KBC Securities

4 August 2014

BEKAERT

Solid volume growth

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 27.01
TARGET PRICE € 30.00

ACCUMULATE
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	-2%	-8%	-1%
Rel. BEL20	1%	-7%	-12%
12m Hi/Lo			€ 30.91/24.75
Bloomberg			BEKB BB
Reuters			BEKB.BR
Market Cap			€ 1,617m
Next corporate event			
Trading update 3Q14: 14 November 2014			
www.bekaert.com			

FY/e 31.12	2013	2014E	2015E	2016E
Sales (€ m)	3,185.6	3,167.2	3,391.1	3,482.2
REBITDA (€ m)	297.0	340.9	380.1	379.3
Net earnings (€ m)	24.6	100.4	113.7	124.0
Diluted adj. EPS (€)	0.78	1.57	2.08	2.26
Dividend (€)	0.85	0.85	0.85	1.00
P/E	31.72	17.22	13.00	11.97
EV/REBITDA	7.49	7.47	6.63	6.44
Free cash flow yield	13.3%	6.8%	4.7%	7.9%
Dividend yield	3.4%	3.1%	3.1%	3.7%

Source: KBC Securities

Bekaert sprang a positive surprise in H1 mainly driven by a solid performance in EMEA on good volumes, improved mix as well as sustained effects of the cost savings while also North America and Asia Pacific outperformed on expectations. The company however remains prudent on H2, given accelerated price pressure in the Chinese tire cord market. Despite the beat on H1, we only made marginal changes to our scenario and keep our rating and target price unchanged.

ACCELERATED PRICE PRESSURE IN CHINESE TIRE CORD MARKET

- **Solid volume growth.** Consolidated were down by 2.4% y/y with organic growth of 2.6% more than offset by adverse currency movements (-5.1%). Group volumes increased by 3.9% and were up sharply in EMEA and Asia Pacific. Volumes in Latin America were down sharply with Bekaert maintaining market shares.
- **REBIT up 11.2% y/y.** REBIT increased from € 91.0m in the same period last year to € 101.2m, beating both our and consensus forecasts. Excluding the impact from the business situation in Venezuela as well as adverse currency movements, REBIT would have increased € 22m y/y organically.
- **Solid balance sheet.** Net financial debt was up from € 574.1m at year-start to € 673.4m at the end of June, mainly driven by the seasonal hike in working capital. Net financial debt remains significantly below the level at the end of June 2013 (€ 770.1m).
- **Cautious outlook.** While Bekaert expects overall an unchanged business climate for the rest of the year, it remains cautious on the outlook because of acceleration in price pressure in the Chinese tire cord market. The Group believes the market has bottomed-out in Latin America and anticipates a moderate slowdown in European tire cord markets on top of the normal seasonal effects in the second half.
- **Limited changes to our scenario.** Despite the significant beat on our estimates for H1, we only made marginal changes to our estimates for this and next year. In our scenario, we assume the Pirelli acquisition to be completed by the end of this year explaining the delta in our FY15 forecasts vs. current year.

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SOLID VOLUME GROWTH IN H1

In 1H14, Bekaert achieved consolidated sales of € 1,608.8m, down 2.4% y/y. We were looking for consolidated sales of € 1,623.7m, consensus (company compiled, 7 brokers participating) was looking for € 1,626m. Organic sales growth was 2.6%, which can be split into 3.9% volume growth, -2.9% impact from pricing through lower raw material prices and 1.7% positive price/mix. The impact from adverse currency movements on sales was -5.1% while the net impact from acquisitions and divestments remained limited to 0.1%.

