

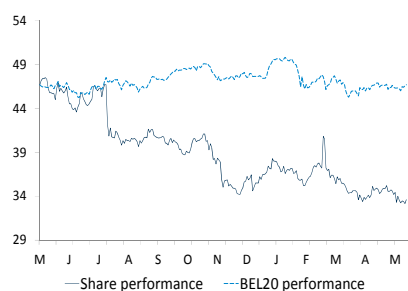
23 May 2018

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## BEKAERT

### Trough expected in 1H, followed by recovery

GENERAL INDUSTRIES  
BELGIUM



Source: Thomson Reuters Datastream

CURRENT PRICE € 33.60  
TARGET PRICE € 47.00

**ACCUMULATE**  
RATING UNCHANGED

FY/e 31.12	2017	2018E	2019E	2020E
Sales (€ m)	4,098.2	4,211.4	4,361.1	4,516.5
REBITDA (€ m)	498.0	495.7	542.8	582.5
Net earnings (€ m)	184.7	177.7	210.2	237.4
Diluted adj. EPS (€)	2.60	2.67	3.16	3.57
Dividend (€)	1.10	1.12	1.15	1.15
P/E	16.16	12.56	10.62	9.40
EV/REBITDA	7.76	6.69	6.00	5.43
Free cash flow yield	-1.3%	6.4%	7.6%	9.0%
Dividend yield	2.6%	3.3%	3.4%	3.4%

Source: KBC Securities

Bloomberg	BEKB BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 2,012m
Shares outst.	60.4m
Volume (Daily)	€ 4.41m
Free float	62.01%
Next corporate event	
Results 1H18: 27 July 2018	
Performance	1M 3M 12M
Absolute	-4% -11% -28%
Rel. BEL20	-3% -9% -28%
12-m Hi/Lo	€ 47.50/33.16

**Bekaert is a globally active producer of steel wire products and solutions, with its largest end-markets being automotive and construction.**

- **Tough momentum expected for 1H18, followed by gradual recovery.** Bekaert saw revenue decline by 1% in 1Q18, despite organic growth of 7%. The company commented at the time of the 1Q trading update that the headwinds seen in 2H17 would continue to weigh in 1H18, while the company commented to remain confident to progressively improve profitability during the year. The earlier guidance of a flat FY profitability was no longer mentioned in the press release, which can be seen as a signal that the momentum is tougher than previously expected by the company.
- **Full takeover of BBRG.** Bekaert has agreed to take over Ontario Teachers' 33% equity stake in Bekaert Bridon Ropes Group for an undisclosed sum. We believe the full takeover will simplify the decision making processes and allow for a faster roll out of efficiency improvement initiatives at BBRG.
- **Investment thesis.** We are fairly cautious about the 1H18 results, and also flag the uncertainty on the US trade policies. However, we also bank on a gradual margin improvement at the year progresses, on the back of a gradual pass through of the increased raw materials prices, further progress with efficiency improvement initiatives, a first contribution from the 3Q sawing wire business. All in all, we view valuation as attractive enough for maintaining our Accumulate rating.

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**COMPANY DESCRIPTION**

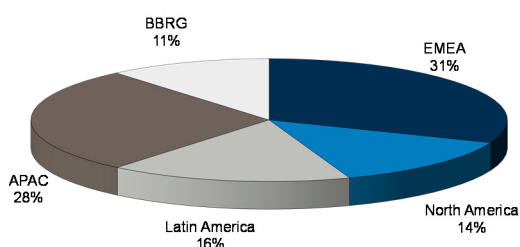
Bekaert’s core competences are the transformation of steel wire and the application of coatings. With these core competences Bekaert is active with a broad range of products in many end-markets, of which automotive and construction are the most important ones. In automotive, Bekaert has a global market share of more than 30% for steel cord tire reinforcement. In construction, Bekaert is reinforcing over 8m cubic meters annually with its Dramix® wires.

Bekaert is globally active and has different competitors in the various regions and end markets, with Xingda being an important competitor for steel cord in China and ArcelorMittal being one of the most important competitors in the European construction market.

