EQUITY RESEARCH

Company update
22 June 2015

Bekaert

Tired of the trading range

Buy (maintained)

Price (19/06/15)
€25.59

Target price (12-mth)
€30.00 (maintained)

Forecast total return
20.8%

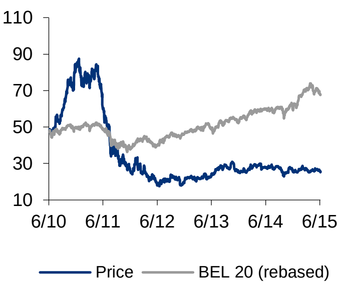
Industrial Goods & Services
Belgium
Bloomberg: BEKB BB
Reuters: BEKB.BR

Share data

Avg daily volume (3-mth)	124,263
Free float (%)	60.9
Market cap (€m)	1,473.7
Net debt (1F, €m)	991
Enterprise value (1F, €m)	2,571
Dividend yield (1F, %)	3.5

Source: Company data, ING estimates

Share price performance



Source: ING

We reiterate our BUY recommendation and €30 TP (21% upside) ahead of 1H15 results on 31 July. We believe that company-compiled consensus for 2015 underestimates the positive impact from acquisitions and forex tailwinds, coupled with organic growth post 1Q15. Our 2015F REBIT is 3.5% above consensus. In addition, Bekaert shares are trading at a historically high discount of 26% to Stoxx 600 Industrial Goods & Services on 2015F EV/EBITDA. This seems unjustified, in our view, given that the 4Q14 drop in China tire cord, which has kept the shares in a trading range for a few months now, is likely to be short-lived. Finally, the 2017 consensus REBIT margin of 6.4% offers upside if the company meets its 7.0% target.

1Q15 recap. Sales grew by a solid 16% YoY to €904m, driven by the consolidation of the Pirelli steel cord activities and acquisitions in ropes (10%), as well as by forex tailwinds (10%). Organic growth was -4% YoY, impacted by weaker activity in China tire cord (well flagged) and a fire at the Rome plant in the US (temporary issue).

EMEA reported strong 14% 1Q15 sales growth on the back of the Pirelli acquisition. Organic growth was stable on difficult comps, boding well for the rest of the year. Demand from the automotive and construction markets was solid, while demand for steel wire applications from the oil & gas sector declined. Bekaert expects continued strong demand in the region, especially in automotive, due to QE and the lower oil price. We believe this was confirmed by April and May Michelin volume data, as well as by the announcement of the third production increase at DAF Trucks this year in Eindhoven. **North America** reported a 10% increase in 1Q15 sales. Forex effects drove up sales by 18%, but this was partly offset by a 9% organic decline due to the fire at the Rome plant (November 2014), closing of the Surrey plant (end-1Q14) and ongoing tough conditions in steel wire. A rebuilt Rome plant is expected to come on stream by end-1H15 and start to reduce the organic growth decline. **Latam** surprised positively, with 38% sales growth in 1Q15. Organic growth was moderate (3%), while forex helped with 12%. Growth from acquisitions was 24%, driven by Pirelli, the consolidation of Cimaf ropes in Brazil since 3Q14 and the acquisition of the wire business of ArcelorMittal in Costa Rica (end-April 2014). Bekaert expects continued modest organic sales growth in 2Q15. Even the Brazilian JVs (not consolidated) performed well in 1Q15, but this is unlikely to continue for the rest of the year given macro developments. **Asia Pac** reported 8% sales growth in 1Q15. Forex drove up sales by 16%. Acquisitions (Pirelli) accounted for 3%. The 9% organic decline did not come as a surprise following the slowdown of the Chinese tire market in 4Q14 and ongoing price erosion. The group strengthened its market share in automotive in India and South-East Asia and saw a confirmation of the solar rebound in China. Most importantly, Bekaert saw higher volumes in China tire cord as of March. This was confirmed via Michelin data for April and May, in our view.

Estimates. We revise up our 2015F REBIT by 7% to €208m (5.4% margin), of which €111m is likely to be in 1H15F. The increase is mainly driven by Asia Pac and Latam and implies €44m, or 26%, growth YoY. Key growth drivers are acquisitions (€28m; Pirelli is c.€300m in sales pa at a c.9% EBIT margin) and forex (€15m). Implicitly, we assume that the organic growth decline in 1Q15 will be compensated for over the three remaining quarters. This seems achievable in view of the current automotive trends in EMEA, the likely restart of the Rome plant by mid-year in the US and growth in tire cord China as of March. We keep our 2015F normalised EPS broadly unchanged at €1.68 due to higher net financing charges and minority estimates.

Valuation. Bekaert is trading at a 15.2x PER and 6.5x EV/EBITDA on 2015F. The latter implies a 26% discount to Stoxx 600 Industrial Goods & Services. This seems unjustified, in view of a historical discount of c.10%. The 3.5% dividend yield is sustainable, in our view.

