ING

EQUITY RESEARCH

**Company results**
**5 August 2015**

# Bekaert

## 1H15 is just the start

**Buy** (maintained)

Price (04/08/15)
€27.57

Target price (12-mth)
€34.00 (previously €30.00)

Forecast total return
26.6%

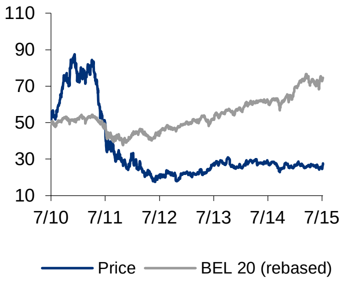
**Industrial Goods & Services**
**Belgium**
**Bloomberg: BEKB BB**
**Reuters: BEKB.BR**

Share data

| | |
|---|---|
| Avg daily volume (3-mth) | 101,985 |
| Free float (%) | 60.9 |
| Market cap (€m) | 1,539.4 |
| Net debt (1F, €m) | 989 |
| Enterprise value (1F, €m) | 2,641 |
| Dividend yield (1F, %) | 3.3 |

Source: Company data, ING estimates

Share price performance




Source: ING

**1H15 REBIT of €112m was impressive in our view. It wasn't just 4% above consensus, it also included c.€15m in one-off negative items. Excluding the latter, 1H15 REBIT margin was 6.7%. This is already close to the 7% target in 2017, while Bekaert is still in the early phase of actions to drive value creation over time and while the macro environment still has room to improve. We revise up 2015-16F REBIT by 6%, while our forecasts already stood at the high end of the consensus range. At 6.1x EV/REBITDA and 14.6x PER 2015F on still depressed earnings, valuation remains attractive, in our view. We revise up our TP to €34 (from €30) and maintain our BUY.**

**1H15 REBIT grew 12% YoY,** mainly driven by the recent acquisitions (ING est. €15m) and positive currency translation effects (ING est. €12m). The lower volumes in China tire cord in 1Q, the ongoing price erosion in China tire cord in 1H15 and the lower US volumes after the fire in the Rome plant (all of which were well flagged) were compensated by strong EMEA volumes and cost savings across the group. REBIT was further held back by three items: €7m in consultancy fees; €6m bad debt build for solar customers; and c.€2m (ING est.) negative effect from lower wire rod prices. These three items are non-recurring by nature, which bodes very well for comparables in 1H16F.

**We revise up our 2015F REBIT by 6% to €220m.** As such our estimate is in line with guidance that benefits from recent acquisitions and investments should partially offset the normal seasonality in 2H, based on the reported 1H15 REBIT. Our new estimate sits 10% above company compiled consensus of €201m before the numbers. Taking into account that €15m one-offs in 1H15, the risk on 2015F REBIT is probably still on the upside.

**Valuation remains attractive.** Bekaert now trades at 6.1x fully loaded EV/REBITDA and 14.6x PER 2015F. On our numbers, Bekaert trades at a c.40% discount on EV/EBITDA vs the Stoxx 600 Industrial Goods & Services, vs a c.10% discount historically (on Bloomberg estimates). Meanwhile, the 3.3% dividend yield is sustainable, in our view.

**Risks** (1) Negative translation effect from a potential reversal of the US$ strength vs the €. Given that we have a flat €/US$ at 1.10 in the model, the up and downside risk is evenly spread. (2) A slowdown of European markets, especially in automotive, as the region now accounts for c.55% of group REBIT. Given the positive outlook on the region from 2H15F from management, the short-term risk seems low. (3) Faster-than-expected price pressure on China tire cord, in view of the existing overcapacity. Given the ongoing cash burn at smaller players, this risk should not be overstated, in our view.

Forecasts and ratios

| Year end Dec (€m) | 2013 | 2014 | 2015F | 2016F | 2017F |
|---|---|---|---|---|---|
| Revenues | 3,186 | 3,216 | 3,778 | 3,904 | 4,008 |
| Normalised EBITDA | 326 | 336 | 434 | 470 | 497 |
| Normalised net profit | 53 | 81 | 105 | 133 | 160 |
| Normalised EPS (€) | 0.91 | 1.41 | 1.88 | 2.38 | 2.87 |
| Normalised PER (x) | 30.3 | 19.6 | 14.6 | 11.6 | 9.6 |
| EV/normalised EBITDA (x) | 7.4 | 6.8 | 6.1 | 5.4 | 4.8 |
| FCF yield (%) | 8.7 | 0.47 | 8.6 | 8.0 | 9.9 |
| Dividend yield (%) | 3.1 | 3.1 | 3.3 | 3.4 | 3.6 |

