

BEKAERT

Feedback analyst meeting

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 22.46
TARGET PRICE € 23.00

HOLD
RATING UNCHANGED

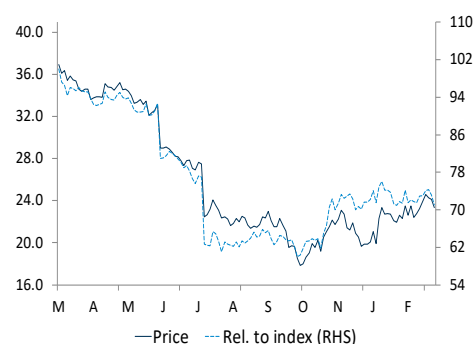
Balance sheet : net debt was lowered from € 1,339m at the end of June to € 1,153m at the end of the year, which represents a net debt/REBITDA multiple of 2.7x vs 3.1x at mid-year. However, Bekaert started to use off-balance sheet factoring, for about € 73m at year end. Pro-forma adding that factoring amount back to the net debt would bring the underlying net debt/REBITDA multiple to approximately 2.9x. Bekaert's ambition is to lower the net debt/REBITDA multiple asap to 2-2.5x and ultimately to around 2x.

Sawing wire : We understood that a dominant player has emerged in the third generation diamond sawing wire, ie Metron, a Chinese group that initially was an equipment vendor that also diversified into sawing wire. Metron currently probably holds over 50% market share in the current generation sawing wire market, and has been very aggressive on pricing in the past few quarters (price declines of about 75% in the past year were mentioned by Bekaert management). Bekaert still believes it has a very good technical solution and clients want multiple sourcing options (over and above Metron), but the difference in scale with Metron makes it hard to compete. We understood that the sawing wire business was loss making in 2H18 while the company currently expects a small profit in 2019. Bekaert has written off its assets and we believe it will pull the plug if it would not achieve the expected profitability.

Raw materials prices & availability : wire rod prices have declined a bit at the end of last year, which management attributes to the declining steel demand (slowdown in global automotive markets). There has been some pick-up a few weeks ago, due to the possible iron ore supply disruption as a consequence of the Vale problems in Brazil. Overall, Bekaert management raw materials prices should, in light of end demand, be flat to slightly down. In the United States, Bekaert is currently importing wire rod from Brazil (under the quota system) while it has also received a series of import tariff exemptions to import certain wire rod grades from the UK, Germany, Spain and South Korea.

BBRG : Bekaert is currently reducing the number of SKUs and tries to act as a pricing leader in the segments in which it has strong positions. Bekaert's CEO commented that their pricing lead in those segments starts to be followed by other players, which is positive. They also try to build in more wire rod pricing clauses in their contracts which should lower their raw materials dependency.

Conclusion : No major surprises from the analyst meeting. We will finetune our forecasts but the relatively easy comparables (as 2018 results were impacted by one-off costs at BBRG, start-up costs for capacity expansions and losses for the sawing wire business, in total probably for about € 40m) mean that we expect 2019 profit margins should improve somewhat (we currently bank on about 100bps improvement in the underlying EBIT margin to 5.9% for 2019, with Bekaert achieving the targeted 7% margin by 2022). The limited visibility prompts us to remain cautious on the underlying investment case, and we stick to our Hold rating and € 23 TP for now.



Source: Thomson Reuters Datastream

Bloomberg	BEKB BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 1,356.0m
Shares outst.	60.4m
Volume (daily)	€ 3,072,071
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)	12.9	8.9	7.5
EV/REBITDA	6.5	5.6	5.1
FCF yield	1.6%	9.4%	10.1%
Dividend yield	4.9%	4.9%	5.1%

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