

ADD

Price (13/11/2017)	EUR 38.28
Target price	50.00
Risk	High
Reuters	BERTt.BR
Bloomberg	BEKB BB
Shares number (m)	60.10
Market cap. (m)	2,300
Net debt 12/17e (m)	1,107
Net debt/EBITDA 12/17e	2.21
1 year price perf.	-5.1%
Diff. with Euro Stoxx	-25.0%
Volume (sh./day)	100,556
H/L 1 year	48.84 - 36.34
Free Float	57.5%
Family shareholders	36.1%
Treasury shares	6.4%

Company description

Bekaert is a technological market leader in advanced solutions based on metal transformation and coatings, and the world's largest independent manufacturer of drawn steel wire products. Bekaert employs 30,000 people and serves customers in 120 countries.


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Bekaert
The lead supplier but with some short term pressure
Short term items manageable and medium term potential

- During our meeting yesterday, Bekaert clarified some of the short term issues and provided continued comfort on longer term margin potential:
- In Q3, Xingda seemed to have benefited from a better wire rod inventory position, which allowed it not to pass on raw material **price increases** to customers immediately. This is a temporary tactic, which evaporates once lower cost inventories are sold. At the same time, some smaller players enter the market from time to time on the back of strong demand.
- The strong **Chinese demand** remains very favorable, and in general the market seems quite rational. Medium term, we would not be surprised to see more consolidation, which seems on the agenda of the larger players.
- We did not discuss EMEA too much, which is running nicely with investments from tire manufacturers, more positive pricing dynamics, strong construction and automotive markets and first signs of improving investment climate in some of the oil & gas products.
- Latam remains difficult with some signs of possible improvement in Chile and Peru.
- In the **US**, there is some softening of the less important passenger tire market but the truck market remains strong. We believe that in the US market, the **strategic repositioning** remains the key decision point. The Trump administration has "announced" several potential import duties, reduction of deductible costs, etc. with mainly a lot of uncertainties. Bekaert is looking carefully in this uncertain context but we would not be surprised to see potentially significant joint-venture initiatives. For big straight acquisitions, to become a more integrated player, Bekaert is lagging size versus these players.
- In **sawing wire**, the rapid technology shift continues and next year the new technology will be dominant. In '16, sawing wire represented 16% of Asian sales, which is below 10% ytd and only about 5% in Q3. In the second half of this year, earnings contribution from sawing will be marginally and this will also be the case next year (zero budget). Renewed contribution should be expected in '18 on the back of a repositioning with cooperation with technology and equipment manufacturers. Going forward, Bekaert should be able to offer the fixed abrasive diamond on the wire technology and should be able to broaden its product portfolio to semiconductors and sapphire markets.
- In terms of strategic transformation programs, more than half of the sites are covered by the BMS manufacturing excellence program, another 10 sites will be covered by the end of this year and 20 more in 2018.

EUR	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Sales	3,186	3,216	3,680	3,713	4,010	3,980	4,106
EBITDA	298.4	341.7	442.8	482.1	500.7	477.7	533.3
Adj. profit	44.8	86.7	102	106	161	192	237
EPS	0.76	1.46	1.77	1.83	2.80	3.34	4.12
Div.	0.85	0.85	0.90	1.10	1.10	1.10	1.13
EV/EBITDA	7.3	7.6	6.0	7.1	7.0	6.9	5.8
P/E	34.0	18.0	16.1	21.0	13.7	11.5	9.3
FCF Yield	14.4%	-3.0%	10.6%	11.4%	2.0%	7.9%	10.1%
Div. Yield	3.3%	3.2%	3.2%	2.9%	2.9%	2.9%	3.0%

- The BCE, customer excellence program will reach 75% of the business by end '17 and the Fit For Growth will focus on value creating growth and will be key to drive down SG&A as percentage of sales.
- Eliminating the silo structure and develop a group wide structure in terms of Finance, Manufacturing process, SCM, etc will create a platform for growth.