Source: Company data, ING estimates


**Filip De Pauw**
Brussels +32 2 557 1692
filip.de.pauw@ing.be

# 1H15 highlights

Fig 1 1H15 highlights (€m)

| | 1H14 | 1H15A | % chg | 1H15F | Cons. | vs INGF | vs cons. |
|---|---|---|---|---|---|---|---|
| **Sales** | **1,609** | **1,897** | **17.9** | **1,929** | **1,894** | **-1.7%** | **0.2%** |
| EMEA | 555 | 644 | 16.0 | 647 | 647 | -0.5% | -0.5% |
| North America | 281 | 313 | 11.4 | 312 | 314 | 0.2% | -0.3% |
| Latam | 295 | 400 | 35.6 | 402 | 387 | -0.5% | 3.4% |
| Asia Pac | 478 | 541 | 13.2 | 568 | 545 | -4.7% | -0.7% |
| **REBIT** | **100** | **112** | **12.2** | **111** | **108** | **1.0%** | **3.9%** |
| EMEA | 64 | 80 | 25.0 | 73 | 72 | 10.1% | 11.1% |
| North America | 14 | 12 | -15.5 | 16 | 13 | -23.2% | -7.7% |
| Latam | 11 | 22 | 93.0 | 22 | 22 | -0.3% | 0.0% |
| Asia Pac | 43 | 30 | -29.7 | 32 | 31 | -5.7% | -3.2% |
| Other | (32) | (32) | n/a | (31) | (30) | n/a | n/a |
| **REBIT margin (%)** | **6.2** | **5.9** | | **5.8** | **5.7** | | |
| EMEA (%) | 11.5 | 12.4 | | 11.2 | 11.1 | | |
| North America (%) | 5.1 | 3.8 | | 5.0 | 4.1 | | |
| Latam (%) | 3.9 | 5.5 | | 5.5 | 5.7 | | |
| Asia Pac (%) | 8.9 | 5.5 | | 5.6 | 5.7 | | |
| **EBIT** | **117** | **110** | **-6.0** | **106** | **104** | **3.3%** | **5.5%** |
| **EPS (€)** | **1.33** | **0.94** | **-29.4** | **0.84** | **n/a** | **12.5%** | **n/a** |
| **Net debt** | **673** | **1,023** | **52.0** | **1,016** | **1,059** | **0.7%** | **-3.4%** |

Source: Company data, ING estimates, company compiled consensus

## Group P&L

Sales increased 18% YoY to €1.9bn, pretty much in line with consensus. As expected, growth was driven by the recent acquisitions (+10%) and positive currency movements (+11%). The organic sales decline (-3%) was generated firstly by lower volumes (-3%) in North America (Rome fire) and tire cord China (ongoing destocking in first two months of the year). Both elements were well known. Secondly, it was by the passing on of lower wire rod prices (-4%). This was partly mitigated by an improved product mix (+4%).

As discussed on page 1, REBIT came in 4% ahead of consensus at €112.2m, up 12% YoY (5.9% margin). Excluding the non-recurring elements of c.€15m, underlying REBIT was closer to €127m (6.7% margin), or 18% ahead of consensus.

Non-recurring items (not included in REBIT) amounted to -€2.5m (vs €17m in 1H14), due to restructuring expenses, largely offset by a gain on the disposal of the carding business. This resulted in a €109.7m EBIT (vs €117m in 1H14).

Interest income and expenses amounted to -€30m (vs -€27m in 1H14) as a result of the increase of debt. Other financial income and expenses amounted to -€14m (vs €0.5m in 1H14) and included a stamp duty on the acquisition in Australia (-€4m) as well as realized and unrealized exchange losses.

Taxation on profit amounted to €26m vs €23m in the same period last year.

The share in the result of joint ventures and associated companies was €12.5m, which was about the same as in 1H14.

The result for the period was €53m compared with €80m in 1H14. After non-controlling interests (€0.4m), the result for the period attributable to the Group was €52m, compared with €78m in 1H14.

## EMEA

In line with our expectations, sales came in at €644m in 1H15, up 16% YoY, mainly driven by the Pirelli acquisition (+14%) and volume increases in 2Q15 (+7% in 2Q15 vs -2% in 1Q15), mainly in automotive and construction. The negative effect of lower wire rod prices in 1H15 (-3%) was offset by better mix (+3%).

REBIT increased 25% YoY to €80m (INGF: €72.6m). This implied a record 12.4% margin (vs 11.5% in 1H14). Growth was primarily driven by the Pirelli acquisition and higher volumes (ie, high capacity utilisation and bearing the fruits of years of restructuring).

Bekaert anticipates continued solid demand and performance in most European markets, especially those related to the automotive sector, while taking into account normal seasonality. We forecast 17.0% sales growth in 2H15F (vs 16.0% in 1H15) and an 11.3% REBIT margin (vs 10.0% in 2H14).

## North America

Sales increased 11% YoY to €313m in 1H15 in line with our expectations, driven by favourable currency impacts (+19%) offset by lower volumes (-11% due to the fire damage of the Rome plant and the plant closure in Surrey, Canada). Positive mix effects (+7%) more than offset lower wire rod prices (-4%).

REBIT came in at €12m (3.7% margin vs 5.1% in 1H14) and was negatively impacted by the lower volumes and tough conditions in industrial steel wire markets.

Bekaert anticipates solid demand from automotive and construction markets and continued difficult conditions in other industrial sectors. The production plant in Rome, US, has been reconstructed and is expected to increase its contribution from the final quarter onwards. We expect 7.9% sales growth in 2H15F (vs 11.4% in 1H15) as a sequential improvement in volumes should be offset by less positive currency effects, and forecast a 2.5% REBIT margin (above the trough 2.1% margin in 2H14).

