

## Chinese tire cord over capacity remains an issue

### Investment case

- Bekaert released solid H1 2014 results and an encouraging Q3 topline performance. The company is clearly benefiting from its cost cutting measures of recent years.
- With the acquisition of the Pirelli tire cord business, we believe management made a strategically very sensible move and is also establishing another growth path.
- However, the external factors are not straightforward. While the forex factor becomes a major positive this year thanks to a weak Euro currency, the Chinese slowdown and over capacity remain a major source of concern.
- Towards the end of the year, the Chinese slowdown has accelerated and we believe the volume increases in tire cord might even have turned into a negative number. Together with persistent excess capacity, we fear this will negatively impact Chinese tire cord margins, which cannot be compensated by declining wire rod input prices.
- We do not believe this situation is comparable to the sawing wire history, but even if it is only a fraction of it, it can be a drag on earnings evolution short term and Chinese overcapacity can be very sticky.
- In H2, Bekaert has also faced some exceptional costs in North America. Brazil remains weak, other Latam is recovering from low levels and Europe remains solid but we could see weakening in H1 2015.
- All in all, we reduce our 2014 REBIT estimate from EUR 196m to EUR 192m and 2015 from EUR 255m to EUR 244m. The 2015 REBIT number is supported by the acquisition of the Pirelli tire cord business, of course.

### Business description

Bekaert transforms wire rod into different kinds of wires and cords. From 6.5mm steelcord, the company is able to draw very thin wires and even metal fibres with a thickness of merely 1 mm. These wires are used in a wide variety of markets such as the Energy & Utilities sector, Automotive, Construction, Agriculture, consumer goods, etc. Some examples are: wires for use in the manufacturing of industrial springs, the reinforcement of flexible pipes, profiled wires, textile machine wires, bookbinding wires, weaving wires, champagne cork wires, silicon-sawing wire, various types of lacquered and coated wires, steel fibres for concrete reinforcement (Dramix), etc. High-tensile wires are woven into steel cord products like tire cord and bead wire, which are used in car and truck tires (75% replacement market). Steel cord is also used as reinforcement in other applications, such as high-pressure hoses, polyurethane drive belts and conveyor belts.

### Competitive position

Bekaert is world leader in steel cord and has a leading position in Brazil and in China, the biggest growth markets for its products. In China it has a market share of close to 30%. Its nearest competitor is Xingda, with similar tire cord capacity (+/-500kt). In several other segments Bekaert is market leader as well, with often large market shares. Competition can be severe in the lower added value segments. Emerging markets represent more than 60% of combined sales.

### Hold

Price: EUR 25.24  
(06/01/15)

Target price: 26.00  
Risk: High

Reuters: BERTt.BR  
Bloomberg: BEKB BB

Shares number (m): 60.10  
Market cap. (m): 1,517  
Net debt 12/14e (m): 608  
Net debt/EBITDA 12/14e: 1.73

H/L 1 year: 29.93 - 22.90  
1 year price perf.: -1.2%  
Diff. with Euro Stoxx : 0.1%  
Volume (sh./day): 81,481

Free Float 62%  
Family shareholders 38%

	14e	15e	16e
P/E	15.9	12.5	10.9
EV/EBITDA	6.3	5.6	5.0
EV/EBIT	12.7	10.3	8.8
Div. yield	3.2%	3.4%	3.4%

### Company Calendar

27/02/15 2014 Q4 & FY Results  
27/03/15 annual report  
13/05/15 Q1 trading update  
15/05/15 ex-div  
31/07/15 H1 results  
13/11/15 Q3 trading update

Bekaert + relative to Euro Stoxx (grey)



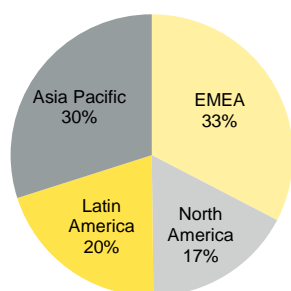
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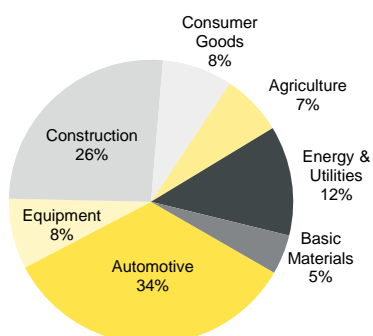
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Exhibit 1 Geographical sales breakdown 13<sup>e</sup>



