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BEKAERT

Expected to comfortably beat margin target in H1

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 40.50
TARGET PRICE € 38.00

HOLD
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg BEKB.BB
Reuters BEKB.BR
www.bekaert.com

Market Cap € 2,425.0m
Shares outst. 60.1m
Volume (daily) € 5,415,412
Free float 62.0%

Next corporate event

Results 1H16: 29 July 2016

| (€ m) | 2015 | 2016E | 2017E |
|----------------|---------|---------|---------|
| Sales | 3,671.1 | 3,941.3 | 4,219.3 |
| REBITDA | 441.4 | 465.7 | 508.8 |
| Net earnings | 102.2 | 130.3 | 152.4 |
| Adj. EPS (€) | 1.77 | 2.37 | 2.75 |
| P/E (x) | 14.8 | 17.1 | 14.7 |
| EV/REBITDA | 6.0 | 8.0 | 7.1 |
| FCF Yield | 15.9% | 5.6% | 7.0% |
| Dividend yield | 3.4% | 2.5% | 3.1% |

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Friday, before market, Bekaert will release its 1H16 results. An analysts meeting is scheduled the same day at 14:00 CET.

At publication of its 1Q16 trading update, Bekaert stated it expected the strong start to 2016 to continue in the second quarter. Although wire rod prices picked up significantly as from start 2Q16, lower wire rod prices were still expected to dampen consolidated sales for 1H16 by about 5% y/y.

At its Capital Markets Day in June, Bekaert confirmed the main trends from the 1Q16 trading update. Europe remained strong, driven in particular by the automotive industry. Performance of North America is improving thanks to Bekaert being able to gain back volumes in bead wire. Business environment in Latin America remained extremely challenging with Bekaert's focus on strengthening its market position. Finally, Bekaert is facing strong volume growth in Asia Pacific translating into significant gain in market share. In addition, Bekaert is facing strong growth in sawing wire volumes.

In our scenario we see consolidated sales for 1H16 at € 1,851m, down 2.4 y/y. Consolidated sales at EMEA, North America, Latin America and Asia Pacific are seen at € 633m (-1.7%), € 309m (-1.3%), € 346m (-13.5%) and € 563m (+4.1%) respectively. Company-compiled consensus (7 brokers participating) is looking for consolidated sales of € 1,847m.

Bekaert this year will make a significant step towards its 7% REBIT margin target and is even expected to have exceeded this level in 1H16. We see REBIT at € 157.3m (8.5%) and are at the upper-hand of consensus looking for € 150m (8.1% margin). The margin improvement is supported in particular by the cost saving program (BMS), strong volume growth in Asia Pacific and changes in the mix (growth in sawing wire). In addition, there will be a small positive impact from rising raw material prices (est. over € 5m).

Note that financial result (our estimate € -54.9m) will be impacted by one off costs related to the successful placement of the € 380m zero-coupon convertible bond due 2021 and repurchase of the outstanding € 300m convertible bond due 2018. Share in the result of joint ventures and associates and taxes are seen at € 9.5m and € 33.6m explaining our estimate for the net result, group share of € 69.4m (CSS: € 64m).

Net financial debt at the end of June is estimated slightly over € 900m to be increased by about € 285m following completion of the Bridon-Bekaert Ropes Group transaction by the end of June.

Conclusion: Bekaert is expected to release excellent results, comfortably exceeding its long-term REBIT margin target. Some prudence is warranted though for the second half given normal seasonal pattern, more challenging market conditions and possible BBRG integration costs.