

# Morning Note

14 11 2018



## Bekaert : read-through from October tire market update from Michelin

Michelin issued an update on the evolution of the global tire market in October. In Passenger cars & light trucks, Original equipment tires were down 1% in Europe (including Russia & CIS) and down -12% in China, while being up 7% in North America and up +12% in South America. In Replacement tires, Europe was up 4% and North America +8%, with China down 6% and South America down 13%.

In truck & bus tires, there was an increase in Original equipment tires in both Europe and the Americas (Europe +6%, North America +35%, South America +31%), benefiting in Europe and North America from one additional day of sales. Replacement tires increased in both Europe (+6%) and North America (+13%), while being down 3% in South America. No data were available on China.

We remind that Michelin already previously issued a cautious message on the fourth quarter at the time of the 3Q trading update release, particularly with regards to China. We remind that Bekaert will release its 3Q trading update tomorrow before market. A preview was published in our morning note of yesterday (added also below) and our overall view is confirmed after Michelin's October market update. Hence Hold rating is reconfirmed.

### **preview Bekaert (Morning note 13/11/2018)**

Bekaert will publish its 3Q trading update on 15 November before market. We remind that the company posted a 3% increase in consolidated revenue in the first half of the year, with a 37% drop in underlying EBIT. At the time of the 1H results release, Bekaert guided for an increase in underlying EBIT in the second half of the year, supported as by restructuring actions at underperforming entities, progressive pricing through the increased raw materials costs and the launch of the fixed abrasive sawing wire offering.

For 3Q, we forecast 3.3% growth in consolidated revenue to € 1,009m (CSS +4.2% to € 1018m), broken down as follows :

EMEA : revenue +6.5% to € 323m (CSS +3.3% to € 313m)

North America : revenue -3.0% to € 130m (CSS +3.0% to € 138m)

Latin America : revenue flat at € 151m (CSS +9% to 165m)

Asia Pacific : revenue +4% to € 292m (CSS +2.1% to € 287m)

BBRG : revenue +4.5% to € 113m (CSS € 114m).

For the full year, we bank on a 3.0% revenue growth (to € 4,222m, CSS €4,235m) and an underlying EBIT of € 240m (CSS € 235m), implying a 2H18 figure of € 129m (CSS € 124m, 1H18 : € 111m, 2H17 : €125m).

### **Our View:**

After the fierce pressure on the share price in the past months, Bekaert seems to be attractively valued on earnings multiples (P/E18e of 8.7x and EV/REBITDA of 5.5x). However, comfort in the earnings guidance is pretty low, given as the uncertainty on the impact of US trade policies (which has led to a significant increase in wire rod costs for the automotive grades in the North American business as from August) and a softening momentum in the global tire market. With this respect, we make reference to Michelin's recent trading update in which it mentioned a slight decline of the global passenger car & light truck market and a 4% decline in the truck tire market in 3Q18. Michelin also warned it expects further weakness in the fourth quarter, notably in China. All in all, the high degree of uncertainty prompt us to reiterate our Hold rating for now.