

Expecting supportive new margin guidance

Ambiguous Q3 trading update

- After a strong 2016 H1 share price performance, Bekaert released a mixed third quarter update with sales for the quarter coming in at EUR 940m (+5%) versus EUR 961m anticipated. Management guided for a FY REBIT margin of 7.5% to 8.0%, which was above consensus expectations of 7.6%.
- The company's qualitative Q3 comments were more ambiguous stating that automotive should remain strong in Q4, solar markets should pick-up in Q4 and H1 2017 but the group also witnessed adverse market conditions in several industrial sectors. The uncertainty in the European markets has reduced order intake and Bekaert expects this to continue going into Q1 2017. Latam remains uncertain.
- As such, while the group beat its margin target, the outlook that was provided created quite some uncertainty.

But positive margin indicators

- However, in its Q1 and Q3 trading update Bekaert does not provide full earnings figures and no profitability detail.
- We believe Bekaert's Q3 margin remained strong and we do expect margins could offer the positive 2017 surprise.
- The main margin upside should come from:
 - The internal efficiency improvement and customer excellence programs will gain momentum and show their effectiveness with still more than 2/3 of the plants to be handled. Roughly 60-80% of the worst performing SKU's generate only 5% of sales;
 - Recovering oil price should be supportive for Bridon-Bekaert Ropes business (10% group sales). BBRG is operating close to breakeven in 2016 and an improving investment climate in the oil sector should support margin recovery next to the cost initiatives.
 - Chinese wire rod prices continue to recover (Exhibit 3) and Bekaert states to be witnessing improved pricing on top of the wire rod price adjustment (followed by Xingda and others), which should be a strong margin support. Indeed, for a couple of years, wire rod prices have been in decline without any pricing power. Since a couple of months, Bekaert is able to increase tire cord prices slightly more than wire rod prices and competitors do follow.
 - Positive tire volume forecasts by tire manufacturers and strong Chinese passenger car data. China passenger car growth continued in December with passenger car production in China up 14% y-o-y in December, despite tough comps.

Valuation attractive

- Bekaert trades at 7.0x EV/EBITDA 2017, for which we assume a REBIT margin of 8.2%. The historical company guidance has been around 7% but the guidance for '16 is 7.5% to 8.0%. The above items indicate there should be positive upside.
- On current stock price, the shares offer a FCF yield of around 8% for the next years.
- After the H1 2016 industrials sector re-rating we value the shares at EUR 46.00, i.e. 7.5x EV/EBITDA. Upgrade to BUY.

Buy

Price EUR 39.39
(13/01/17)

Target price 46.00
Risk High

Reuters BERTt.BR
Bloomberg BEKB BB

Shares number (m) 60.10
Market cap. (m) 2,367
Net debt 12/16e (m) 1,016
Net debt/EBITDA 12/16e 2.23

H/L 1 year 42.26 - 26.73
1 year price perf. 39.7%
Diff. with Euro Stoxx 30.8%
Volume (sh./day) 116,493

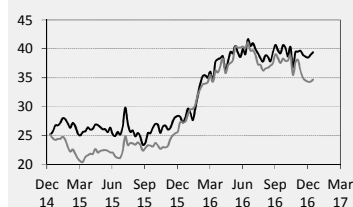
Free Float 58%
Family shareholders 36%
Treasury shares 6%

	16e	17e	18e
P/E	23.8	13.8	12.1
EV/EBITDA	7.4	7.0	6.5
EV/EBIT	13.0	11.6	10.0
Div. yield	2.3%	2.3%	2.3%

Company Calendar

01/03/17 FY 2016 results
10/05/17 Q1 update & AGM
28/07/17 H1 results
10/11/17 Q3 results

Bekaert + relative to Euro Stoxx (grey)



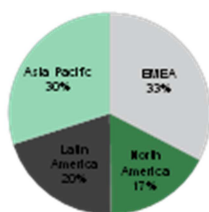
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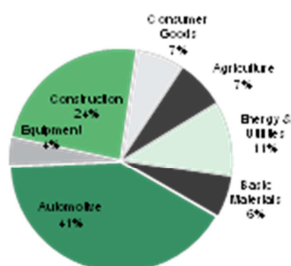
Bekaert

