

## BEKAERT

3Q sales +10%, 2H guidance reiterated, CFO leaves

GENERAL INDUSTRIES  
BELGIUM

CURRENT PRICE € 20.52  
TARGET PRICE € 24.00

**HOLD**  
RATING UNCHANGED

Bekaert's 3Q18 consolidated revenue grew by 10% to € 1,070m, which was better than our and CSS forecasts of respectively € 1,009m (+3.3% y/y) and € 1018m (+4.2% y/y). Consolidated revenue can be broken down as follows :

**EMEA** : revenue +4% to € 317m (KBCS +6.5% to € 323m, CSS +3.3% to € 313m). Bekaert commented that the organic growth witnessed so far this year (+6%) fully stemmed from passing through increased raw materials costs and price/mix effects. Demand for industrial steel wire products and stainless technologies has softened in the course of 3Q. Besides the usual seasonality, Bekaert currently expects continued good demand from automotive and construction markets in 4Q, with no improvement in the oil and gas markets and a potential impact from trade tensions (particularly in industrial steel wire markets). Start-up issues of the recent plant expansions are progressively being solved. **North America** : revenue +19% to € 160m (KBCS -3.0% to € 130m, CSS +3.0% to € 138m), which we assume is to mainly related to the passing through of increased raw materials costs. Demand from automotive and energy markets has remained solid in 3Q, while the US agricultural fencing markets have slowed. Bekaert foresees good underlying demand in 4Q. **Latin America** : revenue +16% to € 175m (KBCS flat at € 151m, CSS +9% to 165m). Market conditions are difficult, albeit generally improving somewhat. Based on the solid market positions and efficiency improvement initiatives, Bekaert expects the division to deliver a good underlying performance. **APAC** : revenue +8% to € 304m (KBCS +4% to € 292m, CSS +2.1% to € 287m). volume growth softened to +4% in 3Q (vs +8% over 9M18). Growth of the rubber reinforcement activities was robust while agricultural markets were hit by the drought in Australia and volumes of sawing wire were very low (no surprise given the progressive ramp-up of the fixed abrasive sawing wire business as from September and a slowdown in new photovoltaic installations following a reduction of feed-in tariffs in China). The high run rate of the tire markets is expected to continue in 4Q, with some seasonal impact from Chinese holidays. **BBRG** : revenue +6% to 115m (KBCS +4.5% to € 113m, CSS € 114m), or +8% organically (vol. +4% and price/mix +4%). Restructurings are ongoing.

**Outlook** : Bekaert expects continued good demand from automotive & construction markets in 4Q, and reiterates guidance calling for a sequential improvement in underlying EBIT. Prior to this results release, we were banking on a 2H underlying EBIT figure of € 129m (CSS € 124m, 1H18 : € 111m, 2H17 : € 125m). Bekaert expects to significantly reduce net debt by year-end (note net debt dropped € 36m sequentially in 3Q) but the press release did no longer include a clear leverage target (previously 2.5x was mentioned).

**Departure of CFO**, Ms Garcia-Cos Muntanola. She will be replaced on an ad interim basis by Frank Vromant, currently EVP Bekaert Americas.

**Conclusion** : 3Q revenue was better than expected and Bekaert reiterated its 2H EBIT guidance, although it no longer included the 2.5x net debt/EBITDA guidance in its press release. After the fierce share price pressure in the past months, Bekaert seems to be fairly attractively valued on earnings multiples (P/E18e of 9.3x and EV/REBITDA18 of 5.7x). However, the uncertainty on the future impact of US trade policies and cautious messages from Michelin on global tire markets prompt us to remain cautious. Hold maintained.



Source: Thomson Reuters Datastream

Bloomberg	BEKB BB
Reuters	BEKB.BR
<a href="http://www.bekaert.com">www.bekaert.com</a>	
Market Cap	€ 1,238.9m
Shares outst.	60.4m
Volume (daily)	€ 3,293,733
Free float	59.9%

Next corporate event  
Results FY18: 1 March 2019

€ 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	9.3	7.7
EV/REBITDA	7.8	5.7	5.1
FCF yield	-1.3%	8.9%	10.1%
Dividend yield	2.6%	5.4%	5.4%

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