

Bekaert (EUR 26.06- ADD) - Attractive expansion in high end ropes business**Facts : Leveraging ropes brand and creating synergies**

- During today's conference call, Bekaert provided more insight on the combination of its steel rope and advanced cord business with the UK based group Bridon.
- Bekaert will hold a 66.7% interest and Ontario Teachers' Pension Plan will keep a 33.3% stake, with no upfront negotiated exit.
- The combined entity will have pro-forma revenues of EUR 600m, which, excluding the contribution of the existing Bekaert sales, will increase Bekaert consolidated revenues (EUR 3.7bn '15e) by EUR 350m.
- It is a cash neutral transaction but including the buy-out of the Peruvian MatCo Cables stake and the JV debt, total group net debt will rise by EUR 370m. Net group debt amounted to EUR 906m end of September.
- Profitability of the combined entity should be around the 7% Bekaert target level, with the Bekaert cords business currently above and Bridon below. This latter is due to the high exposure to the currently troubled oils & gas sector.
- Management expects the deal to be earnings enhancing as from 2017, with synergies that have to be realized within 3 years of completion.
- The deal puts Bridon Bekaert Ropes Group as one of the large leading worldwide players with a 7% ropes market share (a heterogeneous market, in which a clear market definition is hard to make).
- Both groups are complementary in terms of geographical coverage and product and application wise. Bridon Group has a similar technological and R&D approach.
- Ropes are thick cables used in elevators, forestry, mining, oil and gas onshore and offshore and advanced cords are similar in construction but ultra-thin with automotive applications, industrial handling systems, automatic gates, etc.
- Transaction completion is expected at the end of H1 '16.

Our View: Attractive value creating deal mid-term

Even though Bridon's operating margin is currently below 7%, we believe this is a very sensible acquisition to broaden Bekaert's position in a high value added niche segment where it can improve margin going forward thanks to technological superiority, higher service levels and operational efficiency.

In terms of valuation, Bekaert likely pays an implied multiple above its own multiple based on current Bridon profitability but the geographical and product complementarity together with the above mentioned items, should make this deal value accretive. It allows Bekaert to acquire Bridon at attractive through the cycle multiples. It also offers growth opportunities by gaining market share in a still fragmented market with pricing power from technology and service quality.

Investment Conclusion – ADD rating reiterated – Target Price EUR 29.00

We believe this deal offers an attractive broadening of the group's business towards higher end niche products. We reiterate our ADD rating. The shares trade around 11x 2016 EBIT but the group operational efficiency program and the recent acquisitions should have their main impact as from 2017.