

23 July 2013

BEKAERT

Positives spotted, but largely priced-in

GENERAL INDUSTRIES
BELGIUMCURRENT PRICE €26.90
TARGET PRICE €22.00HOLD
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	13%	20%	29%
Rel. BEL20	8%	17%	10%
12m Hi/Lo	€ 27.00/17.82		
Bloomberg	BEKB.BB		
Reuters	BEKB.BR		
Market Cap	€ 1,617m		
Next corporate event			
Results 1H13: 26 July 2013			
www.bekaert.com			

FY/e 31.12	2012	2013E	2014E	2015E
Sales (€ m)	3,460.6	3,272.5	3,362.6	3,455.8
REBITDA (€ m)	274.8	311.0	359.1	370.1
Net earnings (€ m)	-194.9	2.6	63.8	88.5
Diluted adj. EPS (€)	-1.17	0.45	1.19	1.63
Dividend (€)	0.85	0.85	1.00	1.00
P/E		60.26	22.61	16.54
EV/REBITDA	8.30	7.83	6.59	6.17
Free cash flow yield	8.6%	9.5%	7.3%	8.8%
Dividend yield	3.8%	3.2%	3.7%	3.7%

Source: KBC Securities

Friday, before market, Bekaert is expected to release its 1H13 results, followed by an analyst meeting later that day at 14:00 CET. We expect the company to report consolidated sales of €1,653m (-7.3% y/y), REBIT of €81.4m (-4.3% y/y) and a net result of €7.2m. The y/y sales decline reflects continued low demand in mature markets, lower price levels (y/y) i.e. in Asia Pacific, and unfavourable currency movements, mainly related to Venezuela (estimated at about €100m on a full-year basis). On the positive side, Bekaert observed early in the second quarter some prudent signs of price stabilisation in the Chinese tire cord market.

1H13 EARNINGS PREVIEW

- **1H13 results on 26 July.** On 26 July, Bekaert will release its 1H13 results before market, followed by an analyst meeting at 14:00 CET.
- **The first positives have been spotted.** Bekaert indicated that prices in the Chinese tire cord market began to stabilise in the beginning of the second quarter. This is more or less confirmed by close rival Xingda who indicated that while prices for some products declined slightly, prices of most products have stabilised vs. end-December levels. Also its capacity utilisation is said to have increased vs. December levels.
- **Cost savings kicking-in.** We expect recurring EBIT at € 81.4m (4.9% margin), slightly down (-4.3%) vs. the same period last year but well up sequentially, helped by costs savings. Bekaert expects to realise about € 70m in cost savings this year as part of the objective to cut € 100m p.a. Last year, the company already realised about € 20m in cost savings, while the balance is expected for 2014. Wage cost inflation estimated at around € 15m p.a. will partially offset the cost savings.
- **A lot has been discounted-in already.** While there are some reasons for cautious optimism – i.e. price stabilisation in the Chinese tire cord market and the benefits of the cost savings program kicking-in – we believe that a lot has been priced in already. Trading on our numbers at 6.6x and 6.2x EV/EBITDA 2014/15, we consider valuation as full and hence stick to our Hold recommendation for now.

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KEY FIGURES (IN €M)

