4 March 2014

BEKAERT

Acquiring Pirelli tire cord platform

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 27.90
TARGET PRICE € 30.00

ACCUMULATE
RATING UPGRADED

Performance over	1M	3M	12M
Absolute	12%	8%	36%
Rel. BEL20	5%	0%	14%
12m Hi/Lo			€ 30.91/20.09
Bloomberg			BEKB BB
Reuters			BEKB.BR
Market Cap			€ 1,671m
Next corporate event			
Trading update 1Q14: 14 May 2014			
www.bekaert.com			

FY/e 31.12	2013	2014E	2015E	2016E
Sales (€ m)	3,185.6	3,304.3	3,537.4	3,634.6
REBITDA (€ m)	297.0	328.3	382.8	403.2
Net earnings (€ m)	24.6	64.1	101.7	123.9
Diluted adj. EPS (€)	0.78	1.23	1.88	2.26
Dividend (€)	0.85	1.00	1.00	1.00
P/E	31.72	22.68	14.87	12.36
EV/REBITDA	7.49	8.16	6.97	6.43
Free cash flow yield	13.3%	1.8%	4.2%	8.0%
Dividend yield	3.4%	3.6%	3.6%	3.6%

Source: KBC Securities

Supported by its cost savings program, Bekaert last year managed to increase its recurring EBIT by 41.6%. We see further improvements in profitability in FY14 and FY15, driven by further cost savings benefits kicking-in as well as contribution from the Pirelli assets.

Following publication of FY13 results and agreement to acquire Pirelli's steel cord activities, we see room to upgrade from Hold to Accumulate with new target price of € 30 per share (€ 26).

STRONG REDUCTION IN NET FINANCIAL DEBT

- **FY13 results:** REBIT increased 41.6% y/y to € 165.9m (5.2% margin), in-line with expectations but helped by reversal of bad debt reserves. Contribution from EMEA was driven by solid demand from the construction and automotive sectors, as well as benefits of cost savings program kicking-in. North America and Latin America came relatively weak suffering from low demand and competition from Asian imports. The devaluation of the Bolivar impacted revenues and REBIT by approximately € -130m and € -16m. In Asia Pacific, Bekaert managed solid volume growth in the second half, gaining back lost market share.
- **Significant reduction in net financial debt:** Bekaert positively surprised lowering its net financial debt from € 700.2m at year-start to € 574.1m at year-end. Working capital was reduced further by € 105m with Bekaert in particular working on accounts receivables.
- **Good progress with cost savings:** As from the current year, Bekaert will realise the full benefit of its cost savings program, estimated at around € 100m p.a. vs. € 70m realised in FY13 and € 20m in FY12. Parts of these benefits are offset by cost inflation estimated at € 15m p.a.
- **Value accretive acquisition:** We welcome the acquisition of the Pirelli steel cord activities as it is to lift Bekaert's annual global steel cord production capacity with 150kt to close to 1mt. Even more important, both parties have entered into a long-term supply agreement of steel cord to Pirelli. At 5 to 6x EV/EBITDA, we consider the deal attractively priced.

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GOOD PROGRESS WITH COST SAVINGS PROGRAM

Bekaert reported consolidated sales of € 3,185.6m, down 7.9% y/y. We were looking for sales of € 3,168.0m. Organic sales decline was 3.3% reflecting passed-on lower wire rod prices while 1.1% volume increase was offset by a similar decline in price/mix. The impact from adverse currency movements in Venezuela was -3.2% while fluctuations of other currencies affected revenues by -2.4%. The net impact from acquisitions and divestments on sales was 0.9%.

KEY FINANCIALS (€ m)

	1H12	2H12	FY12	1H13	2H13E	2H13A	FY13E	FY13A	FY14E
Consolidated sales	1,783	1,677	3,461	1,649	1,519	1,537	3,168	3,186	3,304
- EMEA	557	487	1,044	532	496	508	1,028	1,040	1,092
- North America	351	308	659	295	249	253	544	548	553
- Latin America	397	415	812	352	289	293	641	645	677
- Asia Pacific	478	467	945	470	484	483	954	953	982
EBITDA	160.8	114.0	274.8	172.0	147.6	125.0	319.6	297.0	328.3
margin	9.0%	6.8%	7.9%	10.4%	9.7%	8.1%	10.1%	9.3%	9.9%
- EMEA	34.0	34.0	68.0	68.0	55.4	65.0	123.4	133.0	142.0
- North America	26.0	13.0	39.0	18.0	11.9	4.0	29.9	22.0	27.7
- Latin America	57.0	43.0	100.0	39.0	28.4	25.0	67.4	64.0	67.7
- Asia Pacific	101.0	71.0	172.0	84.0	78.3	69.0	162.3	153.0	157.1
- Other	-57.2	-47.0	-104.2	-37.0	-26.3	-38.0	-63.4	-75.0	-66.1
REBIT	85.1	32.8	117.8	91.0	78.6	74.9	169.6	165.9	175.3
margin	4.8%	2.0%	3.4%	5.5%	5.2%	4.9%	5.4%	5.2%	5.3%
Result from operations	4.2	-53.4	-49.3	88.7	57.8	48.6	146.6	137.3	163.7
Financial result	-52.8	-29.1	-82.0	-41.2	-33.5	-42.3	-74.7	-83.5	-64.9
Income taxes	-27.5	-40.2	-67.7	-29.7	-21.9	-18.2	-51.6	-47.9	-44.6
Joint ventures and associates	6.0	4.4	10.4	17.1	7.9	13.1	25.0	30.2	22.0
Result for the period	-70.2	-118.4	-188.6	34.9	10.4	1.1	45.3	36.1	76.2
Minority interest	8.4	-2.0	6.4	8.8	6.2	2.7	15.0	11.5	12.1
Net result, group share	-78.6	-116.4	-194.9	26.2	4.1	-1.6	30.3	24.6	64.1

