

EQUITIES
Company results

10 August 2016

Hold (maintained)

 Price (09/08/16)
 €40.22

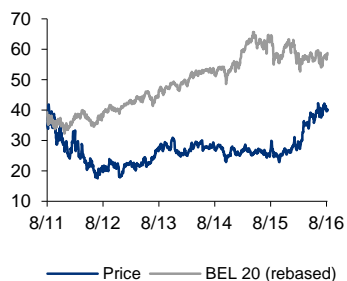
 Target price (12-mth)
 €40.00 (previously €38.00)

 Forecast total return
 1.8%

Industrial Goods & Services
Belgium
Bloomberg: BEKB BB
Reuters: BEKB.BR
Share data

Avg daily volume (3-mth)	133,343
Free float (%)	60.9
Market cap (€m)	2,417.9
Net debt (1F, €m)	1,125
Enterprise value (1F, €m)	3,664
Dividend yield (1F, %)	2.4

Source: Company data, ING estimates

Share price performance


Source: ING

Bekaert

Not just a blip

We have updated our estimates following Bekaert's 1H16 results. We now look for a REBIT margin of 7.5% for 2016F and 8.1% for 2017F as robust automotive and construction markets are likely to keep momentum going while cost savings and the ongoing company transformation should offset price erosion. We raise our target price from €38 to €40 and maintain our HOLD rating. We believe Bekaert is on a path towards value creation and is determined to prove that the strong 1H16 performance is not just a blip. However, we see limited upside to the shares after the impressive 41% rally YTD.

5% beat on REBIT. Bekaert performed strongly in 1H16 despite numerous headwinds. Revenues declined 4.1% YoY, mainly due to lower raw material prices (-4%), adverse currencies (-3%) and negative price/mix (-3%) effects. On the positive side volumes were up 6% YoY and strengthened in 2Q16 (7% in 2Q vs 5% in 1Q). On the bottom line, 1H16 REBIT came in 40% higher YoY at €157m and 5% above company-compiled consensus, mainly driven by cost savings and volume effects.

Guidance raised. Bekaert easily surpassed its self-imposed margin target of 7% and now aims for a REBIT margin between 7-8% for 2016. We think the company will land right in the middle of that range for the full year, implying a 6.4% margin in 2H16 compared with 8.6% in 1H16, as organic sales growth will prove more difficult in the second half of the year and we expect the consolidation of the Bridon activities to weigh on margins (see below).

We increase our 2017F REBIT estimates by +2%. We now estimate a 2017F REBIT of €314m, implying a margin of 8.1% whereas consensus is at 7.3%. We expect Bekaert to continue to perform well in its two biggest regions, EMEA and Asia Pacific, on the back of robust automotive and construction markets. The come-back of solar markets in 1H16 in China is a nice surprise, with sales of the second generation sawing wire (used for cutting solar panel wafers) in 1H16 increasing by 15% to 13% of revenues in Asia Pacific. However, one should not bank on the margins we saw in 2010 as price erosion is a constant threat due to the fierce competition. In North America, REBIT margins should further improve from the current low figure of 4.7%, which management described as "nowhere near our internal target".

Bridon to weigh on margins. We do not count on any margin effect from the merger with Bridon in 2H16 and 2017, as Bekaert has highlighted that the Bridon part of the joint venture will be break-even on an EBIT level. So, unlike the Pirelli acquisition, which was accretive from day one, the Bridon deal will be a drag on margins (we estimate an impact of -30bp on the 2017F REBIT margin) and possibly beyond. However, we think the full potential of the deal will show from 2018 onwards, if and when oil & gas markets recover from the slump.

More self-help to come. Bekaert management has proven in recent quarters that it's able to over-deliver on cost savings. The company is 1.5 years advanced into a 4-year transformation programme focused on value creation through manufacturing excellence. So far, 15 of roughly 80 plants have been screened, which generated cost savings of €66m in 2015 and €33m in 1H16. With the low-hanging fruit gone, future benefits will be less obvious. We prudently pencil in an incremental €15m and €20m of cost savings in 2H16 and 2017, respectively. Next to the Manufacturing Programme aimed at cost reduction, Bekaert has recently installed a second initiative called Customer Excellence Programme, which should boost organic growth and improve the product mix.