	FY11	1H12	2H12	FY12	1H13E	2H13E	FY13E	FY14E
Consolidated sales	3,340	1,783	1,677	3,461	1,653	1,620	3,273	3,363
- EMEA	1,169	557	487	1,044	530	488	1,018	1,038
- North America	665	351	308	659	306	320	626	632
- Latin America	372	397	415	812	361	370	731	767
- Asia Pacific	1,134	478	467	945	456	442	898	925
EBITDA	475.7	160.8	114.0	274.8	164.9	146.1	311.0	359.1
margin	14.2%	9.0%	6.8%	7.9%	10.0%	9.0%	9.5%	10.7%
- EMEA	117.0	34.0	34.0	68.0	42.4	33.9	76.3	88.3
- North America	46.0	26.0	13.0	39.0	18.4	16.1	34.4	44.3
- Latin America	48.0	57.0	43.0	100.0	46.9	40.8	87.7	92.1
- Asia Pacific	346.0	101.0	71.0	172.0	86.6	75.0	161.6	184.9
- Other	-81.3	-57.2	-47.0	-104.2	-29.5	-19.6	-49.1	-50.4
REBIT	280.9	85.1	32.8	117.8	81.4	62.6	144.0	174.1
margin	8.4%	4.8%	2.0%	3.4%	4.9%	3.9%	4.4%	5.2%
Result from operations	268.4	4.2	-53.4	-49.3	61.4	42.6	104.0	162.4
Financial result	-18.5	-52.8	-29.1	-82.0	-33.2	-33.2	-66.3	-56.0
Income taxes	-68.1	-27.5	-40.2	-67.7	-21.0	-14.0	-35.1	-42.5
Joint ventures and associates	25.4	6.0	4.4	10.4	6.0	4.0	10.0	10.5
Result for the period	207.2	-70.2	-118.4	-188.6	13.2	-0.6	12.6	74.3
Minority interest	14.6	8.4	-2.0	6.4	6.0	4.0	10.0	10.5
Net result, group share	192.6	-78.6	-116.4	-194.9	7.2	-4.6	2.6	63.8

Source: company data, KBC Securities estimates

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FINANCIAL DATA

Income statement (€m)	2010	2011	2012	2013E	2014E	2015E
Sales	3,262.5	3,340.0	3,460.6	3,272.5	3,362.6	3,455.8
Gross profit	904.3	651.4	478.8	485.4	524.9	545.6
EBIT	534.3	268.4	-49.3	104.0	162.4	173.1
Pre-tax earnings	501.9	249.9	-131.2	37.6	106.4	126.5
Net earnings	367.6	192.6	-194.9	2.6	63.8	88.5
EBITDA	724.7	475.7	274.8	311.0	359.1	370.1
REBITDA	724.7	475.7	274.8	311.0	359.1	370.1
REBITA	562.5	280.9	117.8	144.0	174.1	185.1
Balance sheet (€m)	2010	2011	2012	2013E	2014E	2015E
Intangible assets	131.1	103.5	99.2	99.2	99.2	99.2
Tangible assets	1,295.1	1,433.6	1,377.5	1,295.5	1,223.8	1,151.9
Financial assets	243.8	258.3	167.6	167.6	167.6	167.6
Net other assets & liabilities	94.3	-38.9	-22.5	-22.5	-22.5	-22.5
Net working capital	1,004.2	1,203.9	1,082.1	1,023.3	1,051.4	1,080.6
Net debt	577.9	879.6	735.5	632.4	564.9	481.8
Provisions	408.1	314.5	364.7	364.7	364.7	364.7
Minorities	86.0	72.5	181.6	181.6	181.6	181.6
Equity	1,696.6	1,693.9	1,422.1	1,384.3	1,408.3	1,448.6
Capital employed	2,310.5	2,499.6	2,373.9	2,233.0	2,189.5	2,146.7
TOTAL ASSETS	3,673.1	4,169.1	3,667.7	3,469.9	3,283.0	3,222.4
Cash flow statement (€m)	2010	2011	2012	2013E	2014E	2015E
Cash flow from operations	230.6	197.1	240.0	278.4	242.9	267.3
Net capital expenditure	-230.3	-266.6	-123.4	-125.0	-125.0	-125.0
Free cash-flow	0.2	-69.5	116.7	153.4	117.9	142.3
Acquisitions / disposals	-34.6	72.4	33.4	0.0	0.0	0.0
Dividend payments	-118.5	-163.1	-46.1	-50.4	-50.4	-59.2
Shares issues	-57.7	1.0	0.0	0.0	0.0	0.0
New borrowings / reimbursements	271.3	535.3	-363.5	-142.5	-219.3	-109.6
Other	106.5	-142.5	40.1	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	167.1	233.5	-219.4	-39.5	-151.7	-26.5
Performance criteria	2010	2011	2012	2013E	2014E	2015E
Sales growth	33.9%	2.4%	3.6%	-5.4%	2.8%	2.8%
Gross margin	27.7%	19.5%	13.8%	14.8%	15.6%	15.8%
REBITDA margin	22.2%	14.2%	7.9%	9.5%	10.7%	10.7%
REBITA margin	17.2%	8.4%	3.4%	4.4%	5.2%	5.4%
EBIT margin	16.4%	8.0%	-1.4%	3.2%	4.8%	5.0%
Net debt / Equity + Minorities	32.4%	49.8%	45.9%	40.4%	35.5%	29.6%
Net debt / EBITDA	0.80	1.85	2.68	2.03	1.57	1.30
EBITDA / net interest	14.48	7.23	3.48	4.69	6.41	7.93
Pay-out ratio	27.2%	36.4%	-26.1%	1967.0%	93.8%	67.6%
= Return on Equity (avg)	24.7%	11.4%	-12.5%	0.2%	4.6%	6.2%
Return on Capital Employed (avg)	19.3%	8.1%	-3.1%	2.7%	4.4%	5.6%
Per share data (€)	2010	2011	2012	2013E	2014E	2015E
weighted average # shares, diluted	59,558,664	59,558,664	59,558,664	59,558,664	59,558,664	59,558,664
Basic EPS	6.21	3.25	-3.29	0.04	1.08	1.49
Diluted EPS	6.17	3.23	-3.27	0.04	1.07	1.49
Diluted, adjusted EPS	6.52	2.81	-1.17	0.45	1.19	1.63
Net book value / share	28.33	28.29	23.75	23.12	23.52	24.19
Free cash flow / share	0.00	-1.17	1.97	2.59	1.99	2.40
Dividend (€)	1.67	1.17	0.85	0.85	1.00	1.00
Valuation data	2010	2011	2012	2013E	2014E	2015E
Reference share price (€)	54.78	54.78	22.59	26.90	26.90	26.90
Reference market capitalisation (€ m)	3,280.7	3,280.7	1,353.0	1,610.9	1,610.9	1,610.9
Enterprise value (€ m)	3,870.6	4,062.4	2,280.7	2,435.6	2,368.1	2,285.0
P/E	8.4	19.5	-	60.3	22.6	16.5
EV/sales	1.2	1.2	0.7	0.7	0.7	0.7
EV/EBITDA	5.3	8.5	8.3	7.8	6.6	6.2
EV/Capital employed	1.7	1.6	1.0	1.1	1.1	1.1
P/ NBV	1.9	1.9	1.0	1.2	1.1	1.1
Free cash flow yield	0.0%	-2.1%	8.6%	9.5%	7.3%	8.8%
Dividend yield	3.0%	2.1%	3.8%	3.2%	3.7%	3.7%

