Bekaert

Change in recommendation

Indy - Industrial, Diversified / Belgium

Target Price EUR 37.00

Expected performance (12 mth) 30.4%

BUY (upgraded from HOLD) EUR 28.39 (Closing price 31-Dec-15)

Seen coming in play in 2016 (upgrade to BUY)

3 January 2016

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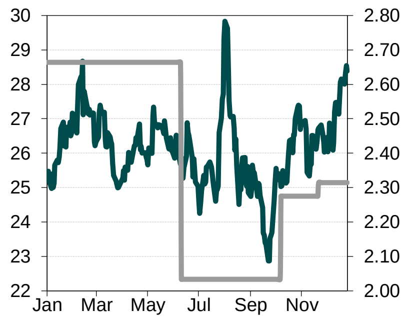
Opinion on qualitative criteria

Accounting	IFRS 01/01/2004
Quality of track record	Neutral
Solvency	High
Currency risk	High
Risk of asset write-off	Neutral

Share price performance/EPS revision (EUR)

Price — ABN AMRO EPS est. 2016



Source: FactSet, ABN AMRO Equity Research

Market capitalisation (EUR m)	1,706.4
No. of shares (m)	60.1
Free float	61.9%
1/3/12 mth perf. (%)	5.9/20.7/7.7
High/low 52 weeks (EUR)	29.83/22.87
Next results due	
Price/book value (x)	1.1
Volatility (ß) (5yrs/)	
Reuters symbol	BEKB.BR
Bloomberg symbol	BEKB BB
Website	www.bekaert.com

We upgrade our recommendation on Bekaert to BUY from HOLD. The company delivered a resilient performance in 9M15 despite a number of external headwinds, which has, to begin with, increased our confidence in the company's operational execution. We are also confident that earnings momentum will continue to be strong in 2016 and beyond, and we highlight this as a catalyst for the stock to come in play again. We see easier comps and a number of one-offs fading away in 2016, which may not all have been registered by the market. We furthermore expect Bekaert to start reaping the fruits of both a significant self-help optimisation programme and recent M&A. This leads us to forecast a solid CAGR of 18% for EBITE and of 22% for EPS during 2016-2018. This growth is, in our view, not fully reflected in Bekaert's compelling 2016/2017 valuation of 12.3/10.1x P/E, 8.6/10.5% FCF yield and 5.8/5.0x EV/EBITDA.

Earnings estimates raised by c.10-15%, now c.10% ahead of consensus

Some overdue maintenance (better-than-expected 1H15 results) and the recently-announced merger with Bridon have prompted us to raise our estimates for 2016-2018 by 8-13% at the EBITE level and by 11-15% at the EPS level. Our forecasts are some 10% ahead of the consensus, making us believe that earnings upgrades could become a trigger for the share price.

DCF-based price target raised to EUR 37

Reflecting mostly the upgrade to our earnings forecasts and also some time progression, we raised our DCF-based price target to EUR 37 from EUR 30/share. This implies a 2017 valuation of 13.2x P/E and 5.9x EV/EBITDA, which we see as realistic in light of the solid earnings momentum.

Year to December	2014	2015e	2016e	2017e	2018e
Sales (EUR m)	3,215.7	3,676.3	4,001.2	4,295.9	4,429.6
EBITDA (EUR m)	340.2	426.1	469.4	525.3	566.6
Net profit excl. extr. & amort. (EUR m)	92.5	103.9	128.6	156.6	188.0
Net profit (EUR m)	86.5	104.1	128.6	156.6	188.0
EBITDA margin (%)	10.6	11.6	11.7	12.2	12.8
ROCE (incl. goodwill) (%)	4.3	4.9	5.5	6.3	7.2
Net gearing (%)	64.3	70.1	80.0	67.1	54.1
EPS before extr. & amort. (EUR)	1.61	1.86	2.30	2.81	3.37
EPS (EUR)	1.50	1.87	2.30	2.81	3.37
DPS (EUR)	0.85	0.85	0.85	0.91	1.09
% change sales	0.9	14.3	8.8	7.4	3.1
% change EPS (excl. extr. & amort.)	182.9	15.8	23.8	21.8	20.0
EV/Sales	0.79	0.71	0.71	0.63	0.58
EV/EBITDA	7.5	6.1	6.0	5.2	4.6
P/E (excl. extr. & amort.)	16.9	15.3	12.3	10.1	8.4
P/E	18.1	15.2	12.3	10.1	8.4
PE/growth (excl. extr.)	0.0	0.1	0.5	0.4	0.4
Free cash flow yield (%)	(0.4)	9.8	7.4	8.8	9.8

Source: Company, ABN AMRO Equity Research

Resilient 9M15 performance raises comfort

9M15 results show solid operational execution, defying some external headwinds

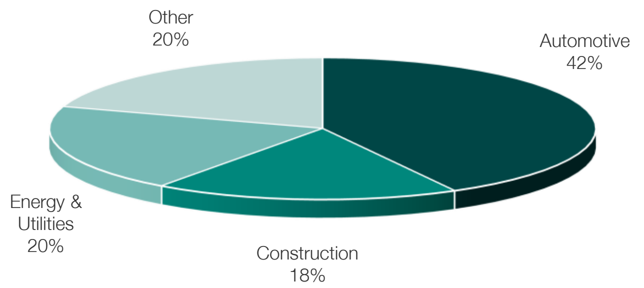
Our confidence in Bekaert's operational execution has increased, as the company delivered better-than-expected 9M15 results in the face of some ongoing headwinds. For 1H15, Bekaert reported a 12% y-o-y rise in group REBIT to EUR 112m (representing a 30bps decline of the margin to 5.9%). This increase was mainly driven (again) by a star performance for the EMEA division, albeit partly offset by headwinds faced in both the North America and Asia Pacific divisions. On a positive note, these latter two divisions now seem to be turning the corner. Moreover, we note that the REBIT outcome for 1H15 was weighed by a number of one-offs that should fade out going forwards, including a (conservative) EUR 6m charge related to a bad debt provision for solar wire customers in China, EUR 7m in consultancy fees reported under the "Other" heading, and a negative EUR 22m inventory FIFO loss caused by lower prices for wire rod (this had a negative impact of EUR 8m in 1H14). Note, however, that the latter effect is probably partly offset by a somewhat positive impact on margins from attempts by Bekaert to delay the pass-through of lower wire rod prices to customers (the delay can in some markets be up to two quarters). We go into more detail on the divisional results below, seeking evidence of further improvement potential.

EMEA: profitability consolidating at a high level

Record profitability EMEA reflects high capacity utilisation and demonstrates Bekaert's streamlining track record

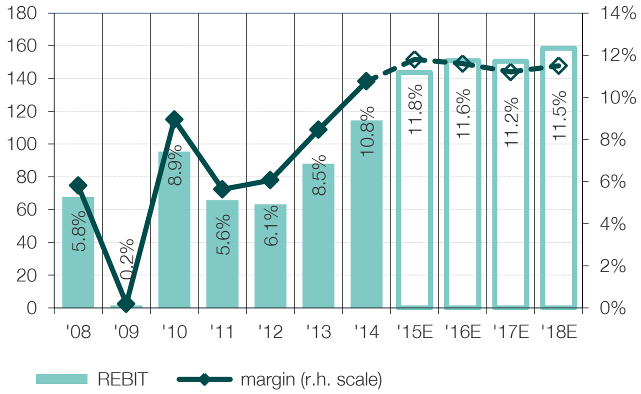
During 1H15, the EMEA division delivered a 25% increase in REBIT to EUR 80.2m, which represented a 90bps improvement of the margin to a record 12.4%. The margin improvement reflected both strong volume growth (driven by encouraging automotive and construction markets, partly offset by a downturn in oil & gas related markets) and an improved product mix. We believe that the healthy volume environment has to a certain degree also been supported by the weak euro (against the US dollar), as it limits competition from imported products (tire manufacturers, for example, typically have a policy to source part of their tire cord needs from second suppliers, which are often based outside Europe). As well as high capacity utilisation, we see the high EMEA margin reflecting the fruits of Bekaert's relocation/streamlining/portfolio efforts over the past decade. It underscores the company's solid track record in this respect, which we believe should provide investors some comfort in its ability to also improve the profitability of the other regions (as we discuss later in this report, Bekaert is in the early stages of rolling out globally a programme to optimise its manufacturing footprint). We note here, however, that we do not believe that there is much further upside potential to the operating margin of the EMEA division. Indeed, we have pencilled in some margin contraction in 2017, which reflects our assumption of a reversal of the euro weakness tailwind (see the right-hand chart below).

