

Company comments

Maintained

Hold

Price (10/12/13) €25.28

Maintained

Target price (12m) €26.00

Forecast total return 6.2%

Market cap €1,482.8m

Bloomberg BEKB BB

Bekaert: expansion in Central America, growth in ropes platform

Bekaert made two announcements yesterday after the close.

First, Bekaert is entering the Costa Rica steel wire market (wires are mainly used in construction, agricultural fencing and industrial applications), via a majority stake in a new 73%/27% partnership with ArcelorMittal. The JV will also invest US\$20m in a new dramix (steel fibres used in concrete reinforcement) plant. The expansion will be done by Ideal Holding, an 80%/20% partnership with Bekaert's Ecuadorian partners. In order to make this cash neutral, Bekaert is opening up Ideal Holding to ArcelorMittal, with the latter now having a 27% stake.

Second, Bekaert is growing its ropes platform. Via its 100% subsidiary Bekaert do Brasil it is acquiring a 55% stake and thus becomes 100% owner of the Cimaf ropes plant in Brazil.

Financial impact: assuming closing of the transactions in March 2014 (the deal is subject to customary closing conditions) and consolidation as of April 2014, Bekaert estimates a €50m impact on 2014 consolidated sales.

We see the news as a small positive, with the estimated annual impact on consolidated sales at c.2%. On EBIT the impact is perhaps even less, given that wires for construction and agricultural fencing probably have margins below the group level.

It is positive, because:

- 1) It is a fast (ArcelorMittal already has the distribution channel in place, we assume) and cash-neutral way to grow and enter a new market in wires,
- 2) The expansion in Dramix (the second-most important product for Bekaert, but less than 5% of group sales, we assume) underlines the group's belief in continued growth opportunities for construction in Latam. This should be seen as comforting, at a time that Latam volumes are disappointing in the short-term.
- 3) It seems a strategically smart decision to expand the global rope platform, as we believe ropes are among the higher margin activities in the group, since they are used in higher end applications in mining, oil & gas, lifting equipment and infrastructure markets.

Overall, the news does not materially alter our investment case.

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