

Cost management drives margin

Facts: H1 REBIT EUR 91m against EUR 73m consensus

- Bekaert recorded better than expected H1 numbers with sales of EUR 1.65bn vs. EUR 1.63bn expected and benchmark REBIT coming in at EUR 91m against EUR 65m anticipated and EUR 73m consensus. REBIT was pretty clean apart from a EUR 3m bad debt reversal in China. Combined sales reached EUR 2.14bn vs. EUR 2.099bn expected.
- Bekaert does provide a very cautious outlook statement for the coming months: "The lack of consistent indicators of a global economic recovery and the usual seasonal effects in the second half of the year are expected to weigh on profitability. Moreover, the volatile and increasingly competitive environment in Asia may lead to renewed price pressure, imposing a cautious outlook for the coming months."
- Non-recurring items remained limited to EUR 2m but Bekaert still expects EUR 30m for FY.
- The joint-venture results were much higher than expected at EUR 17m. Brazil improved but the JV results also included a EUR 6m tax related one-off benefit.
- Net debt increase versus 31/12 from EUR 700m to EUR 770m on the back of higher volumes related WC requirements.
- Geographically, EMEA outperformed with sales of EUR 532m against EUR 507m anticipated and REBIT of EUR 46m vs. EUR 25.3m expected. In Europe, Q2 showed better volumes at stable prices and margin reached 8.5% thanks to cost savings.
- Asia sales reached EUR 470m against EUR 463m expected with REBIT of EUR 39m vs. EUR 37m anticipated. Volume growth was 4% and REBIT margin reached 8.4% thanks to cost savings.
- North America sales came in at EUR 295m vs. EUR 305m. Business conditions in NA remain difficult but REBIT was EUR 13m against EUR 9m expected, and also an improvement versus H2 2012.
- Finally, Latam sales were in-line, as was profitability with a REBIT of EUR 28m.

Our View: Excellent cost management

In difficult conditions, Bekaert managed to beat consensus thanks to strong cost management. This was especially apparent in the EMEA region and Asia. For H2 and the coming months, management is prudent. In China, competitors have recently reduced prices and Bekaert is likely to follow. Wire rod prices remain volatile. In recent weeks, wire rod prices rebounded from low levels. Too early to call it a trend given excess capacity but it could limit further price reductions by competitors.

Conclusion: ADD maintained but time for a pause

Bekaert released solid numbers but management is prudent for coming months. Cost management was excellent and we expect a further gradual improvement in business conditions despite Bekaert's prudence on pricing in China. H2 should see additional cost savings of EUR 25m. We have increased our estimates by some 10%-15% and put our target price at EUR 29.00.

We anticipate a 2015 EBIT margin of 7.0%, translating in a ROCE post-tax of 7.4%. The shares trade at an EV/CE of 0.84 for 2015, while ROCE/WACC is at 0.87.

Add

Price: EUR 26.47
(30/07/13)

Target price: 29.00
Risk: High

Reuters: BERTt.BR
Bloomberg: BEKB BB

Shares number (m): 59.88
Market cap. (m): 1,585
Net debt 12/13e (m): 728
Net debt/EBITDA 12/13e: 2.34

H/L 1 year: 27.44 - 17.82
1 year price perf.: 22.8%
Diff. with Euro Stoxx : 3.6%
Volume (sh./day): 116,332

Free Float 62%
Family shareholders 38%

	13e	14e	15e
P/E	39.8	16.1	12.9
EV/EBITDA	7.6	6.2	5.2
EV/EBIT	16.8	11.7	9.5
Div. yield	3.2%	3.2%	3.2%

Company Calendar

14/11/13 Q3 2013 trading update

Bekaert + relative to Euro Stoxx (grey)



Analyst:

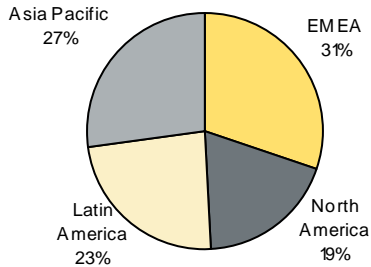
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Exhibit 1 Updated estimates