The company posted a 7.3% underlying EBIT margin in 2017 and has the ambition to grow the margin towards 10% over the medium term, partly on the back of further efficiency improvement initiatives, as well as expected market improvement in oil & gas markets and a better pass through of increased wire rod prices. The efficiency improvement programs include a.o. a manufacturing excellence program, a customer excellence program and a supply chain excellence program.

Bekaert is still partly family owned, with the investment vehicle of the founding family still detaining a 34.4% stake in the group.

**BREAKDOWN REVENUE 2017**



Source: Bekaert

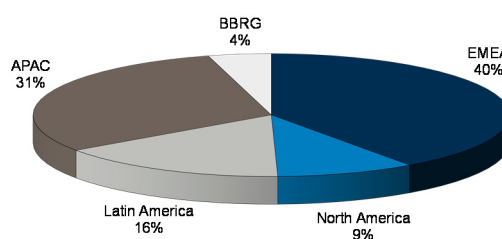
**NEWS FLOW**

**1Q18 trading update:** consolidated revenue decreased by almost 1% to € 1,052m, as the organic growth of 7% was offset by FX (approximately -6%) and scope changes (approximately -2%). Bekaert continues to see a number of headwinds that will impact 1H18 performance, including a) a difficult business climate in Latin America, b) the deconsolidation impact of the Sumaré business, c) volatility of raw materials costs, d) low demand for loose abrasive sawing wire, e) a slow recovery of BBRG and f) uncertainty on US trade policy. Bekaert still expects to improve profitability progressively during the year but no longer included the earlier statement of a flat profitability in the 1Q18 press release.

**Full ownership of BBRG:** Bekaert announced in April to have reached an agreement with Ontario Teachers to acquire the latter’s 33% equity stake in Bridon-Bekaert Ropes Group (BBRG) for an undisclosed sum.

**FY17 results:** Sales grew by about 10% to € 4,098m while the underlying EBIT margin decreased from 8.2% in 2016 to 7.3%. At the time of the FY results release, Bekaert announced it has developed its own 3G sawing wire technology, which has been extensively tested and approved by customers. The company announced it would invest in manufacturing capacity for 3G sawing wire with first contribution expected in 2H18. An element of uncertainty that popped up around the time of the FY results release is about potential US import tariffs on steel products. No final decisions have been taken on the subject since then and the tariffs do not yet apply.

