

7 June 2018

Company update

Buy (maintained)

Price (06/06/18)

€32.86

Target price (12-mth)

€43.00 (previously €47.00)

Forecast total return

34.7%

Industrial Goods & Services

Belgium

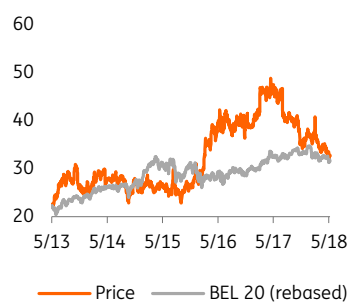
Bloomberg: BEKB BB

Reuters: BEKB.BR

Share data

Avg daily volume (3-mth)	121,220
Free float (%)	60.9
Market cap (€m)	1,983.0
Net debt (1F, €m)	1,103
Enterprise value (1F, €m)	3,012
Dividend yield (1F, %)	3.8

Source: Company data, ING estimates

Share price performance


Source: Bloomberg

Bekaert

Another solar headwind

We revise our 2018F and 2019F EBIT estimates downward by 7-6% and now see 2018F REBIT margin at 7% vs guidance of flat profitability vs 2017, ie, 7.3%. This is mainly driven by (1) lower expectations for Bekaert's new sawing wire offering, (2) ongoing weakness at BBRG and (3) caution given US policy measures. Earlier this week, China tapped the brakes on the solar PV industry by drastically cutting subsidies and quotas, which is expected to hit demand in the Chinese solar market by 30-40%. This is another headwind for Bekaert as it is currently ramping up its new offering in diamond-coated sawing wire. As a result, we cut our TP from €47 to €43, but maintain our BUY recommendation on valuation grounds and EPS momentum seen returning in 2019F and 2020F.

China taps brake on solar: As of 1 June, China has halted the allocation of quotas for new solar PV projects until further notice, and has lowered feed-in tariffs on electricity generated from clean energy by 7-9%. According to Bloomberg New Energy Finance, this could lead to a sharp decline in solar module prices in China, which last year accounted for half of the global solar PV market, and pressure on the solar supply chain.

Another short-term headwind: We believe this could result in another short-term headwind for Bekaert, which is currently ramping up its 3rd generation sawing wire product, a diamond-coated fixed abrasive. We understand the Chinese solar market in 2018 could fall back by 30-40% from 2017 levels. For Bekaert, this could result in pressure on prices and difficulties for its sawing wire product to gain traction. In its business plan, Bekaert already assumes a price decline for sawing wire of 50% over the next two years, reflecting the fast commoditization of the industry. We remind that sawing wire accounted for 4% of sales and 10% of REBIT in 2016, implying margins close to 20%. We lower our expectations for sawing wire and no longer expect meaningful uplift in 2H18, while seeing a REBIT uplift between €5-10m in 2019F.

BBRG turnaround is top priority: We have also lowered expectations for BBRG (Bridon Bekaert Ropes Group, 11% of 2017 sales, 4% of REBIT) driven by a worsening sales trend in 1Q18. We remind Bekaert is now in full control after buying out minority shareholder Ontario Teachers' 33% equity stake. Achieving a turnaround at BBRG is now a top priority at Bekaert with CEO Matthew Taylor dedicating 60-70% of his management time to the company. We expect actions to bear fruit as of 2H18.

Caution on US steel tariffs: Lastly, we have built in some caution following the implementation of US tariffs on European steel. Bekaert is not directly affected as it sources c.90% of product from Brazil, which is currently exempt. However, given low visibility on US trade policies, we have lowered 2018F and 2019F REBIT expectations for North America (13% of sales, 9% of REBIT) by c.€5m.

BUY maintained on valuation grounds and EPS momentum: We cut our TP from €47 to €43. We continue to value Bekaert by the average of a historical 7x 2018F EV/EBITDA multiple, yielding €39, and a DCF valuation, yielding €46 (WACC 8.5%, terminal growth 1%, LT EBIT margin 9%). We slightly raise WACC from 8% to 8.5%, reflecting increased risk given economic uncertainty and leverage. We maintain our BUY recommendation. At 6.2x 2018 EV/EBITDA we believe valuation is undemanding, while meaningful margin progress and easier comps as of 2H18, combined with strong EPS momentum in 2019F (+15%) and 2020F (+11%) should result in a re-rating towards historical multiples.

