

Worldwide economic growth to drive margins

Investment case

- For Bekaert 2013 turned out to be a mixed bag. The cost cutting measures in Europe and China clearly showed their positive impact in the first half of the year but sub-par growth and pricing pressure halted margin recovery in H2.
- While the stock performed well in H1 and Bekaert reported good H1 margin recovery, it became clear in H2 that the economic recovery remained sub-par in several regions.
- Excess capacity in steel cord remains an issue in China, making it hard to push price increase in an environment with horizontally fluctuating wire rod prices. Bekaert's main competitor Xingda, continues to react nervously to price initiatives from smaller players.
- In Latam, economic activity slowed down in the second part of 2013 and also the internal Venezuelan market faced the negative impact from strikes at its sole supplier.
- In the US, investments in the utility business remain subdued and the market faced the negative impact from Chinese imports. Bekaert's US strategic positioning could be questioned going forward.
- In 2014, Chinese economic growth should be sufficiently strong to reduce pricing pressure from excess capacity. If not, a further margin recovery could prove difficult.
- The acquisition of Pirelli's tire cord factories could provide opportunities but will come at a cost.

ROCE improvement potential and resilience

- We expect further ROCE improvement in the coming years for Bekaert, mainly based on margin recovery but believe it will be hard for the company to cover its opportunity cost of capital.
- As such, we expect ROCE to remain below its WACC in 2014 and reach almost the same level in 2015, which is reflected in a EV/CE 2015 ratio of 1.0x.

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 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.

Add

Price: EUR 26.61
(21/01/14)

Target price: 29.00

Risk: High

Reuters: BERTt.BR

Bloomberg: BEKB BB

Shares number (m): 59.88

Market cap. (m): 1,594

Net debt 12/13e (m): 728

Net debt/EBITDA 12/13e: 2.36

H/L 1 year: 30.91 - 20.09

1 year price perf.: 18.8%

Diff. with Euro Stoxx : 0.3%

Volume (sh./day): 113,349

Free Float 62%

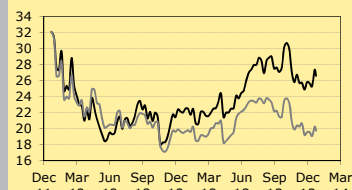
Family shareholders 38%

	13e	14e	15e
P/E	40.5	17.6	13.9
EV/EBITDA	7.8	6.7	5.6
EV/EBIT	17.3	13.0	10.5
Div. yield	3.3%	3.2%	3.2%

Company Calendar

28/02/14 Q4 & FY 2013 results
28/03/14 Annual Report
14/05/14 Q1 2014 trading update
14/05/14 AGM
01/08/14 H1 2014 results

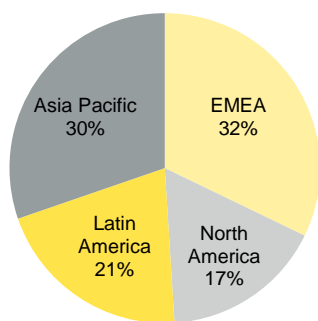
Bekaert + relative to Euro Stoxx (grey)



Analyst:

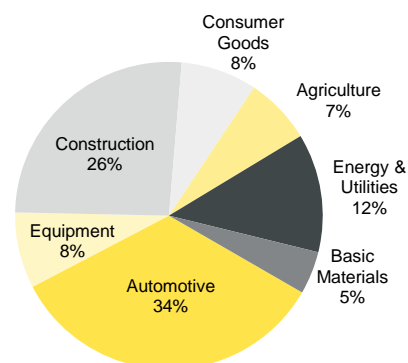
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Exhibit 1 Geographic sales breakdown 13e