Valuation in line. Given our new estimates, we raise our target price from €38 to €40. We maintain our Hold rating as the shares have rallied 41% YTD and currently trade in line with our target price.

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Valuation

Our target price is based on a blend of a 2017F PER of 12x and EV/REBITDA and EV/REBIT multiples of 6.5x and 11.5x, respectively.

Company profile

Bekaert is a global leader in steel wire transformation and coating technologies, and is the world's largest independent manufacturer of drawn steel wire products. The company operates in four main geographical segments, with EMEA contributing the most to REBIT in 2015 (48%), while Asia Pacific contributed 29%, Latin America 16% and North America 7%.

Risks

Key risks to the upside are: (1) higher-than-expected benefits from the transformation plan and portfolio improvement; (2) improvement of the macro environment (mainly in automotive and construction); and (3) US\$ appreciation vs the €.

Key risks to the downside are: (1) 'export' of price pressure in China tyre cord to other regions/products; (2) weakening of the macro environment (mainly in automotive and construction); and (3) US\$ depreciation vs the €.

Financials

Year end Dec (€m)	2013	2014	2015	2016F	2017F	2018F
Income statement						
Revenues	3,186	3,216	3,671	3,693	3,899	3,982
Normalised EBITDA	326	336	444	494	540	566
Normalised EBIT	166	164	223	275	314	340
Net interest	(84)	(67)	(96)	(120)	(88)	(86)
Associates	30	25	18	19	19	20
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	84	130	142	153	230	259
Tax	(48)	(42)	(36)	(56)	(63)	(72)
Minorities	(11)	(0.4)	(4)	(13)	(8)	(9)
Other post-tax items	0	0	0	0	0	0
Net profit	25	87	102	84	159	178
Normalised net profit	53	80	105	105	174	193
Balance sheet						
Tangible fixed assets	1,395	1,589	1,605	1,669	1,652	1,641
Intangible fixed assets	87	117	145	311	311	311
Other non-current assets	126	147	171	179	179	179
Cash & equivalents	402	473	412	519	687	828
Other current assets	1,370	1,634	1,548	1,831	1,789	1,821
Total assets	3,380	3,959	3,881	4,508	4,618	4,780
Short-term debt	322	442	495	497	497	497
Other current liabilities	650	745	793	909	885	896
Long-term debt	688	910	792	1,147	1,147	1,147
Other long-term liabilities	217	302	286	375	375	375
Total equity	1,504	1,560	1,516	1,568	1,701	1,852
Total liabilities & equity	3,380	3,959	3,881	4,496	4,605	4,768
Net working capital	867	1,064	958	1,140	1,122	1,143
Net debt (cash)	608	879	875	1,125	957	816
Cash flow						
Cash flow EBITDA	297	343	441	473	525	551
Tax, interest & other	243	200	322	390	358	364
Change in working capital	78	(55)	212	(124)	18	(21)
Net cash from op activities	240	131	527	246	392	372
Capex	(97)	(176)	(182)	(146)	(190)	(195)
Net acquisitions	7	(110)	(239)	30	0	0
Net financing cash flow	(69)	282	(156)	(9)	0	0
Dividends & minority distrib'n	(58)	(66)	(56)	(58)	(53)	(56)
Net ch in cash & equivalents	40	97	(85)	81	168	141
FCF	209	11	401	150	290	263
Performance & returns						
Revenue growth (%)	-7.9	0.94	14.2	n/a	5.6	2.1
Normalised EPS growth (%)	n/a	53.3	34.6	n/a	65.2	11.1
Normalised EBITDA mgn (%)	10.2	10.5	12.1	13.4	13.8	14.2
Normalised EBIT margin (%)	5.2	5.1	6.1	7.5	8.1	8.5
ROACE (%)	6.2	6.1	7.8	17.1	9.6	9.9
Reported ROE (%)	1.8	6.4	7.4	11.9	10.7	11.1
Working capital as % of sales	27.2	33.1	26.1	30.9	28.8	28.7
Net debt (cash)/EBITDA (x)	2.0	2.6	2.0	2.4	1.8	1.5
EBITDA net interest cvg (x)	3.6	5.1	4.6	3.9	6.0	6.4
Valuation						
EV/revenue (x)	1.0	1.0	0.93	0.99	0.90	0.85
EV/normalised EBITDA (x)	10.1	9.8	7.7	7.4	6.5	5.9
EV/normalised EBIT (x)	19.8	20.1	15.3	13.3	11.1	9.9
Normalised PER (x)	44.2	28.9	21.4	21.3	12.9	11.6
Price/book (x)	1.8	1.8	1.7	1.7	1.6	1.4
Dividend yield (%)	2.1	2.1	2.2	2.4	2.5	2.6
FCF yield (%)	6.4	0.32	11.8	4.1	8.3	7.8
Per share data						
Reported EPS (€)	0.42	1.51	1.83	1.51	2.85	3.20
Normalised EPS (€)	0.91	1.39	1.88	1.89	3.12	3.46
Dividend per share (€)	0.85	0.85	0.90	0.95	1.00	1.05
Equity FCFPS (€)	2.45	(0.78)	6.16	1.79	3.62	3.17
BV/share (€)	22.41	22.68	23.03	23.57	25.65	28.02

