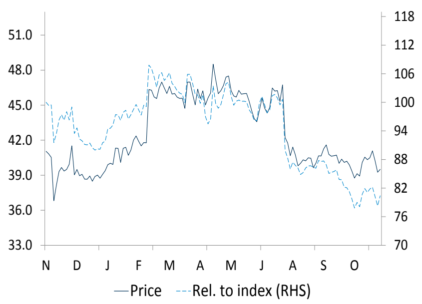
10 November 2017

BEKAERT

Very strong Q3, guidance maintained

GENERAL INDUSTRIES	CURRENT PRICE	€ 39.50	ACCUMULATE
BELGIUM	TARGET PRICE	€ 47.00	RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg	BEKB BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 2,365.5m
Shares outst.	60.1m
Volume (daily)	€ 3,735,695
Free float	62.0%

Next corporate event

(€ 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	15.7	13.6
EV/REBITDA	6.9	7.0	6.4
FCF Yield	6.0%	1.1%	6.4%
Dividend yield	3.0%	2.8%	3.0%

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Q3 sales 3 % above CSS, on much better EMEA, APAC organic growth
Sales were € 977m , + 3.9 % y/y, 3% above CSS and 3 % above us . Organic growth was +10 % vs. + 4.1%E, M&A -2% vs. -1.5%E and FX -3% vs. – 2.2%E. Volume was up 6% in Q3 and raw mat/price mix 3%. This marks a volume acceleration vs. H1, a very nice surprise after the Q2 softness.

- EMEA sales were € 303m , +13.1% y/y, +10% above CSS, +8% vs. KBCS, with organic growth at 13% vs. +4.4%E
- North America sales were € 134m , +5.5% y/y, +7% above CSS, +5% vs. KBCS, with organic growth at 12% vs. +5%E
- LatAm were € 151 m , -14.2% y/y, -7% vs. CSS, -6% vs. KBCS, with organic growth at +4% vs. +1%E
- Asia sales were € 281m , +7.7% y/y, +4% above CSS, +5% vs. KBCS, with organic growth at +13% vs. +5%E
- BBGR sales were € 108m , +0% y/y, -3% vs. CSS, -3% vs. KBCS, with organic growth at +1% vs. +5%E.

Outlook: guidance of flat REBIT
Management reiterates its broadly in line REBIT guidance for FY17, which is fully in line with CSS. It explains that the pricing environment in the market today will not allow the company to turn improved volumes into incremental profit this year. Indeed, it says that it has been extremely difficult to pass on raw materials price increases in almost all of businesses. “This is a very unusual dynamic in our industry and it is stopping us from being able to turn improved volumes into incremental profitability in the short term.” Going forward it confirms its 10% REBIT margin objective for the coming years.

Net debt for FY17 is now guided stable vs. Q3 of € 1205m, vs. previous guidance of flat YoY at € 1.1bn, because of higher working capital needs. Capex guidance of € 250m is maintained.

On a sector basis, It expects continued strong demand in auto (good for EMEA, APAC) and construction, is rather optimistic on rising oil prices in that it could help BBRG and the flexible pipes business. It sees little signs of recovery in Latin America, economic uncertainty in the US, and a continued decline in sawing wire for Bekaert offering. At BBRG, Bekaert admits that the projected recovery is taking longer than expected.

Conclusion: relief rally deserved in our view
Despite the cautious words on margins, we believe many investors will be relieved by the strong organic growth, in particular the strong volume growth in Europe and Asia, and the guidance reiteration. Only negative in our view is the net debt guidance, which can be explained by higher volume. The shares were very weak into Q3 so that we expect a marked positive stock reaction. We would caution that the market usually gets carried away, one way or the other, by quarterly releases, often drawing the wrong conclusion margin wise. Having said that, we think the low valuation (12x EV/EBIT FY18 for >10% EPS growth expected), and the late share price weakness make a rally warranted.