

BEKAERT

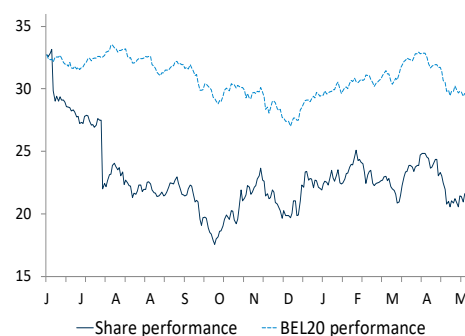
Tire cord off to a good start in 2019, but still a lot of uncertainties

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 21.76
TARGET PRICE € 23.00

HOLD
RATING UNCHANGED

| FY/e 31.12 | 2018 | 2019E | 2020E | 2021E |
|----------------------|---------|---------|---------|---------|
| Sales (€ m) | 4,305.3 | 4,442.7 | 4,601.0 | 4,765.3 |
| REBITDA (€ m) | 426.0 | 481.4 | 531.0 | 571.0 |
| Net earnings (€ m) | 39.8 | 136.0 | 183.4 | 212.4 |
| Diluted adj. EPS (€) | 1.27 | 2.26 | 2.76 | 3.20 |
| Dividend (€) | 0.70 | 0.80 | 0.90 | 1.10 |
| P/E | 22.33 | 9.63 | 7.88 | 6.80 |
| EV/REBITDA | 7.22 | 5.61 | 5.03 | 4.49 |
| Free cash flow yield | -0.1% | 10.4% | 8.2% | 15.2% |
| Dividend yield | 2.5% | 3.7% | 4.1% | 5.1% |



Source: Thomson Reuters Datastream

Bekaert's underlying EBIT declined by 30% in 2018, impacted by higher wire rod prices, start-up costs of expanded capacities, loss making sawing wire activities and impairments at BBRG. As some of these elements should be non-recurring, Bekaert is facing a fairly easy profit comparable in 2019. Taking into account also a good start of the year for Rubber Reinforcement, which we expect to also be supportive for group margins, we bank on 25% underlying EBIT growth this year and a 100bps margin improvement. Given the fairly volatile macro picture and trade framework, and despite fairly low valuation multiples, we decided to stick to our Hold rating for now.

- Rubber Reinforcement thriving:** Bekaert is gaining share in the world's largest tire market, China, on the back of its ultra high tensile steel tire cord, which allows tire manufacturers to reduce rubber content. As this segment is gaining share and most of Bekaert's smaller Chinese competitors do not have the necessary technology, the outlook for Rubber Reinforcement looks solid, despite the overall weakness of car markets.
- Trade war update:** Bekaert can currently import wire rod into the US without duties but is now facing a 25% duty of steel cord imported from China (about 40% of its US steel cord needs are imported, mostly from China). The company is trying to pass this on to customers.
- Sawing wire:** After an EBIT loss of around € 10m last year, we believe Bekaert is currently at around break even levels, with a market share of around 5%. As this is not satisfactory, we believe Bekaert will in the short term decide to either team up to gain weight or withdraw from this market.

Bloomberg BEKB.BB
Reuters BEKB.BR
www.bekaert.com

Market Cap € 1,314m
Shares outst. 60.4m
Volume (Daily) € 2.84m
Free float 59.93%
12-m Hi/Lo € 33.14/17.57

Next corporate event
Results 1H19: 26 July 2019

| Performance | 1M | 3M | 12M |
|-------------|-----|-----|------|
| Absolute | -7% | -3% | -33% |
| Rel. BEL20 | 1% | 3% | -25% |

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BUSINESS DESCRIPTION

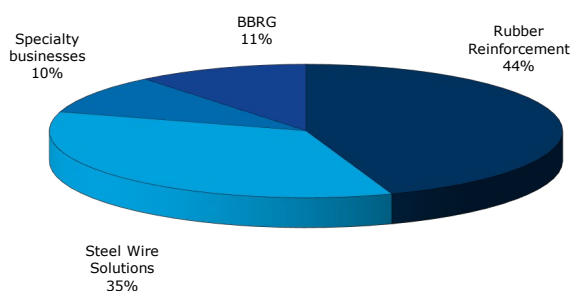
Bekaert's core competencies are the transformation of steel wire and the application of coatings. With these core competences, Bekaert is active with a broad range of products in many end-markets of which automotive and construction are the most important ones. In automotive, Bekaert has a global market share of more than 30% for steel cord tire reinforcement. In construction, Bekaert is reinforcing over 8m cubic meters concrete annually with its Dramix® wires. Bekaert's key raw materials is wire rod.