Source: Company data, ING estimates

Disclosures Appendix

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Buy	54%	53%
Hold	41%	56%
Sell	5%	0%
	100%	

* Percentage of companies in each rating category that are Investment Banking clients of ING Financial Markets LLC or an affiliate.

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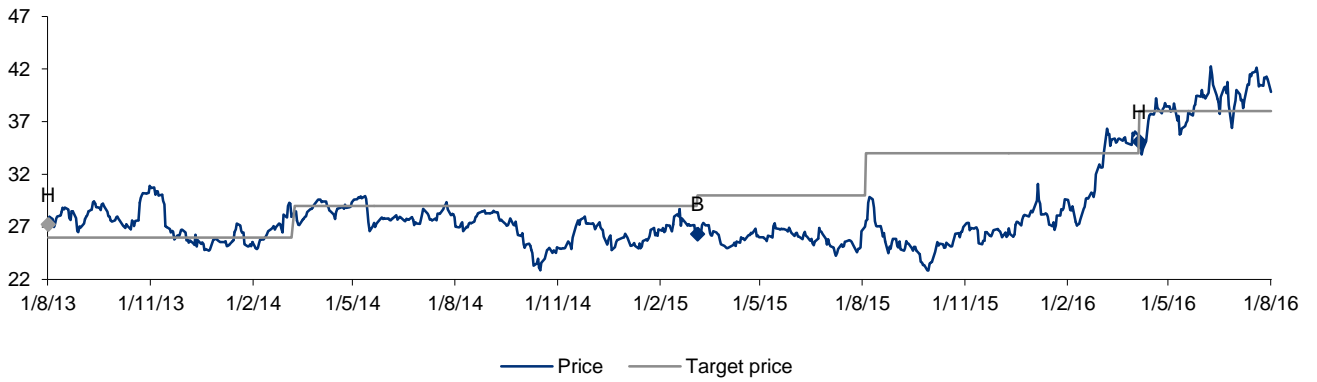
Buy: Forecast 12-mth absolute total return greater than +15%

Hold: Forecast 12-mth absolute total return of +15% to -5%

Sell: Forecast 12-mth absolute total return less than -5%

Total return: forecast share price appreciation to target price plus forecast annual dividend. Price volatility and our preference for not changing recommendations too frequently means forecast returns may fall outside of the above ranges at times.

PRICE & RATINGS HISTORY TO 01/08/16: BEKAERT (BEKB.BR)



B = Buy; H = Hold; S = Sell; NR = Not Rated; R = Restricted

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