Investment Conclusion: ADD maintained – Target Price EUR 50.00

Bekaert should be close to the 2016 REBIT level in 2017 despite raw material headwinds and the loss of the sawing wire business during the year. H1 2018 will face a difficult comparison base but the group is taking the right managerial and strategic steps to spur growth going forward.

We believe the 10% REBIT margin target is realistic towards 2020. We have an improvement from 7.6% to only 8% in 2018 due to the loss of the sawing wire business. We are at 9.1% 2019 and 9.7% 2020.

The shares trade at 11x EV/EBIT 2018 and 8.6x 2019. We reiterate our ADD rating.

Profit & Loss (EUR m)	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Revenues	3,185.6	3,215.6	3,680.4	3,713.1	4,010.5	3,979.8	4,105.6
(Y/Y - %)	-8%	1%	14%	1%	8%	-1%	3%
Gross profit	482.3	485.6	607.7	687.9	643.1	638.2	658.4
Selling expenses	-128.2	-138.1	-156.1	-175.3	-149.8	-149.8	-149.8
R & D expenses	-62.4	-59.3	-64.6	-63.6	-77.0	-77.0	-77.0
General & administ. expenses	-124.9	-126.9	-150.0	-139.6	-150.0	-150.0	-150.0
Other expenses	-29.8	21.1	-7.3	-91.9	21.3	-7.2	-7.2
EBITDA	298.4	341.7	442.8	482.1	500.7	477.7	533.3
EBITA	166.0	164.1	223.2	305.1	304.2	317.7	373.3
(Ebita margin - %)	5.2%	5.1%	6.1%	8.2%	7.6%	8.0%	9.1%
Amortization	0.0	-11.5	-0.9	-5.0	-10.0	-10.0	-10.0
Impairment	-	-	-	-	-	-	-
EBIT	137.0	170.7	219.8	260.1	317.7	302.7	358.3
Net Financial Result	-63.7	-62.9	-62.3	-73.0	-69.8	-61.9	-61.9
(of which Net interest charges)	-63.7	-62.9	-62.3	-73.0	-69.8	-61.9	-61.9
(of which Other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax result	53.6	104.1	123.8	149.7	212.5	240.8	296.4
Taxes	-47.9	-42.3	-36.5	-62.1	-67.5	-67.4	-83.0
Except. / Discont. operations	-	-	-	-	-	-	-
Associates	30.2	25.3	18.3	25.4	19.4	25.0	30.0
Minorities	-11.4	-0.4	-3.9	-7.3	-3.0	-6.0	-6.0
Net declared earnings	24.5	86.7	101.7	105.6	161.4	192.4	237.4
Net adjusted earnings	44.8	86.7	101.7	105.6	161.4	192.4	237.4
Cash Flow (EUR m)	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
EBIT	137.0	170.7	219.8	260.1	317.7	302.7	358.3
Depreciation	161.4	171.0	223.0	222.0	183.0	175.0	175.0
Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Impairment	0.0	16.9	0.0	0.0	0.0	0.0	0.0
Changes in provision	0.0	-44.2	-40.8	-44.9	0.0	0.0	0.0
Changes in working capital	104.5	-54.6	212.6	16.3	-61.4	62.3	9.1
Others	-28.2	-19.2	15.2	24.2	-20.8	2.1	-8.8
Operational Cash Flow	374.7	240.6	629.8	477.8	418.5	542.2	533.6
Tax expenses	-45.3	-45.7	-56.6	-96.4	-67.5	-67.4	-83.0
Dividends from associates	13.7	20.7	18.4	22.4	15.5	20.0	24.0
Net interest charges	-63.7	-55.7	-57.0	-56.1	-69.8	-61.9	-61.9
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CF from operating activities	279.5	159.9	534.6	347.8	296.7	432.9	412.7
CAPEX	-96.8	-138.2	-176.6	-164.5	-250.0	-250.0	-180.0
Investments in intangibles	-	-	-	-	-	-	-
Acquisitions	0.0	-130.3	-129.8	0.0	0.0	0.0	0.0
Divestments	6.7	3.1	30.8	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CF from investing activities	-90.1	-265.3	-275.6	-164.5	-250.0	-250.0	-180.0
Dividend payment	-58.3	-66.4	-55.6	-63.4	-66.1	-66.1	-66.1
Minor. & pref. dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity financing	-15.3	-72.1	0.0	0.0	0.0	0.0	0.0
Others	-16.0	0.0	0.0	0.0	0.0	0.0	0.0
CF from financing activities	-89.6	-138.5	-55.6	-63.4	-66.1	-66.1	-66.1
Changes in consolidation scope	-	-	-	-	-	-	-
Exchange rate impact	0.0	0.0	0.0	20.0	0.0	0.0	0.0
Net debt/cash change	99.7	-243.9	203.5	119.9	-19.4	116.7	166.6
FCF to Enterprise	328.2	54.1	294.5	415.4	184.0	312.2	377.6
FCF to Equity	219.3	-47.3	180.9	262.9	46.7	182.9	232.7
Notes	-	-	-	-	-	-	-

