

BEKAERT

Preview FY18 – most attention going to the outlook

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 24.36
TARGET PRICE € 23.00

HOLD
RATING UNCHANGED

Bekaert will publish its FY18 results on 1 March before market. We remind that Bekaert announced in December that a series of non-cash adjustments at BBRG (for about € 15m), including pension plan adjustment and stock write-offs, would cause underlying EBIT to fall below the previous guidance of a higher sequential underlying EBIT figure in 2H18 (vs the 1H18 figure of € 111m). Bekaert also commented at the time that, excluding above mentioned adjustments, it would still achieve its guidance.

We forecast Bekaert to grow FY18 revenue by 5.6% to € 4,327m (CSS +4.9% to € 4,300m), implying a 2H and 4Q growth of respectively +8.3% and 7.1% (supported by price/mix effects, i.e. the passing through of increased raw materials costs). We forecast FY underlying EBIT to decline by 29.6% to € 212m (in line with CSS), implying a 2H18 figure of € 101m (margin of 4.6% vs our FY forecast of 4.9%). We expect FY net profit to land at € 48.9m, taking into account the company guidance of around € 70m negative incidentals (of which around € 60m in 2H18), coming from a series of restructurings and plant closures (a.o. plant closings in Figline Valdarno and Costa Rica, restructuring measures in Bekaert Bradford, UK).

Divisional overview:

EMEA: FY revenue +5.2% to € 1,340m (CSS € 1,338m), implying a 2H18 and 4Q18 growth of respectively 4.1% and 4.0%. We forecast FY underlying EBIT to decline by 8% to € 129m (CSS € 128m), with a 2% increase in 2H18 to € 61m (implying a 2H18 margin of 9.5% vs 9.7% in 2H17).

North America: FY revenue +10.7% to € 611m (CSS +9.1% to € 602m), implying a 2H18 and 4Q18 growth of respectively 17.3% and 16.0% (mainly on price/mix, i.e. passing of import duties into selling prices). We forecast FY underlying EBIT to decline by 39% to € 20m (CSS € 24m), with a 52% drop in 2H18 to € 6m (implying a 2H18 margin of 2.0% vs 4.9% in 2H17).

Latin America: FY revenue +4.4% to € 703m (CSS +1.8% to € 685m), implying a 2H18 and 4Q18 growth of respectively 12.8% and 10.0%. We forecast FY underlying EBIT to decline by 14% to € 47m (CSS € 48m), with a 6% drop in 2H18 to € 24m (implying a 2H18 margin of 6.8% vs 8.2% in 2H17).

APAC: FY revenue +5.8% to € 1,211m (CSS +5.6% to € 1,209m), implying a 2H18 and 4Q18 growth of respectively 6.5% and 5.0%. We forecast FY underlying EBIT to decline by 19% to € 86m (CSS € 84m), with a 1% growth in 2H18 to € 46m (implying a 2H18 margin of 7.5% vs 7.9% in 2H17).

BBRG: FY revenue +1.6% of € 462m (CSS +2.2% to € 465m), implying a 2H18 and 4Q18 revenue growth of respectively 7.0% and 7.5%. We forecast FY underlying EBIT to drop from € 15m in 2017 to € -9m in 2018, taking into account above mentioned € -15m non-cash adjustments. As a result of these, we expect 2H18 underlying EBIT to land at € -11m.

Interesting will also be the **outlook**. Note that we bank on a 100bps increase in the underlying EBIT margin in 2019 (from 4.9% to 5.9%), with our € 262m forecast just a few percentage points below CSS.

Conclusion: Given that Bekaert finetuned guidance as recently as December, we would not expect the FY18 results to bring much of a surprise. The big question seems how much margins can be improved in 2019 and the coming years, on restructuring activities (across Bekaert, including at BBRG), better pricing discipline, growth of the 3G solar wire business, etc. Visibility is relatively limited, and we stick to our Hold rating for now.



Source: Thomson Reuters Datastream

Bloomberg	BEKB.BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 1,470.7m
Shares outst.	60.4m
Volume (daily)	€ 3,418,276
Free float	59.9%

Next corporate event
Results FY18: 1 March 2019

€ m	2018E	2019E	2020E
Sales	4,326.5	4,467.1	4,626.6
REBITDA	422.3	480.1	525.5
Net earnings	66.9	167.6	197.9
Adj. EPS (€)	1.75	2.52	2.98
P/E (x)	14.0	9.7	8.2
EV/REBITDA	6.8	5.9	5.3
FCF yield	1.5%	8.7%	9.3%
Dividend yield	4.5%	4.5%	4.7%

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