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Valuation

We continue to value Bekaert at 6.5x EV/EBITDA 2016F (1-year-forward). This is in line with the average 1-year-forward trading multiple of Bekaert in the past 10 years on Bloomberg consensus estimates, and seems cautious given that the Stoxx 600 Industrial Goods & Services index trades at a c.20% premium to the historical average.

Company profile

Bekaert is the market leader in advanced solutions based on metal transformation and coatings, and the world's largest independent manufacturer of drawn steel wire products. The company operates in four main geographic segments, with EMEA contributing the most to REBIT in 2014 (51%), while Asia Pacific contributed 28%, Latin America 12% and North America 9%.

Risks

Downside risks include further declines in China tire cord margins. This cannot be excluded, but seems less likely in our view, since: (1) the weakness in 4Q14 and 1Q15 was mainly due to client destocking in China tire cord following US import tariffs on Chinese tires. Destocking, in our view, is always temporary in nature; (2) smaller Chinese tire cord competitors are already producing close to breakeven at the EBITDA level, suggesting limited room to cut prices much further; and (3) Bekaert has announced cost-efficiency actions. A further downside risk would be USD depreciation versus the EUR.

Regional sales and REBIT breakdown (€m)

	2014	2015F	2016F	2017F
Sales	**3,216**	**3,836**	**3,978**	**4,097**
Sales growth (%)	*0.9*	*19.3*	*3.7*	*3.0*
of which organic (%)	*2.4*	*0.6*	*3.3*	*3.0*
of which forex (%)	*-2.3*	*8.1*	*0.0*	*0.0*
of which scope (%)	*0.9*	*10.7*	*0.5*	*0.0*
REBIT	**164**	**208**	**242**	**288**
REBIT growth (%)	*-0.9*	*26.3*	*16.3*	*19.3*
REBIT margin (%)	*5.1*	*5.4*	*6.1*	*7.0*
Regional sales				
EMEA	1,064	1,253	1,275	1,294
North America	555	620	672	699
Latin America	631	804	819	843
Asia Pacific	966	1,158	1,212	1,261
Regional sales growth (%)				
EMEA (%)	*2.3*	*17.7*	*1.7*	*1.5*
North America (%)	*1.3*	*11.7*	*8.4*	*4.0*
Latin America (%)	*-2.2*	*27.5*	*1.8*	*3.0*
Asia Pacific (%)	*1.4*	*19.9*	*4.7*	*4.0*
Regional REBIT				
EMEA	114	134	142	151
North America	20	22	27	37
Latin America	26	46	54	65
Asia Pacific	63	67	80	98
Other	(60)	(61)	(62)	(63)
Regional REBIT margin (%)				
EMEA (%)	*10.8*	*10.7*	*11.2*	*11.7*
North America (%)	*3.6*	*3.5*	*4.1*	*5.3*
Latin America (%)	*4.1*	*5.8*	*6.6*	*7.7*
Asia Pacific (%)	*6.5*	*5.8*	*6.6*	*7.8*

