

## BEKAERT

### Read-through from Xingda's results

GENERAL INDUSTRIES  
BELGIUM

CURRENT PRICE € 20.86  
TARGET PRICE € 23.00

**HOLD**  
RATING UNCHANGED

#### News:

Bekaert's biggest Chinese competitor Xingda released its FY18 results. Xingda grew its revenues by 9.7% to RMB 7,558m, with gross profit up 3.5% to RMB 1,322m (resulting in a 1.1 percentage point margin decline to 17.5%). The figures compare to Bekaert's 8.9% organic sales growth in 2018, with underlying gross margin down from 17.2% to 13.6%.

Xingda's sales volume for radial tire cord for trucks increased 5.7% to 440,100 tons. Sales of radial tire cord for passenger cars dropped in the domestic Chinese market and were down by 4.4% to 226,500 tons. We computed this means an overall volume decline of 2% (which compares to Bekaert reporting 2.2% overall volume growth, across all product categories).

Overall, Xingda's sales volumes for radial tire cords in China dropped by 2.6% to 498,100 tons in 2018, while outside China sales volume grew by 18.8% to 168,500 tons.

At the end of last year, Xingda's total production capacity of radial tire cords was 728,000 tons, with capacity of the Jiangsu plant 625,000 tons and the Shandong plant 103,000 tons. This means Xingda achieved a capacity utilization rate of about 90%. The group is constructing a tire cord factory in Thailand which will have 50,000 tons capacity in a first phase.

In the press release, Xingda's chairman commented he expects further industry consolidation. Xingda claims to have abundant capital and aims to strengthen its position. The road transportation industry is expected to benefit from the flourishing e-commerce and logistics industries in China. Xingda commented to accelerate its globalization strategy of building factories overseas.

#### Our View:

Xingda's volumes were slightly under pressure in 2018, while Bekaert benefited from capacity expansions. On the negative side, Xingda was able to sustain profit margins much better than Bekaert (gross margin down 1.1 percentage points vs 3.6 percentage points for Bekaert). Xingda is also targeting international expansion and is increasingly becoming a competitor for Bekaert outside its core Chinese market. We remind that Bekaert is currently trying to improve its cost competitiveness, and has announced yesterday a large restructuring plan for its Belgian operations, which is expected to lead to 281 job cuts. Bekaert guided at its FY18 results release to anticipate stable sales this year, while it did not give a precise earnings guidance. The company commented furthermore to expect to rebuild the underlying EBIT margin to above 7% over the medium term (from 4.9% in 2018). 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.



Source: Thomson Reuters Datastream

Bloomberg	BEKB.BB
Reuters	BEKB.BR
<a href="http://www.bekaert.com">www.bekaert.com</a>	
Market Cap	€ 1,259.4m
Shares outst.	60.4m
Volume (daily)	€ 2,779,391
Free float	59.9%

Next corporate event

General Assembly 18: 8 May 2019

€ m	2018	2019E	2020E
Sales	4,305.3	4,439.7	4,597.8
REBITDA	426.0	479.8	530.4
Net earnings	39.8	149.5	183.2
Adj. EPS (€)	1.27	2.25	2.76
P/E (x)	22.3	9.3	7.6
EV/REBITDA	7.2	5.3	4.6
FCF yield	-0.1%	13.9%	11.7%
Dividend yield	2.5%	3.8%	4.3%

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