Breakdown of EMEA revenue by end-market (2014)



Source: Bekaert

Impressive improvement EMEA REBIT margin in recent years (EUR m)



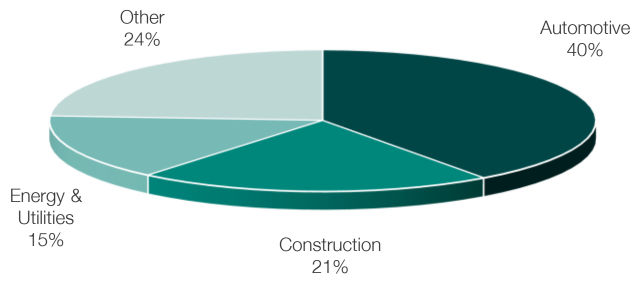
Source: Bekaert and ABN AMRO forecasts

North America: overcoming fire damage incident

North America profitability set to start reaping the fruits of self-help and the restart of the Rome plant from 2016 onwards

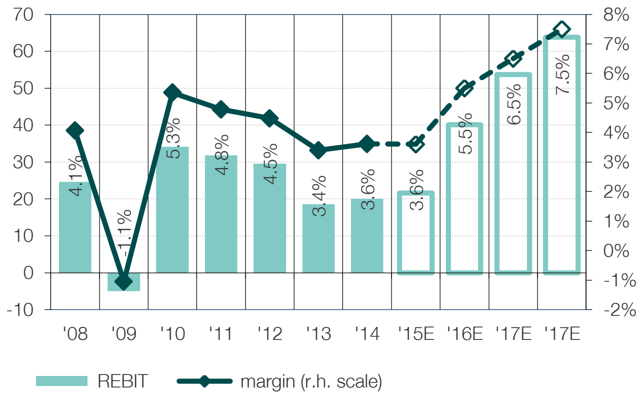
In North America, REBIT declined by 17% to EUR 6.6m (margin -130bps to 3.7%) in 1H15, as a positive currency translation effect and solid conditions in the automotive and construction segments were offset by a combination of tough industrial-related markets, a plant closure in Canada and the volume loss caused by the fire-damaged bead wire plant in Rome (Georgia). The latter incident wiped out about 10% of divisional sales in 2015. The plant has been rebuilt (covered by insurance) and was officially reopened on 7 October 2015 (although production was already restarted somewhat earlier in July-August). Although Bekaert tried to continue to service its customers with bead wire supplies from its plants in other parts of the world, part of the volumes were lost to competitors. As this relates to business that is typically done on one-year supply contracts, it will take some time for Bekaert to recoup those lost volumes. The company expects that it will regain some 60-70% of the lost volumes in 2016. During 2015, the North America division was furthermore focused on implementing programmes and making investments aimed at upgrading the product mix, which is expected to deliver improving results from 2016 onwards. Bekaert aims for this to structurally recover North America operating margins to some 7-8%, from 4-5% in recent years. We expect both the self-help measures and a recovery of the bead wire business in Rome to drive a clear improvement of the North America results in the coming years (see our forecasts in the right-hand chart below).

Breakdown of North America revenue by end-market (2014)



Source: Bekaert

North America REBIT margin in seen improving in coming years (EUR m)



Source: Bekaert and ABN AMRO forecasts

Latin America: currencies mitigate GDP headwinds

Latin America defies challenging GDP climate with self-help, Pirelli consolidation and FX tailwind

The Latin America division reported a 99% jump in REBIT to EUR 21.9m (margin +180bps to 5.5%) for 1H15. Besides cost savings and an enhanced product mix, the increase was for a large part driven by the consolidation of a high-margin (>10%) former Pirelli tire cord plant in Brazil from January 2015 onwards. These factors together helped to offset the worsening macroeconomic environment in the region on the back of low commodity prices, such as copper prices hitting the economy of Peru and low oil prices affecting Venezuela. And the Petrobas scandal has had a paralysing impact on the Brazilian economy. However, these GDP headwinds are to some degree mitigated by the significant devaluation of Latin American currencies (against the US dollar), which limits for Bekaert the competition of imported products from Asia. The table below shows the devaluation of the currencies of Chile, Brazil, Colombia and Costa Rica, to which Bakaert is mainly exposed (the company is also active in Peru and Ecuador, but these are predominantly US dollar denominated markets for Bekaert).

Bekaert's main currencies exposure (transaction and translation) in Latin America

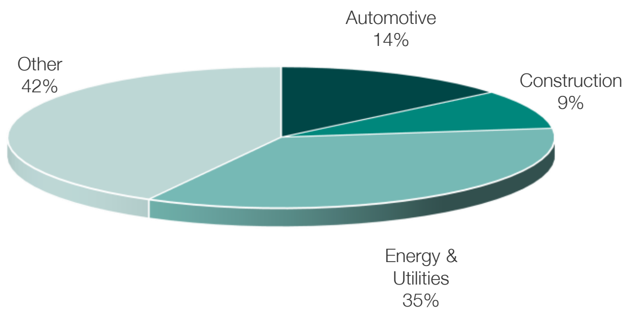
	Share of LatAm sales	Transaction exposure (vs US dollar)				Translation exposure (vs euro)			
		1Q15	2Q15	3Q15	4Q15	1Q15	2Q15	3Q15	4Q15
Chilean peso avg.	40%	0.1603	0.1619	0.1481	0.1434	0.1422	0.1463	0.1332	0.1309
y-o-y chg.		-12%	-10%	-15%	-14%	7%	11%	2%	-2%
Brazilian real avg.	14%	0.3511	0.3257	0.2852	0.2601	0.3109	0.2946	0.2563	0.2375
y-o-y chg.		-17%	-27%	-35%	-34%	1%	-10%	-23%	-24%
Colombian peso avg.	6-7%	0.0405	0.0400	0.0341	0.0327	0.3593	0.3619	0.3068	0.2987
y-o-y chg.		-19%	-23%	-35%	-29%	-1.4%	-5.0%	-22.3%	-19.0%
Costa Rican colon avg.	3%	0.1864	0.1869	0.1867	0.1876	1.6545	1.6903	1.6785	1.7132
y-o-y chg.		-2%	3%	1%	1%	19%	28%	20%	15%

Source: Bloomberg and ABN AMRO

No reason not to expect a return to historic operating margins

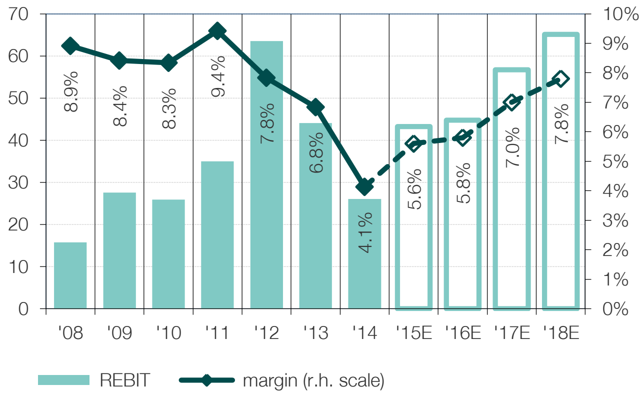
With the help of internal measures to optimise the manufacturing footprint (about which more later), integration benefits from recent M&A (Pirelli and Bridon) and some economic tailwinds, we see no reason to believe that the Latin America division will not be able to recover the REBIT margin to the historic level of c 8% in the coming years.

Breakdown of Latin America revenue by end-market (2014)



Source: Bekaert

Latin America REBIT margin in seen improving in coming years (EUR m)



Source: Bekaert and ABN AMRO forecasts

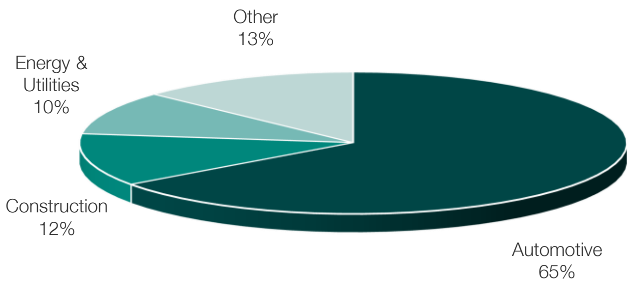
Asia Pacific: recovering from tire cord pressures

With Chinese tire cord pressures easing, we expect self-help to drive a recovery from 2016

The Asia Pacific division reported for 1H15 a 29% lower REBIT result of EUR 30.5m, which represents 340bps erosion of the margin to 5.6%. However, when corrected for the bad debt provision of EUR 6m related to solar customers, the REBIT decline would have been a more mild 15% and the margin would have been 6.7%. This pressure can be attributed largely to challenging conditions for tire cord business in China, which accounts for approximately 50% of divisional sales. The market started to deteriorate in 2H14, as the growth in demand for tires slowed (aggravated by import duties on Chinese tires in the US), while the tire cord producers had continued their capacity spree in recent years. The first two months of 1H15 were still marked by weak volumes on the back of destocking. Market volumes stabilised in 2Q15 (while Bekaert regained market share it lost in 2014), although prices continued to be under pressure. While the biggest players, Xingda and Bekaert, operate at a capacity utilisation of 80-90%, it was particularly the smaller players operating at far below 50% capacity utilisation that undermined the market. With these smaller players said to be burning cash, the question can be raised as to how long this can be sustained. Adjusting to the new reality of a lower growth environment for tire cord, Bekaert has started its intention to address the slack within its production footprint. The company has over the years come to operate seven tire cord production plants in five locations across China (as opposed to only one operated by Xingda), which each produce the full range of SKUs. In order to make better use of operational leverage benefits, Bekaert has taken measures to rationalise the number of SKUs, reconfigure the plants along increased specialisation, reduce complexity and optimise manufacturing excellence. These programmes are expected to bear fruit from 2016 onwards. We assume that Bekaert's operating margins on tire cord can recover from the current mid single-digit levels (estimated by us) to high single-digit levels (while we note that this is clearly shy of the 20-30% margins achieved a few years ago).

