

**Bekaert (Buy) - Improvement thanks to self-help - Business weakening at end of quarter (EUR 24.68 - TP EUR 33.00)****Facts: Underlying EBIT in-line at EUR 126m**

- Bekaert released H1 results in-line with our estimates and slightly ahead of consensus
- Sales came in at EUR 2,218m versus EUR 2,235m expected and consensus of EUR 2,119m.
- Underlying EBIT amounted to EUR 126m, as expected, and consensus of EUR 124m. Pricing, mix and inventory valuation had a negative impact of EUR 6m, cost measures had a EUR 14m positive impact and reduction of overhead EUR 17m.
- Net debt/EBITDA improved from 3.1x on 30/06/18 to 2.7x 31/12/18 and to 2.6x today. Net debt of EUR 1,253m was down from EUR 1,339 30/06/18 but up from EUR 1,153m on 31/12/18. Factoring increased from around EUR 75m to EUR 114m. Capex went down from EUR 95m to EUR 55m. Working Capital changes were still negative for EUR 65m.
- In its outlook, Bekaert states that business conditions in various sectors are trending lower as a result of continued uncertainty. In the previous press release, Bekaert stated 'somewhat lower'. Demand from tire markets remained solid, but started to slow at the end of the second quarter. Demand for steel fibers for concrete reinforcement was strong throughout the first half.
- Bekaert states that: "We will continue to offset the headwinds with effective cost actions and by making further progress in enhancing our operating performance. Despite seasonality and a softening demand in various sectors, we will continue to focus on year-on-year underlying EBIT margin improvement as we progressively rebuild to above 7% over the medium term. We will further strengthen our balance sheet with strict control on working capital and capital expenditure, in order to continue reducing net debt/underlying EBITDA".
- Divisionally, sales of Rubber Reinforcement came in at EUR 1,014m (+7%, +5.3% organic) versus EUR 1,021m expected. There was more than 12% volume growth in China thanks to strong demand and increased market share. Underlying EBIT improved from EUR 84m to EUR 94m (9.1% margin) thanks to Asia but with a decline in Europe. While the tire business is mainly a replacement market with less cyclical effects, Bekaert did see demand from tire markets soften toward the end of Q2.
- The Steel Wire Solutions face difficult times with sales down 1.5% and volumes down 6.3%. India and China seem to be some of the rare bright spots. Underlying EBIT declined from EUR 38m to EUR 28m (3.5% margin). Bekaert does not anticipate demand recovery in these markets and takes into account the usual seasonal effects for the second half of the year. Management is taking actions to improve the financial performance of the business unit despite of all headwinds.
- Specialty Businesses sales were down 3.5% with 6% revenue growth in Building products (Dramix) despite the negative impact from strikes in Belgium. Combustion activities faced a 9.2% decline. Underlying EBIT improved from EUR 18m to EUR 25m (12.0% margin).
- Finally, BBRG witnessed a 5.5% organic growth rate and underlying EBIT improved from EUR 2m to EUR 6m (2.6% margin).

**Our View: Support from self-help but even more self-help will be needed**

Like in previous press releases, Bekaert indicates that business conditions are trending lower, but indicates a more pronounced slowdown at the end of the first half. Business is clearly difficult and self-help will need to improve further.

The company also indicates to focus on year-on-year underlying EBIT improvement but does not express itself on a sequential H2/H1 margin improvement. This is what we have in our model.

## Investment Conclusion: Buy rating – Target Price EUR 33

Our earnings recovery scenario is based on cost measures and self-help rather than market improvement. However, it looks like the weakening market conditions at the end of H1 could delay the underlying improvement. The shares trade at mid-teens FCF yield, hence our Buy rating, but business conditions remain difficult.

in EUR	2018H1	2019H1	actual	vs. Exp
<b>Combined sales (m)</b>	<b>2,537</b>	<b>2,642</b>	<b>2,619</b>	<b>-0.9%</b>
<b>Sales group (m)</b>	<b>2,156</b>	<b>2,235</b>	<b>2,218</b>	<b>-0.8%</b>
Rubber Reinforcement	948	1,021	1,014	-0.7%
Steel Wire Solutions	762	764	751	-1.7%
Specialty Businesses	209	206	202	-2.1%
Other	11	7	10	44.8%
BBRG	226	238	242	1.8%
<b>EBITDA (m)</b>	<b>204.0</b>	<b>222.9</b>	<b>226.0</b>	<b>1.4%</b>
<b>Underlying EBIT (m)</b>	<b>111.0</b>	<b>126.4</b>	<b>126.0</b>	<b>-0.3%</b>
Rubber Reinforcement		112.3	94.0	
Steel Wire Solutions		19.1	28.0	
Specialty Businesses		12.4	25.0	
BBRG		7.1	6.0	
Non-allocated		-25.0	-27.0	
<b>EBIT (m)</b>	<b>101.0</b>	<b>118.9</b>	<b>115.0</b>	<b>-3.3%</b>
Fin result (m)	-45.0	-39.0	-33.9	-13.0%
Income taxes	-23.0	-22.4	-32.3	
Associates	12.0	12.5	13.4	7.5%
<b>Net profit (m)</b>	<b>45.0</b>	<b>67.1</b>	<b>58.0</b>	<b>-13.5%</b>