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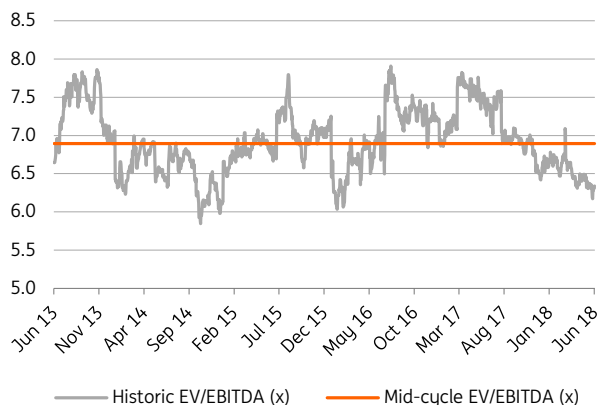
We have revised downward our underlying EBIT estimates for 2018F and 2019F by 7% and 6% respectively, to €288m and €320m driven by the abovementioned elements and some post 1Q18 housekeeping. We expect 2018F REBIT margin at 7%, versus Bekaert’s guidance of flat profitability compared to 2017, ie, 7.3%. We are 2-3% below Bloomberg consensus.

Fig 1 ING revised estimates (€m)

	Old	2018F New	% ch.	Old	2019F New	% ch.	Old	2020F New	% ch.
Consolidated sales	4,043	4,139	2.4	4,177	4,291	2.7	4,433	4,433	n/a
- EMEA	1,274	1,326	4.1	1,300	1,353	4.1	1,380	1,380	n/a
- North America	539	556	3.1	555	572	3.1	589	589	n/a
- Latin America	611	637	4.1	630	649	3.0	668	668	n/a
- Asia Pac	1,135	1,165	2.7	1,180	1,234	4.6	1,283	1,283	n/a
- BBRG	484	456	-5.8	513	483	-5.8	512	512	n/a
Underlying EBIT	310	288	-6.9	339	320	-5.6	348	348	n/a
- EMEA	156	154	-1.5	161	159	-1.3	165	165	n/a
- North America	43	37	-12.6	46	41	-11.5	44	44	n/a
- Latin America	45	44	-1.0	49	49	-1.6	53	53	n/a
- Asia Pac	102	98	-4.3	115	113	-1.5	124	124	n/a
- BBRG	29	10	-66.4	32	13	-59.1	17	17	n/a
- Other	-65	-55	-15.4	-65	-55	-15.4	-55	-55	n/a
Underl. EBIT margin (%)	7.7	7.0		8.1	7.5		7.9	7.9	
Adj. EPS (€)	3.01	2.74	-8.8	3.38	3.15	-7.0	3.50	3.50	n/a

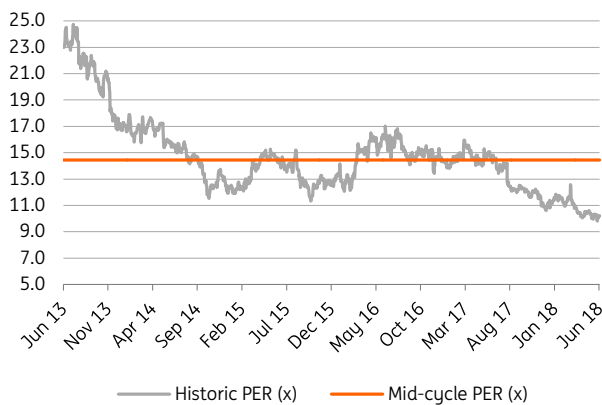
Source: ING estimates

Fig 2 Bekaert historical EV/EBITDA (x)