## Latin America

Results were broadly in-line with our estimates. The segment saw its sales improve by 36% to €400m on the back of contributions from new acquisitions (+20%, including the Pirelli plant in Sumaré from 1 January, Cimaf ropes in Brazil and the wire business from ArcelorMittal in Costa Rica as of 1 May), currency effects (+12%) and improved price mix (+7%), mitigated by lower wire rod prices (-4%).

REBIT improved to €22m in 1H15 (5.5% margins vs 3.9% in 1H15), doubling from 1H14, due to the acquisitions, positive mix effect and important cost savings.

Bekaert perceives increased instability in the whole region with a weakening business climate in Brazil, Peru and Ecuador. Bekaert, however, believes that the benefits of its strong market shares, acquisitions, cost savings and enhanced price-mix will offset the macro-economic headwinds in the region. We expect sales in 2H15F sequentially flat vs 1H15 and expect a REBIT margin of 5.7% (just above 1H15).

## Asia Pacific

Sales came in at €541m in 1H15 (+13%) slightly below our estimates, as a result of favourable exchange rate movements (+18%), changes of scope (+5%) and positive mix effects, offset by lower volumes (-6%, mainly in China tire cord in 1Q), lower wire rod prices (-5%) and price erosion.

REBIT for 1H15 was €30m (5.6% margin), down 30% YoY in line with forecasts. The decline in margin was mainly due to the weak volumes in China tire cord in 1Q, coupled to further price erosion, partly offset by cost improvements. The number was also impacted by €6m in bad debt reserves for solar customers. We consider this move as caution from management side, and add that historically 80-90% of bad debt for Bekaert has eventually been paid by clients in China. The underlying REBIT was as such €36m (6.7% margin).

Bekaert expects the higher run rate in Chinese tire markets to continue but also anticipates further price erosion. The full effect of the acquisitions in China and Australia, as well as the ongoing efforts to enhance the product portfolio and manufacturing cost base in the region, are projected to add revenue and profitability. We forecast sales growth of 21% in 2H15F (vs 13% in 1H15), yet flat sequentially on a quarterly basis. We forecast a 6.3% REBIT margin. In view of 1H15 underlying REBIT margin, the risk seems on the upside.

## Other

Other REBIT amounted to -€32m in 1H15 (vs -€32m in 1H14), yet included €7m in consultancy fees. As such, the underlying number was -€25m. We forecast -€27m for 2H15F, which again seems conservative.

# Change in estimates

## Outlook statement

Bekaert expects continued strong demand from automotive and construction markets in EMEA and North America for the rest of the year, but perceives subdued demand in oil and gas markets worldwide. The tire cord market in China is expected to remain stable at the level of the second quarter. Low oil and commodity prices affect government budgets and public spending in Latin American markets where economic conditions are weakening.

Bekaert is undertaking a set of actions to drive value creation over time, including a programme aimed at optimizing the company's manufacturing cost base and a product portfolio analysis. In addition, Bekaert has stepped up its investments in innovation and manufacturing capacity to support future growth.

Bekaert expects to see more benefits from recent acquisitions and investments come into effect in the second half of 2015. These benefits will partially offset the normal seasonality impact.

As a result of the 1H15 reporting and outlook, we revise down 2015-16F sales by c.2%, but revise up REBIT by 6% (or 40bp to 50bp). The key changes are summarised below.

Fig 2 Change in key estimates (€m)

| | 2015F | | | 2016F | | |
|---|---|---|---|---|---|---|
| | **Before update** | **After update** | **% chg** | **Before update** | **After update** | **% chg** |
| **Consolidated sales** | **3,836** | **3,778** | **-1.5** | **3,978** | **3,904** | **-1.9** |
| EMEA | 1,253 | 1,239 | -1.1 | 1,275 | 1,267 | -0.6 |
| North America | 620 | 609 | -1.9 | 672 | 650 | -3.3 |
| Latin America | 804 | 797 | -0.9 | 819 | 805 | -1.7 |
| Asia Pac | 1,158 | 1,134 | -2.2 | 1,212 | 1,182 | -2.5 |
| **REBIT** | **208** | **220** | **6.0** | **242** | **256** | **6.0** |
| EMEA | 134 | 147 | 10.1 | 142 | 154 | 7.9 |
| North America | 22 | 19 | -13.3 | 27 | 28 | 2.6 |
| Latin America | 46 | 45 | -3.8 | 54 | 48 | -12.1 |
| Asia Pac | 67 | 68 | 1.7 | 80 | 82 | 2.7 |
| Other | (61) | (59) | -3.9 | (62) | (55) | -11.3 |
| **REBIT margin (%)** | **5.4** | **5.8** | | **6.1** | **6.6** | |
| EMEA (%) | 10.7 | 11.9 | | 11.2 | 12.1 | |
| North America (%) | 3.5 | 3.1 | | 4.1 | 4.3 | |
| Latin America (%) | 5.8 | 5.6 | | 6.6 | 5.9 | |
| Asia Pac (%) | 5.8 | 6.0 | | 6.6 | 6.9 | |
| **Adj. EPS (€)** | **1.68** | **1.88** | **12.2** | **2.10** | **2.38** | **13.2** |