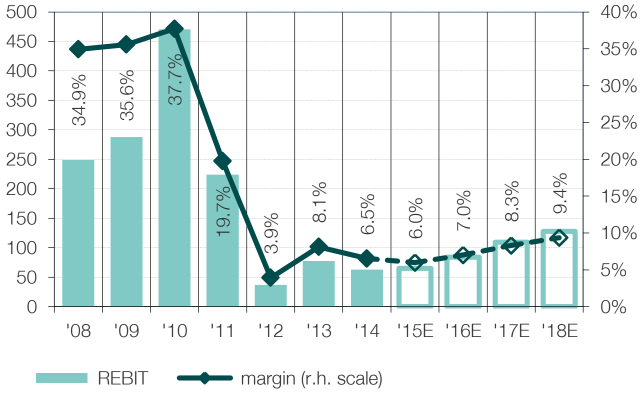
Following the burst of the sawing wire bubble in 2011, we estimate that this business (c. 10% of divisional sales) is back to realising appreciable operating margins of >10% (albeit a far cry from the >50% margins realised in the bonanza time). Bekaert has indicated to us that the margin of the Asia Pacific division has been weighed by a couple of recently started/acquired projects/JVs that have taken longer to ramp up than expected. In order to make acceptable ROCEs, Bekaert requires the Asia Pacific division to recover its operating margin to high single-digit levels in the coming years (which is above the group target of >7%). This is to be achieved on the back of a reduction in the number of low-end SKUs and measures to optimise the manufacturing footprint.

Breakdown of Asia Pacific revenue by end-market (2014)



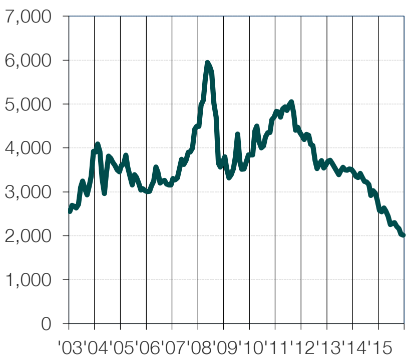
Source: Bekaert

Asia Pacific REBIT margin in seen improving in coming years (EUR m)



Source: Bekaert and ABN AMRO forecasts

Chinese wire rod price (CNY/tonne)



Source: Bloomberg

3Q15 trading update not fully understood by the market

For 3Q15, Bekaert reported a trading update that was not entirely understood by the market, in our view (that is at least what we concluded from the negative share price reaction it triggered on the day of the release). The update only disclosed the company's top-line performance. Group consolidated sales increased by 10% (-5% organic, +7% FX and 8% consolidation) to EUR 904m for 3Q15, which fell somewhat short of the company-collected consensus of EUR 943m and our forecast of EUR 960m. While the market took this as a shortfall, we stress that the seemingly poor organic performance (-5%) was merely attributable to an impact of -6% related to lower wire rod prices being passed through to customers (masking an improved underlying volume performance), which may in fact be a positive for margins. We also consider it interesting to highlight the reduction in net debt from EUR 1,023m at end-2Q15 to EUR 906m at end-3Q15 (better than the c.EUR 1bn consensus for end-2015), which was said to be attributable to a decrease in working capital as well as healthy cash generation. We believe that the latter can be interpreted as a solid EBITDA performance in 3Q15.

Easier comparables fuel momentum in 2016

We highlight as a trigger for the share price earnings momentum on the back of ...

We believe that sentiment towards the Bekaert stock may very well be supported by solid earnings momentum in 2H15 (to be reported on 27 February 2016) and FY16. We expect earnings momentum to be helped by the fading of some one-offs and easier comparables, which may not all have been noted by the market. We highlight the following items:

... the fading of some one-offs (which may not all have been noted by the market) and ...

The ‘Other’ (corporate) EBITE line included a non-recurring EUR 7m in consultancy fees related operational cost reduction programmes in 1H15. We expect these costs to largely fade in 2H15, making us forecast a reduction in ‘Other’ EBITE from EUR (32)m in 1H15 to EUR (27)m in 2H15 (and EUR (55)m for FY16. Moreover, Asia Pacific EBITE looks likely to see a removal of the EUR 6m bad debt provision for Chinese solar wire customers in 1H15. And a halt to the decline in prices for wire rod could ease FIFO inventory losses in 2016 (although there are no clear indications pointing in that direction now), which still amounted to EUR 22m in 1H15.

... easier comparables

The Asia Pacific division should we believe gradually see an easier comparison base for its Chinese tire cord business (c. 50% of divisional sales), which suffered from severe competitive pressures in 4Q14 and 1Q15. And, all else being equal, the North America division should also see some recovery from a comparison base that was hampered by the fire-damaged bead wire plant in Rome in 2015.

Below the EBIT(E) line, there will be a fading-out of some EUR 4m related to a non-recurring stamp duty on the acquisition of the Arrium wire ropes business in Australia and some EUR 2m related to a revaluation of the option regarding the convertible.

Self-help and M&A to unlock further potential

We expect Bekaert to unlock significant earnings potential in the coming years from ...

Besides easier comparables for 2016, we expect Bekaert’s earnings momentum to be supported in the coming years by both self-help initiatives and the integration benefits of a number of larger-sized takeovers/mergers. The headwinds faced by Bekaert in 2015 were cushioned by cost savings, which must be seen as a continuous part of its business. However, the results did not yet reflect the value creation from a programme aimed at optimising the manufacturing cost base and a product portfolio analysis, which are still in an early phase of the implementation process.

... a global programme aimed at optimising the manufacturing cost base and ...

As part of the so-called ‘Bekaert Manufacturing Systems’ project, the company has completed two pilot projects at factories in Belgium and China, which generated operational improvement ideas from debottlenecking, use of cheaper wire rod as raw material input, and machine and worker productivity. This exercise has resulted in an action plan to optimise the manufacturing cost base, which is being rolled out across all of Bekaert’s 85 factories in the coming three years.

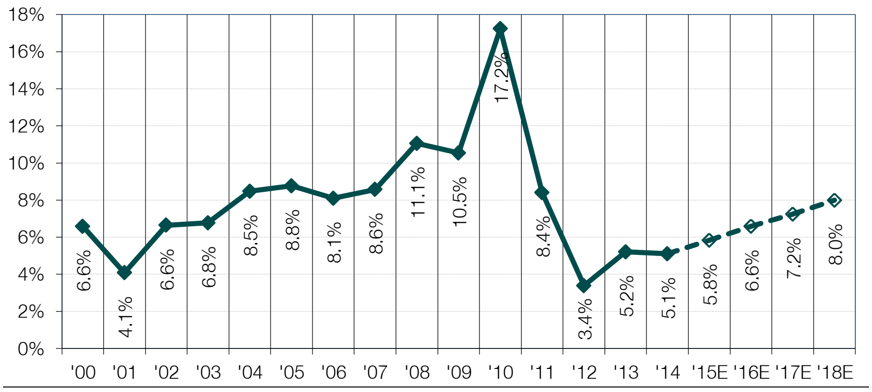
... the integration benefits of recent M&A (Pirelli and Bridon) and portfolio rationalisation

In addition, Bekaert is optimising its portfolio. This has resulted during 2015 in the takeovers of Pirelli’s global tire cord activities and the Arrium wire ropes business in Australia, and just recently the JV agreement with the global ropes and advanced cords business of Bridon. At the same time, Bekaert disposed its carding production facilities and an exited from its loss-making stainless steel wire business. While tire cord activities acquired from Pirelli were said to have already contributed a better-than-expected performance on their own, Bekaert anticipates a further improvement driven by integration synergies in 2016 (these have not been quantified by the company, however). We expect that impetus will furthermore be boosted from 2017 onwards by the synergy benefits of the JV deal involving Bridon. We discuss the JV with Bridon in more detail in the next section.

We believe that the market may overlook Bekaert's self-help, as it has not been accompanied by clear targets

As Bekaert has not attached clear (cost savings) targets to the aforementioned self-help initiatives, we believe that they may be overlooked by the market with a wait-and-see stance. The only official target has been already for a number of years to recover the group EBITE margin to >7%. Bekaert now expects to reach the target on a run-rate basis towards the end of 2017. The target does not assume an improvement of external markets compared to the current conditions, except to a certain degree in Latin America. We believe that the self-help measure that Bekaert is taking and the integration benefits from recent M&A could make the >7% margin target look overly conservative in the coming years.

Bekaert's group EBITE margin targeted to recover to >7%



Source: company data and ABN AMRO forecasts

JV with Bridon looks like a strategically attractive deal

Bekaert recently announced a strategically attractive JV deal with Bridon …

On 7 December, Bekaert announced that it had reached a JV agreement with Ontario Teachers' Pension Plan (OTPP) to merge a complementary global ropes and advanced cords[1] business of Bridon with that of Bekaert. The Bridon Bekaert Ropes Group JV is for 67% owned by Bekaert and for 33% by OTPP. The merger fits within Bekaert's strategy to become a global leader in ropes. It is an area where the company has been keen to grow, as is evidenced by recent takeovers in Brazil, the US and Australia. Bekaert missed out on the opportunity to acquire Bridon when it was beaten to it by OTTP when previous owner Melrose sold it in November of 2014. Recent pressures on Bridon's oil & gas related activities have opened up an opportunity for Bekaert to still team up with OTPP.