Balance Sheet (EUR m)	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Fixed assets	1,608.6	1,850.8	1,920.7	2,136.5	2,287.1	2,356.5	2,378.8
Tangible fixed assets	1,239.1	1,432.8	1,490.5	1,514.7	1,994.4	2,063.8	2,086.0
Goodwill	16.4	18.5	35.7	152.3	152.3	152.3	152.3
Other intang. assets	71.0	98.1	109.4	140.4	140.4	140.4	140.4
Financial fixed assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other fixed assets	-	-	-	-	-	-	-
Current assets	1,771.8	2,106.8	1,960.4	2,167.8	2,076.9	2,127.0	2,303.3
Inventories	539.3	640.8	628.7	724.5	738.0	704.9	708.3
Trade receivables	583.2	707.6	686.4	739.1	738.0	704.9	708.3
Other current assets	247.3	285.8	233.3	220.9	248.9	248.3	250.8
Cash & Equivalents	402.0	472.6	412.0	370.9	351.9	468.9	635.9
Discontinued assets	0.0	0.0	0.0	112.4	0.0	0.0	0.0
Total assets	3,380.5	3,957.6	3,881.1	4,304.3	4,364.0	4,483.6	4,682.1
Total Equity	1,503.9	1,566.2	1,515.9	1,597.9	1,693.2	1,819.5	1,990.7
Equity	1,346.3	1,366.8	1,384.7	1,467.1	1,562.4	1,688.7	1,859.9
Minorities & preferred	157.6	199.4	131.2	130.8	130.8	130.8	130.8
Provisions	214.1	285.8	270.5	298.3	298.3	298.3	298.3
Provisions for pensions	136.6	175.8	167.1	182.6	182.6	182.6	182.6
Deferred taxes	37.0	54.3	53.2	52.6	52.6	52.6	52.6
Other provisions	40.5	55.7	50.2	63.1	63.1	63.1	63.1
Other LT liabilities	2.6	8.7	15.2	44.9	44.9	44.9	44.9
LT interest bearing debt	688.2	910.1	792.1	1,161.3	1,161.3	1,161.3	1,161.3
Current liabilities	971.6	1,186.9	1,287.3	1,201.9	1,166.3	1,159.6	1,186.9
ST interest bearing debt	321.9	441.6	494.7	297.9	297.9	297.9	297.9
Accounts payables	338.9	390.9	456.8	556.4	507.4	503.5	519.4
Other ST liabilities	310.8	354.4	335.8	314.2	360.9	358.2	369.5
Discontinued liabilities	0.0	0.0	0.0	33.5	0.0	0.0	0.0
Total liabilities	3,380.5	3,957.6	3,881.1	4,304.3	4,364.0	4,483.6	4,682.1
EV and CE details (EUR m)	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Market cap.	1,519.0	1,583.6	1,706.3	2,313.4	2,300.8	2,300.8	2,300.8
+ Net financial debt	608.1	879.0	874.8	1,088.3	1,107.3	990.3	823.3
(of which LT debt)	688.2	910.1	792.1	1,161.3	1,161.3	1,161.3	1,161.3
(of which ST debt)	321.9	441.6	494.7	297.9	297.9	297.9	297.9
(of which Cash position)	402.0	472.6	412.0	370.9	351.9	468.9	635.9
+ Provisions (pension)	136.6	184.5	139.3	147.9	147.9	147.9	147.9
+ Minorities (MV)	157.6	199.4	131.2	130.8	130.8	130.8	130.8
- Peripheral assets (MV)	-242.4	-253.0	-183.0	-254.2	-194.0	-250.0	-300.0
+ Others	-	-	-	-	-	-	-
Enterprise Value	2,178.9	2,593.6	2,668.6	3,426.3	3,492.8	3,319.8	3,102.8
Equity (group share)	1,346.3	1,366.8	1,384.7	1,467.1	1,562.4	1,688.7	1,859.9
+ Net financial debt	608.1	879.0	874.8	1,088.3	1,107.3	990.3	823.3
+ Provisions (pension)	136.6	175.8	167.1	182.6	182.6	182.6	182.6
+ Minorities	157.6	199.4	131.2	130.8	130.8	130.8	130.8
- Peripheral assets	-242.4	-253.0	-183.0	-254.2	-194.0	-250.0	-300.0
+ Others	-	-	-	-	-	-	-
Capital employed (for ROCE)	2,006.2	2,368.1	2,374.8	2,614.7	2,789.2	2,742.4	2,696.7
+ Accumulated goodwill amortiz.	-16.4	-18.5	-35.7	-152.3	-152.3	-152.3	-152.3
CE (for ROCE grossed gdwill)	1,989.8	2,349.6	2,339.1	2,462.4	2,636.8	2,590.1	2,544.4
Notes	-	-	-	-	-	-	-

