KBC Securities

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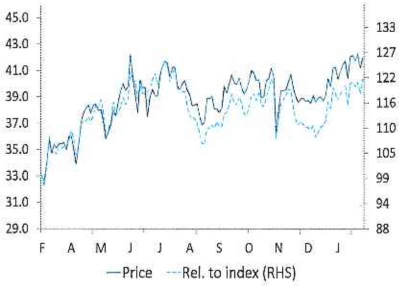
# BEKAERT

## FY16 preview

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 41.94
TARGET PRICE € 38.00

**HOLD**
RATING UNCHANGED




*Source: Thomson Reuters Datastream*

| | |
|---|---|
| Bloomberg | BEKB BB |
| Reuters | BEKB.BR |
| www.bekaert.com | |
| Market Cap | € 2,511.6m |
| Shares outst. | 60.1m |
| Volume (daily) | € 4,326,079 |
| Free float | 62.0% |

Next corporate event

Results FY16: 1 March 2017

| (€ m) | 2016E | 2017E | 2018E |
|---|---|---|---|
| Sales | 3,682.3 | 4,069.8 | 4,181.7 |
| REBITDA | 468.7 | 473.7 | 475.5 |
| Net earnings | 104.3 | 160.3 | 168.7 |
| Adj. EPS (€) | 2.01 | 2.96 | 3.10 |
| P/E (x) | 20.9 | 14.2 | 13.5 |
| EV/REBITDA | 8.1 | 7.8 | 7.4 |
| FCF Yield | 6.6% | 6.4% | 8.6% |
| Dividend yield | 2.4% | 3.0% | 3.0% |

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Bekaert will report FY16 results on Wednesday 1 March. An analyst meeting is scheduled at 14:00 CET.

**Bekaert guidance: solid margins, mixed top line trends**

At Q3, Bekaert increased its FY16 REBIT margin guidance from 7-8% to 7.5-8%. We now expect 7.8%, helped by solid Auto markets, regained pricing power in China, and the manufacturing excellence program (cost efficiency), which is gaining traction across the group's plants.

On the other hand, Q3 saw a change in top line trends, with organic volume growth down to almost zero, on slower EMEA growth, Oil & Gas trading condition deteriorating further, as well as a contraction in solar markets in China. In its 4Q16/1Q17 outlook, Bekaert highlighted mixed sales trend:

- On the positive side, it still anticipated strong demand from Auto and construction markets in Q4, a temporary recovery in Solar markets (ahead of a new cut in feed in tariffs in China in April 2017), which should further support margins in our view. Overall, Bekaert expected continued strength in Asia in Q4 and into 2017, particularly in the Automotive sector.
- On the negative side, Bekaert pointed at still weak Oil & Gas markets, weaker order intake for many industrial sectors in EMEA and more limited self-help potential in Latin America, particularly because of local FX strengths (Asian competition getting more attractive).

**Q4 sales, H2 REBIT: we are close to CSS**

We expect Q4 group sales of € 923m, up 5.4% y/y, vs. CSS at € 941m, +7% y/y. We see EMEA down 3% (CSS -3%), North America -3% (CSS +2%), LatAM -5% (CSS +2%) and APAC +4% (+4%), BBRG sales of € 115m (CSS at € 106).

We expect a H2 REBIT of € 128m (CSS € 127m), +7% y/y (following 1H16 +40%), with a REBIT margin of 6.9%, up 10bps y/y (CSS 6.7%). We expect EMEA, North America, LatAm, APAC and BBRG to contribute € 56m, € 13m, € 25m, € 60m, and € 10m.

We expect a H2 net profit group share of € 71m (CSS € 61m), +43% y/y, and a net debt of € 1045m (CSS at € 1060m), up from € 832m at FY15.

**Conclusion**

We expect solid FY16 margins, 7.8%, management reaching its FY17 targets ahead of schedule. The key question is whether Bekaert can further expand them in today's contrasted environment. Strong auto markets (especially in China and Europe), the ongoing recovery in European construction and mining opex/capex, the expected surge in US infrastructure spending and manufacturing should in our view offset weaker Oil&Gas and solar markets or tougher Asian competition in LatAm. On the other hand, the recovery in steel and raw material prices, with rubber squeezing tire manufacturers margins, could start offsetting part of the gains of Bekaert self-help initiatives.