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## Bekaert : 3Q revenue flat, cautious outlook

Bekaert (Hold, € 23 TP)

**3Q revenue was slightly below our forecast but slightly better than consensus, while the outlook comments for the fourth quarter are clearly cautious. Bekaert announced additional restructuring measures which will lead to significant one-offs in 2H. A CMD is scheduled for today. After the solid share price performance of the past weeks, we would expect some profit taking today based on the 3Q trading update comments. We consider valuation to be about fair and stick to our Hold rating for now.**

**3Q consolidated revenue** was roughly flat at € 1075m, which compares to our and consensus forecasts of respectively € 1,084m (+1.3% y/y) and € 1,062m (-0.7% y/y). Revenue is broken down as follows :

**Rubber Reinforcement:** +2% to € 480m (KBCS +4.0% to € 491m, CSS +1.7% to € 480m). Revenue over the first nine months was up 5.2%, with more than 11% volume growth in China (mainly driven by solid demand in the first half of the year and continued market share gains throughout the first nine months). Demand for hose reinforcement in EMEA and North America was fairly weak in the entire period and offset growth from tire cord in these markets. The Indian economy decelerated in 3Q and impacted Bekaert's business in the quarter.

**Steel Wire Solutions:** -4% to € 357m (KBCS -2.0% to € 366m, CSS -4.8% to € 355m). Sales decreased by 2.4% in the first nine months of the year, with sales down in most regions. Business conditions worsened in the third quarter and have prompted Bekaert to announce new restructuring actions (closure of the US site in Kentucky and the Ipoh plant in Malaysia).

**Specialty Businesses:** +2% to € 109m (KBCS -2.0% to € 105m, CSS -2.8% to € 104m). Sales decreased by 1.6% in 9M19, with significant differences in activities and in the quarters. Building Products achieved 5.5% sales growth in the first nine months thanks to firm demand and a positive price/mix. Fiber Technologies (-3.4%) and Combustion activities (-9.4%) reported lower sales in the first nine months. Sales of diamond wire were said to have grown in 3Q.

**BBRG:** +7% to € 123m (KBCS +3.0% to € 118m, CSS +3.5% to € 119m), with top line also up 7% in the first nine months of the year. Sales benefited from an improved product and price mix in ropes with solid sales growth in oil & gas, mining and crane and industrial applications. Sales grew in advanced cords.

**Other** came in at €6m (KBCS and consensus were assuming a flat € 4m figure)

**Restructuring :** Apart from the already announced restructuring program in Belgium (for which a € 30m provision has been taken), Bekaert foresees in total about €50m one-off costs from other measures (closure of the two Steel Wire Solutions plants, closure of the in-house rigging facility of BBRG in Dubai and the relocation of the hose reinforcement wire operations in Georgia (US))

**Outlook :** Bekaert expects tire markets to slow down in the fourth quarter because of normal seasonality and destocking actions throughout the entire supply chain in anticipation of a continued weak business climate. The Steel Wire activities are projected to further contract in 4Q, because of social protest actions in Latin America, trade tariffs and a global macro slowdown. Construction markets are expected to hold up fairly well. Business conditions of BBRG are guided to remain challenging. Bekaert expects to take significant non-cash inventory impairments in 2H while it confirmed it is on track to bring leverage down to below 2.5x by year-end (excl IFRS16 and factoring).

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