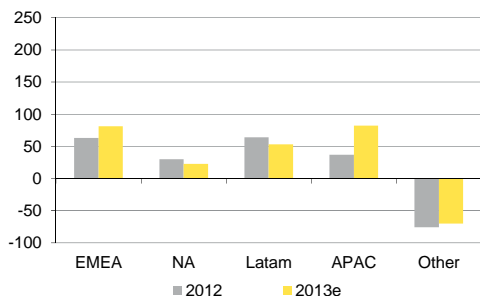
Source: Petercam

Exhibit 2 End-markets



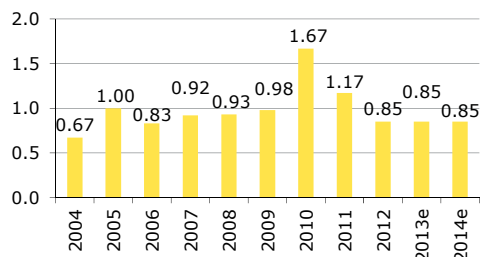
Source: Petercam

Exhibit 3 REBIT evolution



Source: Petercam

Exhibit 4 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	3,207.5	3,270.8	3,386.7
Gross profit	651.5	478.8	485.3	532.0	566.2
EBITDA	480.0	274.8	308.7	360.8	409.1
EBITA	281.0	117.8	168.7	199.8	234.1
EBIT	269.0	-49.2	138.7	184.8	219.1
Net Financial Result	-65.8	-79.1	-63.7	-56.9	-56.9
Exceptionals (gross)	-	-	-	-	-
Taxes	-68.1	-67.7	-37.3	-35.8	-45.4
Except./discontinued operations	0.0	0.0	0.0	0.0	0.0
Net declared earnings	193.1	-195.0	37.7	89.6	113.3
Net adjusted earnings	193.1	-76.9	37.7	89.6	113.3
Cash Flow (EUR m)	12/11	12/12	12/13e	12/14e	12/15e
EBIT	269.0	-49.2	138.7	184.8	219.1
Depreciation	211.0	324.0	170.0	176.0	190.0
Amortization	0.0	0.0	0.0	0.0	0.0
Impairment charges	10.5	63.0	0.0	0.0	0.0
Changes in provision	0.0	-58.5	0.0	0.0	0.0
Changes in working capital	-199.7	226.8	14.6	-5.0	-24.6
Others	31.7	-1.8	-11.2	-4.7	-8.7
Operational Cash Flow	322.5	504.2	312.1	351.0	375.8
Tax expenses	-129.3	-59.2	-37.3	-35.8	-45.4
Dividends from associates	7.5	6.5	16.4	11.0	11.0
Net interest charges	-59.0	-77.8	-63.7	-56.9	-56.9
Others	0.0	0.0	0.0	0.0	0.0
CF from operating activities	141.7	373.8	227.6	269.4	284.5
CAPEX	-277.6	-127.3	-130.0	-130.0	-135.0
Acquisitions	-17.9	0.0	0.0	0.0	0.0
Divestments	101.3	31.5	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
CF from investing activities	-194.3	-95.8	-130.0	-130.0	-135.0
Dividend payment	-163.1	-46.1	-50.2	-50.2	-50.2
Minor. & pref. dividends	0.0	0.0	0.0	0.0	0.0
Equity financing	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	-8.3	-8.0	-8.0
CF from financing activities	-163.1	-46.1	-58.5	-58.2	-58.2
Net debt/cash change	-215.6	231.8	39.1	81.2	91.3
Balance Sheet (EUR m)	12/11	12/12	12/13e	12/14e	12/15e
Tangible fixed assets	1,433.6	1,377.5	1,364.8	1,316.6	1,263.3
Goodwill	20.9	16.9	16.9	16.9	16.9
Other intang. assets	82.6	82.3	82.3	82.3	82.3
Financial fixed assets	362.9	0.0	268.7	277.1	283.5
Total Fixed assets	1,900.0	1,746.6	1,732.7	1,692.8	1,646.0
Working capital	1,115.6	835.0	820.4	825.4	850.0
Total Equity	1,766.4	1,603.7	1,591.2	1,630.6	1,693.6
Provisions & deferred taxes	220.0	254.6	234.4	234.4	234.4
Net financial debt	879.6	735.5	728.5	649.5	555.5
Total assets	4,169.1	3,667.7	3,664.0	3,711.5	3,795.6
Shares - per share data (EUR)	12/11	12/12	12/13e	12/14e	12/15e
Adjusted EPS	3.26	-1.30	0.64	1.51	1.91
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
Valuation analysis					
Adjusted P/E	7.6	nm	40.5	17.6	13.9
P/BV	0.9	0.9	1.1	1.1	1.0
EV/EBITDA	5.1	8.1	7.8	6.7	5.6
EV/EBIT	9.0	-45.4	17.3	13.0	10.5
EV/FCF (1)	22.0	4.9	12.1	10.4	9.4
FCF yield (2)	-5.2%	24.9%	6.4%	8.9%	9.2%
Dividend yield	4.7%	3.9%	3.3%	3.2%	3.2%
Financial ratios					
Net Debt/EBITDA	1.8	2.7	2.4	1.8	1.4
Net Debt/Equity	49.8%	45.9%	45.8%	39.8%	32.8%
ROCE post-tax	8.1%	-1.5%	2.7%	5.8%	7.0%
ROCE post-tax (grossed gdwl)	8.1%	-1.5%	2.7%	5.8%	7.0%
Margin analysis and tax rate					
Gross margin	19.5%	13.8%	15.1%	16.3%	16.7%
EBIT margin	8.1%	-1.4%	4.3%	5.6%	6.5%
Tax rate	27.2%	-51.6%	55.9%	28.0%	28.0%
Growth analysis					
Sales	2%	4%	-7%	2%	4%
Adjusted EPS	-47%	-chg	+chg	138%	26%

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