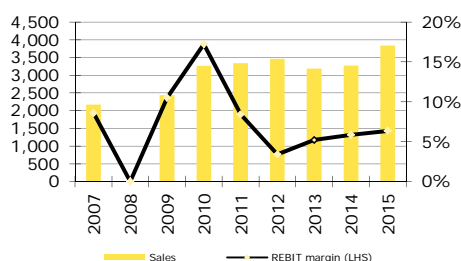
Source: Petercam

Exhibit 2 End-markets



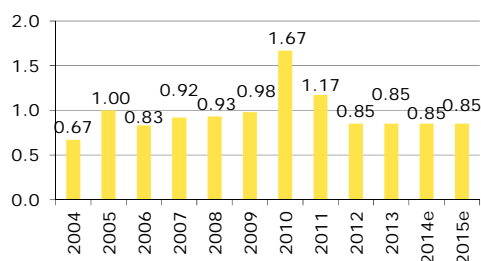
Source: Petercam

Exhibit 3 Sales and margin evolution



Source: Petercam

Exhibit 4 DPS evolution



Source: Petercam

Profit & Loss (EUR m)	12/12	12/13	12/14e	12/15e	12/16e
Revenues	3,460.6	3,185.6	3,275.2	3,835.4	3,969.5
Gross profit	478.8	482.3	527.6	625.2	646.6
EBITDA	274.8	298.4	351.6	419.0	442.5
EBITA	117.8	166.0	192.0	244.0	267.5
EBIT	-49.2	137.0	175.6	229.0	252.5
Net Financial Result	-79.1	-63.7	-60.2	-71.9	-71.9
Exceptionals (gross)	-	-	-	-	-
Taxes	-67.7	-47.9	-41.1	-44.0	-50.6
Except./discontinued operations	0.0	0.0	0.0	0.0	0.0
Net declared earnings	-195.0	24.5	93.2	118.1	135.1
<b>Net adjusted earnings</b>	<b>-76.9</b>	<b>44.8</b>	<b>98.4</b>	<b>121.6</b>	<b>138.6</b>
Cash Flow (EUR m)	12/12	12/13	12/14e	12/15e	12/16e
EBIT	-49.2	137.0	175.6	229.0	252.5
Depreciation	324.0	161.4	176.0	190.0	190.0
Amortization	0.0	0.0	0.0	0.0	0.0
Impairment charges	63.0	0.0	0.0	0.0	0.0
Changes in provision	-58.5	0.0	-32.2	0.0	0.0
Changes in working capital	226.8	104.5	-89.6	28.9	-29.6
Others	-1.8	-28.2	11.9	-42.0	-10.1
<b>Operational Cash Flow</b>	<b>504.2</b>	<b>374.7</b>	<b>241.7</b>	<b>405.8</b>	<b>402.9</b>
Tax expenses	-59.2	-47.9	-41.1	-44.0	-50.6
Dividends from associates	6.5	13.7	16.1	12.6	12.6
Net interest charges	-77.8	-63.7	-60.2	-71.9	-71.9
Others	0.0	0.0	0.0	0.0	0.0
<b>CF from operating activities</b>	<b>373.8</b>	<b>276.9</b>	<b>156.5</b>	<b>302.5</b>	<b>293.0</b>
CAPEX	-127.3	-96.8	-138.2	-150.0	-150.0
Acquisitions	0.0	0.0	14.3	-255.0	0.0
Divestments	31.5	6.7	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-95.8</b>	<b>-90.1</b>	<b>-123.9</b>	<b>-405.0</b>	<b>-150.0</b>
Dividend payment	-46.1	-58.3	-57.2	-51.1	-50.2
Minor. & pref. dividends	0.0	0.0	0.0	0.0	0.0
Equity financing	0.0	-15.3	-15.6	0.0	0.0
Others	0.0	-16.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-46.1</b>	<b>-89.6</b>	<b>-72.8</b>	<b>-51.1</b>	<b>-50.2</b>
<b>Net debt/cash change</b>	<b>231.8</b>	<b>97.1</b>	<b>-40.2</b>	<b>-153.6</b>	<b>92.8</b>
Balance Sheet (EUR m)	12/12	12/13	12/14e	12/15e	12/16e
Tangible fixed assets	1,377.5	1,239.1	1,455.8	1,727.7	1,693.0
Goodwill	16.9	16.4	16.4	16.4	16.4
Other intang. assets	82.3	71.0	71.0	71.0	71.0
Financial fixed assets	0.0	0.0	0.0	0.0	0.0
Total Fixed assets	1,746.6	1,608.6	1,543.2	1,815.1	1,780.4
Working capital	835.0	783.6	873.2	844.3	874.0
Total Equity	1,603.7	1,503.9	1,539.9	1,606.9	1,691.8
Provisions & deferred taxes	254.6	214.1	214.1	214.1	214.1
Net financial debt	735.5	608.1	608.1	742.1	642.1
Total assets	3,667.7	3,380.5	3,424.2	3,585.2	3,696.3
Shares - per share data (EUR)	12/12	12/13	12/14e	12/15e	12/16e
Adjusted EPS	-1.30	0.76	1.66	2.02	2.31
Dividend	0.85	0.85	0.85	0.85	0.85
No shares - average (m)	59.25	59.25	59.25	60.11	60.11
Ratios	12/12	12/13	12/14e	12/15e	12/16e
<b>Valuation analysis</b>					
Adjusted P/E	nm	34.0	15.9	12.5	10.9
P/BV	0.9	1.1	1.1	1.0	1.0
EV/EBITDA	7.9	7.3	6.3	5.6	5.0
EV/EBIT	-44.1	15.9	12.7	10.3	8.8
EV/FCF (1)	4.7	6.6	13.4	175.4	8.4
FCF yield (2)	24.9%	14.3%	4.1%	-6.8%	9.6%
Dividend yield	3.9%	3.3%	3.2%	3.4%	3.4%
<b>Financial ratios</b>					
Net Debt/EBITDA	2.7	2.0	1.7	1.8	1.5
Net Debt/Equity	45.9%	40.4%	39.5%	46.2%	38.0%
ROCE post-tax	-1.5%	0.7%	5.6%	7.2%	8.0%
ROCE post-tax (grossed gdwl)	-1.5%	0.7%	5.6%	7.2%	8.0%
<b>Margin analysis and tax rate</b>					
Gross margin	13.8%	15.1%	16.1%	16.3%	16.3%
EBIT margin	-1.4%	4.3%	5.4%	6.0%	6.4%
Tax rate	-51.6%	89.4%	35.5%	28.0%	28.0%
<b>Growth analysis</b>					
Sales	4%	-8%	3%	17%	3%
Adjusted EPS	-chg	+chg	120%	22%	14%

(1) Based on FCF to Enterprise - (2) Based on FCF to Equity