

BEKAERT

FY18 in line, cautious outlook

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 23.36
TARGET PRICE € 23.00

HOLD
RATING UNCHANGED

Bekaert's FY results were broadly in line with our and CSS forecasts and the company guidance that was adjusted in December, while the outlook seems pretty cautious and the company now predicts a medium term underlying EBIT margin of above 7% (vs 10% in the past). Some organizational changes were also announced, as with a new divisional structure.

Bekaert posted a FY18 underlying EBIT of € 210m (-30% y/y with a margin declining from 7.3% to 4.9%) vs our and CSS forecasts of € 212m. Bekaert posted a 2H18 underlying EBIT of € 99m (KBCS & CSS € 101m), representing a margin of 4.6% (vs 6.2% in 2H17). The 2H margin was impacted by a series of non-cash adjustments at BBRG (for about € 15m), including pension plan adjustment and stock write-offs, as announced in December. FY Reported EBIT dropped from € 318m to € 147m (KBCS & CSS € 142m) with significant impact from one-offs (related to restructurings). FY18 revenue grew by 5.5% to € 4,305m (KBCS € 4,327m, CSS € 4,300m), with volumes +2.2%, pricing and mix +6.6%. 2H revenue grew by 7.2%. Divisional overview :

EMEA : FY revenue +5% to € 1,335m (KBCS € 1,340m, CSS € 1,338m), implying a 2H18 and 4Q18 growth of 3%. FY underlying EBIT declined by 19% to € 114m (KBCS € 129m, CSS € 128m), with a 23% decrease in 2H18 to € 46 (implying a 2H18 margin of 7.1% vs 9.7% in 2H17). **North America** : FY revenue +12% (organic +16%) to € 618m (KBCS € 611m, CSS € 602m), with volumes +5.7% and pricing & mix +10.6%. Revenue in 2H18 and 4Q18 grew respectively 20% and 21%. FY underlying EBIT declined by 24% to € 25m (KBCS € 20m, CSS € 24m), with a 15% drop in 2H18. **Latin America** : FY revenue +3% (+13% organically, fully due to pricing) to € 692m (KBCS € 703m, CSS € 685m), implying a 2H18 and 4Q18 growth of respectively 10% and 4%. FY underlying EBIT declined by 22% to € 43m (KBCS € 47m, CSS € 48m), with a 23% drop in 2H18 to € 20m. **APAC**: FY revenue +5% (+8% organically) to € 1,197m (KBCS € 1,211m, CSS € 1,209m), implying a 2H18 and 4Q18 growth of respectively 4.3% and 1%. FY underlying EBIT decline by 20% to € 86m (KBCS € 86m, CSS € 84m), with a fairly flat 2H18 (margin at 7.7%).

BBRG : FY revenue +2% to € 463m (KBCS € 462m, CSS € 465m), implying a 2H18 and 4Q18 revenue growth of respectively 7% and 8%. FY underlying EBIT dropped from € 15m in 2017 to € -7m (KBCS € -9m, CSS € -8m) in 2018.

Net debt declined from € 1,339m at the end of June to € 1,153m (KBCS € 1.22bn, CSS € 1.19bn), corresponding to a net debt/REBITDA of 2.7x (supported by € 73m factoring). The dividend is lowered from € 1.1 to € 0.7.

Outlook : Bekaert commented that the business conditions have begun to trend somewhat lower as a result of tighter markets and postponed investments. Bekaert expects that the economic and political uncertainty will induce some growth moderation. Bekaert sees severe price erosion in sawing wire and does not expect a significant profit contribution in 2019. Capex will be restricted at € 130-150m (almost € 200m in 2018). Bekaert anticipates stable sales and does not give a precise earnings guidance. The company expects to rebuild the underlying EBIT margin to above 7% over the medium term.

Conclusion: 2H results are no surprise and in line with the December profit warning. The outlook is really uninspiring given cautious comments, no precise guidance on 2019 and a medium term target that is down from 10% and would be a gradual return to the 2017 margin level. Hold and € 23 TP maintained.



Source: Thomson Reuters Datastream

Bloomberg	BEKB.BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 1,410.3m
Shares outst.	60.4m
Volume (daily)	€ 3,213,847
Free float	59.9%

Next corporate event
General Assembly 18: 8 May 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)	13.4	9.3	7.8
EV/REBITDA	6.6	5.8	5.2
FCF yield	1.6%	9.1%	9.7%
Dividend yield	4.7%	4.7%	4.9%

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