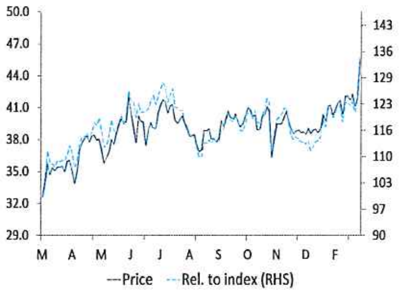
BEKAERT

Solid self-help story, rating up to Accumulate

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 45.60
TARGET PRICE € 50.00

ACCUMULATE
RATING UPGRADED



Source: Thomson Reuters Datastream

Bloomberg	BEKB BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 2,730.8m
Shares outst.	60.3m
Volume (daily)	€ 4,732,842
Free float	62.0%

Next corporate event

Trading update 1Q17: 10 May 2017

(€ m)	2016	2017E	2018E
Sales	3,715.2	4,089.2	4,202.6
REBITDA	481.4	477.5	503.9
Net earnings	105.2	161.3	190.1
Adj. EPS (€)	3.05	3.07	3.58
P/E (x)	12.1	14.8	12.7
EV/REBITDA	6.9	7.8	7.1
FCF Yield	6.0%	6.7%	7.8%
Dividend yield	3.0%	2.7%	3.1%

David Vagman, CFA
+32 2 429 30 41
david.vagman@kbcsecurities.be

Much better REBIT across the board, except for weak BBRG

- Q4 sales were € 956 m, 2 % above CSS, + 9 % YoY (+3% I/I, up from zero at Q3, +6% M&A, FX neutral).
- H2 REBIT was € 148m, + 23% YoY, 17% better, with a REBIT margin at 7.8% vs. CSS at 6.7%. FY16 REBIT margin was 8.2% vs. guidance of 7.5%-8%. H2 EBIT of € 116m was 3% below CSS on much higher non-recurring, mainly at BBRG.
- H2 net profit was € 72m, + 45% YoY, 18 % better vs. CSS, with lower financial expenses, higher tax, better JVs and minorities well below. Net debt was in line at e 1068m. Dividend of € 1.1 was 10% above our € 1.

FY17 REBIT seen flat YoY

- Management expects a FY17 REBIT broadly in line with FY16, € 305m, in line with CSS, on self-help offsetting the integration of low margin Bridon.
- It sees positive trends in Asia and North America, supported by Auto, self-help while solar could start to hurt from H2. EMEA is seen flattish, on strong Auto and construction, offset by weak Oil & Gas as well as political uncertainty, while the outlook is negative for LatAm. Capex should increase in the US and Asia, where Bekaert is at peak capacity.

Management bullish on its new 10% REBIT margin target

- CEO is highly confident Bekaert can reach a 10% REBIT margin in 5 years (pre Q4 CSS of 8% in FY19e). We understand management gets to a 15% REBIT margin when adding up its bottom up plans, a recovery in Bridon margins (+1-2% contribution) and in flex pipes (Oil&Gas). The current self-help initiatives are delivering much better, faster results, while the manufacturing excellence program is only half way through, Customer excellence has only started, a supply chain excellence program is coming (expect lower WCR), and "next generation plans" are in the pipe.
- Importantly, the target is "at constant scope", ie. no help from M&A.
- We understand the evolution to the 10% level will be lumpy
- We did not get much info on ROCE ("above WACC"), potential change in mix, restructuring or progress by region, except that a strategic "decision will have to be taken" about the structurally low margins North America.

Adjusted EPS FY18 and FY19 up by 12%, +15% FY17-19e EPS CAGR

We up our sales by 1% and our REBIT by 10%, on higher margins, with our FY18/FY19 REBIT margin at 8.3%e (was 7.6%e) and 8.8% (was 8%e).

Solid LT self-help story. Rating up to Accumulate, TP to € 50 from € 38

At 10x EV/REBIT FY18e, 13x P/E, Bekaert is cheap given a +15%e EPS CAGR for the next 5 years. It is indeed cyclical and benefits from strong Auto, solar markets, the Chinese economic rebound or pricing in Latam. As often, it faces a mixed outlook. However, we think the group will continue to outperform on sustained and credible self-help, which should attract investors, helped by the ongoing EU recovery. We up our TP to € 50, 11x EV/EBIT FY18e.