Per Common Share (EUR)	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Adjusted EPS (*)	0.76	1.46	1.77	1.83	2.80	3.34	4.12
Adjusted EPS (fully diluted)	0.76	1.46	1.77	1.83	2.80	3.34	4.12
Declared EPS	-	-	-	-	-	-	-
CFS	3.48	4.35	5.64	5.69	5.98	6.38	7.16
FCF (to Equity)	3.70	-0.80	3.14	4.56	0.81	3.17	4.04
Dividend	0.85	0.85	0.90	1.10	1.10	1.10	1.13
Book Value	22.72	23.07	24.04	25.47	27.13	29.32	32.29
Shares (m)							
At the end of F.Y.	59.058	60.111	60.111	60.111	60.111	60.111	60.111
Average number	59.250	59.250	57.600	57.600	57.600	57.600	57.600
Fully diluted Average number	60.670	60.670	58.876	58.876	58.876	58.876	58.876

(*) Adjusted EPS : pre-goodwill amortisation earnings, adjusted for post-tax non-recurrent items

Ratios	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Valuation analysis							
P/E	34.0	18.0	16.1	21.0	13.7	11.5	9.3
P/CF	7.4	6.1	5.0	6.8	6.4	6.0	5.3
P/BV	1.1	1.1	1.2	1.5	1.4	1.3	1.2
EV/Sales	0.7	0.8	0.7	0.9	0.9	0.8	0.8
EV/EBITDA	7.3	7.6	6.0	7.1	7.0	6.9	5.8
EV/EBITA	13.1	15.8	12.0	11.2	11.5	10.5	8.3
EV/EBIT	15.9	15.2	12.1	13.2	11.0	11.0	8.7
EV/CE	1.1	1.1	1.1	1.3	1.3	1.2	1.2
EV/CE (grossed goodwill)	1.1	1.1	1.1	1.4	1.3	1.3	1.2
EV/FCF (1)	6.6	48.0	9.1	8.2	19.0	10.6	8.2
FCF yield (2)	14.4%	-3.0%	10.6%	11.4%	2.0%	7.9%	10.1%
Dividend yield	3.3%	3.2%	3.2%	2.9%	2.9%	2.9%	3.0%
Financial ratios							
Interest cover	2.2	2.7	3.5	3.6	4.6	4.9	5.8
Net Debt/EBITDA	2.0	2.6	2.0	2.3	2.2	2.1	1.5
Net Debt/Equity	40.4%	56.1%	57.7%	68.1%	65.4%	54.4%	41.4%
Net Debt/FCF (2)	2.8	-18.6	4.8	4.1	23.7	5.4	3.5
Capital turnover	1.6	1.4	1.5	1.4	1.4	1.5	1.5
ROCE pre-tax	6.8%	7.2%	9.4%	10.1%	11.5%	11.2%	13.5%
ROCE post-tax	0.7%	4.3%	6.6%	5.9%	7.9%	8.0%	9.7%
ROCE pre-tax (grossed goodwill)	0.7%	4.3%	6.6%	5.9%	7.9%	8.0%	9.7%
ROCE post-tax (grossed gdwill)	0.7%	4.3%	6.6%	5.9%	7.9%	8.0%	9.7%
ROE	3.3%	6.3%	7.3%	7.2%	10.3%	11.4%	12.8%