… merging activities that are a geographic and product perspective from a geographic and product perspective …

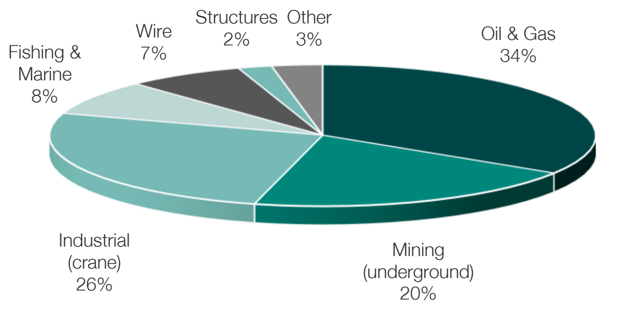
Bridon generates sales of EUR 350m (2014) from a premium brand of specialist high performance wire and rope products. It furthermore contributes 11 manufacturing facilities (in the UK, US, Germany, China, Indonesia and Norway), 18 sales and distribution locations around the globe and a technology centre in the UK. Bekaert adds to the JV some EUR 250m in sales and enters its wire rope production activities in Canada, the US, Australia, Brazil, Chile and Peru, its advanced cords activities in Belgium and China, and the commercialisation of the ropes activities integrated in its wire plants in China and Malaysia. Combined, the JV will generate revenue of EUR 600m (thus adding EUR 350m to Bekaert's top line) and leverage the skills and capabilities of almost 3,000 employees, 19 plants in 11 countries, market-focused R&D, and a global sales and service network.

[1] Advanced cords are similar constructions as ropes, but ultra-thin.

… unlocking substantial integration benefits from scale, sharing technology and cross-selling

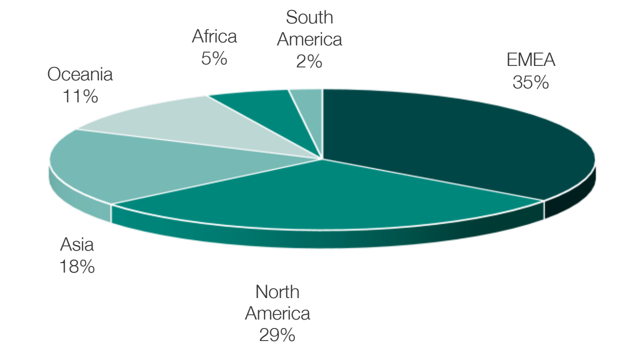
The two businesses of Bekaert and Bridon seem to fit together very well from a strategic perspective. The merger creates a leader in its field and is expected to generate operational scale benefits with respect to procurement, technology/product development, brand/marketing, customer service and sales. As the merger is complementary from a geographic and product perspective, Bekaert expects that it will also generate commercial synergies at the top line. The charts below shows the breakdown of Bridon's sales (2012) by product segment and geography. The company is shown to be geared in particular to the oil & gas and mining segments, which represented >50% of sales in 2012. Bekaert's exposure to the oil & gas segment is limited to some 15% (and is mostly onshore, as opposed to Bridon's mostly offshore related activities in this sector). While Bekaert also generates a sizeable chunk of sales from the mining industry (c. 40%), this involves the surface mining segment rather than underground mining for Bridon. The companies are also complementary from a technology perspective, with Bridon also contributing knowledge in the field of synthetic ropes (which Bekaert currently does not have in its portfolio), while both companies can join forces on the development on new hybrid ropes technologies for upscale applications. Geographically, Bekaert's ropes business is geared towards Latin America, Canada and Australia, whereas Bridon is exposed relatively more towards EMEA and North America (Bekaert also has a solid presence in the latter region).

Breakdown of Bridon's sales (2012) by product segment



Source: Melrose presentation about Bridon

Breakdown of Bridon's sales (2012) by geography



Source: Melrose presentation about Bridon

The anticipated synergy benefits were said to be "strong", although Bekaert considered it too early to quantify them. The company has, however, highlighted the following areas for cost synergies:

- Bridon stands to benefit from Bekaert's scale in the procurement of wire rod, of which the latter is the largest buyer in the world (Bridon was said to purchase less than 10% of Bekaert's needs).
- The JV is expected to realise operational benefits from cross-sharing Bekaert's superior knowledge regarding the production of wires (the input for ropes) and Bridon's relatively stronger competences in the field of making ropes.
- Overlap in the development of similar products. Bekaert also sees potential to leverage the Bridon brand, which is considered to be perceived as premium in the market.

While Bekaert is confident that the limited overlap between both companies will allow for cross-selling opportunities to be realised, it has not yet been able to put much effort in assessing such commercial synergies in view of the competitive situation between both companies to date. The company has stated that it expects to realise the cost savings within three years of completion. Upon closing in 1H16, the deal was furthermore said to be earnings-enhancing from 2017 onwards.

Bekaert also stands to benefit from a cyclical recovery of Bridon's earnings, which suffered from the downturn in oil & gas

We believe that Bekaert also stands to benefit from a cyclical recovery of Bridon's earnings. Bekaert has indicated that the to-be-formed Bridon Bekaert Ropes Group JV currently achieves an EBIT margin that is around the group target of 7% (we add that Bekaert's management stated in the conference call discussing the transaction that the expected synergy benefits will make the JV margin enhancing for the total Bekaert group in the coming years). The assets contributed by Bekaert are said to perform slightly above that target and those contributed by Bridon below, as the latter suffered relatively more from the downturn in (higher-margin) oil & gas related markets (30-35% of Bridon's sales vs 15% at Bekaert) and to a lesser degree some pressure on mining-related markets (c.20% of Bridon's sales vs c.40% at Bekaert). The table below shows the results of Bridon as they were reported under the "Lifting" heading in the 2013 and 2014 annual reports of Melrose, which was Bridon's owner before it was sold for an EV of GBP 365m to Ontario Teachers' Pension Plan in November 2014 (the results from 2012 and earlier are derived from information of presentations). It can be seen that Bridon consistently achieved an EBIT margin in the low teens during the period 2009-2013, and that it seems to have started to come under some pressure in 2014 (but still a healthy 10.9%). While we do not have numbers available for 2015, Bekaert hasindicated that the margin has dropped to slightly below 7%. This is blamed solely on the cyclical downturn in oil & gas related markets, and the company informed us that there are no other factors at play (Bridon has already started to take rightsizing actions to offset for the lower capacity utilisation). We were also told that the pressure on Bridon's earnings has resulted in a clearly higher JV equity stake for Bekaert than would have been the case if the deal had closed let's say a year ago.

Bridon's historical sales and EBIT (GBP m)

	2008	2009	2010	2011	2012	2013	2014[1]
Sales	238.0	246.0	237.0	259.0	268.4	266.4	208.0
% chg.		3.4%	-3.7%	9.3%	3.6%	-0.7%	nmf
EBIT	24.8	33.5	28.5	30.4	34.1	35.8	22.6
margin	10.4%	13.6%	12.0%	11.8%	12.7%	13.4%	10.9%

[1] 2014 results until 12 November (reported as discontinued operations).

Source: 2013 and 2014 annual reports Melrose (results 2008-2012 from Melrose presentations)

The proposed merger transaction has a cash-neutral impact for Bekaert. The Bridon Bekaert Ropes Group JV will be created with EUR 320m in net debt, of which EUR 285m is contributed by OTPP and EUR 35m by Bekaert. As part of the JV deal with OTPP, Bekaert contributes its Bekaert Rope Group business (with entities in Canada, Chile, Peru, Brazil, the US and Australia) on a full-ownership basis, and therefore bought out the 35% minority stake of its Chilean partners, MatCo Cables, for EUR 85m. Hence, the combined impact on Bekaert's balance sheet is incremental net debt of EUR 370m, of which the EUR 85m already in 2015 and the JV-related debt from OTPP of EUR 285m upon closing of the transaction in 1H16. We note that the EUR 320m in net debt of the JV will be ring-fenced (non-recourse) to Bekaert.

Earnings estimates raised

We raise our EPS estimates for 2016-2018 by 11-15%

The table below shows the changes that we have made to our earnings estimates as a result of overdue maintenance (better-than-expected 1H15 results) and to reflect the recently-announced JV agreement with Bridon (with an assumed consolidation impact from mid-2016 onwards). This has led us to raise our estimates for 2016-2018 by 8-13% at the EBITE level and by 11-15% at the EPS level. Our forecasts represent a solid 2016-2018 CAGR of 18% for EBITE and of 22% for EPS. We refer to the table on the following page for more detail behind our P&L forecasts.