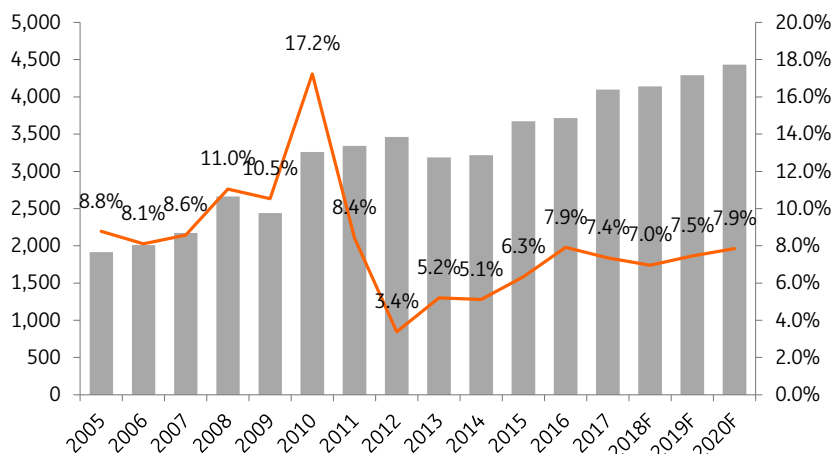
Source: Bloomberg consensus numbers

Fig 3 Bekaert historical PER (x)



Source: Bloomberg consensus numbers

Fig 4 Bekaert revenue (€m, lhs) and underlying EBIT margin (% , rhs)



Source: Company data, ING estimates

Valuation

We value Bekaert by the average of a historical 7x 2018F EV/EBITDA multiple, yielding €39, and a DCF valuation, yielding €46 (WACC 8.5%, terminal growth 1%, LT EBIT margin 9%). The average is our TP or €43.

Company profile

Bekaert is a global leader in steel wire transformation and coating technologies, and is the world's largest independent manufacturer of drawn steel wire products. The company operates in four main geographical segments, with EMEA contributing the most to REBIT in 2017 (40%), while Asia Pacific contributed 30%, Latin America 16%, North America 9% and BBRG 4%.

Risks

Key risks to the downside are: (1) price pressure in China tyre cord and/or export of price pressure to other regions and products; (2) weakening of the macro environment (mainly in automotive, construction and oil & gas) in Bekaert's key regions; and (3) a change in sales volumes and pricing in sawing wire due to a change in regulation or technology.

Key risks to the upside are: (1) higher-than-expected benefits from the transformation plans and portfolio improvement; and (2) improvement of the macro environment (mainly in automotive, construction and oil & gas).

Financials

Year end Dec (€m)	2015	2016	2017	2018F	2019F	2020F
Income statement						
Revenues	3,671	3,716	4,097	4,139	4,291	4,433
Normalised EBITDA	454	516	494	484	515	544
Normalised EBIT	232	294	298	288	320	348
Net interest	(96)	(111)	(93)	(94)	(92)	(92)
Associates	18	25	27	31	32	33
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	142	163	249	211	245	274
Tax	(36)	(62)	(69)	(61)	(72)	(82)
Minorities	(4)	(7)	2	(9)	(9)	(9)
Other post-tax items	0	0	0	0	0	0
Net profit	102	94	182	141	164	183
Normalised net profit	114	139	165	156	179	198
Balance sheet						
Tangible fixed assets	1,605	1,661	1,666	1,742	1,819	1,876
Intangible fixed assets	145	293	275	275	275	275
Other non-current assets	171	183	183	183	183	183
Cash & equivalents	412	371	469	532	576	617
Other current assets	1,548	1,797	1,851	1,787	1,822	1,897
Total assets	3,881	4,304	4,445	4,519	4,675	4,848
Short-term debt	495	298	454	454	454	454
Other current liabilities	793	904	959	914	937	958
Long-term debt	792	1,161	1,180	1,180	1,180	1,180
Other long-term liabilities	286	343	268	268	268	268
Total equity	1,516	1,598	1,583	1,701	1,835	1,987
Total liabilities & equity	3,881	4,304	4,445	4,519	4,675	4,848
Net working capital	958	1,016	1,078	1,058	1,071	1,124
Net debt (cash)	875	1,088	1,166	1,103	1,058	1,018
Cash flow						
Cash flow EBITDA	441	471	511	469	500	529
Tax, interest & other	322	378	261	319	328	336
Change in working capital	212	16	(110)	20	(13)	(53)
Net cash from op activities	527	343	187	334	323	301
Capex	(177)	(164)	(277)	(240)	(240)	(220)
Net acquisitions	(239)	41	(17)	0	0	0
Net financing cash flow	(155)	(178)	194	0	0	0
Dividends & minority distrib'n	(56)	(68)	(90)	(62)	(71)	(74)
Net ch in cash & equivalents	(57)	(36)	53	63	45	41
FCF	438	228	5	188	175	173
Performance & returns						
Revenue growth (%)	14.2	n/a	10.2	1.0	3.7	3.3
Normalised EPS growth (%)	46.8	n/a	17.3	-5.7	14.8	11.0
Normalised EBITDA mgn (%)	12.4	13.9	12.1	11.7	12.0	12.3
Normalised EBIT margin (%)	6.3	7.9	7.3	7.0	7.5	7.9
ROACE (%)	8.1	19.2	9.5	8.8	9.4	9.8
Reported ROE (%)	7.4	12.8	12.3	9.1	9.9	10.2
Working capital as % of sales	26.1	27.3	26.3	25.6	25.0	25.4
Net debt (cash)/EBITDA (x)	2.0	2.3	2.3	2.4	2.1	1.9
EBITDA net interest cvg (x)	4.6	4.3	5.5	5.0	5.4	5.8
Valuation						
EV/revenue (x)	0.81	0.83	0.76	0.73	0.69	0.66
EV/normalised EBITDA (x)	6.5	6.0	6.3	6.2	5.8	5.4
EV/normalised EBIT (x)	12.8	10.5	10.4	10.5	9.3	8.5
Normalised PER (x)	16.1	13.3	11.3	12.0	10.4	9.4
Price/book (x)	1.4	1.4	1.3	1.2	1.2	1.1
Dividend yield (%)	2.7	3.3	3.3	3.8	4.0	4.0
FCF yield (%)	14.8	7.4	0.17	6.2	5.9	5.9
Per share data						
Reported EPS (€)	1.83	1.67	3.20	2.48	2.88	3.23
Normalised EPS (€)	2.05	2.48	2.91	2.74	3.15	3.50
Dividend per share (€)	0.90	1.10	1.10	1.25	1.30	1.30
Equity FCFPS (€)	6.82	3.05	(0.91)	1.65	1.47	1.43
BV/share (€)	23.03	24.31	24.65	26.46	28.53	30.89