Source: Company data, KBC Securities estimates

Recurring EBIT increased from € 117.2m (3.4% margin) in FY12 to € 165.9m (5.2% margin) last year, in-line with expectations (KBC: € 169.6m). REBIT was positively impacted by about € 5m LIFO impact as well as reversal in bad debt provision of about € 12m (€ 24m delta between FY12 and FY13), of which about € 7.5m in 2H13. Non-recurring items amounted to about € 28.6m and are related to the closure of the steel wire plant in Canada, increased reserves for environmental liabilities and impairments in stainless steel activities in India. Result from operations was € 137.3m. EBITDA increased from € 274.2m in FY12 to € 297.0m last year (KBC: € 319.6m).

Net financial result, group share, was € 24.6m (KBC: € 30.3m). Other financial income and expenses of €-19.8m took a major hit on exchange rate movements. The contribution of joint ventures and associates of € 30.2m includes some one-off gains in the Brazilian joint-ventures (Bekaert share of about € 6 to 7m, related to VAT recuperation).

Bekaert made good progress with its cost reduction program. By the end of FY13, the company has realised € 70m in annual cost savings (vs. € 20m in FY12). As from FY14, Bekaert expects to realise the full benefit of € 100m p.a. The company again indicated that one needs to take into account wage cost inflation of about € 15m p.a. to partially offset cost savings efforts.

Consolidated sales in **EMEA** were flat (-0.4%) at € 1,040m. The adverse impact from exchange rate movements on sales was -0.6% while the net impact from acquisitions and divestments was -0.8%. Organic sales growth amounted to 0.9% y/y with volume growth of 0.9% and price/mix of 2.0% partially offset by passed-on raw material prices (-1.9%).

Results were driven by solid demand from the construction and automotive sectors in 2H13 as well as significant cost savings kicking-in. Recurring EBIT increased from € 63m in FY12 to € 88m (8.5% margin) last year, slightly ahead of expectations (KBC: € 84.4m).

Consolidated sales in **North America** were down sharply by 16.8% to € 548m (KBC: € 543.7m) on low demand in domestic industrial markets, investment delays in energy and construction markets and increased competition from Asian imports. The impact from adverse currency movements was -3.1%. Organic sales declined 13.6% y/y with volumes down 13.8%, price/mix impact of +4.5% offset by passed-on lower wire rod prices (-4.3%).

Non-recurring items amounted to € 11m and are mainly related to the closure of the Canadian steel wire operations. In order to improve profitability Bekaert will invest amongst others in a more competitive bead wire manufacturing platform, in order to better compete with Asian imports. Capital expenditure will be made during FY14 and are estimated in the region of € 30m. Recurring EBIT declined from € 30m in FY12 to € 19m last year (3.5% margin), slightly below expectations (KBC: € 21.4m).

Bekaert last year started to apply for its Venezuelan activities the economic exchange rate. Consolidated sales in **Latin America** were down 20.6% y/y to € 645m (KBC: € 641.5m). The impact from the drastic devaluation of the Bolivar was -13.6% while other currencies further impacted sales by -3.6%. Organic sales declined by 3.5% with strong volume growth of 5% more than offset by an unfavourable product-mix (-3.8%) and passed-on lower raw material prices (-4.7%). In order to remain competitive with Asian imports, Bekaert changed its sourcing policy importing about half of its raw material needs from Asia. Recurring EBIT declined from € 64m to € 44m (6.8% margin) last year, below expectations (KBC: € 48.9m). The drastic devaluation of the Bolivar had an impact of €-130m on revenues and €-16m on REBIT last year.

