

Company results
 13 November 2015

Buy (maintained)

 Price (13/11/15)
 €25.20

 Target price (12-mth)
 €34.00 (maintained)

 Forecast total return
 38.5%

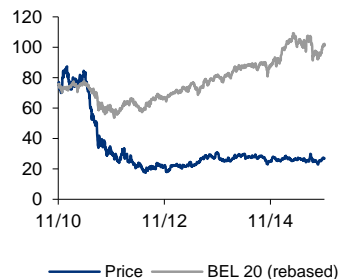
Industrial Goods & Services
Belgium
Bloomberg: BEKB BB
Reuters: BEKB.BR

Share data

Avg daily volume (3-mth)	100,077
Free float (%)	60.9
Market cap (€m)	1,407.1
Net debt (1F, €m)	902
Enterprise value (1F, €m)	2,482
Dividend yield (1F, %)	3.6

Source: Company data, ING estimates

Share price performance



Source: ING

Bekaert

Follow the cash

Bekaert shares fell 5% on the 5% sales miss in 3Q15. We believe this offers an interesting entry level for investors as (1) the sales miss was due to the passing on to clients of lower raw materials prices, which has a limited impact on REBIT while at the same time the c.€100m beat on net debt (cash flow) was ignored, (2) we believe Bekaert has room to beat consensus for 2015F REBIT by 4%, mainly in Asia Pac and Other, and further room to beat on its net debt guidance for the FY and (3) valuation is quite attractive on multiple metrics.

3% sales cut on 2015-16F. Consolidated sales grew 10% in 3Q15 to €898m and came in c.5% below company compiled consensus. In line with expectations, growth was driven by acquisitions (+8%) and forex (+7%). A positive price/mix and volume effect of +1% was even encouraging. The shortfall on expectations was due to the -6% impact from lower wire rod prices, which were passed on to clients, and which seemed overlooked by ourselves and consensus. For 4Q15, management said that (1) the forex impact on sales would be neutral, (2), the impact from wire rod on sales would be similar QoQ (-6%), (3) ongoing solid demand, mainly from automotive and usual seasonal effect in EMEA (as expected), (4) QoQ stable demand in key sectors in North America (as expected), (5) ongoing macro headwinds in Latam (as expected) and (6) the higher run rates in tire markets to continue in 4Q in Asia Pac (very reassuring). All elements combined, we lower our 2015-16F sales by 3%.

2015-16F REBIT broadly unchanged. We just tweak our 2015-16F REBIT (-1%) to €218m and €253m. As such we remain 4% above company compiled consensus of €210m for 2015F. After talking to the IR department, we understand that the company continues to see the current consensus range of €197-224m as reasonable, and in line with earlier guidance for lower seasonality effects in 2H15. We are above (average) consensus and believe the company could beat on Asia Pac and Other REBIT. Asia Pac reported €30m of REBIT in 1H15, yet this included c.2 months of ongoing destocking in tire cord (ongoing from 4Q14) and €6m in bad debt build-up. Hence even our €37m REBIT forecast for 2H seems cautious enough. Likewise, 1H15 Other REBIT was -€32m, but included -€7m in consultancy fees. As such, our -€27m forecast for 2H15F seems reasonable.

2015F net debt lowered by €37m to €902m. Net debt fell €117m QoQ to €906m at the end of 3Q15, via a decrease in working capital and healthy cash generation. Year-end net debt was guided at the 3Q level (€900m), and implies a beat of €114m and €37m vs Bloomberg consensus and our forecast respectively (c.€2 per share). As the beat on consensus is so large, and not only attributed to working capital inflow, we see this as a second reason why it is unlikely for 2015F REBITDA (and REBIT) to disappoint. In addition, we even think the guidance by management for net debt to remain stable in 4Q is cautious, as typically we see a release of working capital in 4Q bringing net debt down further QoQ.