Source: Company data, ING estimates

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Buy	48%	72%
Hold	50%	54%
Sell	2%	100%
	100%	

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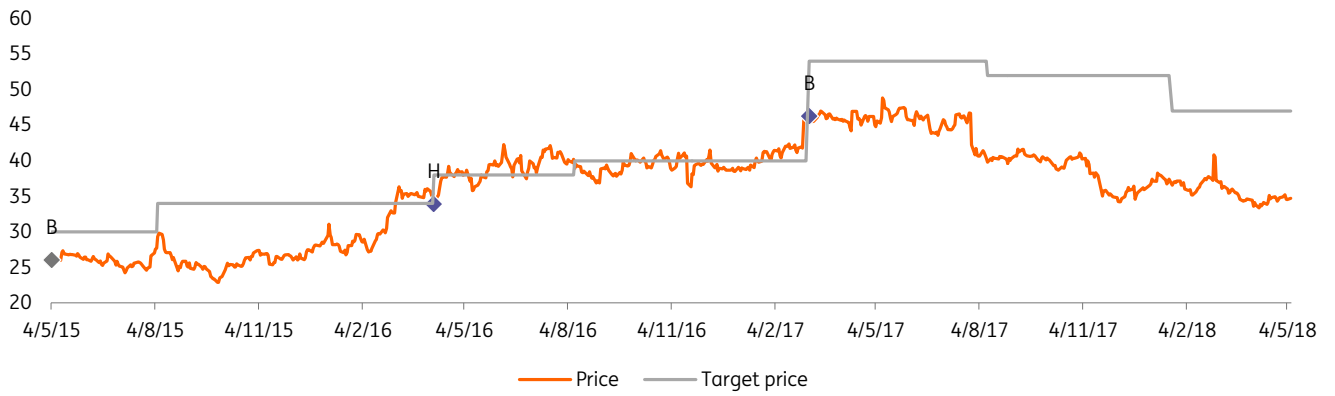
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Sell: Forecast 12-mth absolute total return less than -5%

Total return: forecast share price appreciation to target price plus forecast annual dividend. Price volatility and our preference for not changing recommendations too frequently means forecast returns may fall outside of the above ranges at times.

Price & ratings history to 05/07/18: Bekaert (BEKB.BR)



B = Buy; H = Hold; S = Sell; NR = Not Rated; R = Restricted; UR = Under Review

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Source: ING

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