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BEKAERT

Feedback analysts meeting

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 40.99
TARGET PRICE € 38.00

HOLD
RATING UNCHANGED



Source: Thomson Reuters Datastream

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

Market Cap € 2,454.4m
Shares outst. 60.1m
Volume (daily) € 5,460,573
Free float 62.0%

Next corporate event

Trading update 3Q16: 18 November 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	17.3	14.9
EV/REBITDA	6.0	8.1	7.2
FCF Yield	15.9%	5.5%	6.9%
Dividend yield	3.4%	2.4%	3.1%

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Bekaert has guided this year's REBIT margin to land in the 7 to 8% range, ahead of the 7% margin target. Company might update its long-term margin target at publication of FY16 results. On the question whether there was any reason not to bank on a margin expansion in FY17 vs. FY16, Bekaert provided a relatively prudent answer referring to further upside from the BMS (Bekaert Manufacturing System) program while putting some questions at the sustainability of the current strength from the automotive industry, Europe and Latin America. Company seemed to be guiding for a continuation of the performance of 2H16 into FY17 rather than additional growth.

With regards to the Bridon-Bekaert Ropes Group (BBRG), the Company is guiding for the former Bekaert part of the business to perform in-line with H1 (€ 10m REBIT on revenues of € 102m) while the former Bridon business is guiding to break even operationally, hence impact overall margins in H2. Going forward, there is upside for both sides of the business.

Bekaert recorded strong volume growth in Asia Pacific (12%). This volume growth was not just driven by China but also India and Indonesia. Growth in Bekaert's tire cord business in China was mainly driven by demand for tire cord for passenger car tires which increased to about 40% of overall volumes. Unlike in other regions, Bekaert makes better margins on passenger car tire cord vs. truck tire cord. The larger players, i.e. Bekaert, continue to gain market share on the back of the smaller players. Capacity utilization at Bekaert rose further with the Company even hitting its limits in capacity for half products.

With regards to the BMS program, Bekaert is 1.5 years into the 4 year program having realized about one quarter to one third of its potential. In the past, Bekaert has guided the full potential to be region 10% of the cash conversion cost (about € 1.4bn) which will partly be offset by continued price erosion.

Sales of sawing wire increased by 15% to 13% of sales in Asia Pacific. In addition to good growth in the next gen product, Bekaert is also seeing good growth in half product supplied to producers of diamond wire.

Capital expenditure is confirmed in a range of € 175-200m.

Conclusion:

Bekaert reported strong results over 1H16 allowing to increase its FY REBIT margin guidance. On the analysts meeting, management proved relatively prudent on FY17 pointing some questions at the sustainability of the strong performance in H1. However, Company is likely to update its long-term margin target at publication of FY numbers in February (from 7% to "at least 7%"?).