Attractive valuation. On our 2016F estimates Bekaert trades at an undemanding 5.1x EV/REBITDA and 10.7x PER. The latter implies a 30% discount to the Stoxx 600 Industrial Goods & Services, vs a historical discount of 7% on Bloomberg consensus. In addition, the shares offer a 3.6% dividend yield, with little downside risk due to the large family shareholder, in our view. Finally, the shares offer an attractive FCF yield to EV (12.4% on 2015F, assuming high working capital inflow, 8.5% on 2016F on more normalised working capital changes).

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Valuation

Our Target Price is multiple based. At our €34 TP Bekaert trades at 6.2x EV/REBITDA, 14.6x PER and at a 7.0x FCF yield to EV 2016F.

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

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 for 4Q15 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.

Key estimates (€m)

	2014	2015F	2016F
Sales	3,216	3,651	3,768
Sales growth (%)	0.9%	13.5%	3.2%
REBIT	164	218	253
REBIT growth (%)	-1.1%	33.1%	16.0%
REBIT margin (%)	5.1%	6.0%	6.7%
Regional sales			
EMEA	1,064	1,214	1,242
North America	555	605	647
Latin America	631	747	744
Asia Pacific	966	1,085	1,135
Regional sales growth (%)			
EMEA (%)	2.3%	14.1%	2.3%
North America (%)	1.3%	9.0%	7.1%
Latin America (%)	-2.2%	18.4%	-0.4%
Asia Pacific (%)	1.4%	12.3%	4.6%
Regional REBIT			
EMEA	114	145	151
North America	20	20	29
Latin America	26	45	47
Asia Pacific	63	67	81
Other	-60	-59	-55
Regional REBIT margin (%)			
EMEA (%)	10.8%	11.9%	12.2%
North America (%)	3.6%	3.3%	4.4%
Latin America (%)	4.1%	6.0%	6.3%
Asia Pacific (%)	6.5%	6.2%	7.2%

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	3,649	3,768	3,869
Normalised EBITDA	331	326	336	432	467	494
Normalised EBIT	117	166	164	218	253	280
Net interest	(83)	(84)	(66)	(79)	(69)	(69)
Associates	10	30	25	23	22	23
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	(123)	84	128	154	196	223
Tax	(68)	(48)	(42)	(50)	(61)	(60)
Minorities	(6)	(11)	0.1	(8)	(15)	(16)
Other post-tax items	0	0	0	0	0	0
Net profit	(197)	25	86	96	120	147
Normalised net profit	(30)	53	81	104	130	157
Balance sheet						
Tangible fixed assets	1,545	1,395	1,589	1,680	1,648	1,617
Intangible fixed assets	99	87	117	150	150	150
Other non-current assets	102	126	147	162	162	162
Cash & equivalents	457	402	473	526	632	769
Other current assets	1,464	1,370	1,634	1,734	1,781	1,821
Total assets	3,668	3,380	3,959	4,253	4,374	4,520
Short-term debt	343	322	442	440	440	440
Other current liabilities	611	650	745	822	837	850
Long-term debt	850	688	910	988	988	988
Other long-term liabilities	260	217	302	297	297	297
Total equity	1,604	1,504	1,560	1,706	1,813	1,945
Total liabilities & equity	3,668	3,380	3,959	4,253	4,374	4,520
Net working capital	1,082	867	1,064	1,086	1,118	1,145
Net debt (cash)	735	608	879	902	796	659
Cash flow						
Cash flow EBITDA	274	297	341	425	457	484
Tax, interest & other	462	243	201	323	322	321
Change in working capital	227	78	(55)	96	(32)	(27)
Net cash from op activities	361	240	131	415	295	327
Capex	(127)	(97)	(176)	(163)	(160)	(160)
Net acquisitions	31	7	(110)	(155)	0	0
Net financing cash flow	(148)	(69)	282	(26)	0	0
Dividends & minority distrib'n	(46)	(58)	(66)	(50)	(50)	(53)
Net ch in cash & equivalents	58	40	97	35	107	137
FCF	312	209	11	309	204	236
Performance & returns						
Revenue growth (%)	3.6	-7.9	0.94	13.5	n/a	2.7
Normalised EPS growth (%)	n/a	n/a	54.6	32.1	n/a	20.7
Normalised EBITDA mgn (%)	9.6	10.2	10.4	11.8	12.4	12.8
Normalised EBIT margin (%)	3.4	5.2	5.1	6.0	6.7	7.2
ROACE (%)	3.8	6.2	6.0	7.2	15.6	8.5
Reported ROE (%)	-12.6	1.8	6.4	6.7	15.1	8.9
Working capital as % of sales	31.3	27.2	33.1	29.8	29.7	29.6
Net debt (cash)/EBITDA (x)	2.7	2.0	2.6	2.1	1.7	1.4
EBITDA net interest cvg (x)	3.3	3.6	5.1	5.3	6.6	7.0
Valuation						
EV/revenue (x)	0.71	0.71	0.72	0.68	0.63	0.58
EV/normalised EBITDA (x)	7.4	7.0	6.9	5.7	5.1	4.5
EV/normalised EBIT (x)	21.0	13.7	14.2	11.4	9.4	8.0
Normalised PER (x)	n/a	27.7	17.9	13.6	10.8	9.0
Price/book (x)	1.0	1.1	1.1	0.94	0.89	0.83
Dividend yield (%)	3.4	3.4	3.4	3.6	3.8	4.0
FCF yield (%)	12.7	9.2	0.46	12.4	8.5	10.5
Per share data						
Reported EPS (€)	(3.33)	0.42	1.50	1.72	2.15	2.63
Normalised EPS (€)	(0.50)	0.91	1.41	1.86	2.33	2.81
Dividend per share (€)	0.85	0.85	0.85	0.90	0.95	1.00
Equity FCFPS (€)	3.96	2.45	(0.78)	4.53	2.42	2.99
BV/share (€)	24.08	23.01	23.67	26.77	28.41	30.50