Source: ING estimates

Figure 3 provides an overview of our new key estimates

Fig 3 New key estimates (€m)

| | 1H14 | 2H14 | 2014 | 1H15 | 2H15F | 2015F | 2016F | 2017F |
|---|---|---|---|---|---|---|---|---|
| **Sales** | **1,609** | **1,607** | **3,216** | **1,898** | **1,881** | **3,779** | **3,904** | **4,008** |
| *Sales growth (%)* | *-2.4* | *4.5* | *0.9* | *18.0* | *17.0* | *17.5* | *3.3* | *2.7* |
| *of which organic (%)* | *3.3* | *2.3* | *2.4* | *-2.9* | *1.4* | *-0.7* | *2.8* | *2.7* |
| *of which forex (%)* | *-5.8* | *1.0* | *-2.3* | *10.8* | *6.1* | *8.4* | *0.0* | *0.0* |
| *of which scope (%)* | *0.1* | *1.6* | *0.9* | *10.1* | *9.5* | *9.8* | *0.5* | *0.0* |
| **REBIT** | **100** | **64** | **164** | **112** | **108** | **220** | **256** | **283** |
| *REBIT growth (%)* | *10.0* | *-14.6* | *-1.1* | *12.2* | *68.6* | *34.2* | *16.4* | *10.7* |
| *REBIT margin (%)* | *6.2* | *4.0* | *5.1* | *5.9* | *5.7* | *5.8* | *6.6* | *7.1* |
| Non-recurring | 17 | (11) | 5 | (3) | (5) | (8) | (10) | (10) |
| **EBIT** | **117** | **53** | **169** | **110** | **103** | **213** | **246** | **273** |
| *EBIT margin (%)* | *7.3* | *3.3* | *5.3* | *5.8* | *5.5* | *5.6* | *6.3* | *6.8* |
| Net financing charges | (27) | (40) | (66) | (44) | (36) | (79) | (69) | (69) |
| Taxes | (23) | (19) | (42) | (26) | (25) | (51) | (62) | (61) |
| Share in the JV's | 12 | 13 | 25 | 13 | 11 | 23 | 23 | 23 |
| Minorities | (2) | 2 | 0 | 0 | (8) | (8) | (15) | (16) |
| Net profit | 78 | 9 | 86 | 52 | 45 | 98 | 123 | 150 |
| **Normalised net profit** | **61** | **20** | **81** | **55** | **50** | **105** | **133** | **160** |
| *Norm net profit growth (%)* | *114.8* | *-19.6* | *52.2* | *-10.2* | *152.9* | *29.9* | *26.1* | *20.9* |
| Reported EPS (€) | 1.33 | 0.15 | 1.50 | 0.94 | 0.81 | 1.75 | 2.20 | 2.69 |
| **Normalised EPS (€)** | **1.05** | **0.35** | **1.41** | **0.98** | **0.90** | **1.88** | **2.38** | **2.87** |
| **DPS (€)** | | | **0.85** | **0.00** | **0.00** | **0.90** | **0.95** | **1.00** |
| **Net debt** | **673** | **853** | **853** | **1,107** | **985** | **989** | **884** | **746** |
| **Regional sales** | | | | | | | | |
| EMEA | 555 | 509 | 1,064 | 644 | 596 | 1,239 | 1,267 | 1,293 |
| North America | 281 | 274 | 555 | 313 | 296 | 609 | 650 | 689 |
| Latin America | 295 | 336 | 631 | 400 | 397 | 797 | 805 | 821 |
| Asia Pacific | 478 | 488 | 966 | 541 | 592 | 1,134 | 1,182 | 1,205 |
| **Regional sales growth (%)** | | | | | | | | |
| *EMEA (%)* | 4.3 | 0.2 | *2.3* | 16.0 | 17.0 | *16.5* | *2.3* | *2.0* |
| *North America (%)* | -4.7 | 8.3 | *1.3* | 11.4 | 7.9 | *9.6* | *6.8* | *6.0* |
| *Latin America (%)* | -16.2 | 14.7 | *-2.2* | 35.6 | 18.2 | *26.3* | *1.0* | *2.0* |
| *Asia Pacific (%)* | 1.7 | 1.0 | *1.4* | 13.2 | 21.4 | *17.3* | *4.3* | *2.0* |
| **Regional REBIT** | | | | | | | | |
| EMEA | 64 | 51 | 114 | 80 | 67 | 147 | 154 | 160 |
| North America | 14 | 6 | 20 | 12 | 8 | 19 | 28 | 37 |
| Latin America | 11 | 15 | 26 | 22 | 22 | 45 | 48 | 52 |
| Asia Pacific | 43 | 20 | 63 | 30 | 38 | 68 | 82 | 90 |
| Other | -32 | -28 | -60 | -32 | -27 | -59 | -55 | -56 |
| **Regional REBIT margin (%)** | | | | | | | | |
| *EMEA (%)* | *11.5* | *10.0* | *10.8* | *12.4* | *11.3* | *11.9* | *12.1* | *12.4* |
| *North America (%)* | *5.1* | *2.1* | *3.6* | *3.7* | *2.5* | *3.1* | *4.3* | *5.4* |
| *Latin America (%)* | *3.9* | *4.4* | *4.1* | *5.5* | *5.7* | *5.6* | *5.9* | *6.4* |
| *Asia Pacific (%)* | *8.9* | *4.2* | *6.5* | *5.6* | *6.3* | *6.0* | *6.9* | *7.5* |

