BEKAERT

Preview 1Q18 trading update

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 34.54
TARGET PRICE € 47.00

ACCUMULATE
RATING UNCHANGED

Source: Thomson Reuters Datastream

Bloomberg	BEKB BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 2,068.4m
Shares outst.	60.4m
Volume (daily)	€ 4,624,886
Free float	62.0%

Next corporate event

Trading update 1Q18: 9 May 2018

(€ m)	2017	2018E	2019E
Sales	4,098.2	4,244.4	4,396.4
REBITDA	498.0	523.2	571.7
Net earnings	184.7	196.0	228.8
Adj. EPS (€)	2.60	2.95	3.44
P/E (x)	16.2	11.7	10.0
EV/REBITDA	7.8	6.4	5.7
FCF Yield	-1.3%	6.6%	8.3%
Dividend yield	2.6%	3.2%	3.3%

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News:
Bekaert will release its 1Q trading update on 9 May. We remind that Bekaert commented at the time of the FY17 results release that it projected broad economic strength in most parts of the world in 2018, with the exception of Latin America. Furthermore, Bekaert commented to anticipate good demand in its automotive markets, in particular driven by growth in truck tire markets, and in mining and construction markets. Prospects for oil & gas sectors were said to potentially improve during the year given the increased oil prices. As far as profit evolution is concerned, Bekaert commented at the time of the FY results release that the factors that held back profitability momentum in 2H17 would continue to weigh on profitability in 1H18. These factors include a) difficult business climate in Latin America, b) the divestment of Sumaré in Brazil, c) raw materials price volatility, d) low demand for loose abrasive sawing wire and an expected slow recovery at BBRG. All in all, Bekaert guided for a progressive improvement in profitability during 2018 to achieve the same profitability level as in 2017 on a full year basis.

We remind that Bekaert only provides divisional top line figures on a quarterly basis. Bear in mind that 1Q17 was a very strong quarter for Bekaert, with a 20% increase in consolidated revenue, with a.o. 10% organic sales growth (organic volume growth exceeded 6%).

Taking into account a negative FX effect (mainly from the USD) and the deconsolidation of Sumaré, we forecast a 2% revenue growth in 1Q18 (to € 1,082m), broken down as follows: EMEA +2.5% to € 333.1m, North America -4.5% to € 140.4m, Latin America -2.5% to € 178.4m, APAC +8% to € 313.2m, BBRG flat at € 117m.

Our View:
The 1Q revenue growth will be held back significantly by FX and the deconsolidation of Sumaré. Despite the weak earnings momentum expected for 1H18, we do see room for improvement into the second half in line with company guidance, and we believe valuation is attractive enough for maintaining our Accumulate rating and € 47 target price.