

BEKAERT

1Q sales +4%, FY guidance broadly similar

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 22.48
TARGET PRICE € 23.00

HOLD
RATING UNCHANGED

Bekaert reported 1Q consolidated sales growth of about 4% to € 1094m, which compares to our € 1091m forecast (+3.7% y/y) and the € 1059m consensus (+0.7% y/y). Organic growth was about 2.2% (price/mix and passed on wire rod pricing +2.7%, volumes -0.5%), while FX contributed +2.1% and scope effects accounted for -0.4%.

Rubber Reinforcement : consolidated sales +9.3% to € 502m (46% of total), with organic growth of 7.2% (volume +5.2%, price/mix +2.0%) and FX +2.2%. The business unit achieved strong volume growth in China (more than 13%) and strong sales in North America and EMEA, except for weaker hose reinforcement markets. Sales in US benefited somewhat from the timing of orders (following new duty-free wire rod import quota as from January) although this effect was not quantified. Demand in India and Indonesia decreased on lower economic activity during election periods.

Steel Wire Solutions: consolidated sales were flat at € 376m (34% of total), as the organic decline of 2.5% (volumes -6.7%, price/mix +4.2%) was offset by FX. Demand of industrial steel wire products was down in EMEA and North America, while the business climate in Latin America remained difficult, particularly in Ecuador. APAC sales were lower which Bekaert attributes to the restructuring in Malaysia.

Specialty Businesses: consolidated sales -4% to € 97m (9% of total), with an organic decline of -5%. Sales were up 12% in Building Products on strong volumes, while Fibers sales dropped 7.5% and Heating sales declined by 5.5%. Sawing wire sales were said to have become 'rather insignificant'.

BBRG: consolidated sales +6.0% to € 117m, with 4.3% organic growth (lower volumes but better price/mix). Bekaert reported continued growth in volume and revenue for the Advanced Cords business, while the Ropes business booked progress in enhancing product and price/mix, with sales growth mainly in surface mining, crane & industrial markets, particularly in North America.

Net debt increased from € 1153m at year-end 2018 to € 1346m, due to higher working capital and the impact from first time application of IFRS16 (€ 82m). Capex was limited at € 21m (less than half of the 1Q18 numbers). Bekaert commented that leverage reduction is a priority but provided no specific targets. Compared to last year's underlying EBITDA (excl IFRS16 contribution), net debt/REBITDA would be about 3.16x.

Outlook : Bekaert slightly altered the wording of its outlook statement and now guides for stable sales volumes in 2019 (previously it expected stable sales). The company still expects to rebuild its underlying EBIT margin to above 7% over the medium term (2018 margin 4.9%). Bekaert expects continued good business conditions in rubber reinforcement markets while it solidifies its position in China. Building products markets are expected to grow further, while BBRG is focussing on improving the product mix. Bekaert expects weaker demand in the competitive steel wires solutions business. Guidance compares to our +3.1% sales growth forecast (€ 4.44bn) and our € 262m underlying EBIT forecast (5.9% margin), with CSS at respectively € 4.34bn and € 251m.

Conclusion: 1Q sales were slightly better than expected by CSS while the changing of the wording in the guidance (stable volumes instead of sales) is rather insignificant. Overall visibility is still limited, and we maintain our Hold rating and € 23 target price.



Source: Thomson Reuters Datastream

Bloomberg	BEKB BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 1,357.2m
Shares outst.	60.4m
Volume (daily)	€ 3,010,085
Free float	59.9%

Next corporate event

Payment dividend FY18: 13 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	10.0	8.1
EV/REBITDA	7.2	5.4	4.8
FCF yield	-0.1%	13.4%	11.5%
Dividend yield	2.5%	3.6%	4.0%

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