Source: Company data, ING estimates

## Financials

| Year end Dec (€m) | 2010 | 2011 | 2012 | 2013 | 2014 | 2015F | 2016F | 2017F |
|---|---|---|---|---|---|---|---|---|
| **Income statement** | | | | | | | | |
| Revenues | 3,262 | 3,340 | 3,461 | 3,186 | 3,216 | 3,778 | 3,904 | 4,008 |
| Cost of goods sold | (2,358) | (2,689) | (2,982) | (2,703) | (2,730) | (3,200) | (3,299) | (3,379) |
| **Gross profit** | **904** | **651** | **479** | **482** | **485** | **578** | **605** | **629** |
| Operating costs | (179) | (154) | (205) | (185) | (144) | (152) | (145) | (142) |
| **EBITDA** | **725** | **497** | **274** | **297** | **341** | **426** | **460** | **487** |
| Depreciation & amortisation | (191) | (228) | (324) | (160) | (172) | (214) | (214) | (214) |
| Impairments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **EBIT** | **534** | **269** | **(50)** | **137** | **169** | **213** | **246** | **273** |
| Net interest | (32) | (19) | (83) | (84) | (66) | (79) | (69) | (69) |
| Associates | 36 | 25 | 10 | 30 | 25 | 23 | 23 | 23 |
| Other pre-tax items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Pre-tax profit** | **538** | **276** | **(123)** | **84** | **128** | **157** | **200** | **228** |
| Tax | (140) | (68) | (68) | (48) | (42) | (51) | (62) | (61) |
| Minorities | (31) | (15) | (6) | (11) | 0.1 | (8) | (15) | (16) |
| Other post-tax items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Net profit** | **368** | **193** | **(197)** | **25** | **86** | **98** | **123** | **150** |
| **Normalised EBITDA** | **735** | **482** | **331** | **326** | **336** | **434** | **470** | **497** |
| **Normalised EBIT** | **562** | **281** | **117** | **166** | **164** | **220** | **256** | **283** |
| **Normalised net profit** | **396** | **206** | **(30)** | **53** | **81** | **105** | **133** | **160** |
| **Balance sheet** | | | | | | | | |
| Tangible fixed assets | 1,539 | 1,692 | 1,545 | 1,395 | 1,589 | 1,681 | 1,650 | 1,619 |
| Intangible fixed assets | 131 | 104 | 99 | 87 | 117 | 150 | 150 | 150 |
| Other non-current assets | 96 | 105 | 102 | 126 | 147 | 162 | 162 | 162 |
| Cash & equivalents | 443 | 676 | 457 | 402 | 473 | 438 | 544 | 682 |
| Other current assets | 1,464 | 1,593 | 1,464 | 1,370 | 1,634 | 1,823 | 1,874 | 1,916 |
| **Total assets** | **3,673** | **4,169** | **3,668** | **3,380** | **3,959** | **4,255** | **4,380** | **4,529** |
| Short-term debt | 320 | 648 | 343 | 322 | 442 | 440 | 440 | 440 |
| Other current liabilities | 719 | 616 | 611 | 650 | 745 | 827 | 843 | 855 |
| Long-term debt | 700 | 908 | 850 | 688 | 910 | 988 | 988 | 988 |
| Other long-term liabilities | 236 | 230 | 260 | 217 | 302 | 297 | 297 | 297 |
| **Total liabilities** | **1,977** | **2,403** | **2,064** | **1,877** | **2,399** | **2,552** | **2,567** | **2,580** |
| Total equity | 1,697 | 1,766 | 1,604 | 1,504 | 1,560 | 1,708 | 1,813 | 1,950 |
| **Total liabilities & equity** | **3,673** | **4,169** | **3,668** | **3,380** | **3,959** | **4,259** | **4,380** | **4,529** |
| Capital employed | 2,717 | 3,322 | 2,796 | 2,514 | 2,912 | 3,135 | 3,241 | 3,377 |
| Net working capital | 1,004 | 1,204 | 1,082 | 867 | 1,064 | 1,170 | 1,205 | 1,235 |
| Net debt (cash) | 578 | 880 | 735 | 608 | 879 | 989 | 884 | 746 |
| **Cash flow** | | | | | | | | |
| Cash flow EBITDA | 725 | 497 | 274 | 297 | 341 | 426 | 460 | 487 |
| Change in working capital | (277) | (200) | 227 | 78 | (55) | 12 | (36) | (29) |
| Other non-cash items | 7 | (62) | (3) | (18) | (54) | 3 | 0 | 0 |
| **Operating cash flow** | **456** | **235** | **498** | **357** | **233** | **441** | **424** | **458** |
| Cash interest paid | (43) | (59) | (78) | (65) | (56) | (56) | (69) | (69) |
| Cash taxes paid | (113) | (129) | (59) | (52) | (46) | (53) | (62) | (61) |
| **Net cash from operating activities** | **299** | **47** | **361** | **240** | **131** | **333** | **293** | **328** |
| Capex | (248) | (278) | (127) | (97) | (176) | (163) | (160) | (160) |
| Net acquisitions | (17) | 83 | 31 | 7 | (110) | (155) | 0 | 0 |
| Other net investing cash flows | 54 | 9 | 15 | 18 | 37 | 13 | 23 | 23 |
| **Cash from investing activities** | **(211)** | **(185)** | **(81)** | **(72)** | **(250)** | **(305)** | **(137)** | **(137)** |
| Increase (decrease) in equity | (58) | 0.7 | 0 | (15) | 0 | 0 | 0 | 0 |
| Increase (decrease) in debt | | | | | | | | |
| Dividends & minority distribution | (119) | (163) | (46) | (58) | (66) | (50) | (50) | (53) |
| Other financing cash flow | 0 | 242 | (148) | (53) | 282 | (26) | 0 | 0 |
| **Cash from financing activities** | **(176)** | **79** | **(194)** | **(127)** | **216** | **(75)** | **(50)** | **(53)** |
| Forex & discontinued operations | 5 | 15 | (27) | (2) | | | | |
| **Net change in cash & equivalents** | **(83)** | **(44)** | **58** | **40** | **97** | **(48)** | **106** | **138** |
| FCF | 95 | (172) | 312 | 209 | 11 | 226 | 202 | 237 |