Exhibit 1 Geographical sales breakdown



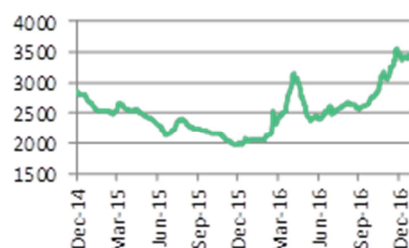
Source: Degroof Petercam

Exhibit 2 End markets



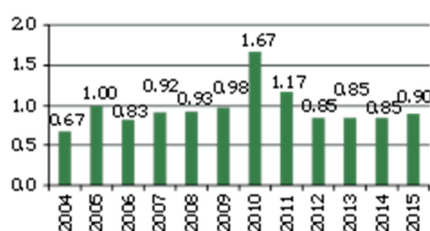
Source: Degroof Petercam

Exhibit 3 Wire rod price evolution China



Source: Degroof Petercam

Exhibit 4 DPS evolution



Source: Degroof Petercam

Updated Estimates: YES/NO/Preliminary

Profit & Loss (EUR m)	12/14	12/15	12/16e	12/17e	12/18e
Revenues	3,215.6	3,680.4	3,495.0	3,733.9	3,877.7
Gross profit	485.6	607.7	539.5	598.8	621.8
EBITDA	341.7	442.8	455.5	477.8	496.8
EBITA	164.1	223.2	279.7	304.8	336.8
EBIT	170.7	219.8	258.5	289.8	321.8
Depreciation	-171.0	-223.0	-197.0	-188.0	-175.0
Net financial result	-62.9	-62.3	-56.8	-61.9	-61.9
Exceptionals (gross)	-	-	-	-	-
Pre-tax result	104.1	123.8	148.5	227.9	259.9
Taxes	-42.3	-36.5	-58.6	-63.8	-72.8
Except./discontinued operations	0.0	0.0	0.0	0.0	0.0
Net declared earnings	86.7	101.7	93.2	164.1	187.1
Net adjusted earnings	86.7	101.7	93.2	164.1	187.1
Cash Flow (EUR m)	12/14	12/15	12/16e	12/17e	12/18e
Changes in working capital	-54.6	212.6	-24.3	6.5	10.9
Operational cash flow	240.6	629.8	462.6	467.5	497.6
CF from operating activities	159.9	534.6	365.4	357.8	378.9
CF from investing activities	-265.3	-275.6	-445.0	-170.0	-180.0
CF from financing activities	-138.5	-55.6	-54.1	-54.1	-54.1
CAPEX	-138.2	-176.6	-160.0	-170.0	-180.0
Dividend payment	-66.4	-55.6	-54.1	-54.1	-54.1
Balance Sheet (EUR m)	12/14	12/15	12/16e	12/17e	12/18e
Tangible fixed assets	1,432.8	1,490.5	1,906.2	1,934.3	1,972.3
Goodwill	18.5	35.7	35.7	35.7	35.7
Total fixed assets	1,850.8	1,920.7	2,051.3	2,079.5	2,117.5
Working capital	957.4	858.3	882.6	876.1	865.3
Total equity	1,566.2	1,515.9	1,555.0	1,664.9	1,798.0
Provisions & deferred taxes	285.8	270.5	270.5	270.5	270.5
Net financial debt	879.0	874.8	1,015.8	910.8	794.8
Total assets	3,957.6	3,881.1	3,798.4	3,951.5	4,112.0
Shares - per share data (EUR)	12/14	12/15	12/16e	12/17e	12/18e
Adjusted EPS	1.46	1.77	1.62	2.85	3.25
Dividend	0.85	0.90	0.90	0.90	0.90
No shares - average (m)	59.25	57.60	57.60	57.60	57.60
Ratios	12/14	12/15	12/16e	12/17e	12/18e
Adjusted P/E	18.0	16.1	23.8	13.8	12.1
P/BV	1.1	1.2	1.6	1.5	1.4
EV/EBITDA	7.6	6.0	7.4	7.0	6.5
EV/EBIT	15.2	12.1	13.0	11.6	10.0
EV/FCF (1)	48.0	9.1	94.0	10.7	9.7
FCF yield (2)	-3.0%	10.6%	-3.4%	7.9%	8.4%
Div. yield	3.2%	3.2%	2.3%	2.3%	2.3%
Net Debt/EBITDA	2.6	2.0	2.2	1.9	1.6
ROCE post-tax	4.3%	6.6%	6.3%	8.3%	9.2%
Gross margin	15.1%	16.5%	15.4%	16.0%	16.0%
EBIT margin	5.3%	6.0%	7.4%	7.8%	8.3%

(1) Based on FCF to Enterprise - (2) Based on FCF to Equity

Business description

Bekaert transforms wire rod into different kinds of wires and cords. From 6.5mm wire rod, the company is able to draw very thin wires and even metal fibres with a thickness of merely 1 µm. These wires are used in a wide variety of markets such as the Automotive, Construction, Energy & Utilities sector, Agriculture, Consumer goods, etc. Some examples are: wires going into springs for different applications (automotive, medical...), the reinforcement of flexible pipes, profiled wires, textile machine wires, bookbinding wires, champagne cork wires, silicon-sawing wire, various types of lacquered and coated wires, steel fibres for concrete reinforcement (Dramix), etc.

Within automotive: High-tensile wires are processed into tire cord and bead wire, which are used in car and truck tires (75% replacement market). Steel cord is also used as reinforcement in other applications, such as high-pressure hoses, polyurethane drive belts and conveyor belts.

Competitive position

Bekaert is the world leader in steel cord and has leading positions in growth markets such as India, Brazil and China. In tire cord its market share is close to 30%, with Xingda 2nd with around 17%, integrated players 3rd with an estimated 14% and KISWIRE around 8%. In China it has a market share of close to 30% slightly smaller than Xingda (+/-500kt). In several other segments Bekaert is also market leader. Competition can be severe in the lower added value segments. Emerging markets represent more than 60% of combined sales.

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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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