Old vs new forecasts (EUR m)

	2016E			2017E			2018E		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
Sales	3,919	**4,001**	2%	4,076	**4,296**	5%	4,200	**4,430**	5%
EBITE	243	**264**	8%	282	**311**	10%	314	**354**	13%
margin	6.2%	**6.6%**		6.9%	**7.2%**		7.5%	**8.0%**	
EPS (EUR)	2.03	**2.30**	13%	2.52	**2.81**	11%	2.92	**3.37**	15%

Source: ABN AMRO forecasts

The consolidation of the Bridon JV accounts for the lion's share of the earnings upgrade for 2017 and 2018

The table below shows the estimated consolidation impact (from mid-2016 onwards) of the JV with Bridon on Bekaert's results in isolation of the other changes we have made. While the consolidation has a limited impact in 2016, it accounts for c.80% of the raise to our EBITE forecasts and for c.50% of the raise to our EPS forecasts in 2017 and 2018.

Consolidation impact (from mid-2016) of the Bridon JV on Bekaert's results (EUR m)

	2016E[1]	2017E	2018E
Incremental sales	175	333	359
consolidation impact	4%	8%	9%
Incremental EBITE	11	23	29
margin	6.5%	7.0%	8.2%
consolidation impact	5%	8%	9%
Incremental EPS (EUR)	0.05	0.11	0.28
consolidation impact	3%	4%	10%

1 We have assumed that the JV with Bridon is consolidated from mid-2016 onwards.

Source: ABN AMRO forecasts

Consensus does not yet fully reflect the JV with Bridon

The table below shows our forecasts to be clearly ahead of the Bloomberg consensus. However, we have checked that half of the input contributions to the consensus have not yet been updated for the recently-announced (7 December, 2015) JV deal with Bridon.

ABN AMRO forecasts for Bekaert relative to Bloomberg consensus (EUR m)

	Sales			EBITDA			EBIT			EPS (EUR)		
	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
ABN AMRO estimates	3,676	4,001	4,296	426	469	525	210	244	291	1.87	2.30	2.81
Relative to consensus (mean)	**-1%**	**4%**	**7%**	**11%**	**13%**	**17%**	**2%**	**6%**	**11%**	**13%**	**9%**	**9%**
Bloomberg consensus:												
mean	3,705	3,856	4,023	386	415	448	205	230	263	1.65	2.12	2.57
high	3,885	4,046	4,317	432	467	521	218	253	292	1.86	2.44	2.90
low	3,578	3,712	3,851	329	350	382	192	211	245	1.41	1.78	2.12
no. of estimates	9	9	8	9	9	8	6	6	6	9	9	8

Source: ABN AMRO estimates and Bloomberg consensus

P&L Bekaert (EUR m)

	1H14	2H14	2014	1H15	2H15E	2015E	2016E	2017E	2018E
EMEA	555	509	1,064	644	574	1,218	1,300	1,344	1,378
North America	281	274	555	313	286	599	730	826	851
Latin America	295	336	631	400	372	772	772	811	835
Asia Pacific	478	488	966	541	546	1,087	1,199	1,315	1,366
***Consolidated* sales**	**1,609**	**1,607**	**3,216**	**1,898**	**1,778**	**3,676**	**4,001**	**4,296**	**4,430**
% chg.	-2.4%	4.6%	0.9%	18.0%	10.7%	14.3%	8.8%	7.4%	3.1%
organic	2.0%	2.7%	2.3%	-3.0%	1.5%	-0.8%	2.8%	3.0%	3.1%
fx	-6.9%	-0.4%	-3.8%	10.9%	5.3%	8.1%	1.3%	0.0%	0.0%
consolidation	1.5%	3.7%	2.6%	10.0%	8.4%	9.2%	4.8%	4.4%	0.0%
EBITDA*E*	**173**	**162**	**335**	**219**	**211**	**431**	**489**	**545**	**587**
margin	10.7%	10.1%	10.4%	11.5%	11.9%	11.7%	12.2%	12.7%	13.2%
% chg.	-0.9%	7.0%	2.8%	26.9%	30.5%	28.7%	13.6%	11.4%	7.6%
EBIT*E* EMEA	64	50	114	80	64	144	151	151	158
margin	11.5%	9.9%	10.8%	12.4%	11.1%	11.8%	11.6%	11.2%	11.5%
% chg	39.1%	20.2%	30.1%	25.2%	26.1%	25.6%	4.9%	-0.2%	5.2%
EBIT*E* North America	14	6	20	12	10	22	40	54	64
margin	5.0%	2.2%	3.6%	3.7%	3.5%	3.6%	5.5%	6.5%	7.5%
% chg	7.7%	7.9%	7.8%	-17.1%	64.7%	7.5%	86.1%	33.8%	18.8%
EBIT*E* Latin America	11	15	26	22	21	43	45	57	65
margin	3.7%	4.5%	4.1%	5.5%	5.7%	5.6%	5.8%	7.0%	7.8%
% chg	-60.7%	-6.1%	-40.8%	99.0%	41.6%	65.8%	3.6%	26.7%	14.8%
EBIT*E* Asia Pacific	43	20	63	30	34	65	84	109	128
margin	9.0%	4.1%	6.5%	5.6%	6.3%	6.0%	7.0%	8.3%	9.4%
% chg	10.3%	-47.8%	-18.5%	-29.2%	71.8%	2.9%	29.4%	30.0%	17.2%
Other	(32)	(28)	(60)	(32)	(27)	(59)	(56)	(59)	(61)
Total EBIT*E*	**100**	**64**	**164**	**112**	**102**	**215**	**264**	**311**	**354**
margin	6.2%	4.0%	5.1%	5.9%	5.8%	5.8%	6.6%	7.2%	8.0%
% chg.	10.0%	-14.6%	-1.1%	12.2%	60.0%	30.8%	22.9%	18.0%	13.8%
Non-recurring items	17	(11)	5	(3)	(2)	(5)	(20)	(20)	(20)
EBIT	**117**	**53**	**169**	**110**	**100**	**210**	**244**	**291**	**334**
Net financial charges	(27)	(40)	(66)	(44)	(34)	(78)	(70)	(72)	(66)
EBT	**90**	**13**	**103**	**66**	**66**	**132**	**174**	**219**	**269**
Taxes	(23)	(19)	(42)	(26)	(23)	(49)	(61)	(77)	(94)
as % of EBT	25.1%	146.7%	40.8%	38.9%	35.1%	37.0%	35.0%	35.0%	35.0%
Share in results joint ventures	12	13	25	13	12	25	26	29	31
Result discontinued operations	0	0	0	0	0	0	0	0	0
Minority interests	(2)	2	0	(0)	(4)	(4)	(10)	(14)	(18)
Net profit continuing operations	**78**	**9**	**86**	**52**	**52**	**104**	**129**	**157**	**188**
% chg.	196.9%	nmf	251.8%	-32.7%	492.3%	20.5%	23.5%	21.8%	20.0%
EPS basic (EUR)	**1.33**	**0.15**	**1.50**	**0.94**	**0.93**	**1.87**	**2.30**	**2.81**	**3.37**
% chg.	198.3%	nmf	257.4%	-29.6%	511.0%	24.3%	23.5%	21.8%	20.0%
Net profit excl. non-recurring	**65**	**4**	**83**	**54**	**53**	**107**	**142**	**170**	**201**
% chg.	141.5%	nmf	86.5%	-17.5%	1403.7%	28.5%	32.3%	19.8%	18.5%
EPS excl. non-recurring (EUR)	**1.12**	**0.06**	**1.45**	**0.96**	**0.95**	**1.92**	**2.54**	**3.04**	**3.60**
% chg.	142.6%	nmf	89.5%	-13.7%	1451.1%	32.6%	32.3%	19.8%	18.5%
DPS (EUR)			**0.85**			**0.85**	**0.85**	**0.91**	**1.09**
payout			59.1%			49.1%	39.7%	35.0%	35.0%

Source: company data and ABN AMRO estimates

We forecast an attractive free cash flow generation

The table below summarises how our earnings estimates break down to our forecast for free cash flow generation and the capital structure. We highlight that our cash flow forecasts return an attractive yield of around 10% in the coming years. The increase in end-2016 net debt reflects the consolidation of EUR 285m in incremental net debt related to the JV with Bridon (note that the total debt of EUR 320m related to the JV is ring-fenced from Bekaert). We remind here that Bekaert's debt is not subject to financial covenants (the company has an internal target of net debt/EBITDA <2.0x and gearing of around 50%).