Normalised earnings (eg, EBITDA, EBIT, net income and other sector-specific line items) are in the opinion of the analyst the best representation of a company's underlying and sustainable earnings derived from its regular operating activities.

Source: Company data, ING estimates

## Valuation, ratios and metrics

| Year end Dec | 2010 | 2011 | 2012 | 2013 | 2014 | 2015F | 2016F | 2017F |
|---|---|---|---|---|---|---|---|---|
| **Performance & returns** | | | | | | | | |
| Revenue growth (%) | 33.8 | 2.4 | 3.6 | -7.9 | 0.94 | 17.5 | n/a | 2.7 |
| Normalised EBITDA growth (%) | 84.5 | -34.4 | -31.2 | -1.7 | 3.1 | 29.3 | n/a | 5.8 |
| Normalised EBIT growth (%) | 118.9 | -50.0 | -58.4 | 41.6 | -1.1 | 34.2 | n/a | 10.7 |
| Normalised EPS growth (%) | 124.0 | -47.8 | n/a | n/a | 54.6 | 34.0 | n/a | 20.9 |
| Gross margin (%) | 27.7 | 19.5 | 13.8 | 15.1 | 15.1 | 15.3 | 15.5 | 15.7 |
| Normalised EBITDA margin (%) | 22.5 | 14.4 | 9.6 | 10.2 | 10.4 | 11.5 | 12.0 | 12.4 |
| Normalised EBIT margin (%) | 17.2 | 8.4 | 3.4 | 5.2 | 5.1 | 5.8 | 6.6 | 7.1 |
| Reported net margin (%) | 11.3 | 5.8 | -5.7 | 0.77 | 2.7 | 2.6 | 3.1 | 3.8 |
| Reported ROE (%) | 25.4 | 11.7 | -12.6 | 1.8 | 6.4 | 6.8 | 15.5 | 9.1 |
| Normalised ROA (%) | 17.3 | 7.2 | 3.0 | 4.7 | 4.5 | 5.4 | 11.7 | 6.4 |
| ROAIC (%) | 15.9 | 4.3 | -3.3 | 3.0 | 4.2 | 4.8 | 10.4 | 5.9 |
| ROACE (%) | 23.2 | 9.3 | 3.8 | 6.2 | 6.0 | 7.3 | 15.8 | 8.6 |
| ROACE - WACC (%) | 15.2 | 1.3 | -4.2 | -1.3 | -1.5 | -0.22 | 8.3 | 1.1 |
| **Leverage & solvency** | | | | | | | | |
| Working capital as % of sales | 30.8 | 36.0 | 31.3 | 27.2 | 33.1 | 31.0 | 30.9 | 30.8 |
| Net debt (cash)/EBITDA (x) | 0.80 | 1.8 | 2.7 | 2.0 | 2.6 | 2.3 | 1.9 | 1.5 |
| Net debt (cash)/equity (%) | 34.1 | 49.8 | 45.9 | 40.4 | 56.3 | 57.9 | 48.8 | 38.3 |
| EBITDA net interest coverage (x) | 22.4 | 26.8 | 3.3 | 3.6 | 5.1 | 5.4 | 6.7 | 7.1 |
| Current ratio (x) | 1.8 | 1.8 | 2.0 | 1.8 | 1.8 | 1.8 | 1.9 | 2.0 |
| Dividend cover (cash flow) (x) | 1.4 | n/a | 6.1 | 3.5 | 0.32 | 4.4 | 3.7 | 4.2 |
| **Valuation** | | | | | | | | |
| EV/revenue (x) | 0.69 | 0.75 | 0.75 | 0.76 | 0.71 | 0.70 | 0.65 | 0.60 |
| EV/normalised EBITDA (x) | 3.0 | 5.2 | 7.8 | 7.4 | 6.8 | 6.1 | 5.4 | 4.8 |
| EV/normalised EBIT (x) | 4.0 | 8.9 | 22.1 | 14.5 | 13.9 | 12.0 | 9.9 | 8.5 |
| EV/capital employed (x) | 0.82 | 0.75 | 0.93 | 0.96 | 0.78 | 0.84 | 0.78 | 0.71 |
| EV/invested capital (x) | 0.76 | 0.70 | 0.85 | 0.88 | 0.71 | 0.77 | 0.72 | 0.65 |
| Normalised PER (x) | 4.1 | 7.9 | n/a | 30.3 | 19.6 | 14.6 | 11.6 | 9.6 |
| Price/book (x) | 1.0 | 0.98 | 1.1 | 1.2 | 1.2 | 1.0 | 0.97 | 0.90 |
| Dividend yield (%) | 6.0 | 4.2 | 3.1 | 3.1 | 3.1 | 3.3 | 3.4 | 3.6 |
| FCF yield (%) | 4.2 | n/a | 12.0 | 8.7 | 0.47 | 8.6 | 8.0 | 9.9 |
| **Per share data** | | | | | | | | |
| Reported EPS (€) | 6.20 | 3.27 | (3.33) | 0.42 | 1.50 | 1.75 | 2.20 | 2.69 |
| Normalised EPS (€) | 6.68 | 3.49 | (0.50) | 0.91 | 1.41 | 1.88 | 2.38 | 2.87 |
| Dividend per share (€) | 1.67 | 1.17 | 0.85 | 0.85 | 0.85 | 0.90 | 0.95 | 1.00 |
| Equity FCFPS (€) | 0.87 | (3.92) | 3.96 | 2.45 | (0.78) | 3.04 | 2.39 | 3.00 |
| BV/share (€) | 26.90 | 28.24 | 24.08 | 23.01 | 23.67 | 26.81 | 28.42 | 30.58 |