KEY FIGURES (IN € M)

	1H13A	2H13A	FY13A	1H14E	1H14A	2H14E	FY14E
Consolidated sales	1,649	1,537	3,186	1,624	1,609	1,558	3,167
- EMEA	532	508	1,040	562	555	527	1,082
- North America	295	253	548	284	281	262	543
- Latin America	352	293	645	291	295	286	581
- Asia Pacific	470	483	953	488	478	485	963
EBITDA	172.0	125.0	297.0	168.3	190.5	150.5	340.9
margin	10.4%	8.1%	9.3%	10.4%	11.8%	9.7%	10.8%
REBIT	91.0	74.9	165.9	90.3	101.2	77.8	178.9
margin	5.5%	4.9%	5.2%	5.6%	6.3%	5.0%	5.7%
- EMEA	46.0	42.0	88.0	53.4	64.0	48.8	112.8
- North America	13.0	6.0	19.0	9.9	14.0	9.5	23.5
- Latin America	28.0	16.0	44.0	20.3	11.0	9.4	20.4
- Asia Pacific	39.0	38.0	77.0	40.5	43.0	39.1	82.1
- Other	-35.0	-27.1	-62.1	-33.8	-30.8	-29.0	-59.9
Result from operations	88.7	48.6	137.3	84.3	117.8	73.1	190.9
Financial result	-41.2	-42.3	-83.5	-33.0	-27.0	-31.8	-58.9
Income taxes	-29.7	-18.2	-47.9	-23.1	-22.9	-26.7	-49.6
Joint ventures and associates	17.1	13.1	30.2	11.0	12.5	9.5	22.0
Result for the period	34.9	1.1	36.1	39.2	80.4	24.1	104.4
Minority interest	8.8	2.7	11.5	6.0	2.0	2.0	4.0
Net result, group share	26.2	-1.6	24.6	33.2	78.4	22.1	100.4

Source: Company data, KBC Securities' estimates

Recurring EBIT increased from € 91.0m (5.5% margin) in the same period last year to € 101.2m (6.3% margin), a beat on both our (€ 90.3m) and consensus (€ 93.0m) estimates. REBIT contribution of EMEA, North America and Asia Pacific exceeded expectations while Latin America came weaker. REBIT increased € 22m organically, which was offset by the negative impact from the business situation in Venezuela of € 6m and impact from adverse currencies of € 6m.

There was a € 16.6m positive impact from non-recurring items (vs. negative impact included in both our and consensus estimates), lifting the operating result to € 117.8m. Non-recurring items in the first half consisted of € 11m of negative goodwill, € 8m capital gain on the sale of real estate, change in environmental liabilities (€ 6m) and €-8m impairments and other elements. EBITDA was € 190.5m. Contribution from joint ventures was € 12.5m, in-line with our (€ 11m) and consensus (€ 13m) forecasts. Bottom-line, Bekaert reported a net result, group share, of € 78.4m, up from € 26.2m in the same period last year.

Sales in **EMEA** were up 4.3% y/y to € 555m. Organic growth was 5.9% driven by strong volume growth of 7%. The negative impact from pricing through lower raw material prices was 1.4%, price/mix added 0.4%. REBIT increased from € 46m in the same period last year to € 64m (11.5% margin), beating both our (€ 53.4m) and consensus (€ 53m) expectations. The strong results were driven by high capacity utilisation in combination with the sustained effects of the cost savings. Strong demand was met in most sectors and in particular the automotive sector, energy-related markets and other industrial sectors.

Consolidated sales in **North America** declined by 4.7% y/y to € 281m, reflecting adverse currency movements (5% impact). Organic sales growth was flat (0.2%) reflecting volume growth of 1.9% and favourable price/mix of 1.3% offset by the impact of pricing trough lower raw material prices (-3%). The ropes activities performed well and demand from automotive markets increased as from the second quarter. The agriculture and construction markets did not yet fully recover from harsh winter conditions in the first quarter while demand for cable armouring products remain weak. REBIT increased slightly from € 13 to € 14m (5.1%), thanks to slightly better capacity utilisation as well as cost savings.

