

24 February 2014

BEKAERT

Recovering market share in AP

GENERAL INDUSTRIES
BELGIUMCURRENT PRICE €26.96
TARGET PRICE €26.00HOLD
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	1%	2%	27%
Rel. BEL20	-1%	-4%	6%
12m Hi/Lo	€ 30.91/20.09		
Bloomberg	BEKB BB		
Reuters	BEKB.BR		
Market Cap	€ 1,614m		
Next corporate event			
Results FY13: 28 February 2014			
www.bekaert.com			

FY/e 31.12	2012	2013E	2014E	2015E
Sales (€ m)	3,460.6	3,167.9	3,264.2	3,354.1
REBITDA (€ m)	274.8	319.6	353.4	372.0
Net earnings (€ m)	-194.9	30.3	62.8	87.2
Diluted adj. EPS (€)	-1.17	0.68	1.19	1.60
Dividend (€)	0.85	0.85	1.00	1.00
P/E		39.83	22.66	16.84
EV/REBITDA	8.30	7.53	6.67	6.15
Free cash flow yield	8.6%	11.4%	6.2%	7.9%
Dividend yield	3.8%	3.2%	3.7%	3.7%

Source: KBC Securities

Bekaert is expected to release its FY13 results on Friday, before market, with an analysts meeting scheduled later that day at 14:00 CET. We expect the company to report consolidated sales of €3,168.0m (-8.5% y/y), recurring EBIT of €169.6m (5.4% margin) and net result group share of €30.3m.

SLOWING DEMAND IN LATIN AMERICA TO ADD UPON SEASONAL WEAKNESS

- **Weak 3Q13 trading update.** Sales in North America and Latin America came weaker than expected on a sharp volume decline in North America as well as continued negative currency impact in Venezuela combined with a slowdown of demand in Latin America. Demand in Europe started to pick-up, while Bekaert's efforts to regain market share in AP resulted into solid volume growth.
- **Challenging market conditions.** In November, Bekaert anticipated for 4Q13 in addition to the seasonal weakness, i.e. in Europe and North America, demand in Latin America to slow down. Also currency movements are expected to have caused an unfavourable translation impact. While Bekaert was successful in gaining back market share in AP, these efforts will translate into lower margins.
- **Good progress on cost savings.** Results will be helped by the cost savings program initiated in 2012. This was already highlighted by the 1H13 results, which showed a significant improvement in profitability, mainly at EMEA. Recall that Bekaert is targeting annual cost savings of € 100m by 2014. On the longer term, Bekaert aims to restore its profitability to a recurring EBIT margin of at least 7%.
- **Prudence on H2, despite strong H1.** Our estimates are shown in the table on next page. For FY13 we expect sales of € 3,167.9m, recurring EBIT of € 169.6m (5.4% margin) and net result, group share of € 30.3m. H2 sales are expected to have declined by 9.4% y/y on weaker demand in North and Latin America as well as further currency weakness, in particular in Venezuela.

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KEY FIGURES (IN €M)

	1H12	2H12	FY12	1H13	2H13E	FY13E	FY14E
Consolidated sales	1,783	1,677	3,461	1,649	1,519	3,168	3,264
- EMEA	557	487	1,044	532	496	1,028	1,049
- North America	351	308	659	295	249	544	549
- Latin America	397	415	812	352	289	641	674
- Asia Pacific	478	467	945	470	484	954	993
EBITDA	160.8	114.0	274.8	172.0	147.6	319.6	353.4
margin	9.0%	6.8%	7.9%	10.4%	9.7%	10.1%	10.8%
- EMEA	34.0	34.0	68.0	68.0	55.4	123.4	125.9
- North America	26.0	13.0	39.0	18.0	11.9	29.9	38.4
- Latin America	57.0	43.0	100.0	39.0	28.4	67.4	77.5
- Asia Pacific	101.0	71.0	172.0	84.0	78.3	162.3	168.7
- Other	-57.2	-47.0	-104.2	-37.0	-26.3	-63.4	-57.1
REBIT	85.1	32.8	117.8	91.0	78.6	169.6	188.4
margin	4.8%	2.0%	3.4%	5.5%	5.2%	5.4%	5.8%
Result from operations	4.2	-53.4	-49.3	88.7	57.8	146.6	176.9
Financial result	-52.8	-29.1	-82.0	-41.2	-33.5	-74.7	-55.8
Income taxes	-27.5	-40.2	-67.7	-29.7	-21.9	-51.6	-61.3
Joint ventures and associates	6.0	4.4	10.4	17.1	7.9	25.0	18.8
Result for the period	-70.2	-118.4	-188.6	34.9	10.4	45.3	78.5
Minority interest	8.4	-2.0	6.4	8.8	6.2	15.0	15.8
Net result, group share	-78.6	-116.4	-194.9	26.2	4.1	30.3	62.8