Cash flow generation and capital structure (EUR m)

	2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E
EBIT (*including* non-recurring items)	534.3	268.4	(49.9)	137.3	169.5	210.1	243.7	291.3	334.2
Depreciation and amortisation	191.0	207.3	324.1	159.7	170.7	216.0	225.7	234.0	232.5
Other operational cash flow	7.4	(41.1)	(2.9)	(18.2)	(54.5)	0.0	0.0	0.0	0.0
Dividends received	40.4	7.5	6.5	13.7	20.7	19.9	20.5	28.5	31.1
Taxes paid	(113.3)	(129.3)	(59.2)	(51.5)	(45.8)	(48.9)	(60.8)	(76.8)	(94.0)
Working capital	(276.9)	(199.8)	226.8	78.5	(54.6)	18.5	(35.0)	(32.3)	(42.2)
Net capex	(236.5)	(176.4)	(104.6)	(90.1)	(151.4)	(165.9)	(176.6)	(193.4)	(198.5)
Net interest	(43.5)	(59.0)	(77.8)	(65.3)	(55.7)	(62.0)	(70.0)	(72.0)	(65.5)
Geared free cash flow	**102.9**	**(122.2)**	**263.0**	**164.0**	**(1.3)**	**187.8**	**147.5**	**179.4**	**197.5**
as yield on market cap.	2.0%	-8.2%	20.0%	10.6%	-0.1%	11.0%	8.6%	10.5%	11.6%
Net debt as at 1/1	395.4	521.9	860.5	700.2	574.0	853.0	983.3	1,185.9	1,063.4
Geared free cash flow	(102.9)	122.2	(263.0)	(164.0)	1.3	(187.8)	(147.5)	(179.4)	(197.5)
Dividends paid	118.5	163.1	46.1	58.3	66.4	51.1	51.1	51.1	54.8
Share buybacks	57.7	(0.7)	0.0	15.3	72.1	0.0	0.0	0.0	0.0
Other	53.1	54.0	56.6	(35.8)	139.2	267.0	299.0	5.8	7.1
Net debt as at 31/12	**521.9**	**860.5**	**700.2**	**574.0**	**853.0**	**983.3**	**1,185.9**	**1,063.4**	**927.8**
Net debt / EBITDA*E*	0.7	1.8	1.6	1.8	2.5	2.3	2.4	2.0	1.6
Gearing	32%	51%	49%	43%	62%	69%	79%	66%	53%
Shareholders' equity / total assets	44%	41%	39%	40%	35%	35%	34%	36%	38%
Interest cover (based on EBITDA)	12.7	6.7	5.0	4.6	4.9	6.1	6.2	6.8	7.9

Source: company data and ABN AMRO estimates

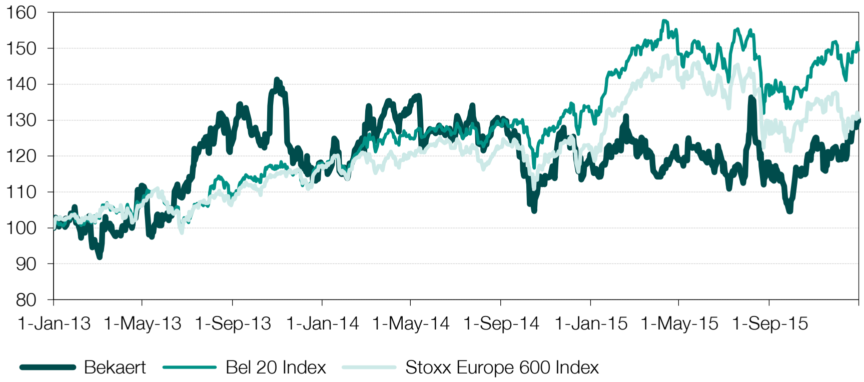
Compelling valuation

Share price performance Bekaert, absolute and relative to the Bel 20 and Euro Stoxx 600 indexes

	Since			
	01-01-'13	01-01-'14	01-01-'15	01-07-'15
Bekaert absolute	30%	10%	8%	12%
Relative to Bel 20 Index	-13%	-13%	-4%	8%
Relative to Euro Stoxx 600 Index	-1%	-1%	1%	17%

Source: Bloomberg

Share price performance Bekaert, absolute and relative to the Bel 20 and Euro Stoxx 600 indexes



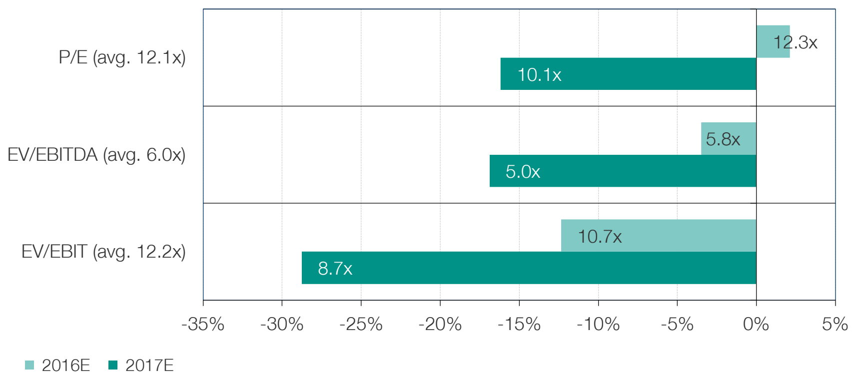
Source: Bloomberg

Bekaert trades at compelling valuation multiples

Attractive 2016/2017 valuation of 12.3/10.1x P/E, 5.8/5.0x EV/EBITDA and 8.6/10.5% FCF yield

The Bekaert stock trades at an attractive 2016/2017 valuation of 12.3/10.1x P/E, 5.8/5.0x EV/EBITDA and 10.7/8.7x EV/EBIT (we note that our calculation of EV includes the estimated market value of Bekaert's JVs and associates). The chart below shows that these multiples stand at a clear discount to the average during the period 1999-2015. The stock also trades at a discount to the average 2016 valuation of the Stoxx 600 index of 15.1x P/E and 8.8x EV/EBITDA. We also consider it worth highlighting that Bekaert offers a geared FCF yield of 8.6/10.5% on our 2016/2017 forecasts. And we note that the 2016/2017 dividend yield of 3.0/3.2% looks fairly certain in light of the 38% family stake.

Forward valuation multiples against average 1999-2015 valuation



Source: ABN AMRO

DCF-based target price raised to EUR 37

Reflecting mostly the upgrade to our earnings forecasts and also some time progression, we raise our DCF-based price target to EUR 37 from EUR 30/share. The DCF valuation shown in the table below assumes a gradual recovery of the EBITE margin to a peak of 8.3% in 2019 followed by a gradually fading out to an exit level of 7.6% in 2024. The outcome is furthermore based on a WACC of 8.0% and terminal growth rate of 0%. We note that we have separately also included a dividend discount model (DDM) valuation for the joint ventures consolidated via the equity method of EUR 357m (which implies a realistic 2016/2017 P/E valuation of 13.9/12.5x P/E).

DCF valuation Bekaert, including DDM valuation JVs/associates (EUR m)

	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	Terminal value	CAGR '15 - '24
Revenue	**3,676**	**4,001**	**4,296**	**4,430**	**4,556**	**4,686**	**4,819**	**4,947**	**5,079**	**5,214**		**5.0%**
% chg.	14.3%	8.8%	7.4%	3.1%	2.8%	2.9%	2.9%	2.7%	2.7%	2.7%		
EBIT (recurring)	**215**	**264**	**311**	**354**	**377**	**384**	**387**	**386**	**388**	**397**		**9.3%**
margin	5.8%	6.6%	7.2%	8.0%	8.3%	8.2%	8.0%	7.8%	7.6%	7.6%		
% chg.	30.8%	22.9%	18.0%	13.8%	6.5%	1.9%	0.7%	-0.2%	0.6%	2.4%		
Taxes	(79)	(92)	(109)	(124)	(132)	(135)	(135)	(135)	(136)	(139)		
effective tax rate	37.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%		
NOPAT	**135**	**171**	**202**	**230**	**245**	**250**	**252**	**251**	**252**	**258**		**10.3%**
% chg.	39.2%	26.8%	18.0%	13.8%	6.5%	1.9%	0.7%	-0.2%	0.6%	2.4%		
Depreciation and amortisation	216	226	234	232	231	232	233	234	234	234		
Change in provisions	0	0	0	0	0	0	0	0	0	0		
Change in net working capital	19	(35)	(32)	(42)	(34)	(37)	(38)	(36)	(37)	(38)		
Net CAPEX	(180)	(177)	(193)	(198)	(235)	(248)	(249)	(227)	(227)	(227)		
Free cash flow / Terminal value	**189**	**185**	**211**	**222**	**207**	**197**	**197**	**222**	**222**	**227**	**3,229**	
% chg.	383.9%	-2.1%	13.6%	5.4%	-6.6%	-5.0%	-0.1%	12.9%	-0.1%	2.3%		
WACC	8.0%											
Terminal growth	0.0%											
Discount factor	100.0%	92.6%	85.7%	79.4%	73.5%	68.1%	63.0%	58.3%	54.0%	50.0%	50.0%	
Present value FCFs/Terminal value	**189**	**172**	**181**	**176**	**152**	**134**	**124**	**130**	**120**	**113**	**1,616**	
Sum PV FCFs	1,491											
PV Terminal value	1,616											
Value consolidated business	**3,107**											
DDM valuation JVs/associates	**357**											
Financial fixed assets	44											
Minority interests	(117)											
Pension deficit	(208)											
Net debt (*end-2014*)	(853)											
Buy-out 35% minority stake MatCo	(85)											
Equity value	**2,245**											
Number of shares ('000s)	60,117											
DCF value per share (EUR)	**37.35**											
Share price (EUR)	28.39											
Upside / downside	31.6%											

Source: ABN AMRO

The left-hand table below shows the sensitivity of the outcome of our DCF model to changes in the WACC and the terminal growth rate. The right-hand table below shows that our DCF outcome of EUR 37.35/share implies a 2017 valuation of 14.3x P/E and 5.7x EV/EBITDA, which we consider realistic in light of the solid earnings momentum (we estimate a 2016-2018 CAGR of 18% for EBITE and of 22% for EPS).

