

1 March 2017

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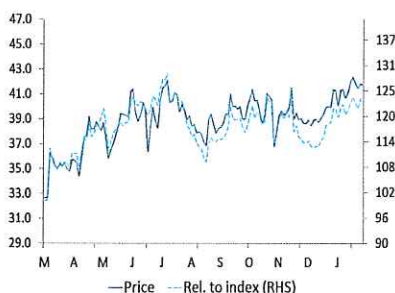
BEKAERT

Much better FY16, 10% margin target within 5 years

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 41.78
TARGET PRICE € 38.00

HOLD
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg	BEKB.BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 2,501.7m
Shares outst.	60.1m
Volume (daily)	€ 4,284,862
Free float	62.0%

Next corporate event

Trading update 1Q17: 10 May 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)	20.8	14.1	13.5
EV/REBITDA	8.0	7.7	7.4
FCF Yield	6.6%	6.4%	8.6%
Dividend yield	2.4%	3.0%	3.0%

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Bekaert reported FY16 results this morning. An analyst meeting will take place at 14:00.

Q4 sales 2% vs. CSS, H2 REBIT 17% above, net profit 18%

- Q4 sales came in at € 956 m , + 9 % y/y (+3% organic, up from near zero at Q3, +% from M&A, FX neutral), 2 % above vs. CSS of € 941m (+7.4%). EMEA -1% at € 272m, North America + 1% at € 121m, LatAm +2% at € 178m, APAC +9% at € 274m, BBRG at € 110m, +97% on consolidation impact.
- H2 REBIT was € 148m , + 23% y/y, 17% above CSS of € 127m, with a REBIT margin at 7.8% vs. CSS at 6.7%. FY16 REBIT margin was 8.2% vs. a guidance of 7.5% to 8% and CSS at 7.7%. EMEA H2 REBIT was € 60m, 9% better than CSS, North America was € 13m, 9% better; LatAm was € 34m, +21% better, APAC € 61m, +11% better, BBRG was € 3m, 65% below CSS. Holding costs were also much lower, at only € 27m (-18% lower).
- H2 EBIT of € 116m was 3% below CSS of € 119m on much higher restructuring charges, mainly related to Bridon. (€ 30m for BBRG, € 10m other and € 14m of impairment).
- H2 Net profit group share was € 72m, + 45% y/y, 18 % vs. CSS of € 61m, with lower financial expenses, higher tax, better JVs and minorities well below (poor Bridon results likely).
- FY16 net debt of € 1,068m vs. CSS net debt of € 1,060m and FY15 level of € 832m.
- Bekaert will pay a dividend of € 1.1 per share vs. our € 1.0.

Outlook: FY17 REBIT in line, 10% REBIT margin in 5 years

Management is guiding to a REBIT level broadly in line with FY16, i.e. € 305m and vs. our FY17E of € 309m, so in line with our expectations, with self-help compensating for the integration of low margin Bridon. Management expects automotive markets to continue to perform well in 1H17 while Oil & Gas markets should remain weak due to lower investment in extraction projects. Solar projects in China should remain strong in Q1, ahead of a change to feed in tariffs which is expected to create major volatility in demand later in the year.

Last but not least, management says it expects to be able to increase the REBIT margin to 10% over the next five years, in a normal environment, thanks to its current transformation programs (manufacturing and customer excellence) and more significant steps going forward. We think the 10% REBIT margin is well ahead of CSS expectations, with FY19 CSS currently at "only" 8%.

Share up, FY17 CSS EPS revision likely limited

We would expect the shares to react strongly. FY17 EPS upwards revision could be marginal but CSS could start discounting a steeper increase in margins beyond FY17.