**BREAKDOWN UNDERLYING EBIT 2017**



Source: Bekaert

23 May 2018

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## FINANCIAL DATA

Income statement (€ m)	2016	2017	2018E	2019E	2020E
Sales	3,715.2	4,098.2	4,211.4	4,361.1	4,516.5
COGS	-3,025.2	-3,396.4	-3,487.0	-3,602.3	-3,717.1
Gross profit	690.0	701.8	724.4	758.8	799.4
Operating costs	-378.5	-407.2	-416.9	-431.8	-447.1
Other income & costs	-51.9	23.4	-15.1	6.0	13.7
EBIT	259.7	318.1	292.4	333.1	366.0
Net interest	-73.2	-93.1	-74.2	-69.9	-65.4
Other non-operating	-37.5	0.0	0.0	0.0	0.0
Pre-tax earnings	149.0	224.9	218.1	263.2	300.6
Taxes	-62.1	-69.3	-65.4	-79.0	-90.2
Associates	25.4	26.9	25.0	26.0	27.0
Discontinued & other	-	0.0	0.0	0.0	0.0
Consolidated earnings	112.4	182.5	177.7	210.2	237.4
Minority interests	-7.3	-2.2	0.0	0.0	0.0
Net earnings	105.2	184.7	177.7	210.2	237.4
Depreciation and amortisation	-205.6	197.0	203.4	209.7	216.5
Amortisation other intangibles/ Impairments	-16.2	-	-	-	-
Non recurring elements included in EBIT	-45.3	17.0	0.0	0.0	0.0
REBITDA	481.4	498.0	495.7	542.8	582.5
EBITDA	481.4	510.0	495.7	542.8	582.5
REBITA	305.0	301.0	292.4	333.1	366.0
EBITA	259.7	318.1	292.4	333.1	366.0
Net earnings from continued operations	105.2	184.7	177.7	210.2	237.4
Adjusted net earnings	173.5	172.8	177.7	210.2	237.4
Balance sheet (€ m)	2016	2017	2018E	2019E	2020E
Intangible assets	292.7	275.1	275.1	275.1	275.1
Tangible assets	1,514.7	1,501.0	1,541.6	1,556.3	1,569.4
Financial assets	146.6	165.4	165.4	165.4	165.4
Other assets	347.1	362.0	357.2	361.6	366.1
Inventories	724.5	779.6	800.2	828.6	858.1
Receivables	907.8	892.4	901.2	933.3	966.5
Cash & equivalents	370.9	469.2	408.2	370.9	360.9
TOTAL ASSETS	4,304.3	4,444.7	4,448.9	4,491.1	4,561.5
Equity	1,467.1	1,487.7	1,574.8	1,692.8	1,837.9
Minorities	130.8	95.4	95.4	95.4	95.4
Provisions	396.4	336.3	336.3	336.3	336.3
LT financial debt	1,161.3	1,180.3	1,080.3	980.3	880.3
Other liabilities	294.5	225.5	225.5	225.5	225.5
Payables	556.4	665.2	682.2	706.5	731.7
ST financial debt	297.9	454.4	454.4	454.4	454.4
TOTAL LIABILITIES	4,304.3	4,444.7	4,448.9	4,491.1	4,561.5
Net working capital	1,076.0	1,006.8	1,019.2	1,055.4	1,093.0
Capital employed	2,588.9	2,815.0	2,863.1	2,918.4	2,973.6
Net debt	1,088.3	1,165.6	1,126.6	1,063.9	973.9
Net debt, incl. off-balance items	1,088.3	1,165.6	1,126.6	1,063.9	973.9
Cash flow statement (€ m)	2016	2017	2018E	2019E	2020E
Consolidated earnings	112.4	184.7	177.7	210.2	237.4
Depreciation, amortisation & impairment	221.8	191.5	203.4	209.7	216.5
Other cash flow from operations	7.8	-22.6	0.0	0.0	0.0
Change in working capital	-50.3	-109.5	-7.6	-40.6	-42.1
CASH FLOW FROM OPERATIONS	291.6	244.1	373.5	379.3	411.9
Net capital expenditure	-158.5	-276.5	-243.9	-224.4	-229.6
Acquisitions / disposals	50.0	0.0	0.0	0.0	0.0
Other cash flow from investments	1.2	50.3	0.0	0.0	0.0
CASH FLOW FROM INVESTMENTS	-107.3	-226.3	-243.9	-224.4	-229.6
Dividend payments	-68.0	-90.2	-90.6	-92.3	-92.3
Shares issues	7.5	4.0	0.0	0.0	0.0
New borrowings / reimbursements	172.4	149.4	-100.0	-100.0	-100.0
Other cash flow from financing	23.2	-16.1	0.0	0.0	0.0
CASH FLOW FROM FINANCING	135.2	47.2	-190.6	-192.3	-192.3
Fx and changes to consolidation scope	-360.5	33.2	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	-41.1	98.3	-61.0	-37.3	-10.0
Free cash-flow	133.1	-32.4	129.6	154.9	182.2
Change in net debt	213.5	77.2	-39.0	-62.7	-90.0