Source: KBC Securities

*Historic valuation data are based on historic prices

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	Definition
BUY	Expected total return (including dividends) of 10% or more over a 6-month period
ACCUMULATE	Expected total return (including dividends) between 0% and 15% over a 6-month period
HOLD	Expected total return (including dividends) between -5% and 5% over a 6-month period
REDUCE	Expected total return (including dividends) between -15% and 0% over a 6-month period
SELL	Expected total return (including dividends) of -10% or worse over a 6-month period

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Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	18.80%	0.00%
ACCUMULATE	26.50%	0.00%
HOLD	51.30%	0.00%
REDUCE	1.70%	0.00%
SELL	1.70%	0.00%

Bekaert is an international group with core expertise in metal transformation and coating technologies.

The price target for Bekaert is based on following parameters: Discounted Cash Flow (DCF), Absolute Multiples, Peer Group Multiples

The risks which may impede the achievement of our price target are: Evolution on the raw materials markets, currencies, global economic outlook, capacity additions

Any reference made to a DCF valuation for Bekaert is based on the following parameters: a forecast period from 2007 until 2016, a perpetual growth rate of 1.5% and a calculated WACC of 8.5%.

Below is an overview of the stock ratings and target price history in the last 12 months for the stock described in this report.

Date	Rating	Target price
14-NOV-12	Hold	€ 22.00

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