26 07 2019

Bekaert : feedback analyst meeting

- Sawing wire : Bekaert is running at full capacity utilization at the moment and probably has about 5% market share. Interesting is that Bekaert's CEO commented that the market dynamics have changed somemewhat, as their biggest competitor Metron has seen market share dropping, probably from around 55% to around 35%, as customers have been looking to diversify their supplier base in order to safeguard competition. Pricing pressure seems to be stabilizing somewhat, especially for the thinner diameters which are technologically more difficult to make. Bekaert was running break even on an EBITDA level in 1H and going forward believes it can run at EBIT break-even levels in 2H. The company is still weighing its options, and we believe partnering is a realistic option.
- Tire cord markets : Bekaert grew volumes by more than 12% in China in 1H, partly on the back of market share gains in the super and ultra high tensile segment. Overall, June volumes dropped about 5% sequentially in tire cord, but Bekaert's CEO commented that compares to the strongest month of the year (May) and probably has to do with destocking and inventory management across the supply chain at mid year. Overall, the truck tire market has been more robust than the passenger tire market, and Bekaert is more exposed to the former. Bekaert's CEO commented to see opportunity to further grow share in China on the back of increased penetration of super & ultra tensile tire cord.
- BBRG : despite a 9.9% volume decline in 1H19, revenue was up 5.5% organically, reflecting a much better product mix. , with especially demand in mining and cranes up. Demand from the oil & gas industry also improved during 1H but weakened somewhat towards the end of the first half.
- Building products : Dramix is performing well. Going forward, management sees especially scope for increasing penetration in China (largest construction market of the world, currently only consuming about 10kt of Dramix annually vs about 110kt in Europe
- The negative inventory revaluation effect in 1H was quantified at about € 10m
- Capex guidance was lowered from € 130-150m to € 100-120m
- Factoring : amounts drawn on the factoring lines increased from about € 70m previously to € 114m at mid-year 2019. Management aims to lower net debt/EBITDA to 2.5 by year end (2.6x on their definition at mid-year

excluding IFRS16 and about 2.7x on our calculations including IFRS16 effects, excluding factoring which increases the multiple by about 0.2x)

Conclusion : no major surprises from the conference call. We remind that Bekaert increased revenue by about 3% in 1H with underlying EBIT up 14% to € 126m (CSS 124m, KBCS 131m). The company did sound fairly cautious on the outlook, warning that business conditions in various activities are trending lower, and the company commented not to foresee a rebound in the agricultural, automotive OEM and industrial markets in the near future. We stick to our Hold rating for now as overall visibility is fairly limited.