Source: Company data, ING estimates

## 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%.

# Disclosures Appendix

## ANALYST CERTIFICATION

The analyst(s) who prepared this report hereby certifies that the views expressed in this report accurately reflect his/her personal views about the subject securities or issuers and no part of his/her compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this report.

## IMPORTANT DISCLOSURES

*For disclosures on companies other than the subject companies of this report visit our disclosures page at http://research.ing.com or write to The Compliance Department, ING Financial Markets LLC, 1325 Avenue of the Americas, New York, USA, 10019.*

### US regulatory disclosures

- One or more members of ING Group holds 1% or more of the equity shares (as at the end of the month preceding this publication) in the following subject company/ies of this report: Bekaert NV.

*Valuation & risks:* For details of the methodologies used to determine our price targets and risks related to the achievement of these targets refer to main body of report and/or the most recent equity company report at http://research.ing.com.

*Research analyst(s):* The research analyst(s) for this report may not be registered/qualified as a research analyst with the NYSE and/or NASD. The research analyst(s) for this report may not be an associated person of ING Financial Markets LLC and therefore may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by the research analyst's account.

### European regulatory disclosures

- One or more members of ING Group holds 1% or more of the equity shares (as at the end of the month preceding this publication) in the following subject company/ies of this report: Bekaert NV.

The *remuneration of research analysts* is not tied to specific investment banking transactions performed by ING Group although it is based in part on overall revenues, to which investment banking contribute.

*Financial interests:* One of more members of ING Group may hold financial interests in the companies covered in this report other than those disclosed above.

*Securities prices:* Prices are taken as of the previous day's close on the home market unless otherwise stated.

*Job titles.* The functional job title of the person/s responsible for the recommendations contained in this report is equity research analyst unless otherwise stated. Corporate titles may differ from functional job titles.

*Conflicts of interest policy.* ING manages conflicts of interest arising as a result of the preparation and publication of research through its use of internal databases, notifications by the relevant employees and Chinese walls as monitored by ING Compliance. For further details see our research policies page at http://research.ing.com.

### Other disclosures

Target prices, where included, are based on reasonable assumptions supported by objective data. Unless otherwise stated, neither historic share price performance data nor ING projections on potential share price performance reflect the impact of commissions, fees and charges. Past performance is not indicative of future results. Forecasts are not a reliable indicator of future performance.

## FOREIGN AFFILIATES DISCLOSURES

Each ING legal entity which produces research is a subsidiary, branch or affiliate of ING Bank N.V. See back page for the addresses and primary securities regulator for each of these entities.

## RATING DISTRIBUTION (as of end 2Q15)

| | Equity coverage | Investment Banking clients* |
|---|---|---|
| Buy | 47% | 53% |
| Hold | 48% | 62% |
| Sell | 5% | 13% |
| | **100%** | |

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

## RATING DEFINITIONS

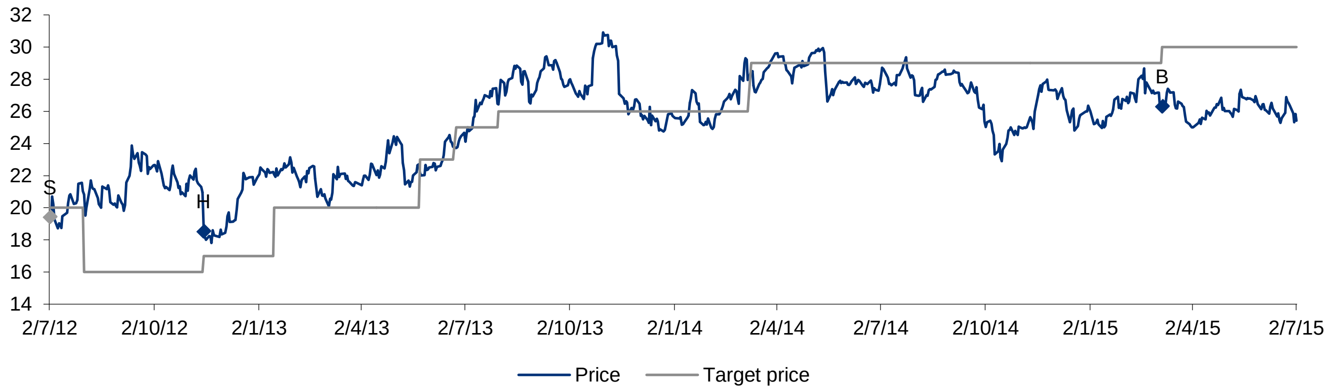
**Buy:** Forecast 12-mth absolute total return greater than +15%