in EUR m	2012	2013 Q1	2013Q2	2013 H1	2013 Q3	2013 Q4	2013 H2	2013e	2014e	2015e
Combined Revenues	4,387.1	1,035.2	1,103.1	2,138.3	1,081.7	1,063.9	2,145.7	4,283.9	4,416.8	4,583.1
y/y	-4.6%	-8.8%	-1.5%	-5.2%	-2.1%	3.5%	0.6%	-2.4%	3.1%	3.8%
Associates Revenues	911.5	237.0	253.5	490.5	245.3	247.9	493.2	983.7	1,020.0	1,066.0
Combined Revenues	3,460.6	798.2	849.6	1,647.8	836.5	816.0	1,652.5	3,300.3	3,396.8	3,517.1
EMEA	1,044.0	260.0	272.1	532.1	258.1	238.9	496.9	1,029.1	1,044.5	1,060.2
y/y	-10.8%							-1.4%	1.5%	1.5%
North America	659.1	146.0	148.1	294.0	144.8	130.7	275.5	569.5	574.5	586.0
y/y	-0.9%							-13.6%	0.9%	2.0%
Latin America	812.2	176.0	175.2	351.2	188.0	185.2	373.2	724.5	747.1	773.2
y/y	118.3%							-10.8%	3.1%	3.5%
Asia Pacific	945.3	216.2	254.2	470.4	245.6	261.2	506.8	977.2	1,030.7	1,097.7
y/y	-16.6%							3.4%	5.5%	6.5%
EBITDA	274.8			173.0			138.6	311.6	371.6	421.0
margin	7.9%			10.5%			8.4%	9.4%	10.9%	12.0%
REBIT	117.8			91.0			80.6	171.6	210.6	246.0
margin	3.4%			5.5%			4.9%	5.2%	6.2%	7.0%
EMEA	63.0			46.3			30.8	77.1	79.1	87.4
margin	6.0%			8.7%			6.2%	7.5%	7.6%	8.2%
North America	30.0			12.6			11.0	23.7	33.0	36.6
margin	4.6%			4.3%			4.0%	4.2%	5.7%	6.2%
Latin America	64.0			27.7			31.7	59.5	65.4	71.6
margin	7.9%			7.9%			8.5%	8.2%	8.8%	9.3%
Asia Pacific	37.0			39.5			42.1	81.6	98.1	115.5
margin	3.9%			8.4%			8.3%	8.3%	9.5%	10.5%
Other	-76.0			-35.2			-35.0	-70.2	-70.0	-70.0
non-recurring	-167.0			-2.0			-28.0	-30.0	-15.0	-15.0
EBIT	-49.2			89.0			52.6	141.6	195.6	231.0
margin	-1.4%			5.4%			3.2%	4.3%	5.8%	6.6%
Net financial charges	-82.0			-41.2			-30.9	-72.1	-56.9	-56.9
PBT	-131.2			47.8			21.7	69.5	138.7	174.1
taxes	-67.7			-29.7			-8.7	-38.4	-38.8	-48.7
tax rate	-51.6%			62.2%			40.0%	55.3%	28.0%	28.0%
Associates	10.4			17.1			9.0	26.1	17.5	17.5
Minorities	-6.4			-8.8			-9.0	-17.8	-20.0	-21.0
Net profit	-195.0			26.4			13.0	39.4	97.4	121.8
EPS	-1.30							0.67	1.64	2.06
y/y								-151.3%	146.9%	25.1%

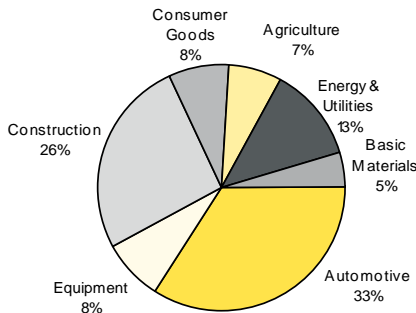
Source: Petercam estimates – Note: 2013 H1 net financial charges includes EUR 8m other expense

