Bekaert : FY17 slightly better than expected, cautious outlook

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Bekaert's FY underlying EBIT declined from € 305m in 2016 to € 301m in 2017, vs guidance of a similar performance and our and CSS forecasts of respectively € 294m (-4% y/y) and € 297m. After a strong first half, underlying EBIT declined by about 15% in 2H17, ao due to longer than usual delays in pushing through increased raw materials (wire rod) prices. The company did mention it has been better able to pass on wire rod price increases in the fourth quarter. FY revenue grew by 10% to € 4,098m (KBCS € 4,016m, CSS € 4,019m), with a 4Q growth of 7% to € 1,026m. Divisional overview :

EMEA : FY17 consolidated revenue grew 11% to € 1,273m (KBCS € 1,242m, CSS € 1,241m), implying a +16% in 4Q to € 315m (KBCS € 287m). FY REBIT was flat at € 141m (KBCS € 142.9m, CSS € 145m), implying also a flat 2H performance. North America : FY17 consolidated revenue grew 8% to € 552m (KBCS +5% to € 538m, CSS € 542m), implying a 4Q growth of 7% to € 130m (KBCS € 117m). FY REBIT grew 27% to € 33m (KBCS & CSS € 36m), implying a flat 2H performance. Latin America : FY17 consolidated revenue declined by 1% to € 673m (KBCS -3.1% to € 661m, CSS € 658m), implying a 4Q decline of 7% to € 166m (KBCS € 154m). FY REBIT declined by 18% to € 55m (KBCS -29% to € 47.6m, CSS € 47m), implying a 2H decline of 23%. Asia Pacific : FY17 consolidated revenue grew by 9% to € 1,145m (KBCS +6.7% to € 1,122m, CSS € 1,123m), implying +9% in 4Q (KBCS +1%). FY underlying EBIT declined by 10% to € 107m (KBCS -4% to € 114.5m, CSS € 115m), implying a 2H decline of 25%. BBRG : FY17 consolidated revenue grew by 42% to € 455m (KBCS +41% to € 452m, CSS € 456m), with a 38% contribution from consolidation effects. In 4Q17, revenue grew by 2% to € 113m (KBCS flat at € 110m). FY underlying EBIT grew from € 13m to € 15m (KBCS +57% to € 20.8m, CSS € 21m, with an increase in 2H from € 3m to € 4m.

Outlook : Bekaert projects broad economic strength in most parts of the world in 2018, with the exception of Latin America. The company banks on good demand in automotive, mining and construction markets. Prospects for the oil & gas sector may improve as oil prices increase. The factors that impacted 2017 profitability are expected to continue to weigh on 1H18, including the difficult business climate in Latin America, the divestment impact of Sumaré, continued volatility of wire rod prices and other inflationary costs, continued low demand for loose abrasive wire and an expected slow recovery at BBRG. Bekaert added some caution with regards to the potential outcome and impact of changes to fiscal and trade policies in the US. On the positive side, the company mentions the improved pricing power in 4Q, a breakthrough in the development of fixed abrasive sawing wire technology (tested and approved by customers, positive contribution expected as from 2H18) and BBRG and the remainder of the group which are targeted to progress on the cost efficiency front. All in all, the company expects to improve profitability progressively through the year (tough comps in 1H) to achieve the same profitability level of 2017 (note we were banking on a 7% EBIT growth to € 322m). Bekaert still expects to move towards 10% underlying EBIT margin in the medium term.

Conclusion: FY17 results were slightly better than expected but the FY18 guidance seems fairly cautious and is lower than expected. We decided to stick to our Accumulate rating on the back of the attractive valuation.

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