

BEKAERT

Preview 3Q trading update and CMD

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 27.78
TARGET PRICE € 23.00

HOLD
RATING UNCHANGED

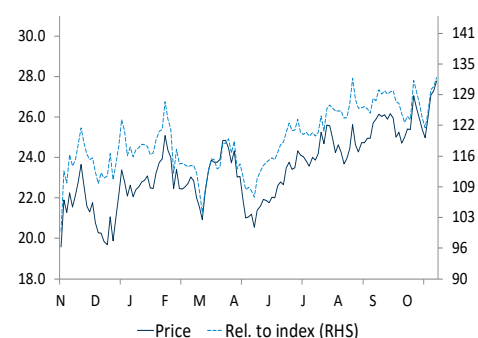
We expect the 3Q trading update (scheduled for 15 November) to reflect a softer top line trend when compared to previous quarters but look mainly forward to the CMD the same day where we hope to get some quantification of efficiency measures and some additional clarity on the road to rebuild profit margins. After the solid share price performance of the past weeks, we believe the bar is high and will not be easy to jump over. We stick to our Hold rating ahead of the CMD/3Q trading update.

3Q preview: We remind that Bekaert reported a 2.9% consolidated sales growth in the first half of the year, including 1.6% organic growth (volumes -1.1% and price/mix +2.7%). Underlying EBIT was up 14% to € 126m in the first half of the year with an underlying EBIT margin that increased from 5.1% to 5.7%. We remind that Bekaert's outlook statement issued at the time of the 1H results release commented that business conditions in various sectors were trending lower, while Bekaert at that time commented not to foresee a rebound in the agriculture, automotive OEM and industrial markets in the near future. Tire and construction markets were expected to hold up well, but Bekaert reminded of the normal seasonality in the second half of the year. Bekaert does not have a specific guidance on 2019 but wants to progressively rebuild its underlying EBIT margin to above 7% over the medium term (vs a 4.9% margin in FY18). We expect Bekaert to report a 3Q19 consolidated sales growth of 1.3% to € 1,084m (CSS -0.7% to € 1,062m), broken down as follows : Rubber Reinforcement: +4.0% to € 491m (CSS +1.7% to € 480m), Steel Wire Solutions: -2.0% to € 366m (CSS -4.8% to € 355m), Specialty Businesses: -2.0% to € 105m (CSS -2.8% to € 104m), BBRG: +3.0% to € 118m (CSS +3.5% to € 119m), Other: flat at € 4m (in line with CSS).

CMD preview: We hope to get more colour on a number of items, including: **Strategic update of the renewed management team.** We remind that Bekaert has recently welcomed a number of new members to the Executive Management team, such as Taoufiq Boussaid (CFO) Juan Carlos Alonso (Chief Strategy Officer) and Arnaud Lesschaeve (divisional CEO Rubber Reinforcement). We wonder to what extent the overall strategy and the road to rebuild profitability margins might be finetuned by the new insights these people bring to the table.

Expected benefits from efficiency improvements: we remind that Bekaert announced a restructuring program for its Belgian operations earlier this year, which includes the closure of the Dramix plant in Moen, a downsizing of administrative and other support functions and several other initiatives, such as the intention to move spare parts activities to Slovakia and the standard test lab activities to some of the global production plants. A collective labor agreement related to the social plan was reached at the start of 4Q, when it also became clear that the restructurings would affect about 200 people.

The future of the sawing wire activities within Bekaert. Bekaert hinted at the time of the 1H results release it has stopped the 'cash bleeding' of the diamond wire business, but was still analysing its strategic options at the time. We believe Bekaert will have to find a way to increase its market presence (either alone by investing in additional capacity or by forming a collaboration agreement) in order to achieve a decent profitability in this market.



Source: Thomson Reuters Datastream

Bloomberg	BEKB.BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 1,677.2m
Shares outst.	60.4m
Volume (daily)	€ 2,705,221
Free float	59.9%

Next corporate event

Trading update 3Q19: 15 November 2019

€ m	2018	2019E	2020E
Sales	4,305.3	4,383.8	4,420.8
REBITDA	426.0	481.4	531.0
Net earnings	39.8	103.7	166.3
Adj. EPS (€)	1.27	2.04	2.50
P/E (x)	22.3	13.6	11.1
EV/REBITDA	7.2	6.3	5.5
FCF yield	-0.1%	10.2%	10.0%
Dividend yield	2.5%	2.9%	3.2%

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