%

Upgrade to BUY with target price of EUR 46

- While there are also some risk factors such as the Latam market, a (currently not witnessed) slowdown of the automotive markets, or the impact of potential US import duties on Chinese truck tires, we currently expect a continuation of the positive earnings trend and we are above consensus with our estimates.
- At 10.8x 2017 EV/EBIT and single digit 2018, the shares are undervalued and we raise our rating to BUY. At our EUR 46 target price the shares trade at 12.7x EV/EBIT 2017 and 10.9x 2018.

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	SELL	REDUCE	HOLD	ADD	BUY
High Beta >= 1.3	RP < -15%	-15% <= RP < -6%	-6% <= RP < +6%	+6% <= RP < +15%	RP >= 15%
Medium 0.9 < Beta < 1.3	RP < -10%	-10% <= RP < -4%	-4% <= RP < +4%	+4% <= RP < +10%	RP >= 10%
Low Beta <= 0.9	RP < -6%	-6% <= RP < -2%	-2% <= RP < +2%	+2% <= RP < +6%	RP >= 6%

RP : Relative Performance against Degroof Petercam coverage universe

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