MORNING NOTE

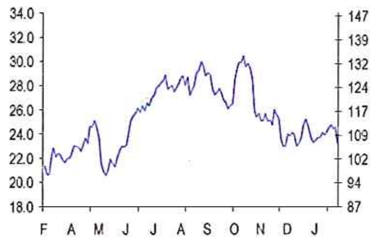
KBC Securities

28 February 2014

BEKAERT

Underlying margin pressure, strong debt reduction

GENERAL INDUSTRIES	CURRENT PRICE	€ 26.47	**HOLD**
BELGIUM	TARGET PRICE	€ 26.00	RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg	BEKB BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 1,584.9m
Shares outst.	59.9m
Volume (daily)	€ 2,923,846
Free float	62.0%

Next corporate event

Trading update 1Q14: 14 May 2014

(€ m)	2013E	2014E	2015E
Sales	3,167.9	3,264.2	3,354.1
REBITDA	319.6	353.4	372.0
Net earnings	30.3	62.8	87.2
Adj. EPS (€)	0.68	1.19	1.60
P/E (x)	39.1	22.2	16.5
EV/REBITDA	7.4	6.6	6.1
FCF Yield	11.7%	6.3%	8.0%
Dividend yield	3.2%	3.8%	3.8%

Wouter Vanderhaeghen
+32 2 429 37 30
wouter.vanderhaeghen@kbcsecurities.be

Alan Vandenberghe
+32 2 429 18 06
alan.vandenberghe@kbcsecurities.be

Bekaert this morning released its FY13 results. An analysts meeting is scheduled later today at 14:00 CET.
Consolidated sales are down 7.9% y/y to € 3,185.6m slightly ahead of expectations (KBC: € 3,168.0m). The negative currency impact from Venezuela was 3.2%, fluctuations of other currencies had an additional impact of -2.4%. The net impact of acquisitions and divestments was 0.9% leaving an organic sales decline of 3.3%, mainly reflecting passed-on lower raw material prices. Consolidated sales for EMEA, NA, LA and AP are reported at € 1,040m, € 548m, € 645m and € 953m vs. our forecast € 1,028m, € 544m, € 642 and € 955m.

Recurring EBIT increased from € 117.8m (3.4% margin) in FY12 to € 165.9m (5.2% margin) last year, in-line with expectations (KBC: € 169.6m). However, one should note that REBIT is helped by about € 5m LIFO impact as well as € 20m reversal of bad debt reserves (essentially in the AP region). EBITDA and EBIT are reported at € 297.0m and € 137.3m (vs. our forecast for € 320m and € 147m). EBITDA contribution from EMEA, NA, LA and AP was € 133m, € 22m, € 64m and € 153m vs. our forecast for € 123m, € 30m, € 67m and € 162m. Non-recurring items amounted to € -28.7m (€ -23.0m expected).

Net result group share amounted to € 24.6m, slightly below expectations € 30.3m. This is mainly explained by other financial income and expenses of € -19.8m, due to currency movements.
Net financial debt declined from € 700.2m at year-start to € 574.0m (KBC: € 601.0m), as a result of strong working capital management. Capital expenditure was € 97m vs. € 125m assumed in our scenario. Bekaert proposes a gross dividend of € 0.85 per share, stable compared to last year.

Bekaert is taking all the measures to respond in a most effective way to global challenges. The company believes that the 4Q volume increases reflect its enhanced competitiveness. Bekaert reconfirms its belief in the potential of the NA activities and takes actions to restore its profitability.

Bekaert further announced to have reached an agreement with Pirelli for the acquisition of Pirelli's steel cord activities. Part of this transaction is a long-term supply agreement of tire cord to Pirelli. The deal comprises plants in Italy, Romania, Turkey, China and Brazil with an estimated annual capacity of about 150kt. Hence, via this acquisition, Bekaert will lift its annual steel cord capacity to close to 1.0mt. The deal has an enterprise value of € 255m. While no precise valuation metrics are provided, we understand Bekaert is paying 5 to 6x EV/EBITDA.

Conclusion:
On a first look, Bekaert reported numbers in-line with expectations. However, results are helped by a significant reversal of bad debt reserves. Adjusted for this impact, margins are under pressure in AP as a result of Bekaert gaining back market share on pricing. We welcome the acquisition of the Pirelli steel cord activities as it will significantly lift Bekaert's overall capacity and comes together with a long-term supply arrangement with Pirelli.