Bekaert is globally active and has different competitors in the various end-markets, with Xingda being the most important competitor for tire cord in China and ArcelorMittal being one of the most important competitors in the European construction market. Bekaert is also a small player in the third generation sawing wire, with a share that is estimated at around 5%, well behind market leader Metron which has a global market share of over 60%.

The company's underlying EBIT margin dropped from 7.3% in 2017 to 4.9% in 2018, a.o. being impacted by increased wire rod prices, start-up costs for capacity expansions, losses for the sawing wire business and impairments at BBRG following the full take-over. The group previously targeted an underlying EBIT margin of 10%, but now aims to rebuild the margin to over 7% in the medium term. We bank on 25% underlying EBIT growth in 2019 (margin of 5.9%) with the 7% underlying EBIT margin target to be reached in 2021.

Bekaert is still partly family owned, with the investment vehicle of the founding family still detaining a 34% stake in the group.

BREAKDOWN REVENUE 2018



Source: Bekaert

FINANCIALS AND RECENT NEWS FLOW

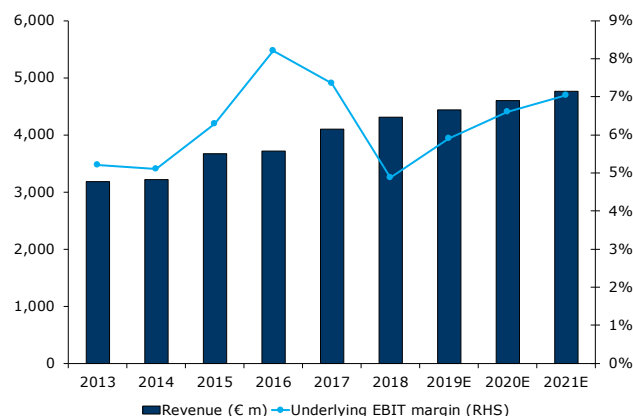
1Q19 trading update: consolidated revenue grew by 4% to € 1,094m, with organic growth of 2.2% (volumes -0.5%, price/mix +2.7%). Revenue grew by 7% organically for Rubber Reinforcement and by 4% organically for BBRG. Revenue declined by 3% organically for Steel Wire Solutions and by 5% organically for the Specialty Businesses. Bekaert slightly adjusted its FY19 outlook, and now predicts stable volumes (instead of stable sales). The company anticipates continued good business conditions in tire-related rubber reinforcement markets while solidifying its position in China. Furthermore, Bekaert expects further growth in its building products markets while BBRG will continue to focus on improving the business mix. For steel wire solutions, continued weak demand is expected. Bekaert does not provide a FY19 profit guidance, but reiterated the guidance given at the time of the FY18 results release to rebuild the underlying EBIT margin to over 7% in the medium term (over the next two-three years).

Restructuring plan in Belgium: At the end of March 2019, Bekaert announced a restructuring plan for certain Belgian operations, including a.o. the closure of the Dramix plant in Moen and the shift of the spare parts activities to Slovakia. In total 281 jobs could be affected.

FY18 results: last year, Bekaert saw sales grow by 8.9% organically to € 4.3bn, while underlying EBIT dropped by 30% and the underlying EBIT margin dropped from 7.3% to 4.9%.

Full ownership of Bridon-Bekaert Ropes Group (BBRG): Last year Bekaert took over the 33% equity stake from Ontario Teachers in BBRG, allowing Bekaert to better integrate BBRG into Bekaert's financial and management systems.