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Performance criteria	2016	2017	2018E	2019E	2020E
Sales growth	1.2%	10.3%	2.8%	3.6%	3.6%
Gross profit growth	15.3%	1.7%	3.2%	4.8%	5.3%
REBITDA growth	9.1%	3.4%	-0.5%	9.5%	7.3%
EBITDA growth	9.1%	5.9%	-2.8%	9.5%	7.3%
REBITA growth	36.8%	-1.3%	-2.9%	13.9%	9.9%
EBIT growth	18.0%	22.5%	-8.1%	13.9%	9.9%
Pe-tax earnings growth	20.0%	50.9%	-3.0%	20.7%	14.2%
Net earnings growth	2.9%	75.6%	-3.8%	18.3%	13.0%
Earnings growth from continued operations	2.9%	75.6%	-3.8%	18.3%	13.0%
Adjusted earnings growth	66.5%	-0.4%	2.8%	18.3%	13.0%
Gross margin	18.6%	17.1%	17.2%	17.4%	17.7%
REBITDA margin	13.0%	12.2%	11.8%	12.4%	12.9%
EBITDA margin	13.0%	12.4%	11.8%	12.4%	12.9%
REBITA margin	8.2%	7.3%	6.9%	7.6%	8.1%
EBIT margin	7.0%	7.8%	6.9%	7.6%	8.1%
Net working capital / sales	29.0%	24.6%	24.2%	24.2%	24.2%
CAPEX/ Sales	4.3%	6.7%	5.8%	5.1%	5.1%
FCF / Sales	3.6%	-0.8%	3.1%	3.6%	4.0%
Depreciation / Capital Expenditure	129.7%	-71.2%	-83.4%	-93.4%	-94.3%
Capital expenditure / EBITDA	32.9%	54.2%	49.2%	41.3%	39.4%
Net debt / Equity + Minorities	68.1%	73.6%	67.5%	59.5%	50.4%
Net debt / EBITDA	2.3	2.3	2.3	2.0	1.7
EBITDA / net interest	6.6	5.5	6.7	7.8	8.9
Pay-out ratio	63.1%	-	-	-	-
Net earnings margin	2.8%	4.5%	4.2%	4.8%	5.3%
x CE turnover (Sales / avg. CE)	1.5	1.5	1.5	1.5	1.5
x Leverage (avg. CE / avg. equity)	1.8	1.9	1.9	1.8	1.7
= Return on Equity (avg)	7.4%	12.5%	11.6%	12.9%	13.5%
Return on Equity - adjusted	12.2%	11.7%	11.6%	12.9%	13.5%
Return on Capital Employed	6.0%	7.9%	7.2%	8.1%	8.7%
Return on Capital Employed - adjusted	7.0%	7.5%	7.2%	8.1%	8.7%
<b>Per share data (€)</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
weighted average # shares (m)	56.26	56.74	56.74	56.74	56.74
weighted average # shares, diluted (m)	56.89	66.43	66.43	66.43	66.43
Basic EPS	1.87	3.26	3.13	3.70	4.18
Adjusted EPS	3.08	3.05	3.13	3.70	4.18
Diluted EPS	1.85	2.78	2.67	3.16	3.57
Diluted, adjusted EPS	3.05	2.60	2.67	3.16	3.57
Diluted EPS: y/y growth	6.5%	44.4%	0.2%	18.3%	13.0%
Diluted EPS: CAGR 3Y	15.5%	19.6%	10.2%	-100.0%	-100.0%
Adjusted, diluted EPS: y/y growth	72.3%	-14.7%	2.8%	18.3%	13.0%
Adjusted, diluted EPS: CAGR 3Y	14.8%	1.2%	11.2%	-100.0%	-100.0%
REBITDA / share	8.46	7.50	7.46	8.17	8.77
EBITDA / share	8.46	7.68	7.46	8.17	8.77
REBITA/share	5.36	4.53	4.40	5.01	5.51
EBIT/ share	4.56	4.79	4.40	5.01	5.51
Net book value / share	24.31	24.64	26.08	28.04	30.44
Free cash flow / share	2.37	-0.57	2.28	2.73	3.21
Dividend (€)	1.10	1.10	1.12	1.15	1.15
<b>Valuation data</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
Max share price (€)	42.26	48.84	40.82	-	-
Min share price (€)	26.73	34.20	33.16	-	-
Reference share price (€)	37.03	42.06	33.60	33.60	33.60
Reference market capitalisation	2,234.4	2,539.3	2,028.6	2,028.6	2,028.6
Enterprise value (€ m)	3,332.2	3,866.6	3,316.9	3,254.2	3,164.2
P/E	12.1	16.2	12.6	10.6	9.4
EV/sales	0.9	0.9	0.8	0.7	0.7
EV/REBITDA	6.9	7.8	6.7	6.0	5.4
EV/EBITDA	6.9	7.6	6.7	6.0	5.4
EV/REBITA	10.9	12.8	11.3	9.8	8.6
EV/EBIT	12.8	12.2	11.3	9.8	8.6
EV/Capital employed	1.3	1.4	1.2	1.1	1.1
P/ NBV	1.5	1.7	1.3	1.2	1.1
Free cash flow yield	6.0%	-1.3%	6.4%	7.6%	9.0%
Dividend yield	3.0%	2.6%	3.3%	3.4%	3.4%

Source: KBC Securities

\*Historic valuation data are based on historic prices