

BEKAERT

Read-through from Michelin trading update

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 19.65
TARGET PRICE € 24.00

HOLD
RATING UNCHANGED

News:

Michelin released its 3Q trading update yesterday after market, offering an update on global tire markets..

Michelin commented that the global passenger car & light truck market grew by less than 1% in the first nine months of the year, with a slight decline in 3Q. Original equipment tires declined by about 1% in 3Q (Europe incl Russia and CIS -4%, North America +4%, Central America flat, Asia excl India -4%, South America +9%, Africa/India/Middle East +7%). Replacement tires were approximately flat in 3Q (Europe incl Russia and CIS +1%, North America +5%, Central America +7%, Asia excl India -3%, South America +13%, Africa/India/Middle East almost flat).

In truck tires, global demand was down 4% in 3Q, after a 2% gain in the first half of the year. Original equipment tires declined by about 11% in 3Q (Europe incl Russia and CIS +5%, North America 17%, Central America +5%, Asia excl India -24%, South America +50%, Africa/India/Middle East +3%). Replacement tires were down 2% in 3Q (Europe incl Russia and CIS +1%, North America +6%, Central America +3%, Asia excl India -6%, South America approximately flat, Africa/India/Middle East -2%).

Michelin reported overall volume growth of 2.9%, with no further market share gain in the 18-inch and larger passenger car tire segment, and a 3% rebound in truck sales. Michelin warned that, after the significant decline in the Passenger car & light truck and truck tire markets late in 3Q, it is expecting further weakness in 4Q, notably in China. Michelin still expects a slight increase in its volumes in FY18.

For 2019, Michelin is expecting a 1.5% growth in the Passenger car & light truck tire market, with a 10% gain in the 18-inch and larger segment and a slight upturn in the Chinese market. Furthermore, the group is expecting a stable truck tire market.

Read through for Bekaert & conclusion :

Momentum in global tire markets has clearly weakened in the third quarter, especially in truck tires (particularly in China). We remind that Bekaert will report its 3Q trading update on 15 November. We are forecasting a 3.3% revenue growth with consensus at +4.2%. For the second half of the year, and on the back of relatively easy comparables, we bank on a 3% underlying EBIT growth (CSS -1%). We see no reason to change our rather cautious Hold stance on Bekaert at this stage, and slightly lower our target price to € 24 (from € 28).



Source: Thomson Reuters Datastream

| | |
|--|-------------|
| Bloomberg | BEKB BB |
| Reuters | BEKB.BR |
| www.bekaert.com | |
| Market Cap | € 1,186.3m |
| Shares outst. | 60.4m |
| Volume (daily) | € 3,168,317 |
| Free float | 59.9% |

Next corporate event

Trading update 3Q18: 15 November 2018

| € m | 2017 | 2018E | 2019E |
|----------------|---------|---------|---------|
| Sales | 4,098.2 | 4,221.9 | 4,372.4 |
| REBITDA | 498.0 | 447.6 | 490.4 |
| Net earnings | 184.7 | 139.9 | 177.0 |
| Adj. EPS (€) | 2.60 | 2.21 | 2.66 |
| P/E (x) | 16.2 | 8.9 | 7.4 |
| EV/REBITDA | 7.8 | 5.6 | 5.0 |
| FCF yield | -1.3% | 9.3% | 10.5% |
| Dividend yield | 2.6% | 5.6% | 5.6% |

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