Source: Company data, ING estimates

Disclosures Appendix

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Buy	51%	59%
Hold	43%	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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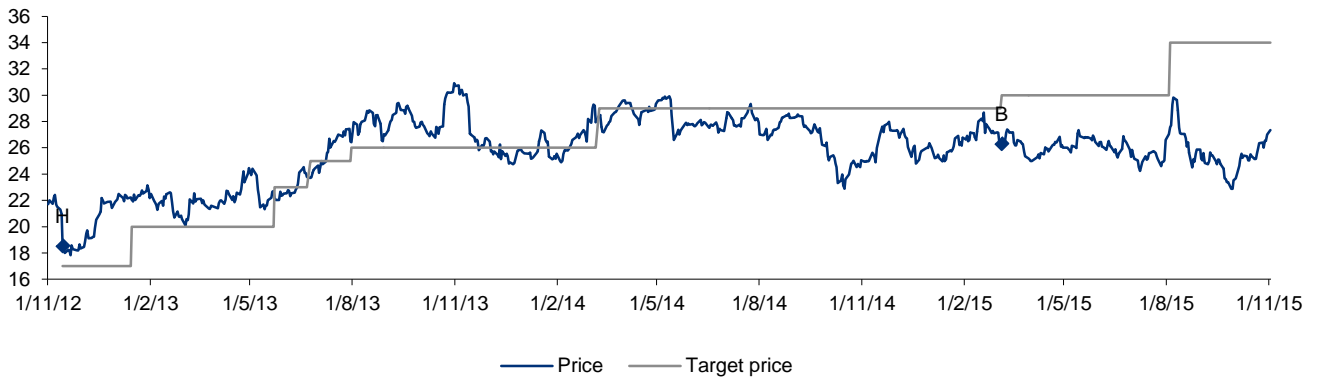
Buy: Forecast 12-mth absolute total return greater than +15%

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 02/11/15: BEKAERT (BEKB.BR)



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