

Bekaert (BUY) - Strong margin performance across the lines (EUR 41.78 / TP EUR 46.00)**Facts: REBIT EUR 305m against EUR 280m expected**

- Bekaert released a very strong set of FY16 results with combined sales coming in at EUR 4,351m against EUR 4,337m expected and consensus of EUR 4,354m (flat yoy.) and REBIT of EUR 305m above our forecast of EUR 280m and consensus of EUR 284m, up 36.6% yoy. This implies a margin of 8.2% where the company guided between 7.5% to 8.0%
- EMEA sales came in at EUR 1,148m (-2.2%) against EUR 1,143m expected by us and consensus. REBIT stood at EUR 141m (+1.7%) where we went for EUR 134m and consensus for EUR 136m. Sales were lower in 2H16 (EUR 541m) than in 1H16 (EUR 608m) due to the usual seasonal effect. Overall, demand from automotive and construction remained strong while demand for profile wires declined because of the weak oil and gas sector. Bekaert expects these trends to continue and these activities have made a strong sales start. However, there is some temporary margin pressure because of the delay in passing through the higher raw material prices. Management stays cautious about political uncertainty in Europe.
- Asia Pacific sales came in at EUR 1,052m (we: EUR 1,058m, css EUR 1,047m, up 3.1% yoy. But an organic sales groi) with strong automotive demand and a temporary slowdown in the solar market. Bekaert expected this to pick-up in Q4 and it did which a.o. led to a 10% organic sales growth in 4Q16. The company expects the high run rate in tire to continue and see solar markets making a strong start of the year. REBIT came in at EUR 119m (+72%), above our forecast of EUR 112m and consensus of EUR 113m. This was the result of high capacity utilization, M&A and various transformation programs. Overall, the group expects to sustain the higher revenue and profitability trends in 2017.
- Latam sales dropped 4.2% to EUR 682m versus EUR 680m expected by us and consensus. 4Q sales were up 2.5% thanks to positive currency effects. REBIT rose by 46% to EUR 67m where we and consensus looked for EUR 61m. Bekaert is rather cautious in its outlook with an expected continued weakness of the Brazilian economy and increasing pressure from Chinese imports. It is looking to bring Sumaré in the JV with Arcelor Mittal which would reduce consolidated margin as this is a high margin division.
- North American sales decreased by 3% to EUR 512m (we: EUR 511m, css EUR 513m) with lower wire rod prices, mix effects and divestments weighing over an organic growth of 8% However, also in this region REBIT jumped by 86% to EUR 26m in line with our and consensus estimate of EUR 25-26m. This was mainly due to better capacity utilization and actions raising the competitiveness in target markets.
- Bridon-Bekaert Ropes Group sales reached EUR 320m (up 34%) against EUR 322m anticipated with organic sales down 1%. Ropes volumes did pick up in 4Q. REBIT fell below our estimates and consensus at EUR 13m. The weak oil and gas market depresses business levels and margins but actions are being taken that should support margins as from this year.
- In its outlook comments, Bekaert states that automotive should remain strong in 1H17 and expect a strong start of the year in solar. Management sees the demand from the oil and gas sector remaining weak. Bekaert expects to repeat the strong REBIT level of 2016 with transformation programs compensating for the adverse change in consolidation scope (full year integration of BBRG) and sees the REBIT margin grow to 10% over the next 5 years.
- Bekaert will pay a dividend of EUR 1.10 where we went for EUR 0.90 and consensus for EUR 0.93.

Industrials

Our View: Solid margin but uncertain outlook

Overall a strong set of FY16 results, especially on the margin level where all business lines except BBRG outperformed our forecasts and consensus. The guidance is in line with our estimates as we expected REBIT to come in at EUR 305m for 2017. Bekaert usually does not provide a quantitative guidance and is traditionally cautious for the future. Hence, the margin target of 10% in 5 years is clearly a confident statement. Also the high dividend is a clear positive signal.

Investment Conclusion: BUY - Target Price EUR 46.00

Solid performance of Bekaert over 2016. The margin improvement actions bore fruit. Given the outlook, we will not change our estimates significantly. Hence, we stick to our BUY rating with target price of EUR 46.00.

Details

in EUR	2016a	2016e	Consensus	yoy	2015
Combined sales (m)	4,351	4,337	4,354	-1.2%	4,402
Sales group (m)	3,715	3,715	3,700	0.9%	3,680
EMEA	1,148	1,143	1,143	-2.2%	1,174
North America	512	511	513	-3.0%	528
Latin America	682	680	681	-4.2%	712
Asia Pacific	1,052	1,058	1,047	3.2%	1,019
BBRG	320	322	316	33.9%	239
EBITDA (m)	481.0	455.5	481.0	8.6%	442.8
REBIT (m)	305.0	279.7	284.0	36.6%	223.2
EMEA	141.0	134.4	136.0	10.2%	128.0
North America	26.0	25.8	25.0	85.7%	14.0
Latin America	67.0	61.0	61.0	45.7%	46.0
Asia Pacific	119.0	112.3	113.0	72.5%	69.0
BBRG	13.0	18.3	19.0	-55.2%	29.0
Other	-61.0	-72.0	-70.0	-5.1%	-64.3
EBIT (m)	260.0	258.5	263.0	18.3%	219.8
Net profit (m)	105.2	93.2	64.0	3.4%	101.7