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## BEKAERT

### 1H18 EBIT -37%, no precise FY guidance

GENERAL INDUSTRIES  
BELGIUM

CURRENT PRICE €23.14  
TARGET PRICE €32.00

**HOLD**  
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg	BEKB.BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€1,397.1m
Shares outst.	60.4m
Volume (daily)	€3,698,734
Free float	59.9%

Next corporate event

Trading update 3Q18: 15 November 2018

(€m)	2017	2018E	2019E
Sales	4,098.2	4,187.3	4,336.3
REBITDA	498.0	442.8	489.4
Net earnings	184.7	127.1	166.9
Adj. EPS (€)	2.60	2.02	2.51
P/E (x)	16.2	11.5	9.2
EV/REBITDA	7.8	6.2	5.6
FCF Yield	-1.3%	5.2%	8.0%
Dividend yield	2.6%	4.8%	4.8%

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Bekaert released 1H18 results. We remind that Bekaert issued a profit warning last week, with 1H underlying EBIT guided to be about 20% below the CSS as collected by the company (€142m), so about €114m (-35% y/y vs the 1H17 figure of €176m). The actual result published this morning showed a 37% decline y/y to €111m (KBCS revised forecast was €115m) and this corresponds to a meagre underlying EBIT margin of 5.1% (admittedly, against a tough comparable (1H17 : 8.4%). Bekaert already commented last week that the underlying volume demand in its automotive and industrial steel wire markets remained strong, which is confirmed with 3.9% volume growth and an organic top line growth of 9.3% (+5.4% price/mix), so the reasons for the severe profit decline is mainly margin pressure coming from a series of elements that were already mostly visible in the second half of last year but of which the impact on 1H18 was previously underestimated. These factors include a) 1) volatility of wire rod prices, 2) impact of changes to trade policies, 3) slow recovery at BBRG, 4) continued low demand for loose abrasive sawing wire, 5) low demand in oil & gas markets, 6) inflationary costs, 7) a difficult business climate in Latin America and the consolidation impact from the divestment of Sumaré (€-12m). FX weighed for about €-5m. Divisional overview : **EMEA** : revenue +6% (fully organic and mostly pricing) to €693m (KBCS €696m), underlying EBIT down from €81m to €68m (KBCS €62m) with margin down 250bps to 9.8%, a) due to hiring/training costs, losses in Figline and weak demand for the flexpipe business. **North America** : revenue +5% (organic +15%, split between volumes and pricing) to €300m (KBCS €288m), underlying EBIT down from €21m to €14m (KBCS €10m) with margin down about 260bps due to the inability to pass through wire rod price increases and other inflationary pressures. **Latin America** : revenue -3% (organic +14%) to €344m (KBCS €325m), underlying EBIT down from €28m to €23m (in line with our forecast) with margin down about 140bps. **APAC** : revenue +5% (organic +10%, driven by volumes) to €593m (KBCS €569m), underlying EBIT down from €61m to €40m (KBCS €42m) with margin down 390bps, due to start-up costs for expansions and a lower sawing wire business. **BBRG** : revenue -3% (organic +3%, with volumes) to €227m (KBCS €222m), underlying EBIT down from €11m to €2m (KBCS €4m).

**Net debt** increased from €1,151m at year end 2017 (2.3x net debt/underlying EBITDA) to €1,339m (or 3.1x net debt/underlying EBITDA). Capex was €95m and Bekaert guides for FY capex of €200m (KBCS €244m) with a targeted net debt/EBITDA ratio at year-end of 2.5x. BBRG obtained a temporary waiver. **Outlook** : Bekaert had already abandoned its FY guidance of a similar underlying EBIT as in 2017 last week. No precise new FY guidance was provided, but the company expects to increase the underlying EBIT over the course of 2H18. We had already cut our FY18 underlying EBIT forecasts by about 20% last week which corresponds to a 6.0% margin in 2H18. Bekaert is reviewing other restructuring options and BBRG write-offs are not excluded.

**Conclusion:** Weak 1H18 results with underlying EBIT margin falling back to 5.1%. There is limited visibility on how much margins may improve and at what time. Hence it remains difficult to find a share price trigger, and we stick to Hold rating. We will review our target price following today's analyst meeting.