**Hold:** Forecast 12-mth absolute total return of +15% to -5%

**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 02/07/15: 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

| AMSTERDAM | BRUSSELS | LONDON | NEW YORK | SINGAPORE |
|---|---|---|---|---|
| Tel: 31 20 563 8758 | Tel: 32 2 547 7534 | Tel: 44 20 7767 1000 | Tel: 1 646 424 6000 | Tel: 65 6535 3688 |
| **Bratislava** | **Frankfurt** | **Madrid** | **Paris** | **Sofia** |
| Tel: 421 2 5934 6111 | Tel: 49 69 75936 519 | Tel: 34 91 789 8880 | Tel: 33 1 56 39 32 84 | Tel: 359 2 917 6400 |
| **Bucharest** | **Geneva** | **Manila** | **Prague** | **Taipei** |
| Tel: 40 21 222 1600 | Tel: 41 22 592 3079 | Tel: 63 2 479 8888 | Tel: 420 257 474 111 | Tel: 886 2 8729 7600 |
| **Budapest** | **Hong Kong** | **Mexico City** | **Sao Paulo** | **Tokyo** |
| Tel: 36 1 235 8800 | Tel: 852 2848 8488 | Tel: 52 55 5258 2000 | Tel: 55 11 4504 6000 | Tel: 81 3 3217 0301 |
| **Buenos Aires** | **Istanbul** | **Milan** | **Seoul** | **Warsaw** |
| Tel: 54 11 4310 4700 | Tel: 90 212 335 1000 | Tel: 39 02 55226 2468 | Tel: 82 2 317 1800 | Tel: 48 22 820 5018 |
| **Dublin** | **Kiev** | **Moscow** | **Shanghai** | |
| Tel: 353 1 638 4000 | Tel: 380 44 230 3030 | Tel: 7 495 755 5400 | Tel: 86 21 2020 2000 | |

**Research offices:** legal entity/address/*primary securities regulator*

| | |
|---|---|
| **Amsterdam** | ING Bank NV, Foppingadreef 7, Amsterdam, Netherlands, 1102BD. *Netherlands Authority for the Financial Markets* |
| **Brussels** | ING Belgium SA/NV, Avenue Marnix 24, Brussels, Belgium, B-1000. *Financial Services and Market Authority (FSMA)* |
| **Bucharest** | ING Bank NV Amsterdam - Bucharest Branch, 48 Iancu de Hunedoara Bd, 011745, Bucharest 1, Romania. *Financial Supervisory Authority, Romanian National Bank* |
| **Budapest** | ING Bank NV Hungary Branch, Dozsa Gyorgy ut 84\B, H - 1068 Budapest, Hungary. *National Bank of Hungary* |
| **Frankfurt** | ING-DiBa AG, Theodor-Heuss-Allee 2, 60486 Frankfurt, Germany. *Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)* |
| **Istanbul** | ING Bank AS, ING Bank Headquarters, Resitpasa Mahallesi Eski Buyukdere Cad. No.8, 34467 Sariyer, Istanbul, Turkey. *Capital Markets Board* |
| **London** | ING Bank NV London Branch, 60 London Wall, London EC2M 5TQ, United Kingdom. *Financial Conduct Authority* |
| **Manila** | ING Bank NV Manila Branch, 20/F Tower One, Ayala Triangle, Ayala Avenue, 1226 Makati City, Philippines. *Philippine Securities and Exchange Commission* |
| **Milan** | ING Bank NV Milano, Via Arbe, 49, Milano, Italy, 20125. *Commissione Nazionale per le Società e la Borsa* |
| **Moscow** | ING Bank (Eurasia) JSC, 36, Krasnoproletarskaya ulitsa, 127473, Moscow, Russia. *The Central Bank of Russia* |
| **New York** | ING Financial Markets LLC, 1325 Avenue of the Americas, New York, United States,10019. *Securities and Exchange Commission* |
| **Prague** | ING Bank NV, Prague Branch, Českomoravská 2420/15, Prague 9, Czech Republic. *Czech National Bank* |
| **Singapore** | ING Bank NV Singapore Branch, 19/F Republic Plaza, 9 Raffles Place, #19-02, Singapore, 048619. *Monetary Authority of Singapore* |
| **Warsaw** | ING Securities SA, Ul. Pulawska 2, Warsaw, Poland, 02-566. *Polish Financial Supervision Authority* |

## Disclaimer





**Additional information is available on request**