Sensitivity analysis DCF valuation per share (EUR)

	Terminal growth rate		
WACC	**0.0%**	1.0%	2.0%
7.5%	40.83	45.43	51.70
8.0%	**37.35**	41.19	46.30
8.5%	34.28	37.52	41.75

Source: ABN AMRO estimates

Valuation multiples implied by DCF outcome

	2016E	2017E	2018E
P/E	17.5	14.3	11.9
P/B (excl. goodw.)	1.5	1.4	1.3
EV/Sales	0.8	0.7	0.7
EV/EBITDA	6.3	5.7	5.3
EV/EBIT	11.8	10.0	8.8

Source: ABN AMRO estimates

P & L Statement (EUR m) Year to December	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e
Net sales	2,437.3	3,262.5	3,340.0	3,460.6	3,185.6	3,215.7	3,676.3	4,001.2	4,295.9	4,429.6
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Personnel costs	(499.1)	(596.9)	(618.6)	(712.4)	(603.6)	(610.1)	(645.6)	(675.4)	(704.4)	(727.5)
Other operating costs										
EBITDA	**385.7**	**725.3**	**475.7**	**274.2**	**297.0**	**340.2**	**426.1**	**469.4**	**525.3**	**566.6**
Depreciation	(139.8)	(173.0)	(200.8)	(229.1)	(151.1)	(164.6)	(216.3)	(225.7)	(234.0)	(232.5)
EBITA	**245.8**	**552.2**	**274.9**	**45.1**	**145.9**	**175.5**	**209.8**	**243.7**	**291.3**	**334.2**
Reported provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation	(13.6)	(18.0)	(6.5)	(95.0)	(8.7)	(6.1)	0.3	0.0	0.0	0.0
EBIT	232.2	534.3	268.4	(49.9)	137.3	169.5	210.1	243.7	291.3	334.2
Net financials	(65.6)	(32.4)	(18.5)	(83.2)	(83.5)	(66.5)	(78.0)	(70.0)	(72.0)	(65.5)
Profit Before Taxes (PBT)	**166.6**	**501.9**	**249.9**	**(133.2)**	**53.7**	**103.0**	**132.1**	**173.8**	**219.4**	**268.7**
Taxes	(33.9)	(139.5)	(68.1)	(67.7)	(47.9)	(42.0)	(48.9)	(60.8)	(76.8)	(94.0)
Income from associates	37.8	36.1	25.4	10.4	30.2	25.3	24.9	25.6	28.5	31.1
Minorities	(18.6)	(30.9)	(14.6)	(6.4)	(11.5)	0.1	(4.0)	(10.0)	(14.4)	(17.7)
Net profit before extraordinaries	**151.8**	**367.6**	**192.6**	**(196.9)**	**24.6**	**86.5**	**104.1**	**128.6**	**156.6**	**188.0**
Extraordinary items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net reported profit	151.8	367.6	192.6	(196.9)	24.6	86.5	104.1	128.6	156.6	188.0
% change in Sales	(8.5)	33.9	2.4	3.6	(7.9)	0.9	14.3	8.8	7.4	3.1
% change in EBITDA	(6.4)	88.1	(34.4)	(42.4)	8.3	14.5	25.3	10.2	11.9	7.9
% change in EBITA	(0.2)	124.7	(50.2)	(83.6)	223.9	20.3	19.5	16.1	19.5	14.7
% change in PBT	3.3	201.3	(50.2)	ns	ns	91.7	28.2	31.5	26.2	22.5
% change in Net profit before extraordinaries	(12.8)	142.2	(47.6)	ns	ns	251.8	20.5	23.5	21.8	20.0

Cash Flow Statement (EUR m)	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e
EBITDA	**385.7**	**725.3**	**475.7**	**274.2**	**297.0**	**340.2**	**426.1**	**469.4**	**525.3**	**566.6**
Change in provisions excluding tax provisions	(44.5)	1.8	(22.7)	(10.1)	(11.7)	(35.3)	0.0	0.0	0.0	0.0
Change in net working capital	195.6	(276.9)	(199.8)	226.8	78.5	(54.6)	18.5	(35.0)	(32.3)	(42.2)
Gross operating cash flow	536.8	450.1	253.2	490.8	363.8	250.2	444.7	434.4	493.0	524.4
Taxes paid	(31.1)	(113.3)	(129.3)	(59.2)	(51.5)	(45.8)	(48.9)	(60.8)	(76.8)	(94.0)
Capex	(173.8)	(249.1)	(277.7)	(127.3)	(96.8)	(154.5)	(180.4)	(176.6)	(193.4)	(198.5)
Free cash flow	**331.9**	**87.7**	**(153.7)**	**304.3**	**215.5**	**49.8**	**215.4**	**197.0**	**222.8**	**231.9**
Net interest received	(39.2)	(43.5)	(59.0)	(77.8)	(65.3)	(55.7)	(62.0)	(70.0)	(72.0)	(65.5)
Other	172.3	16.6	283.4	(282.6)	(84.8)	40.3	6.5	(278.5)	22.7	24.0
Acquisitions	(3.4)	(29.9)	(17.9)	8.1	0.0	(110.5)	(239.6)	0.0	0.0	0.0
Divestments	(0.5)	12.6	101.3	22.8	6.7	3.1	14.4	0.0	0.0	0.0
Share issues/buybacks	(0.5)	(57.7)	0.7	0.0	(15.3)	(72.1)	0.0	0.0	0.0	0.0
Dividend (adj. stock dividend)	(50.6)	(118.5)	(163.1)	(46.1)	(58.3)	(66.4)	(51.1)	(51.1)	(51.1)	(54.8)
Extraordinary items (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in interest-bearing debt	(252.5)	299.8	241.8	(148.1)	(53.5)	282.2	116.3	202.6	(122.5)	(135.6)
Change in cash & cash equivalents	**157.5**	**167.1**	**233.5**	**(219.4)**	**(55.1)**	**70.7**	**0.0**	**0.0**	**0.0**	**0.0**

Balance Sheet (EUR m)	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e
Net intangible fixed assets	105.0	131.1	103.5	99.2	87.4	116.6	150.4	261.8	276.3	290.9
Net tangible fixed assets	1,127.7	1,295.1	1,433.6	1,377.5	1,239.1	1,432.8	1,499.4	1,533.8	1,478.8	1,430.2
Financials fixed assets (FFA)	311.7	339.6	398.4	269.9	284.3	301.5	306.5	311.6	311.6	311.6
Inventories	358.4	507.7	577.9	567.7	539.3	640.8	652.0	740.7	761.9	785.6
Trade debtors	479.6	774.3	828.3	751.8	693.4	821.7	818.5	929.8	956.5	986.2
Other debtors	171.2	182.4	150.9	144.5	135.0	171.7	171.5	204.4	222.3	236.8
Cash & securities	275.8	442.9	676.5	457.1	402.0	472.7	472.7	472.7	472.7	472.7
Total Assets	**2,829.5**	**3,673.1**	**4,169.1**	**3,667.7**	**3,380.5**	**3,957.7**	**4,070.8**	**4,454.7**	**4,480.0**	**4,514.0**
Shareholder's equity	1,284.8	1,610.7	1,693.9	1,422.0	1,346.3	1,366.8	1,419.8	1,497.3	1,602.9	1,736.1
Other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	88.7	86.0	72.5	181.6	157.6	199.4	116.8	122.8	131.5	142.1
Provisions	329.9	379.9	351.6	402.3	361.8	436.9	436.9	436.9	436.9	436.9
Long-term interest bearing debt	598.1	700.5	907.6	850.1	688.2	910.1	1,026.4	1,229.0	1,106.5	970.9
Short-term interest bearing debt	151.4	320.3	648.5	342.5	321.9	441.6	441.6	441.6	441.6	441.6
Trade creditors	247.1	341.7	290.6	321.8	338.9	390.9	426.8	484.8	498.7	514.2
Other non-interest bearing liabilities	129.4	234.2	204.4	147.4	165.8	212.0	202.5	242.3	262.0	272.2
Total Liabilities & Capital	**2,829.5**	**3,673.1**	**4,169.1**	**3,667.7**	**3,380.5**	**3,957.7**	**4,070.8**	**4,454.7**	**4,480.0**	**4,514.0**
Enterprise Value (EV)	2,473.6	5,644.2	2,246.5	2,122.3	2,118.4	2,550.3	2,613.1	2,821.7	2,707.9	2,582.9
Net debt/(Net cash)	473.7	577.9	879.6	735.5	608.1	878.9	995.3	1,197.8	1,075.3	939.8
Capital Employed incl. goodwill (avg.)	1,969.4	2,148.5	2,522.5	2,599.0	2,389.0	2,443.7	2,682.6	2,866.5	3,004.8	3,006.4
Cumulative goodwill (as of 1991)	76.6	77.5	40.4	41.6	41.1	43.2	43.2	43.2	43.2	43.2
Capital Employed (avg.)	1,893.9	2,071.4	2,463.6	2,558.0	2,347.6	2,401.6	2,639.5	2,823.3	2,961.7	2,963.2
Net working capital	632.7	888.5	1,062.1	994.8	863.0	1,031.2	1,012.7	1,147.7	1,180.0	1,222.2
Discounted value of leases	28.9	43.9	35.7	34.7	32.9	35.1	37.8	40.1	41.7	43.4
Adjusted equity	1,361.4	1,688.2	1,734.2	1,463.6	1,387.4	1,410.0	1,463.0	1,540.5	1,646.1	1,779.3

