

Company update
9 December 2015

Buy (maintained)

Price (08/12/15)
€26.04

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

Forecast total return
34.0%

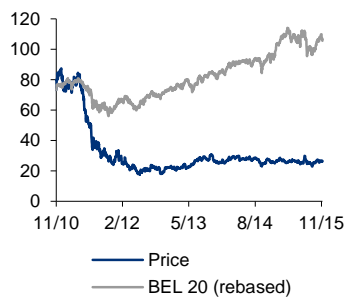
Industrial Goods & Services
Belgium
Bloomberg: BEKB BB
Reuters: BEKB.BR

Share data

| | |
|---------------------------|---------|
| Avg daily volume (3-mth) | 93,883 |
| Free float (%) | 60.9 |
| Market cap (€m) | 1,454.0 |
| Net debt (1F, €m) | 987 |
| Enterprise value (1F, €m) | 2,633 |
| Dividend yield (1F, %) | 3.5 |

Source: Company data, ING estimates

Share price performance



Source: ING

Bekaert

JV with Bridon is medium-term catalyst

We see a clear strategic fit for the JV with Bridon and expect Bekaert to deliver on synergies and enhance EPS from 2017F. Bridon's current financials appear to be materially impacted by market headwinds. This would offer significant upside once the market recovers but will negatively impact Bekaert's 2016F financial metrics, in our view. We maintain our BUY as we continue to argue that Bekaert has room to beat 2015 REBIT consensus. Further, we believe its valuation remains relatively undemanding (5.5x EV/REBITDA 2016F) on a standalone basis.

Bekaert-Bridon JV. Bekaert and Ontario Teachers' Pension Plan (OTPP) have agreed to combine Bekaert's steel rope and advanced cords businesses with Bridon to form a JV, Bridon Bekaert Ropes Group (BBRG), subject to customary closing conditions including regulatory approval. Bekaert will hold a 66.7% stake and OTPP 33.3%. BBRG becomes a global leader in ropes, fitting in with Bekaert's strategy of creating leading positions and leveraging on these to generate more value for its stakeholders through using its market power more effectively. The assets appear to be highly complementary across geographies and sectors, which should help BBRG deliver on cross-selling synergies. On geographies, Bekaert is mainly present in Latam, Canada and Australia, while Bridon is mainly present in Europe and the US. On sectors, both entities are active in mining, oil & gas and industry, but Bekaert's focus is on mining (c.40% of sales), while Bridon seems most focused on oil & gas. We also see synergies in operations, procurement (Bekaert is the largest global buyer of wire rod, c.10x larger than Bridon), technology, brand and customer service. Management said it was too early to quantify synergies. The transaction will only enhance EPS from 2017F onwards given that closing is only expected in 1H16 and some one-off costs will be booked. Currently, no exit scenario with OTPP exists, but we assume the latter will want to exit at some point (we would assume after the synergies have been realised, in any case).

Prior to creating BBRG, Bekaert has bought the remaining 35% stake of MatCo Cables in its own ropes entities for c.€85m, paying in cash. This will be reflected in Bekaert's net debt at end-2015F and increases pro-forma leverage from 2.1x to 2.3x (INGF). Given the cable activities generate less than €250m in sales, Bekaert has paid more than 1.0x sales for the 35% stake, not cheap for activities with an EBIT margin slightly above 7%, but understandable in view of getting full control.

Regarding BBRG, Bekaert brings in c.€250m in sales, with an EBIT margins slightly above 7% and €35m in net debt. Bridon brings in c.€350m in sales with an EBIT margin slightly below 7% and €285m in net debt. If we were to value both parts of the JV at 1.0x EV/sales, Bekaert's equity stake would be worth €215m (€250m-€35m) and Bridon's stake €65m (€350m-€285m). This would in turn result in a 77% stake for Bekaert and 23% for Bridon. The agreed 66.7% and 33.3% stakes suggest that Bekaert has valued the Bridon activities at a higher multiple than its own part. Given Bridon margins are currently being severely affected by headwinds in oil & gas (the group had an EBIT margin of c.13% in 2013, ie, upside is material in case of recovery) and cost saving measures are already being implemented, we believe the 66.7%/33.3% split is still defensible. The creation of BBRG increases pro-forma 2016F leverage from 1.7x to 2.3x (INGF), assuming a 10.5% EBITDA margin for Bridon. Further, the pro-forma EV/EBITDA multiple increases from 5.5x to 5.7x on 2016F.

Why do we believe Bekaert has room to beat on 2H15F? We believe that in its comparison of 2H15 with 1H15, company compiled consensus might be overlooking the fact that Asia Pac 1H REBIT included two months of destocking and €6m in bad debt build. Similarly, Other 1H15 REBIT included €7m in consultancy fees. In addition, 3Q15 net debt came in c.€100m below forecasts but appears to have been ignored by the market. Furthermore, our estimates do not assume any potential temporary benefit from lower input prices, which could very well occur.

