Bekaert — Hold

Metal technology — *Target price : 26.00*

Price	Mark.cap.(m)	eps 18e	eps 19e	Ratios	12/18e	12/19e	Glob. fig. (m)	12/18e	12/19e
EUR 23.14	1,391	2.40	3.15	P/E	9.6	7.3	Sales	4,178	4,339
				Div. Yield	4.8%	4.9%	EBITA	245	296
RIC : BERTt.BR - Bloomberg : BEKB BB				EV/EBITDA	5.7	4.8	Adj.Profit	138	182

Analyst: Stefaan Genoe - E-mail: s.genoe@degroofpetercam.com - Phone: +32 2 662 8299

Bekaert: Higher REBIT expected in second half

Facts: REBIT EUR 111m as expected after profit warning

- Bekaert results offer no major surprises after the recent profit warning.
- Sales were higher than expected at EUR 2.2bn versus EUR 2.09bn in our model.
- With REBIT at EUR 111m, margin reaches only 5.0%.
- The main important item from this press release is the guidance for the FY. The company guides for a higher REBIT in the second half of the year, while with normal seasonality, the second half is lower. This is in-line with our expectations as we expect a REBIT of EUR 132m in H2.
- The other important item is the net debt level which is higher than expected at EUR 1.339bn, implying ND/EBITDA of 3.1x. Bekaert aims to get this back to around 2.5x at year end. We anticipate a level of 2.4x on December 31. Bekaert will reduce capex to EUR 200m, from EUR 270m last year. We had still anticipated EUR 250m, to decline to EUR 220m in the next years.
- Bekaert also highlights several action items to restore profitability such as execution of the measures already taken for Bekaert Bridon Ropes, implementation of measures such as the Italian plant closure and the recent measures for the drying activities.
- The ongoing expansion investments implied start-up costs in EMEA and Asia, which should fade as from the end of the year and new pricing tools are being implemented to improve pass-through of raw material prices.
- Regionally, the 9.8% REBIT margin in EMEA was a disappointment due to higher losses at the Figline rubber reinforcement entity and continued weak demand in the flexpipe business.
- The North American margin of 4.6% was also below expectations mainly due to higher wire rod raw material price increases.
- In Latam, REBIT margin of 6.6% was better than expected thanks to an improved product portfolio and the impact of the transformation program.
- Asia Pacific's low margin of 6.8% was broadly as expected, due to the disappearance of the sawing wire profits. In H2 2017, the REBIT margin was 7.9%. In H2 2018, margin should improve again.
- Finally, Bridon Bekaert Ropes Group was break-even at REBIT level in H1. New management has been installed.

Our View: A weak first half but Management highlights improvements ahead

We will slightly reduce our FY estimate, but not materially. We have a FY REBIT margin of 5.9%, increasing to 6.8% in 2019. Bekaert states that: “ We also remain confident about our underlying strategy and the impact of our transformation actions, which are strengthening the fundamentals of our organization. We believe that these will allow us to move towards sustainable margin improvement over the coming years. “

Crucial will indeed be the sustainability of higher margins going forward. In a positive economic cycle, Bekaert has not been able to show the expected profit growth, on the contrary. Structurally higher margins would imply higher margins throughout the business cycles going forward. Future guidance should also be given on through the cycle assumptions.

Investment Conclusion: Hold maintained –Target Price EUR 26.00

Adjusting our estimates to a 6.4% margin in 2019 and reducing our capex to EUR 200m in ’18-’19, the shares trade at an estimated PER of 10.1 for ’18 and 8.0x for ’19 and EV/EBIT of 11.0 and 9.1x respectively. Hold rating maintained. Valuation discounts a lot of bad news more feedback after analyst meeting. Visibility on the longer term, through the cycle margin potential is crucial.