While Bekaert was able to maintain its market shares, consolidated sales in **Latin America** declined by 16.2% y/y to € 295m reflecting adverse currency movements (impact around 10%) as well as weak demand in-line with GDP trend. Sales declined by 7.7% organically reflecting lower volumes (5.5%), impact from lower raw material prices (4.9%) partially offset by favourable price/mix (2.7%). REBIT declined sharply from € 28m in the same period last year to € 11m (3.9% margin) reflecting the business situation in Venezuela (€-6m impact), devaluation of Chilean Peso (€-2m impact) as well as lower margin on commodity grade product in order to remain competitive with Asian imports. Combined sales were down sharply (-16% y/y) reflecting significant weakening of Brazilian real which also reflected in lower result from joint ventures and associates (from € 17 to € 12m).

Bekaert realised a 1.7% increase in consolidated sales in **Asia Pacific** to € 478m. Organic sales growth of 8.1% was offset to a large extent by adverse currency movements (-6% impact). Organic sales growth consisted of strong volume growth by 10%, pricing through of lower raw material prices (-3.5%) and favourable price/mix (1.6%). Solid volume growth was recorded by steel cord China with Bekaert successfully restoring its market share in a very competitive environment. The integration process of the acquired wire business in China and Malaysia is taking more time than originally anticipated with the turnaround not yet materialised. REBIT increased from € 39m in the same period last year to € 43m (8.9% margin).

NET FINANCIAL DEBT UP ON SEASONAL HIKE IN WORKING CAPITAL

Net financial debt at the end of June was € 673.4m, up from € 574.1m at year-start, driven by seasonal hike in working capital, dividend payment and some share buybacks. Net financial debt remained significantly below the level at the end of June 2013 though (€ 770.1m). Capital expenditure amounted to € 60.6m of which € 58.2m in property, plant and equipment. Capital expenditure for the full year is guided at around € 150m. Excluding the impact from the acquisition of Pirelli’s tire cord activities, net financial debt was guided at around € 650 to € 700m by year-end.

ACCELERATED PRICE EROSION IN CHINA

In its outlook statement, Bekaert assumes an unchanged overall business climate for the rest of the year while remaining cautious as it perceives an acceleration of price erosion in China from “mid-single digit %” to around 10% on an annual basis currently. In addition to the usual seasonal pattern, Bekaert expects a moderate slowdown in the European tire markets while it believes the markets in Latin America have bottomed out. In North America, Bekaert expects the upwards trend in automotive markets to continue and demand in other sectors to remain stable.

Bekaert expects a dampening impact on further volume growth given recent US anti-dumping measures against passenger and light truck tires from China. A the same time, Xingda has its new 100kt facility available and is keen to drive up its capacity utilisation. Michelin already flagged in its results announcement for a sharp slowdown in the Chinese truck tire market in the second quarter with volumes down 5% in the original equipment market and flat y/y for the replacement market. It remains to be seen to what extent Bekaert will be able to mitigate via further cost savings and efficiency gains.

A revision of our scenario post 1H14 results announcement has not triggered major changes. For the full year, we now see REBIT of € 179.0m (vs. € 175.3m previously). In our scenario, we have assumed the Pirelli acquisition to be completed by the end of this year with full contribution for FY15. In our scenario, we see REBIT at € 215.1m next year with the y/y increase fully driven by the integration of the Pirelli acquisition.

FINANCIAL DATA

Income statement (€ m)	2011	2012	2013	2014E	2015E	2016E
Sales	3,340.0	3,460.6	3,185.6	3,167.2	3,391.1	3,482.2
Gross profit	651.4	478.8	482.3	493.5	551.9	560.2
EBIT	268.4	-49.3	137.3	190.9	203.3	202.4
Pre-tax earnings	249.9	-131.2	53.7	132.1	141.9	143.1
Net earnings	192.6	-194.9	24.6	100.4	113.7	124.0
EBITDA	475.7	274.8	297.0	340.9	380.1	379.3
REBITDA	475.7	274.8	297.0	340.9	380.1	379.3
REBITA	280.9	117.8	165.9	178.9	215.1	214.3

