

## BEKAERT

### Feedback AGM & company contact

GENERAL INDUSTRIES  
BELGIUM

CURRENT PRICE € 21.96  
TARGET PRICE € 23.00

**HOLD**  
RATING UNCHANGED

Following yesterday's 1Q trading update, we attended Bekaert's AGM yesterday and provide some feedback on the discussions we had :

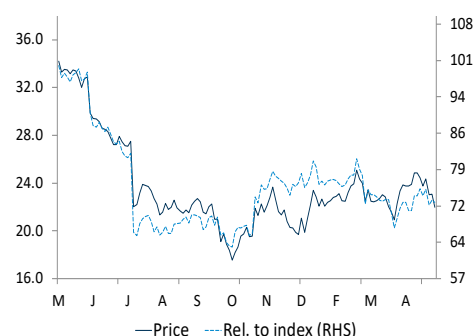
**Rubber reinforcement** : We remind that Bekaert achieved more than 13% volume growth in China in 1Q19. This clearly means that Bekaert has gained share in the Chinese market, and we believe the company benefits from the increased use of tire makers of ultra high tensile tire cord, which allows to reduce the rubber content of tires. Mainly Bekaert and Xingda play in this segment, with most of the smaller players that do not have the technology capabilities for ultra high tensile tire cord.

**3G sawing wire** : Bekaert believes to have some 5% market share today. Metron is the dominant player in this market (probably 60-65% market share), while also very aggressive on pricing. We believe Bekaert is probably running around break-even levels currently (vs an estimated loss of around € 10m in 2018). The company has not decided yet to step out of this market, and believes to have good technology (very thin and less fractures). On the negative side, there are no signs of improvement in pricing conditions.

**Wire rod availability & tariffs update.** Bekaert is currently importing wire rod into the US from countries like Brazil, Spain, the UK and Korea, without import duties. Brazil is the biggest source of wire rod, and this country still falls under a quota system (which was triggered last year in summer, uncertainty on this year's timing). On the negative side, the import of finished tire cord into the US (about 40% of Bekaert's US tire cord volumes or about 60,000t) will probably soon be taxed with a 25% import duty for the part that originates from China (about three quarters of the 60kt).

**Net debt** : we remind that Bekaert announced that net debt increased from € 1,153m at year-end 2018 to € 1346m at the end of the first quarter, with about € 82m of the net debt increase coming from the implementation of IFRS 16, and the remainder mainly from an increase in working capital. The use of factoring is roughly unchanged from year-end (about € 73m). If we would include factoring to the pro-forma net debt and adjust 2018 underlying EBITDA for the IFRS 16 effect (estimated at around € 20m), net debt/REBITDA is about 3.2x, or 3.0x excluding factoring. Bekaert aims to reduce net debt/REBITDA to 2.5x as fast as possible, hopefully by the end of this year, which seems possible in our opinion if the company can achieve our profit forecasts (calling for about 100bps of underlying EBIT margin improvement)

**Conclusion:** We remind that 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. Easy comparables (last year's underlying EBIT impacted by start-up costs, BBRG impairments and sawing wire losses for a combined amount estimated at around € 40m) probably mean underlying EBIT should improve somewhat this year (KBCS estimates around € 50m EBIT increase with CSS +€ 40m). 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
<a href="http://www.bekaert.com">www.bekaert.com</a>	
Market Cap	€ 1,325.8m
Shares outst.	60.4m
Volume (daily)	€ 2,944,530
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	9.7	8.0
EV/REBITDA	7.2	5.4	4.7
FCF yield	-0.1%	13.7%	11.7%
Dividend yield	2.5%	3.6%	4.1%

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