OVERVIEW HISTORICAL PERFORMANCE AND FORECASTS



Source: Bekaert, KBC Securities

FINANCIAL DATA

| Income statement (€ m) | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|----------|----------|----------|----------|----------|
| Sales | 4,098.2 | 4,305.3 | 4,442.7 | 4,601.0 | 4,765.3 |
| COGS | -3,396.4 | -3,778.7 | -3,776.3 | -3,864.8 | -3,955.2 |
| Gross profit | 701.8 | 526.6 | 666.4 | 736.2 | 810.1 |
| Operating costs | -407.2 | -412.4 | -439.8 | -455.5 | -471.8 |
| Other income & costs | 23.4 | 32.6 | 15.9 | 23.1 | -2.5 |
| EBIT | 318.1 | 146.9 | 242.5 | 303.7 | 335.8 |
| Net interest | -93.1 | -110.5 | -81.0 | -76.0 | -68.1 |
| Other non-operating | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pre-tax earnings | 224.9 | 36.4 | 161.5 | 227.7 | 267.7 |
| Taxes | -69.3 | -58.5 | -48.4 | -68.3 | -80.3 |
| Associates | 26.9 | 24.9 | 25.0 | 26.0 | 27.0 |
| Discontinued & other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Consolidated earnings | 182.5 | 2.8 | 138.0 | 185.4 | 214.4 |
| Minority interests | -2.2 | 37.0 | -2.0 | -2.0 | -2.0 |
| Net earnings | 184.7 | 39.8 | 136.0 | 183.4 | 212.4 |
| Depreciation and amortisation | 197.0 | 216.0 | 218.9 | 227.3 | 235.1 |
| Amortisation other intangibles/ Impairments | - | - | - | - | - |
| Non recurring elements included in EBIT | 17.0 | -63.3 | -20.0 | 0.0 | 0.0 |
| REBITDA | 498.0 | 426.0 | 481.4 | 531.0 | 571.0 |
| EBITDA | 510.0 | 387.0 | 461.4 | 531.0 | 571.0 |
| REBITA | 301.0 | 210.0 | 262.5 | 303.7 | 335.8 |
| EBITA | 318.1 | 146.9 | 242.5 | 303.7 | 335.8 |
| Net earnings from continued operations | 184.7 | 39.8 | 136.0 | 183.4 | 212.4 |
| Adjusted net earnings | 172.8 | 84.1 | 150.0 | 183.4 | 212.4 |
| Balance sheet (€ m) | 2017 | 2018 | 2019E | 2020E | 2021E |
| Intangible assets | 275.1 | 263.8 | 263.8 | 263.8 | 263.8 |
| Tangible assets | 1,501.0 | 1,459.4 | 1,481.7 | 1,478.4 | 1,493.8 |
| Financial assets | 165.4 | 153.7 | 153.7 | 153.7 | 153.7 |
| Other assets | 362.0 | 362.0 | 360.5 | 365.1 | 369.9 |
| Inventories | 779.6 | 931.8 | 977.4 | 966.2 | 953.1 |
| Receivables | 892.4 | 830.5 | 866.3 | 897.2 | 929.2 |
| Cash & equivalents | 469.2 | 448.3 | 331.1 | 261.0 | 271.6 |
| TOTAL ASSETS | 4,444.7 | 4,449.5 | 4,434.4 | 4,385.4 | 4,435.0 |
| Equity | 1,487.7 | 1,396.9 | 1,460.6 | 1,565.9 | 1,688.9 |
| Minorities | 95.4 | 119.1 | 119.1 | 119.1 | 119.1 |
| Provisions | 336.3 | 326.2 | 326.2 | 326.2 | 326.2 |
| LT financial debt | 1,180.3 | 686.7 | 586.7 | 486.7 | 386.7 |
| Other liabilities | 225.5 | 200.1 | 200.1 | 200.1 | 200.1 |
| Payables | 665.2 | 778.4 | 799.7 | 745.4 | 772.0 |
| ST financial debt | 454.4 | 942.0 | 942.0 | 942.0 | 942.0 |
| TOTAL LIABILITIES | 4,444.7 | 4,449.5 | 4,434.4 | 4,385.4 | 4,435.0 |
| Net working capital | 1,006.8 | 983.8 | 1,044.0 | 1,118.0 | 1,110.3 |
| Capital employed | 2,815.0 | 2,768.0 | 2,848.8 | 2,924.2 | 2,936.6 |
| Net debt | 1,165.6 | 1,180.4 | 1,197.6 | 1,167.7 | 1,057.1 |
| Net debt, incl. off-balance items | 1,165.6 | 1,180.4 | 1,197.6 | 1,167.7 | 1,057.1 |
| Cash flow statement (€ m) | 2017 | 2018 | 2019E | 2020E | 2021E |
| Consolidated earnings | 184.7 | 39.8 | 136.0 | 183.4 | 212.4 |
| Depreciation, amortisation & impairment | 191.5 | 216.0 | 218.9 | 227.3 | 235.1 |
| Other cash flow from operations | -22.6 | -43.9 | 0.0 | 0.0 | 0.0 |
| Change in working capital | -109.5 | -28.9 | -58.7 | -78.6 | 3.0 |
| CASH FLOW FROM OPERATIONS | 244.1 | 182.9 | 296.3 | 332.1 | 450.5 |
| Net capital expenditure | -276.5 | -185.0 | -159.1 | -224.1 | -250.5 |
| Acquisitions / disposals | 0.0 | 56.1 | 0.0 | 0.0 | 0.0 |
| Other cash flow from investments | 50.3 | 26.5 | 0.0 | 0.0 | 0.0 |
| CASH FLOW FROM INVESTMENTS | -226.3 | -102.4 | -159.1 | -224.1 | -250.5 |
| Dividend payments | -90.2 | -64.6 | -72.4 | -78.1 | -89.4 |
| Shares issues | 4.0 | -11.3 | 0.0 | 0.0 | 0.0 |
| New borrowings / reimbursements | 149.4 | 59.6 | -100.0 | -100.0 | -100.0 |
| Other cash flow from financing | -16.1 | -80.2 | 0.0 | 0.0 | 0.0 |
| CASH FLOW FROM FINANCING | 47.2 | -96.5 | -172.4 | -189.1 | -189.4 |
| Fx and changes to consolidation scope | 33.2 | -4.6 | -82.0 | 0.0 | 0.0 |
| CHANGE IN CASH & EQUIVALENTS | 98.3 | -20.5 | -117.2 | -70.0 | 10.6 |
| Free cash-flow | -32.4 | -2.1 | 137.2 | 108.0 | 200.0 |
| Change in net debt | 77.2 | 14.8 | 17.2 | -30.0 | -110.6 |