Consolidated sales in **Asia Pacific** were up 0.8% y/y to € 953m, in line with expectations (KBC: € 954.5m). The impact from adverse currency movements was -2.7% while the net impact from acquisitions and divestments was +4.2%. Organic sales declined by 0.6% with strong volume growth of 7.9% offset by a negative price mix (-6.3%) and passed-on raw material prices (-2.3%). Recurring EBIT increased from € 37m in FY12 to € 77m last year KBC: € 78.3m). Note that REBIT was helped by the reversal of bad debt reserves (about € 12m) while it was negatively impacted for about the same amount in FY12.

During the first half, Bekaert has lost market share in China as its efforts to stabilise-increase price levels were not followed by its key competitors. During the second half, Bekaert was successful in fighting back restoring its market share by year-end. Capacity utilisation is said to have increased from about 70% at the end of June to the mid-80's by the end of the year. Margins are under pressure reflecting constant price pressure but also integration of recently acquired activities, which add to the revenues while weighing on the results.

Sharp reduction in net financial debt

Net financial debt (Bekaert definition) declined from € 700.2m at year-start to € 574.1m. Working capital was reduced further by € 105m with Bekaert in particular working on accounts receivables with specific focus on China. Capital expenditure was € 95m and guided to increase in the current year to € 150 up to € 200m. The company proposes to distribute a stable gross dividend of € 0.85 per share (ex-date: 16 May).

Acquiring Pirelli's steel cord activities

Together with releasing its FY13 results, Bekaert announced it has reached an agreement with Pirelli to acquire its steel cord activities. Both companies also agreed to enter into a long-term supply agreement. The transaction will add approximately € 300m in annual sales and has an enterprise value of approximately € 255m.

The transaction comprises Pirelli's tire cord facilities in Italy, Romania, Turkey, China and Brazil with annual capacity of about 150kt, lifting Bekaert's global production capacity close to an estimated 1mt. About 60 to 65% of the production will be in EMEA, 25 to 35% in Latin America with the balance in Asia Pacific. Profitability is guided to be at least in-line with Bekaert's existing steel cord platform as the product mix is skewed towards the higher-end.

EBITDA potential of the to be acquired assets is estimated region € 40 to € 50m, suggesting Bekaert is paying about 5 to 6x EV/EBITDA, which we regard as attractive. Given regulatory approval process, one should expect the deal to close during the second half of the year. In our scenario, we have assumed the Pirelli assets to be integrated as from 4Q14 with full impact as from FY15.

FINANCIAL DATA

Income statement (€ m)	2011	2012	2013	2014E	2015E	2016E
Sales	3,340.0	3,460.6	3,185.6	3,304.3	3,537.4	3,634.6
Gross profit	651.4	478.8	482.3	503.5	569.2	599.2
EBIT	268.4	-49.3	137.3	163.7	205.8	225.9
Pre-tax earnings	249.9	-131.2	53.7	98.8	133.5	155.3
Net earnings	192.6	-194.9	24.6	64.1	101.7	123.9
EBITDA	475.7	274.8	297.0	328.3	382.8	403.2
REBITDA	475.7	274.8	297.0	328.3	382.8	403.2
REBITA	280.9	117.8	165.9	175.3	217.8	238.2

Balance sheet (€ m)	2011	2012	2013	2014E	2015E	2016E
Intangible assets	103.5	99.2	87.4	87.4	87.4	87.4
Tangible assets	1,433.6	1,377.5	1,239.1	1,504.4	1,477.4	1,450.1
Financial assets	258.3	167.6	155.8	155.8	155.8	155.8
Net other assets & liabilities	-38.9	-22.5	-25.8	-25.8	-25.8	-25.8
Net working capital	1,203.9	1,082.1	977.6	1,014.0	1,085.6	1,115.4
Net debt	879.6	735.5	608.1	883.5	872.1	796.0
Provisions	314.5	364.7	322.1	322.1	322.1	322.1
Minorities	72.5	181.6	157.6	157.6	157.6	157.6
Equity	1,693.9	1,422.1	1,346.3	1,372.7	1,428.5	1,507.2
Capital employed	2,499.6	2,373.9	2,098.7	2,400.5	2,444.9	2,447.5
TOTAL ASSETS	4,169.1	3,667.7	3,380.5	3,592.9	3,687.1	3,725.0

Cash flow statement (€ m)	2011	2012	2013	2014E	2015E	2016E
Cash flow from operations	197.1	240.0	292.7	204.4	219.9	284.6
Net capital expenditure	-266.6	-123.4	-94.6	-175.0	-150.0	-150.0
Free cash-flow	-69.5	116.7	198.1	29.4	69.9	134.6
Acquisitions / disposals	72.4	33.4	18.2	-255.0	0.0	0.0
Dividend payments	-163.1	-46.1	-58.3	-49.7	-58.5	-58.5
Shares issues	1.0	0.0	-15.3	0.0	0.0	0.0
New borrowings / reimbursements	535.3	-363.5	-182.4	173.4	13.6	-51.1
Other	-142.5	40.1	-15.3	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	233.5	-219.4	-55.1	-102.0	25.0	25.0