Per Share Data (EUR)	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e
Avg. no. of shares (m)	59.2	59.2	58.9	59.1	58.5	57.6	55.8	55.8	55.8	55.8
Eoy. no. of shares (m)	59.5	59.9	60.0	60.0	60.1	60.1	60.1	60.1	60.1	60.1
Avg. no. of shares fully diluted (m)	59.4	59.6	59.3	59.2	58.7	58.9	57.1	57.1	57.1	57.1
Enterprise Value (EV)	41.57	94.25	37.46	35.37	35.27	42.43	43.47	46.94	45.04	42.97
Net debt less FFA plus minorities	4.21	5.41	9.23	10.79	8.02	12.92	13.40	16.79	14.89	12.81
Sales	41.16	55.06	56.67	58.60	54.44	55.83	65.84	71.65	76.93	79.32
EBITDA	6.51	12.24	8.07	4.64	5.08	5.91	7.63	8.41	9.41	10.15
EBITA	4.15	9.32	4.66	0.76	2.49	3.05	3.76	4.36	5.22	5.98
EBIT	3.92	9.02	4.55	(0.85)	2.35	2.94	3.76	4.36	5.22	5.98
Net profit before extr. & amort. (EUR)	2.79	6.51	3.38	(1.73)	0.57	1.61	1.86	2.30	2.81	3.37
Net profit before extraordinaries (EUR)	2.56	6.21	3.27	(3.33)	0.42	1.50	1.87	2.30	2.81	3.37
Cash Flow (EUR)	5.15	9.43	6.79	2.15	3.15	4.46	5.73	6.34	7.00	7.53
Gross Dividend (EUR)	0.98	1.67	1.17	0.85	0.85	0.85	0.85	0.85	0.91	1.09
Book value (EUR)	21.59	26.90	28.24	23.70	22.41	22.74	23.62	24.91	26.66	28.88
Adjusted equity	22.88	28.19	28.92	24.39	23.10	23.46	24.34	25.63	27.38	29.60
Free Cash Flow	5.60	1.48	(2.61)	5.15	3.68	0.87	3.86	3.53	3.99	4.15
% change in EPS before extr. & amort.	(21.26)	133.02	(48.09)	ns	ns	182.94	15.82	23.75	21.83	20.04

Valuation	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e
P/E (excl. extr. & amort.)	9.0	8.2	16.2	nmf	43.8	16.9	15.3	12.3	10.1	8.4
P/CF (x)	4.9	5.7	8.1	10.5	7.9	6.1	5.0	4.5	4.1	3.8
P/Book (x)	1.7	3.2	0.9	0.9	1.1	1.2	1.2	1.1	1.1	1.0
Dividend yield (%)	3.9	3.1	2.1	3.8	3.4	3.1	3.0	3.0	3.2	3.9
Free cash flow yield (%)	19.6	1.4	(6.5)	16.7	10.0	(0.4)	9.8	7.4	8.8	9.8
EV/Sales (x)	1.0	1.7	0.7	0.6	0.7	0.8	0.7	0.7	0.6	0.6
EV/EBITDA (x)	6.4	7.8	4.7	7.7	7.1	7.5	6.1	6.0	5.2	4.6
EV/EBITA (x)	10.1	10.2	8.2	47.1	14.5	14.5	12.5	11.6	9.3	7.7
EV/EBIT (x)	10.7	10.6	8.4	nmf	15.4	15.0	12.4	11.6	9.3	7.7
EV/Capital Employed (x)	1.3	2.7	0.9	0.8	0.9	1.1	1.0	1.0	0.9	0.9
EV/CE (incl. goodwill) (x)	1.3	2.6	0.9	0.8	0.9	1.0	1.0	1.0	0.9	0.9
Share price : High (EUR)	36.35	86.69	87.43	33.27	30.91	29.93	29.83			
Share price : Low (EUR)	12.62	33.67	23.95	17.51	20.09	22.90	22.87			
Share price : Average (EUR)	25.11	53.68	54.78	22.59	24.89	27.16	28.39	28.39	28.39	28.39
Share price : Year end (EUR)	36.17	85.90	24.79	21.88	25.72	26.35	28.39	28.39	28.39	28.39

Capital Efficiency/Solvability	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e
Sales/CE (incl.goodwill)	1.2	1.5	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.5
Sales/Fixed assets (x)	2.2	2.5	2.3	2.5	2.6	2.2	2.5	2.6	2.9	3.1
Sales/Net working capital (x)	3.9	3.7	3.1	3.5	3.7	3.1	3.6	3.5	3.6	3.6
Inventories/Sales (days)	53.7	56.8	63.2	59.9	61.8	72.7	64.7	67.6	64.7	64.7
Trade debtors/Sales (days)	71.8	86.6	90.5	79.3	79.5	93.3	81.3	84.8	81.3	81.3
Trade creditors/Sales (days)	37.0	38.2	31.8	33.9	38.8	44.4	42.4	44.2	42.4	42.4
CAPEX/Depreciation (%)	124.3	144.0	138.3	55.6	64.1	93.9	83.4	78.2	82.7	85.4
Equity/Total assets (%)	45.4	43.8	40.6	38.8	39.8	34.5	34.9	33.6	35.8	38.5
Net debt/Equity (%)	36.9	35.9	51.9	51.7	45.2	64.3	70.1	80.0	67.1	54.1
Interest cover (x)	4.0	9.5	3.9	0.6	2.2	2.7	3.1	3.2	3.7	4.6
Dividend payout (%)	35.3	25.9	35.2	(50.1)	153.7	55.2	49.2	39.7	35.0	35.0
ROCE (average) (%)	10.3	19.3	8.1	2.7	0.7	4.3	5.0	5.6	6.4	7.3
ROCE (incl. goodwill) (average) (%)	9.9	18.6	7.9	2.6	0.7	4.3	4.9	5.5	6.3	7.2

Operating Efficiency & Profitability ratios	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e
Sales per FTE employee ('000s)	139.0	163.2	150.8	153.9	143.7	140.1	155.1	165.4	174.5	178.6
Wage costs per FTE employee ('000s)	28.5	29.9	27.9	31.7	27.2	26.6	27.2	27.9	28.6	29.3
EBIT per FTE employee ('000s)	13.2	26.7	12.1	(2.2)	6.2	7.4	8.9	10.1	11.8	13.5
Gross margin (%)										
EBITDA margin (%)	15.8	22.2	14.2	7.9	9.3	10.6	11.6	11.7	12.2	12.8
Operating margin (%)	9.5	16.4	8.0	(1.4)	4.3	5.3	5.7	6.1	6.8	7.5
Net margin (%)	6.0	11.7	5.6	(3.1)	0.5	2.1	2.3	2.8	3.3	3.9
Tax rate (%)	20.4	27.8	27.3	(50.8)	89.2	40.8	37.0	35.0	35.0	35.0

Source: Company, ABN AMRO Equity Research

Important disclosures

Issuer	Ticker	Price (EUR)
Bekaert	BEKB.BR	28.39

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Maarten Bakker - Equity Research Analyst

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3 January 2016 ABN AMRO Bank N.V. Primary Equity Research Coverage: 109
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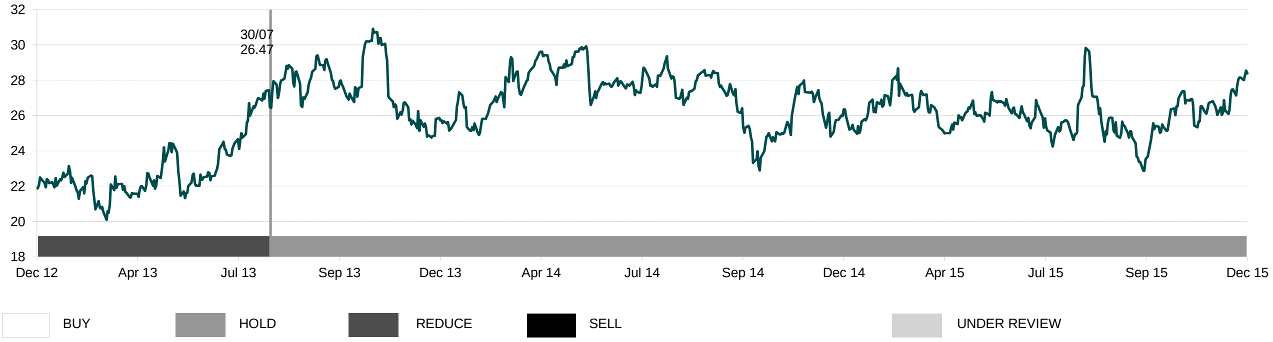
Historical equity recommendations and target price for Bekaert (EUR)



History of Target Prices

Date	Recommendation	Target Price
7/29/2013	REDUCE	EUR 30.00

History of Recommendations

Date	Recommendation	Target Price
7/30/2013	HOLD	EUR 30.00

Source: ABN AMRO Bank Equity Research, FactSet

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