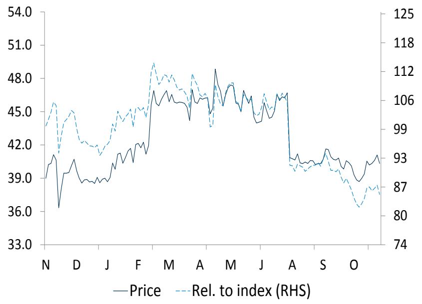
BEKAERT

Preview 3Q17

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 40.33
TARGET PRICE € 47.00

ACCUMULATE
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg	BEKB BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 2,414.9m
Shares outst.	60.1m
Volume (daily)	€ 3,802,921
Free float	62.0%

Next corporate event

Trading update 3Q17: 10 November 2017

(€ m)	2016	2017E	2018E
Sales	3,715.2	4,001.5	4,042.4
REBITDA	481.4	514.2	551.0
Net earnings	105.2	135.8	163.8
Adj. EPS (€)	3.05	2.52	2.90
P/E (x)	12.1	16.0	13.9
EV/REBITDA	6.9	7.1	6.5
FCF Yield	6.0%	1.0%	6.3%
Dividend yield	3.0%	2.7%	3.0%

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Bekaert will report Q3 sales on Friday 10/11 before market.

Weak Q3 expected, in line with weaker Q2 and on negative FX
We expect Q3 sales of € 947m, up 1% YoY, +4.1% organic, -1.5% external (Pirelli plant in Brazil sold to JV) and -2.2% from FX. CSS expects € 945m, +1% YoY.

In Q2, Bekaert saw a deterioration in organic sales growth to 3%, from 8% in Q1. The comparison base is getting tougher in Q3 and Q4, with 3Q16 organic growth at +2.1%, 4Q16 at +3.3%. 1Q16 was +0.5% and 2Q16 was -2.4%.

Overall, we expect a continuation of the Q2 slowdown and margin contraction in Q3, with overall a difficulty to pass on higher steel prices, a still weakish Chinese tire cord market, and the negative impact from sawing wire (transition to third generation). We believe that the hoped for rapid recovery of the Chinese tire cord market did not materialise in Q3, contrarily to what management had initially expected. This will likely have made harder to pass on higher steel prices, which continued to increase over the Summer, thus impacting gross margins.

By division, we expect:
- EMEA sales of € 280m (CSS € 275m), +4% YoY, on 4% l/l.
- North America sales of € 128m (CSS € 125m), +1% YoY, on 5% l/l, -4% FX
- LatAm sales of € 161m (CSS € 163m), -9% YoY, +1% l/l, -8% M&A, -2% FX
- APAC sales of € 267m (CSS € 270m), +1%, +5% l/l, -4% FX
- BBRG sales of € 112m (CSS € 112m), +4% YoY, +5% l/l, -2% FX.

Latest guidance of a flat REBIT YoY
At Q2, management reiterated it expected a roughly flat REBIT YoY for FY17 vs. FY16 of € 305m. CSS has now cut its estimates to € 302m, from € 320m before Q2. We expect € 295mE. Given the softer Chinese market, we believe there is a possibility that Bekaert might slightly review the wording of its guidance but we think it is overall sufficiently conservative and somewhat vague ('around FY16 REBIT') so as to avoid an outright change.

At a divisional, end market levels,the Q2 guidance was for the same positive trend in Auto, margin improvement at BBRG, optimism on margin improvement in North America and on the impact of the transformation initiatives. On the negative, management stressed fast changing raw mat prices, Oil&Gas, North America trade policies, LatAm and solar markets in China.

Stock weak into numbers, we cut our TP to € 47 on lower EPS
The stock has in our view already anticipated on the H2 weakness and FX negative impact. These are reflected as well in lower CSS numbers, even if we find ourselves at the lower end of the FY17E CSS REBIT range. We cut our TP to € 47, from € 51, using the same methodology (DCF/historical multiples), but lower estimates. Accumulate reiterated.