Exhibit 2 Geographic sales breakdown 12



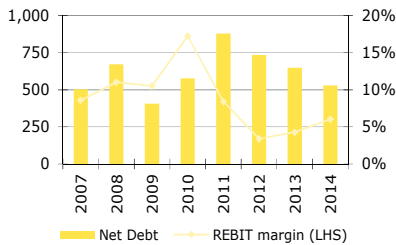
Source: Petercam

Exhibit 3 End-markets



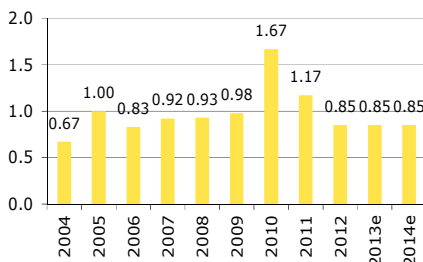
Source: Petercam

Exhibit 4 Net debt / REBIT evolution



Source: Petercam

Exhibit 5 DPS evolution



Source: Petercam

Profit & Loss (EUR m)	12/11	12/12	12/13e	12/14e	12/15e
Revenues	3,340.0	3,460.6	3,300.3	3,396.8	3,517.1
Gross profit	651.5	478.8	488.1	541.8	577.2
EBITDA	480.0	274.8	311.6	371.6	421.0
EBITA	281.0	117.8	171.6	210.6	246.0
EBIT	269.0	-49.2	141.6	195.6	231.0
Depreciation	-211.0	-324.0	-170.0	-176.0	-190.0
Net financial result	-65.8	-79.1	-63.7	-56.9	-56.9
Exceptionals (gross)	-	-	-	-	-
Taxes	-68.1	-67.7	-38.4	-38.8	-48.7
Except./discontinued operations	0.0	0.0	0.0	0.0	0.0
Net declared earnings	193.1	-195.0	39.4	97.4	121.8
Net adjusted earnings	193.1	-76.9	39.4	97.4	121.8
Cash Flow (EUR m)	12/11	12/12	12/13e	12/14e	12/15e
Changes in working capital	-199.7	226.8	-12.5	-12.9	-25.6
Operational cash flow	322.5	504.2	281.0	351.4	386.4
CF from operating activities	141.7	373.8	195.3	266.7	291.7
CF from investing activities	-194.3	-95.8	-130.0	-130.0	-135.0
CF from financing activities	-163.1	-46.1	-58.5	-58.2	-58.2
CAPEX	-277.6	-127.3	-130.0	-130.0	-135.0
Dividend payment	-163.1	-46.1	-50.2	-50.2	-50.2
Balance Sheet (EUR m)	12/11	12/12	12/13e	12/14e	12/15e
Tangible fixed assets	1,433.6	1,377.5	1,364.3	1,320.9	1,275.5
Goodwill	20.9	16.9	16.9	16.9	16.9
Total fixed assets	1,900.0	1,746.6	1,734.5	1,697.0	1,658.1
Working capital	1,115.6	835.0	847.5	860.4	886.0
Total equity	1,766.4	1,603.7	1,593.0	1,640.1	1,711.7
Provisions & deferred taxes	220.0	254.6	254.6	254.6	254.6
Net financial debt	879.6	735.5	728.5	649.5	555.5
Total assets	4,169.1	3,667.7	3,705.9	3,767.5	3,861.0
Shares - per share data (EUR)	12/11	12/12	12/13e	12/14e	12/15e
Adjusted EPS	3.26	-1.30	0.67	1.64	2.06
Dividend	1.17	0.85	0.85	0.85	0.85
No shares - average (m)	59.25	59.25	59.25	59.25	59.25
Ratios	12/11	12/12	12/13e	12/14e	12/15e
Adjusted P/E	7.6	nm	39.8	16.1	12.9
P/BV	0.9	0.9	1.1	1.1	1.0
EV/EBITDA	5.1	7.7	7.6	6.2	5.2
EV/EBIT	9.0	-42.8	16.8	11.7	9.5
EV/FCF (1)	22.0	4.6	14.2	9.9	8.6
FCF yield (2)	-5.2%	24.9%	4.2%	8.7%	9.7%
Div. yield	4.7%	3.9%	3.2%	3.2%	3.2%
Net Debt/EBITDA	1.8	2.7	2.3	1.7	1.3
ROCE post-tax	8.1%	-1.5%	2.7%	6.2%	7.4%
Gross margin	19.5%	13.8%	14.8%	16.0%	16.4%
EBIT margin	8.1%	-1.4%	4.3%	5.8%	6.6%

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

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 µm. 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 fibers 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 polymer 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 35%. 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.

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	SELL	REDUCE	HOLD	ADD	BUY
High Beta > 1.3	RP < -15%	-15% ≤ RP < -6%	-6% ≤ RP < +6%	+6% ≤ RP < +15%	RP ≥ 15%
Medium 0.9 < Beta ≤ 1.3	RP < -10%	-10% ≤ RP < -4%	-4% ≤ RP < +4%	+4% ≤ RP < +10%	RP ≥ 10%
Low Beta ≤ 0.9	RP < -6%	-6% ≤ RP < -2%	-2% ≤ RP < +2%	+2% ≤ RP < +6%	RP ≥ 6%

RP : Relative Performance against Petercam coverage universe

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