| Performance criteria | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---------|---------|---------|---------|---------|
| Sales growth | 10.3% | 5.1% | 3.2% | 3.6% | 3.6% |
| Gross profit growth | 1.7% | -25.0% | 26.5% | 10.5% | 10.0% |
| REBITDA growth | 3.4% | -14.5% | 13.0% | 10.3% | 7.5% |
| EBITDA growth | 5.9% | -24.1% | 19.2% | 15.1% | 7.5% |
| REBITA growth | -1.3% | -30.2% | 25.0% | 15.7% | 10.6% |
| EBIT growth | 22.5% | -53.8% | 65.1% | 25.3% | 10.6% |
| Pe-tax earnings growth | 50.9% | -83.8% | 343.9% | 41.0% | 17.6% |
| Net earnings growth | 75.6% | -78.5% | 242.1% | 34.8% | 15.8% |
| Earnings growth from continued operations | 75.6% | -78.5% | 242.1% | 34.8% | 15.8% |
| Adjusted earnings growth | -0.4% | -51.4% | 78.5% | 22.3% | 15.8% |
| Gross margin | 17.1% | 12.2% | 15.0% | 16.0% | 17.0% |
| REBITDA margin | 12.2% | 9.9% | 10.8% | 11.5% | 12.0% |
| EBITDA margin | 12.4% | 9.0% | 10.4% | 11.5% | 12.0% |
| REBITA margin | 7.3% | 4.9% | 5.9% | 6.9% | 7.0% |
| EBIT margin | 7.8% | 3.4% | 5.5% | 6.6% | 7.0% |
| Net working capital / sales | 24.6% | 22.9% | 23.5% | 24.3% | 23.3% |
| CAPEX/ Sales | 6.7% | 4.3% | 3.6% | 4.9% | 5.3% |
| FCF / Sales | -0.8% | 0.0% | 3.1% | 2.3% | 4.2% |
| Depreciation / Capital Expenditure | -71.2% | -116.8% | -137.6% | -101.4% | -93.9% |
| Capital expenditure / EBITDA | 54.2% | 47.8% | 34.5% | 42.2% | 43.9% |
| Net debt / Equity + Minorities | 73.6% | 77.9% | 75.8% | 69.3% | 58.5% |
| Net debt / EBITDA | 2.3 | 3.1 | 2.6 | 2.2 | 1.9 |
| EBITDA / net interest | 5.5 | 3.5 | 5.7 | 7.0 | 8.4 |
| Pay-out ratio | - | - | - | - | - |
| Net earnings margin | 4.5% | 0.9% | 3.1% | 4.0% | 4.5% |
| x CE turnover (Sales / avg. CE) | 1.5 | 1.5 | 1.6 | 1.6 | 1.6 |
| x Leverage (avg. CE / avg. equity) | 1.9 | 1.9 | 2.0 | 1.9 | 1.8 |
| = Return on Equity (avg) | 12.5% | 2.8% | 9.5% | 12.1% | 13.1% |
| Return on Equity - adjusted | 11.7% | 5.8% | 10.5% | 12.1% | 13.1% |
| Return on Capital Employed | 7.9% | -3.2% | 6.0% | 7.4% | 8.0% |
| Return on Capital Employed - adjusted | 7.5% | -4.6% | 6.5% | 7.4% | 8.0% |