Source: company data, KBC Securities' estimates

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FINANCIAL DATA

Income statement (€m)	2011	2012	2013E	2014E	2015E	2016E
Sales	3,340.0	3,460.6	3,167.9	3,264.2	3,354.1	3,447.1
Gross profit	651.4	478.8	500.0	528.9	556.9	577.5
EBIT	268.4	-49.3	146.6	176.9	195.3	206.0
Pre-tax earnings	249.9	-131.2	71.9	121.1	148.6	168.6
Net earnings	192.6	-194.9	30.3	62.8	87.2	121.3
EBITDA	475.7	274.8	319.6	353.4	372.0	382.9
REBITDA	475.7	274.8	319.6	353.4	372.0	382.9
REBITA	280.9	117.8	169.6	188.4	207.0	217.9
Balance sheet (€m)	2011	2012	2013E	2014E	2015E	2016E
Intangible assets	103.5	99.2	99.2	99.2	99.2	99.2
Tangible assets	1,433.6	1,377.5	1,329.5	1,278.0	1,226.3	1,174.4
Financial assets	258.3	167.6	167.6	167.6	167.6	167.6
Net other assets & liabilities	-38.9	-22.5	-22.5	-22.5	-22.5	-22.5
Net working capital	1,203.9	1,082.1	990.6	1,020.7	1,048.8	1,077.8
Net debt	879.6	735.5	601.0	551.4	483.4	381.1
Provisions	314.5	364.7	364.7	364.7	364.7	364.7
Minorities	72.5	181.6	181.6	181.6	181.6	181.6
Equity	1,693.9	1,422.1	1,417.0	1,445.2	1,489.6	1,569.1
Capital employed	2,499.6	2,373.9	2,234.3	2,212.9	2,189.3	2,166.5
TOTAL ASSETS	4,169.1	3,667.7	3,492.9	3,310.8	3,254.0	3,128.5
Cash flow statement (€m)	2011	2012	2013E	2014E	2015E	2016E
Cash flow from operations	197.1	240.0	309.8	225.0	252.3	286.5
Net capital expenditure	-266.6	-123.4	-125.0	-125.0	-125.0	-125.0
Free cash-flow	-69.5	116.7	184.8	100.0	127.3	161.5
Acquisitions / disposals	72.4	33.4	0.0	0.0	0.0	0.0
Dividend payments	-163.1	-46.1	-50.4	-50.4	-59.2	-59.2
Shares issues	1.0	0.0	0.0	0.0	0.0	0.0
New borrowings / reimbursements	535.3	-363.5	-142.5	-219.3	-109.6	-213.6
Other	-142.5	40.1	0.0	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	233.5	-219.4	-8.0	-169.7	-41.6	-111.3
Performance criteria	2011	2012	2013E	2014E	2015E	2016E
Sales growth	2.4%	3.6%	-8.5%	3.0%	2.8%	2.8%
Gross margin	19.5%	13.8%	15.8%	16.2%	16.6%	16.8%
REBITDA margin	14.2%	7.9%	10.1%	10.8%	11.1%	11.1%
REBITA margin	8.4%	3.4%	5.4%	5.8%	6.2%	6.3%
EBIT margin	8.0%	-1.4%	4.6%	5.4%	5.8%	6.0%
Net debt / Equity + Minorities	49.8%	45.9%	37.6%	33.9%	28.9%	21.8%
Net debt / EBITDA	1.85	2.68	1.88	1.56	1.30	1.00
EBITDA / net interest	7.23	3.48	4.82	6.34	7.96	10.24
Pay-out ratio	36.4%	-26.1%	168.0%	95.4%	68.7%	49.4%
= Return on Equity (avg)	11.4%	-12.5%	2.1%	4.4%	5.9%	7.9%
Return on Capital Employed (avg)	8.1%	-3.1%	4.5%	5.6%	6.2%	6.6%
Per share data (€)	2011	2012	2013E	2014E	2015E	2016E
weighted average # shares, diluted	59,558,664	59,558,664	59,558,664	59,558,664	59,558,664	59,558,664
Basic EPS	3.25	-3.29	0.51	1.06	1.47	2.05
Diluted EPS	3.23	-3.27	0.51	1.05	1.46	2.04
Diluted, adjusted EPS	2.81	-1.17	0.68	1.19	1.60	2.18
Net book value / share	28.29	23.75	23.66	24.13	24.88	26.20
Free cash flow / share	-1.17	1.97	3.12	1.69	2.15	2.73
Dividend (€)	1.17	0.85	0.85	1.00	1.00	1.00
Valuation data	2011	2012	2013E	2014E	2015E	2016E
Reference share price (€)	54.78	22.59	26.96	26.96	26.96	26.96
Reference market capitalisation (€ m)	3,280.7	1,353.0	1,614.2	1,614.2	1,614.2	1,614.2
Enterprise value (€ m)	4,062.4	2,280.7	2,407.5	2,357.9	2,289.8	2,187.6
P/E	19.5	-	39.8	22.7	16.8	12.4
EV/sales	1.2	0.7	0.8	0.7	0.7	0.6
EV/EBITDA	8.5	8.3	7.5	6.7	6.2	5.7
EV/Capital employed	1.6	1.0	1.1	1.1	1.0	1.0
P/ NBV	1.9	1.0	1.1	1.1	1.1	1.0
Free cash flow yield	-2.1%	8.6%	11.4%	6.2%	7.9%	10.0%
Dividend yield	2.1%	3.8%	3.2%	3.7%	3.7%	3.7%

Source: KBC Securities

*Historic valuation data are based on historic prices

24 February 2014

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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	20.40%	0.00%
ACCUMULATE	30.10%	0.00%
HOLD	43.40%	0.00%
REDUCE	5.30%	0.00%
SELL	0.90%	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
08-NOV-13	Hold	€ 26.00

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