

BEKAERT

Read-through Michelin 1Q trading update

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 24.46
TARGET PRICE € 23.00

HOLD
RATING UNCHANGED

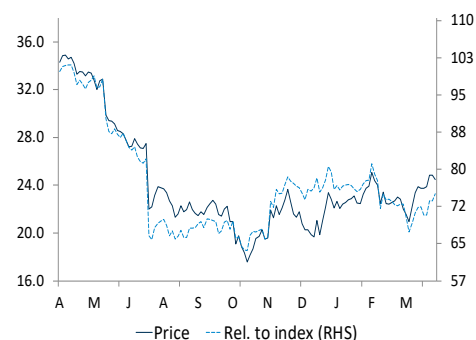
News:

Michelin released its 1Q19 trading update, offering some interesting insights in the global tire markets.

The global passenger car & light truck tire market contracted by 2% in 1Q19, with a 8% drop in OEM demand and a 1% growth in Replacement demand. OEM demand was down 5% in Europe and North America, down 6% in South America, down 9% in Asia (excl India) and down 12% in Africa, India & Middle East. Replacement demand was down 2% in Europe, up 5% in North America, up 1% in Central America, down 5% in South America and up 1% in Asia and Africa & Middle East. Michelin continues to expect the global passenger car & light truck tire market to be mixed in 2019, with modest growth in the Replacement segment and a contraction in the OEM segment.

The global truck tire market was stable in 1Q, with OEM demand up 4% and Replacement demand down 2%. OEM demand was down 1% in Europe, up 12% in North America, down 32% in Central America, up 27% in South America, flat in Asia and up 9% in Africa/Middle East. Replacement demand was down 5% in Europe, down 7% in North America, flat in South America, Asia and Africa/Middle East. Truck tire markets are expected to contract slightly in 2019 (previous guidance comments given at the time of the FY results release banked on a 'stable' market).

Read-through for Bekaert : Unsurprisingly, Michelin's comments reflect a soft tire demand in 1Q, with little optimism on a quick rebound. Bekaert also commented at the time of its FY18 results release that business conditions in various sectors had begun to trend somewhat lower (automotive is Bekaert's largest end market, representing almost half of group total). 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
www.bekaert.com	
Market Cap	€ 1,476.7m
Shares outst.	60.4m
Volume (daily)	€ 3,244,479
Free float	59.9%

Next corporate event
General Assembly 18: 8 May 2019

€ m	2018	2019E	2020E
Sales	4,305.3	4,440.0	4,598.1
REBITDA	426.0	480.8	530.4
Net earnings	39.8	136.0	183.3
Adj. EPS (€)	1.27	2.26	2.76
P/E (x)	22.3	10.8	8.9
EV/REBITDA	7.2	5.7	5.0
FCF yield	-0.1%	12.3%	10.5%
Dividend yield	2.5%	3.3%	3.7%

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