| Per share data (€) | 2017 | 2018 | 2019E | 2020E | 2021E |
| weighted average # shares (m) | 56.74 | 56.74 | 56.74 | 56.74 | 56.74 |
| weighted average # shares, diluted (m) | 66.43 | 66.43 | 66.43 | 66.43 | 66.43 |
| Basic EPS | 3.26 | 0.70 | 2.40 | 3.23 | 3.74 |
| Adjusted EPS | 3.05 | 1.48 | 2.64 | 3.23 | 3.74 |
| Diluted EPS | 2.78 | 0.60 | 2.05 | 2.76 | 3.20 |
| Diluted, adjusted EPS | 2.60 | 1.27 | 2.26 | 2.76 | 3.20 |
| Diluted EPS: y/y growth | 44.4% | -80.9% | 301.5% | 34.8% | 15.8% |
| Diluted EPS: CAGR 3Y | 3.5% | 1.1% | 84.4% | 19.9% | -100.0% |
| Adjusted, diluted EPS: y/y growth | -14.7% | -51.4% | 78.5% | 22.3% | 15.8% |
| Adjusted, diluted EPS: CAGR 3Y | -9.5% | 2.0% | 36.2% | 16.0% | -100.0% |
| REBITDA / share | 7.50 | 6.41 | 7.25 | 7.99 | 8.60 |
| EBITDA / share | 7.68 | 5.83 | 6.95 | 7.99 | 8.60 |
| REBITA/share | 4.53 | 3.16 | 3.95 | 4.57 | 5.06 |
| EBIT/ share | 4.79 | 2.21 | 3.65 | 4.57 | 5.06 |
| Net book value / share | 24.64 | 23.14 | 24.19 | 25.94 | 27.97 |
| Free cash flow / share | -0.57 | -0.04 | 2.42 | 1.90 | 3.52 |
| Dividend (€) | 1.10 | 0.70 | 0.80 | 0.90 | 1.10 |
| Valuation data | 2017 | 2018 | 2019E | 2020E | 2021E |
| Max share price (€) | 48.84 | 40.82 | 25.08 | - | - |
| Min share price (€) | 34.20 | 17.57 | 19.88 | - | - |
| Reference share price (€) | 42.06 | 28.26 | 21.76 | 21.76 | 21.76 |
| Reference market capitalisation | 2,539.3 | 1,705.9 | 1,313.7 | 1,313.7 | 1,313.7 |
| Enterprise value (€ m) | 3,866.6 | 3,076.9 | 2,702.0 | 2,672.0 | 2,561.4 |
| P/E | 16.2 | 22.3 | 9.6 | 7.9 | 6.8 |
| EV/sales | 0.9 | 0.7 | 0.6 | 0.6 | 0.5 |
| EV/REBITDA | 7.8 | 7.2 | 5.6 | 5.0 | 4.5 |
| EV/EBITDA | 7.6 | 8.0 | 5.9 | 5.0 | 4.5 |
| EV/REBITA | 12.8 | 14.7 | 10.3 | 8.8 | 7.6 |
| EV/EBIT | 12.2 | 20.9 | 11.1 | 8.8 | 7.6 |
| EV/Capital employed | 1.4 | 1.1 | 0.9 | 0.9 | 0.9 |
| P/ NBV | 1.7 | 1.2 | 0.9 | 0.8 | 0.8 |
| Free cash flow yield | -1.3% | -0.1% | 10.4% | 8.2% | 15.2% |
| Dividend yield | 2.6% | 2.5% | 3.7% | 4.1% | 5.1% |

Source: KBC Securities

*Historic valuation data are based on historic prices