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Valuation

Our TP is multiple based.

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

(1) Negative translation effects from a potential reversal of USD strength vs the EUR. Given that we have flat EUR/USD 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 appears low; and (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.

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) | (9) | (11) |
| Other post-tax items | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit | (197) | 25 | 86 | 96 | 126 | 152 |
| Normalised net profit | (30) | 53 | 81 | 104 | 136 | 162 |
| 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 | 441 | 547 | 684 |
| Other current assets | 1,464 | 1,370 | 1,634 | 1,734 | 1,781 | 1,821 |
| Total assets | 3,668 | 3,380 | 3,959 | 4,168 | 4,289 | 4,435 |
| 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 | 1,621 | 1,728 | 1,860 |
| Total liabilities & equity | 3,668 | 3,380 | 3,959 | 4,168 | 4,289 | 4,435 |
| Net working capital | 1,082 | 867 | 1,064 | 1,086 | 1,118 | 1,145 |
| Net debt (cash) | 735 | 608 | 879 | 987 | 881 | 744 |
| 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) | (240) | 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 | (50) | 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 | 19.1 |
| 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 | 7.3 | 16.1 | 8.7 |
| Reported ROE (%) | -12.6 | 1.8 | 6.4 | 6.7 | 15.8 | 9.2 |
| 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 | 2.3 | 1.9 | 1.5 |
| EBITDA net interest cvg (x) | 3.3 | 3.6 | 5.1 | 5.3 | 6.6 | 7.0 |
| Valuation | | | | | | |
| EV/revenue (x) | 0.72 | 0.73 | 0.74 | 0.72 | 0.68 | 0.62 |
| EV/normalised EBITDA (x) | 7.6 | 7.1 | 7.1 | 6.1 | 5.5 | 4.9 |
| EV/normalised EBIT (x) | 21.4 | 14.0 | 14.5 | 12.1 | 10.1 | 8.6 |
| Normalised PER (x) | n/a | 28.6 | 18.5 | 14.0 | 10.7 | 9.0 |
| Price/book (x) | 1.1 | 1.1 | 1.1 | 0.97 | 0.91 | 0.85 |
| Dividend yield (%) | 3.3 | 3.3 | 3.3 | 3.5 | 3.6 | 3.8 |
| FCF yield (%) | 12.4 | 9.0 | 0.45 | 11.7 | 8.0 | 9.8 |
| Per share data | | | | | | |
| Reported EPS (€) | (3.33) | 0.42 | 1.50 | 1.72 | 2.26 | 2.72 |
| Normalised EPS (€) | (0.50) | 0.91 | 1.41 | 1.86 | 2.44 | 2.90 |
| 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 | 28.52 | 30.70 |

Source: Company data, ING estimates

Disclosures Appendix

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| | 100% | |

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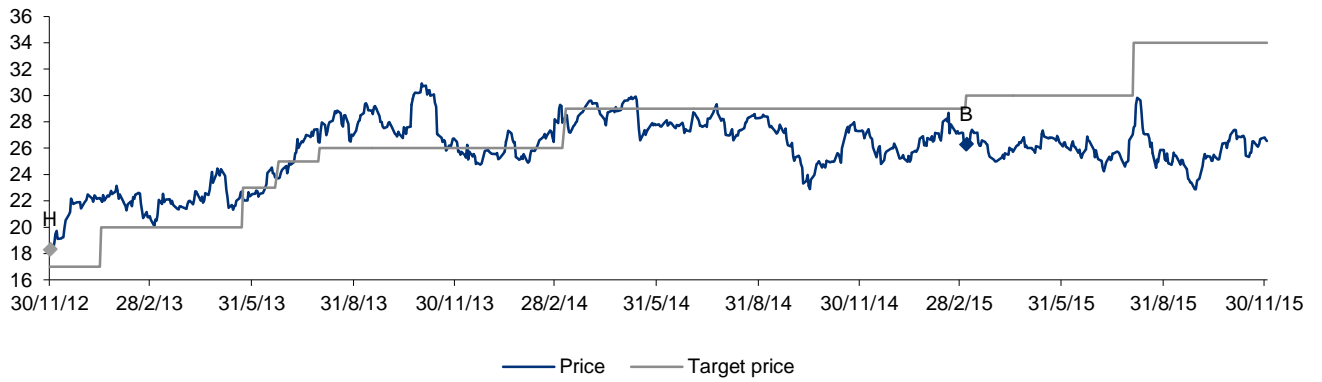
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Total return: forecast share price appreciation to target price plus forecast annual dividend. Price volatility and our preference for not changing recommendations too frequently means forecast returns may fall outside of the above ranges at times.

PRICE & RATINGS HISTORY TO 02/12/15: BEKAERT (BEKB.BR)



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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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