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	1,494.1	1,467.3	1,440.3
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	971.9	1,040.7	1,068.6
Net debt	879.6	735.5	608.1	802.7	776.5	698.8
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	1,401.0	1,469.1	1,547.8
Capital employed	2,499.6	2,373.9	2,098.7	2,348.0	2,389.9	2,390.9
TOTAL ASSETS	4,169.1	3,667.7	3,380.5	3,525.8	3,616.6	3,652.2

Cash flow statement (€ m)	2011	2012	2013	2014E	2015E	2016E
Cash flow from operations	197.1	240.0	292.7	260.1	225.9	277.5
Net capital expenditure	-266.6	-123.4	-94.6	-150.0	-150.0	-150.0
Free cash-flow	-69.5	116.7	198.1	110.1	75.9	127.5
Acquisitions / disposals	72.4	33.4	18.2	-255.0	0.0	0.0
Dividend payments	-163.1	-46.1	-58.3	-49.7	-49.7	-49.7
Shares issues	1.0	0.0	-15.3	0.0	0.0	0.0
New borrowings / reimbursements	535.3	-363.5	-182.4	92.6	-1.2	-52.7
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%	-0.6%	7.1%	2.7%
Gross margin	19.5%	13.8%	15.1%	15.6%	16.3%	16.1%
REBITDA margin	14.2%	7.9%	9.3%	10.8%	11.2%	10.9%
REBITA margin	8.4%	3.4%	5.2%	5.7%	6.3%	6.2%
EBIT margin	8.0%	-1.4%	4.3%	6.0%	6.0%	5.8%
Net debt / Equity + Minorities	49.8%	45.9%	40.4%	51.5%	47.7%	41.0%
Net debt / EBITDA	1.85	2.68	2.05	2.35	2.04	1.84
EBITDA / net interest	7.23	3.48	4.66	5.79	6.19	6.40
Pay-out ratio	36.4%	-26.1%	207.8%	50.8%	44.9%	48.4%
= Return on Equity (avg)	11.4%	-12.5%	1.8%	7.3%	7.9%	8.2%
Return on Capital Employed	8.1%	-3.1%	0.7%	6.0%	6.0%	5.9%

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	1.72	1.94	2.12
Diluted EPS	3.23	-3.27	0.42	1.71	1.94	2.11
Diluted, adjusted EPS	2.81	-1.17	0.78	1.57	2.08	2.26
Net book value / share	28.29	23.75	22.41	23.32	24.46	25.77
Free cash flow / share	-1.17	1.97	3.38	1.88	1.30	2.18
Dividend (€)	1.17	0.85	0.85	0.85	0.85	1.00

Valuation data	2011	2012	2013	2014E	2015E	2016E
Reference share price (€)	54.78	22.59	24.89	27.01	27.01	27.01
Reference market capitalisation	3,280.7	1,353.0	1,494.7	1,622.3	1,622.3	1,622.3
Enterprise value (€ m)	4,062.4	2,280.7	2,223.1	2,545.3	2,519.1	2,441.4
P/E	19.5	-	31.7	17.2	13.0	12.0
EV/sales	1.2	0.7	0.7	0.8	0.7	0.7
EV/EBITDA	8.5	8.3	7.5	7.5	6.6	6.4
EV/Capital employed	1.6	1.0	1.1	1.1	1.1	1.0
P/ NBV	1.9	1.0	1.1	1.2	1.1	1.0
Free cash flow yield	-2.1%	8.6%	13.3%	6.8%	4.7%	7.9%
Dividend yield	2.1%	3.8%	3.4%	3.1%	3.1%	3.7%

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	24.60%	0.00%
ACCUMULATE	25.40%	0.00%
HOLD	41.20%	0.00%
REDUCE	6.10%	0.00%
SELL	2.60%	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
2014-03-04	Accumulate	€ 30.00
2013-11-08	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 August 2014

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

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