Bekaert									Hold
Metal technology									*Target price : 24.00*
Price	Mark.cap.(m)	eps 19e	eps 20e	Ratios	12/19e	12/20e	Glob. fig. (m)	12/19e	12/20e
EUR 22.48	1,351	2.27	3.23	P/E	9.9	6.9	Sales	4,339	4,505
				Div. Yield	3.3%	3.8%	EBITA	238	305
RIC : BERTt.BR - Bloomberg : BEKB BB				EV/EBITDA	5.5	4.3	Adj.Profit	131	186

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Bekaert: Sales +4%, outlook unchanged

Facts: Q1 sales EUR 1,094m versus EUR 1,057m expected

- Bekaert released first quarter sales of EUR 1,094m (+4%) slightly ahead of our estimates of EUR 1,057m.
- Organic growth amounted to EUR 2.2%, based on, +2.7% price-mix effect and -0.5% volume impact.
- Year-on-year volumes continue to slow down sequentially and the company states (repeating March 1 message) that business conditions in various sectors are trending somewhat lower as a result of tighter markets and postponed investments. However, we had expected a slightly more pronounced volume drop in Q1.
- The tire reinforcement and construction markets remained strong with volume growth, but this was offset by weaker industrial steel wire markets and the decline in sawing wire business, which has become immaterial.
- Combined sales increased by 3.4%,with +3% organic growth.
- The company states that the outlook remains similar to the one outlined on March 1, 2019, with growth moderation expected in most parts of the world.
- In the outlook, the company states that it expects stable sales volumes in 2019 and it is targeting the 7% underlying EBIT margin in the medium term. The company slightly changed its phrasing from stable sales to stable sales volumes. This looks more logical to us since currencies and raw material price fluctuations are external non-manageable factors. We already anticipated stable volumes for this year.
- Net debt increased from EUR 1,153m end December to EUR 1,346 end of March on the back of increasing working capital and a EUR 82m impact from IFRS 16 on leases. Bekaert is taking actions to reduce debt level. Capex halved to EUR 21m in the first quarter.
- On a segmental basis, the Rubber Reinforcement business (46% sales) recorded 9.3% sales growth, with +5.2% volume growth. Sales in China increased 13% thanks to market share gains and positive mix on higher margin ultra- and super tensile products. EMEA, Brazil and NA also did well, with the latter benefiting from spill-over from last year.
- The Steel Wire Solutions (34% sales) are suffering, with stable sales but volumes down 6.7% as the business faces the impact of the economic uncertainty.
- Specialty Businesses sales (9% sales) declined 4% due to a 7.5% decline in fiber sales, a 5.5% decline in heating sales and the almost disappearance of sawing wire sales. Building products grew by 12%.
- BBRG sales (11% sales) increased by 6% thanks to price-mix and forex but witnessed lower volumes.

Our View: Rubber Reinforcement doing really well, Steel Wire really bad

Bekaert's rubber reinforcement business is doing really well with 5.2% volume growth and the company gaining market share with higher value added products in China.

It's clear, however, that the additional restructuring measures in Steel Wire and Specialty are necessary.

Despite the 50% capex reduction to EUR 21m in the quarter, net debt increased more than expected on the back of increased working capital requirements and this despite slightly declining volumes.

Investment Conclusion: Hold maintained / Target Price EUR 24.00

We will not alter our estimates based on this release. Net debt was higher than expected and is a point of attention. We keep our Hold rating. Valuation is undemanding at 10.4x EV/EBIT 2019 and 7.4x 2020 and also double digit FCF yields. It remains to be seen to what extent Rubber Reinforcement can continue to pull group volumes in the remainder of the year. For now, we stick to the Hold until we get more evidence of improved earnings momentum.