Performance criteria	2011	2012	2013	2014E	2015E	2016E
Sales growth	2.4%	3.6%	-7.9%	3.7%	7.1%	2.7%
Gross margin	19.5%	13.8%	15.1%	15.2%	16.1%	16.5%
REBITDA margin	14.2%	7.9%	9.3%	9.9%	10.8%	11.1%
REBITA margin	8.4%	3.4%	5.2%	5.3%	6.2%	6.6%
EBIT margin	8.0%	-1.4%	4.3%	5.0%	5.8%	6.2%
Net debt / Equity + Minorities	49.8%	45.9%	40.4%	57.7%	55.0%	47.8%
Net debt / EBITDA	1.85	2.68	2.05	2.69	2.28	1.97
EBITDA / net interest	7.23	3.48	4.66	5.06	5.30	5.71
Pay-out ratio	36.4%	-26.1%	207.8%	93.7%	59.1%	48.5%
= Return on Equity (avg)	11.4%	-12.5%	1.8%	4.7%	7.3%	8.4%
Return on Capital Employed (avg)	8.1%	-3.1%	0.7%	5.1%	5.9%	6.5%

Per share data (€)	2011	2012	2013	2014E	2015E	2016E
weighted average # shares, diluted	59,558,664	59,558,664	58,699,429	58,699,429	58,699,429	58,699,429
Basic EPS	3.25	-3.29	0.42	1.10	1.74	2.12
Diluted EPS	3.23	-3.27	0.42	1.09	1.73	2.11
Diluted, adjusted EPS	2.81	-1.17	0.78	1.23	1.88	2.26
Net book value / share	28.29	23.75	22.41	22.85	23.78	25.09
Free cash flow / share	-1.17	1.97	3.38	0.50	1.19	2.30
Dividend (€)	1.17	0.85	0.85	1.00	1.00	1.00

Valuation data	2011	2012	2013	2014E	2015E	2016E
Reference share price (€)	54.78	22.59	24.89	27.90	27.90	27.90
Reference market capitalisation (€ m)	3,280.7	1,353.0	1,494.7	1,675.8	1,675.8	1,675.8
Enterprise value (€ m)	4,062.4	2,280.7	2,223.1	2,679.5	2,668.1	2,592.0
P/E	19.5	-	31.7	22.7	14.9	12.4
EV/sales	1.2	0.7	0.7	0.8	0.8	0.7
EV/EBITDA	8.5	8.3	7.5	8.2	7.0	6.4
EV/Capital employed	1.6	1.0	1.1	1.1	1.1	1.1
P/ NBV	1.9	1.0	1.1	1.2	1.2	1.1
Free cash flow yield	-2.1%	8.6%	13.3%	1.8%	4.2%	8.0%
Dividend yield	2.1%	3.8%	3.4%	3.6%	3.6%	3.6%

Source: KBC Securities *Historic valuation data are based on historic prices

DISCLOSURE & DISCLAIMER SECTION

The company disclosures can also be consulted on our website http://www.kbcsecurities.be/disclosures.

KBC Securities uses an absolute rating system including terms such as Buy, Accumulate, Hold, Reduce and Sell (see definitions below).

	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

Due to external factors and in exceptional cases, KBC Securities allows the use of ratings such as Accept the Offer, Black Out, No Recommendation or Suspended.
Our analysts assign one of those ratings based on their investment outlook and valuation for the concerned stock. The valuation can be based on different methodologies such as DCF (discounted cash flow), absolute multiples, peer group multiples, sum-of-parts or NAV (Net Asset Value). The valuation is reflected in a 6-month target price. Occasionally, the expected total return may fall outside of these ranges because of price movement and/or volatility. Such deviations will be permitted but will be closely monitored. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the report contains more complete information concerning the analyst's view, investors should carefully read the entire report and not infer its contents from the rating alone. KBC Securities may disclose the drafts of its reports to the issuers before their dissemination for the purpose of verifying the accuracy of factual statements, except when the draft includes a rating or a target price. In case the draft has been amended following this disclosure, such amendments will be indicated in the concerned report.

Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	18.60%	0.00%
ACCUMULATE	31.90%	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
04-MAR-14	Accumulate	€ 30.00
08-NOV-13	Hold	€ 26.00

KBC Securities will provide periodic updates on companies/industries based on company-specific developments or announcements, market conditions or any other publicly available information.

4 March 2014

The company disclosures can be consulted on our website http://www.kbcsecurities.com/disclosures.

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