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BEKAERT

Feedback analyst meeting

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE €23.20
TARGET PRICE €28.00

HOLD
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg BEKB.BB
Reuters BEKB.BR
www.bekaert.com

Market Cap €1,400.7m
Shares outst. 60.4m
Volume (daily) €3,683,666
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%	4.7%	4.7%

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We remind that Bekaert released its 1H18 results last Friday morning, with a 37% underlying EBIT decline to €111m. Bear in mind that the company had given a profit warning the week before, when it stated that 1H underlying EBIT would come in about 20% below the analyst consensus. Last Friday's analyst meeting revealed following elements :

US trade policies : The wire rod import quota from Brazil is being reached, meaning that Bekaert will be forced to source the wire rod it needs for automotive applications in the US from other regions (Japan, the UK and Spain were mentioned as potential other sources) as from 1 August onwards. Bekaert reckons that for those grades, its wire rod costs will increase by about 50%. The company has agreed to pass this through to its US customers, but the question remains whether these customers will not change their business strategies (eg produce more outside of the US).

BBRG : BBRG has in the recent past diversified too much in order to capture additional volumes, with a negative mix effect as a result. Also pricing discipline overall has been too low. Part of the solution at BBRG will be to focus on those products with the best margins. Management stated that a draft of the new business plan is ready and will be discussed now at BBRG board level. Mr Taylor hinted that profitability at BBRG will most likely not improve much in 2H18 while there is a risk of write offs (of obsolete stocks). It is yet unclear how BBRG will be refinanced (still maintaining the debt ringfencing or not ?) as discussions on this are ongoing

Sawing wire : Mr Taylor commented he expects the 3G sawing wire business to be profitable as from 4Q onwards. Taking into account that the loose abrasive sawing wire business is currently loss making, management expects a delta in profitability (on an underlying EBIT level) next year of about €20m.

Raw materials : besides the US (see comments above), raw materials prices are fairly stable with a slight underlying upward trend. Management considers that it is probably most difficult to pass the higher raw materials prices through in China, where price elasticity of demand is highest.

Debt guidance : Bekaert aims to lower the net debt/EBITDA ratio from 3.1x at mid year to 2.5x at year-end 2018. As EBITDA will in our opinion be only modestly higher than in 1H18, the biggest delta in the leverage reduction should come from lowering working capital. We calculate that at least €100m of working capital reduction will be needed in order to achieve the leverage guidance. Management commented that there is a typical reduction in working capital is higher than what was achieved in 2H17 but below the levels achieved in 2H15 and 2H16).

Conclusion: No major surprises from the conference call. We bank on a FY underlying EBIT decline of about 20%, with a modest improvement sequentially for 2H. We see no share catalysts and maintain our Hold rating, while we decided to slightly further lower our target price (from €32 to €28).