Source: Company data, ING estimates

Financials

Year end Dec (€m)	**2012**	**2013**	**2014**	**2015F**	**2016F**	**2017F**
Income statement						
Revenues	3,461	3,186	3,216	3,836	3,978	4,097
Normalised EBITDA	331	326	336	393	427	473
Normalised EBIT	117	166	164	208	242	288
Net interest	(83)	(84)	(67)	(80)	(80)	(80)
Associates	10	30	25	23	24	25
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	**(123)**	**84**	**130**	**141**	**176**	**224**
Tax	(68)	(48)	(42)	(44)	(53)	(60)
Minorities	(6)	(11)	(0.4)	(10)	(12)	(16)
Other post-tax items	0	0	0	0	0	0
Net profit	**(197)**	**25**	**87**	**87**	**111**	**148**
Normalised net profit	**(30)**	**53**	**80**	**97**	**121**	**158**
Balance sheet						
Tangible fixed assets	1,545	1,395	1,589	1,712	1,711	1,711
Intangible fixed assets	99	87	117	117	117	117
Other non-current assets	102	126	146	146	146	146
Cash & equivalents	457	402	473	361	419	522
Other current assets	1,464	1,370	1,634	1,686	1,738	1,781
Total assets	**3,668**	**3,380**	**3,958**	**4,021**	**4,130**	**4,276**
Short-term debt	343	322	442	442	442	442
Other current liabilities	611	650	745	738	752	764
Long-term debt	850	688	910	910	910	910
Other long-term liabilities	260	217	295	295	295	295
Total equity	1,604	1,504	1,566	1,637	1,732	1,866
Total liabilities & equity	**3,668**	**3,380**	**3,958**	**4,021**	**4,130**	**4,276**
Net working capital	1,082	867	1,064	1,123	1,161	1,192
Net debt (cash)	735	608	879	991	932	830
Cash flow						
Cash flow EBITDA	274	297	342	383	417	463
Tax, interest & other	462	243	200	286	294	299
Change in working capital	227	78	(55)	(59)	(38)	(32)
Net cash from op activities	361	240	131	200	246	292
Capex	(127)	(97)	(176)	(160)	(160)	(160)
Net acquisitions	31	7	(110)	(125)	0	0
Net financing cash flow	(148)	(69)	282	0	0	0
Dividends & minority distrib'n	(46)	(58)	(66)	(49)	(52)	(55)
Net ch in cash & equivalents	58	40	97	(111)	58	103
FCF	312	209	11	119	166	212
Performance & returns						
Revenue growth (%)	3.6	-7.9	0.95	19.3	n/a	3.0
Normalised EPS growth (%)	n/a	n/a	53.3	20.5	n/a	30.6
Normalised EBITDA mgn (%)	9.6	10.2	10.4	10.2	10.7	11.6
Normalised EBIT margin (%)	3.4	5.2	5.1	5.4	6.1	7.0
ROACE (%)	3.8	6.2	6.1	7.0	15.7	9.2
Reported ROE (%)	-12.6	1.8	6.4	6.2	14.7	9.4
Working capital as % of sales	31.3	27.2	33.1	29.3	29.2	29.1
Net debt (cash)/EBITDA (x)	2.7	2.0	2.6	2.6	2.2	1.8
EBITDA net interest cvg (x)	3.3	3.6	5.1	4.8	5.2	5.8
Valuation						
EV/revenue (x)	0.73	0.73	0.69	0.67	0.63	0.59
EV/normalised EBITDA (x)	7.6	7.2	6.6	6.5	5.9	5.1
EV/normalised EBIT (x)	21.6	14.1	13.4	12.4	10.4	8.4
Normalised PER (x)	n/a	28.1	18.3	15.2	12.2	9.3
Price/book (x)	1.1	1.1	1.1	1.0	0.98	0.90
Dividend yield (%)	3.3	3.3	3.3	3.5	3.7	3.9
FCF yield (%)	12.3	8.9	0.48	4.6	6.6	8.8
Per share data						
Reported EPS (€)	(3.33)	0.42	1.51	1.51	1.93	2.57
Normalised EPS (€)	(0.50)	0.91	1.39	1.68	2.10	2.74
Dividend per share (€)	0.85	0.85	0.85	0.90	0.95	1.00
Equity FCFPS (€)	3.96	2.45	(0.78)	0.69	1.49	2.30
BV/share (€)	24.08	23.01	23.73	24.78	26.22	28.28

Source: Company data, ING estimates

Disclosures Appendix

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Buy	48%	51%
Hold	46%	62%
Sell	6%	45%
	100%	

* Percentage of companies in each rating category that are Investment Banking clients of ING Financial Markets LLC or an affiliate.

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Buy: Forecast 12-mth absolute total return greater than +15%

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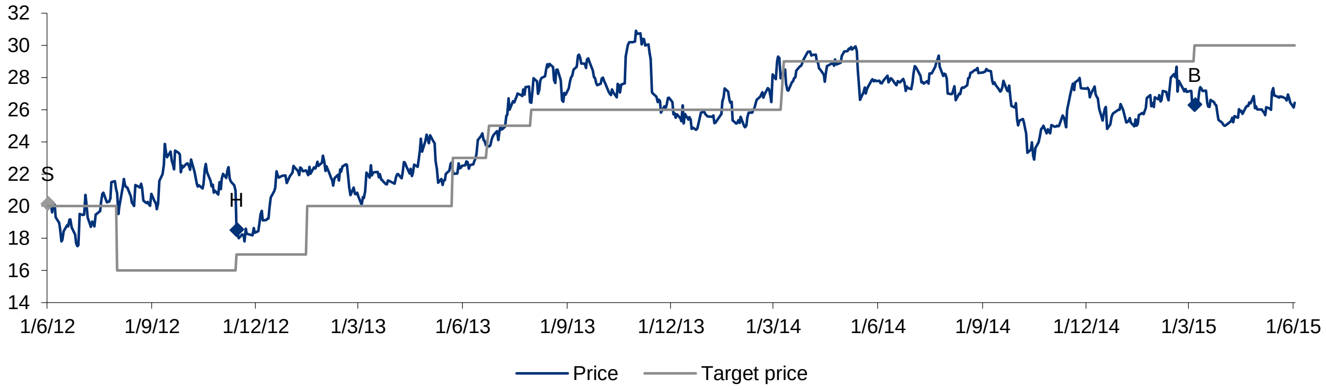
Sell: Forecast 12-mth absolute total return less than -5%

Total return: forecast share price appreciation to target price plus forecast annual dividend. Price volatility and our preference for not changing recommendations too frequently means forecast returns may fall outside of the above ranges at times.

PRICE & RATINGS HISTORY TO 02/06/15: BEKAERT (BEKB.BR)



B = Buy; H = Hold; S = Sell; NR = Not Rated; R = Restricted

Chart shows ING coverage: current analyst may or may not have covered the stock for the entire period shown
Where ING coverage is longer than three years, chart shows recommendation current at start of the share price history

Source: ING

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