

19 December 2014

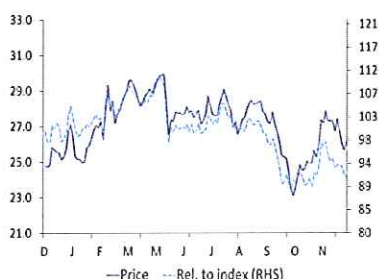
BEKAERT

Partial closing of Pirelli tire cord plant acquisition

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 26.17
TARGET PRICE € 30.00

ACCUMULATE
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg BEKB.BB
Reuters BEKB.BR

www.bekaert.com

Market Cap € 1,566.9m
Shares outst. 60.1m
Volume (daily) € 1,972,318
Free float 62.0%

Next corporate event

Results FY14: 27 February 2015

(€ m)	2013	2014E	2015E
Sales	3,185.6	3,167.2	3,391.1
REBITDA	297.0	340.9	380.1
Net earnings	24.6	100.4	113.7
Adj. EPS (€)	0.78	1.57	2.08
P/E (x)	31.7	16.7	12.6
EV/REBITDA	7.5	7.3	6.5
FCF Yield	13.3%	7.0%	4.8%
Dividend yield	3.4%	3.2%	3.2%

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Acquisition of three Pirelli tire cord plants:

Yesterday, after market, Bekaert announced the acquisition of three out of the five to be acquired Pirelli tire cord plants.

Earlier this year, at publication of FY13 results, Bekaert announced it 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, € 28m in recurring EBIT and has an enterprise value of approximately € 255m.

Bekaert has now closed the acquisition of Pirelli's steel cord plants in Italy, Romania and Brazil. The acquisition of the plants in Turkey and China is expected to be completed following regulatory approval, expected to take place in 1Q15.

Our view:

The three plants will be consolidated as from 1 January and are expected to add € 180m in annual revenues with recurring EBIT of approximately € 19m. Acquisition price should be estimated region € 150m and will be included in net financial debt end of December. The two plants left to be acquired have an estimated acquisition value of € 105m and should add € 120m revenue on an annual basis with recurring EBIT of € 9m.

We clearly welcome the acquisition of the Pirelli steel cord activities as it is to lift Bekaert's annual global steel cord production capacity with 150kt (all five plants) to close to 1mt. Even more important, both parties have entered into a long-term supply agreement of steel cord. At an estimated 5 to 6x EV/EBITDA, we consider the deal attractively priced.

Profit warning Shougang:

Also yesterday, Shougang released a profit warning. The company now expects a consolidated loss of HK\$ 105-115m. The loss is mainly due to "the significant decline in the selling price of steel cords, especially during the second half". This decline is attributable to the slowdown in economic growth as well as intensified competition.

Our view:

While the announcement seems in-line with Bekaert's outlook statement post 1H14 results and 3Q14 trading update, warning for accelerated price pressure, we note that in recent months the situation has deteriorated with a sharp drop in demand impacting occupancy rates and overall margin.