Company comments

Maintained

Buy

Price (25/02/16)	**€30.48**
Maintained	
Target price (12m)	**€34.00**
Forecast total return	**14.6%**
Market cap	€1,701.9m
Bloomberg	BEKB BB

Bekaert: 2015 REBIT 6% above consensus, strong cash generation, confident guidance

Event: 2015 results

Outcome: Positive

Conclusion: We expect Bekaert shares to significantly outperform the market today. 2015 REBIT came in 6% above company compiled consensus (6.1% margin), due to beats in Asia Pac and Latam, demonstrating that the company's actions to drive value creation are starting to show their effectiveness. Most surprising is the huge beat in cash generation, which resulted in a €832m net debt at year (vs. €957m consensus), down from €853m in 2014, despite major acquisitions (€235m) and record capex (€171m). The outlook statement looks optimistic in spite of the macro environment (compared to outlook statements we have seen from the company in the past). Management guides for an ability to outperform the market (read: global GDP+ sales trend) and a significant step towards a REBIT margin of 7%. We expect consensus to be revised up by a mid-single digit percentage.

2015 key numbers (€m)

	2014	2015	% ch.	INGF	Cons.	vs. INGF	vs. cons.
Sales	**3,216**	**3,671**	**14.2%**	**3,649**	**3,676**	**0.6%**	**-0.1%**
EMEA	1,064	1,227	15.3%	1,214	1,217	1.0%	0.8%
North America	555	593	6.8%	605	603	-2.0%	-1.7%
Latam	631	764	21.1%	747	765	2.3%	-0.1%
Asia Pac	966	1,086	12.4%	1,085	1,092	0.1%	-0.5%
REBIT	**164**	**223**	**35.9%**	**218**	**211**	**2.2%**	**5.7%**
EMEA	114	139	21.5%	145	144	-4.1%	-3.5%
North America	20	20	0.0%	20	21	1.1%	-4.8%
Latam	26	46	76.9%	45	42	2.7%	9.5%
Asia Pac	63	82	30.2%	67	63	21.9%	30.2%
Other	-60	-64	n/a	-59	-60	n/a	n/a
EBIT	**169**	**220**	**29.8%**	**211**	**205**	**4.4%**	**7.3%**
EPS (€)	**1.51**	**1.83**	**21.2%**	**1.72**	**n/a**	**6.2%**	**n/a**
Net debt	**853**	**832**	**-2.5%**	**987**	**957**	**-15.7%**	**-13.1%**

Source: Company data, ING estimates, Bloomberg consensus

Highlights:

- 4Q15 sales went up a strong 11% YoY, driven by M&A (+8%), forex (+5%), volumes (+2%) and mix (+1%), offset by raw materials (-5%). As such 2015 sales came in in line with consensus at €3,671m (up 14% YoY).
- 2015 REBIT went up 36% YoY to €223m and came in 6% above consensus, due to beats in Asia Pac and Latam.
- EPS went up 21% YoY to €1.83, 6% above our forecast. The Board proposes a dividend increase from €0.85 to €0.90, in line with our expectations (3% yield).
- Free cash flow (cash from operations – capex) went up dramatically, from €54m in 2014 to €413m in 2015, due to better EBITDA generation (c.€100m) and strict working capital management (c.€270m delta). As such, net debt came in much lower than expected at €832m (leverage of 1.9x), in spite of in spite of major acquisitions (€235m) and record capex (€171m).
- EMEA: In line with our expectations, sales came in at €1,227m in 2015, up 15% YoY, while REBIT increased 22% YoY to €139m, below consensus by 4%. Results were driven by strong volume growth and a favourable product mix as well as the integration of steel cord plants acquired from Pirelli. Romania and Turkey accounted for 14% growth while the building products platform and other industrial steel wire activities also performed solidly.

- North America: Sales were 2% below expectations at €593m (up 7% YoY), driven primarily by positive currency effects (+16%), offset by lower volumes (-9%). Volumes were lower due to the plant closures in Surrey, Canada and the fire damage at the Rome plant. Furthermore, weak agricultural and industrial steel wire markets continued to impact segmental performance. The negative impact of passed through lower wire rod prices were offset by an improved price-mix. REBIT came in flat YoY at €20m (consensus: €21m) as margins were affected by a lower volume base and competitive price pressure from imports.
- Latin America: In line with consensus, sales grew by 21% YoY to €764m, driven by the contribution from new acquisitions (+15%), positive currency effects (+7%) and an improved price-mix (+4%) partially offset by passed through lower raw material prices (-4%). Due to the improved top line, cost saving efforts and widening margins, REBIT improved significantly to €46m (up 77% YoY) beating consensus by 10%.
- Asia Pacific: Sales were in line with expectations and came in at €1,086m, improving 12% YoY. Growth was driven by forex (+14%), scope effects (+6%), partially offset by lower volumes (-3%) and lower passed through raw material prices (-5%). A better product mix negated the impact from price erosion. Product mix was improved from the growing share of high-value adding tire cord and sawing wire products in China. REBIT beat consensus by 30% and came in at €82m, improving 30% YoY, as margins improved to 7.6% on the back of cost control measures and the significantly improved business portfolio.
- Outlook: The outlook statement reads optimistic in spite of the macro environment (compared to outlook statements we have seen from the company in the past). Management guides for an ability to outperform the market (read: global GDP+ sales trend) and a significant step towards a REBIT margin of 7%. We expect consensus to be revised up by a mid-single digit percentage. From a regional perspective, Bekaert projects continued strong performance in EMEA, improved profitability in North America, and upside potential from the turnaround in the business performance in Asia Pacific. In Latin America, Bekaert continues to strengthen its market position in weakening economic circumstances. From a sector perspective, Bekaert anticipates continued strong demand from the Automotive sector, which now represents more than 40% of the company's sales. Steel prices will have an impact of -5% on Bekaert's top line in 1H16, but margins should improve however. Finally, management says that Bekaert's action to drive value creation (focus on business where the company can leverage its strength, divest loss generation business, reduce complexity, manufacturing excellence) only have begun to show their effectiveness.

Filip De Pauw, Brussels +32 2 557 16 92