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BEKAERT

1Q18 revenue -1%, up 7% organically

GENERAL INDUSTRIES
BELGIUMCURRENT PRICE €34.58
TARGET PRICE €47.00ACCUMULATE
RATING UNCHANGED

Source: Thomson Reuters Datastream

Bloomberg	BEKB.BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€2,070.8m
Shares outst.	60.4m
Volume (daily)	€4,632,804
Free float	62.0%

Next corporate event

Results 1H18: 27 July 2018

(€m)	2017	2018E	2019E
Sales	4,098.2	4,230.2	4,381.7
REBITDA	498.0	522.0	570.0
Net earnings	184.7	195.2	227.9
Adj. EPS (€)	2.60	2.94	3.43
P/E (x)	16.2	11.8	10.1
EV/REBITDA	7.8	6.4	5.8
FCF Yield	-1.3%	6.7%	8.2%
Dividend yield	2.6%	3.2%	3.3%

Wim Hoste

+32 2 429 37 13

wim.hoste@kbcsecurities.be

Bekaert's 1Q18 consolidated revenue declined by less than 1% to €1,052m, which compares to our €1,082m forecast (+2% y/y). Organic growth was about 7%, while FX accounted for -6% and divestments for -2%. Regional breakdown of consolidated revenue :

EMEA +7% to €347m (KBCS +2.5% to €333.1m). Revenue grew by 7% organically, including a volume growth of 2.5% (which is attributable to growth in automotive markets, with construction down). Wire rod and price/mix added +4.5%. Bekaert anticipates continued good demand from tire markets, but commented that competitive pressure makes it difficult to pass wire rod price increases swiftly and fully.

North America -2% to €144m (KBCS -4.5% to €140.4m). Revenue grew by 11.5% organically, with volume growth of about 3% and the remainder composed by a combination of pass through of higher raw materials prices and price/mix. The volume growth was driven mainly by continued good demand from automotive markets. Although the wire rod imports have not been impacted by import duties, Bekaert commented to remain cautious about future developments in US trade policy.

Latin America -9% to €168m (KBCS -2.5% to €178.4m). Organic growth was solid at +11%, but was offset by FX (-8%) and the deconsolidation of Sumaré. The organic growth was achieved entirely on the back of a much better price/mix and passed through of higher wire rod prices, and more than offset negative volumes (-5%). Bekaert commented that the business climate in most countries in the region is difficult but improving.

APAC -2% to €283m (KBCS +8% to €313.2m). Organic growth was 5%, with 2% volume growth and the remainder being the aggregate effect of passed-on higher wire rod prices and price/mix improvement. Bekaert commented to expect the underlying run rate in the tire markets to continue, albeit also with continued price pressure due to the highly competitive market environment.

BRG -5% to €110 (KBCS flat at €117.0m). Organic volume growth was about 2%, with increased volumes (+6.5%) partly offset by negative price/mix. Bekaert commented to project continued difficult market conditions for the ropes business in the near future.

Outlook : Bekaert commented that the outlook remains broadly similar to the one outlined at the time of the FY17 results release. The company still expects to improve profitability progressively during the year. The earlier stated ambition of a flat FY profitability was not reiterated in the outlook statement, although we understood this is still the ambition. Note that prior to the 1Q trading update, we banked on an FY18 EBIT of €314m (or a 7.4% margin) vs the Bloomberg CSS of €303.3m (7.34% margin). In 2017, Bekaert realized €301m underlying EBIT or a 7.3% margin.

Conclusion : The 1Q revenue was slightly weaker than expected but held back significantly by FX and divestments. Despite the weak earnings momentum expected for 1H18, we do see room for improvement into the second half, and we believe valuation is attractive enough for maintaining our Accumulate rating and €47 target price.