Working capital (in % of sales)	24.6%	29.8%	23.3%	24.4%	24.2%	22.8%	21.9%
Payout	112.4%	58.1%	51.0%	60.0%	39.2%	32.9%	27.4%
Margin analysis and tax rate							
Gross margin	15.1%	15.1%	16.5%	18.5%	16.0%	16.0%	16.0%
EBITDA margin	9.4%	10.6%	12.0%	13.0%	12.5%	12.0%	13.0%
EBITA margin	5.2%	5.1%	6.1%	8.2%	7.6%	8.0%	9.1%
Adjusted profit margin	1.4%	2.7%	2.8%	2.8%	4.0%	4.8%	5.8%
Tax rate	89.4%	40.6%	29.5%	41.5%	31.8%	28.0%	28.0%
Growth analysis							
Sales	-8%	1%	14%	1%	8%	-1%	3%
EBITDA	9%	15%	30%	9%	4%	-5%	12%
EBITA	41%	-1%	36%	37%	0%	4%	18%
Adjusted profit	+chg	93%	17%	4%	53%	19%	23%
Adjusted EPS	+chg	93%	21%	4%	53%	19%	23%
Dividend	0%	0%	6%	22%	0%	0%	3%

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

Notes -

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Investment rating system: The Degroof Petercam stock ratings are based on the estimated performance relative to the Degroof Petercam Benelux coverage universe. The total return required for a given rating depends on the risk profile relative to this universe. This risk profile is represented by the Beta, as estimated by the analyst. Low risk stocks have an estimated Beta below or equal to 0.9, Medium risk stocks have a Beta between 0.9 and 1.3 and High risk stocks have a Beta equal to or above 1.3. The required relative performance for a given rating is indicated below. The price targets given and the expected relative performance are always based on a 12 month time horizon.

	SELL	REDUCE	HOLD	ADD	BUY
High Beta \geq 1.3	RP < -15%	-15% \leq RP < -6%	-6% \leq RP < +6%	+6% \leq RP < +15%	RP \geq 15%
Medium 0.9 < Beta < 1.3	RP < -10%	-10% \leq RP < -4%	-4% \leq RP < +4%	+4% \leq RP < +10%	RP \geq 10%
Low Beta \leq 0.9	RP < -6%	-6% \leq RP < -2%	-2% \leq RP < +2%	+2% \leq RP < +6%	RP \geq 6%

RP : Relative Performance against Degroof Petercam coverage universe

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