

Bekaert							Buy		
Metal technology							Target price : 33.00		
Price	Mark.cap.(m)	eps 19e	eps 20e	Ratios	12/19e	12/20e	Glob. fig. (m)	12/19e	12/20e
EUR 26.70	1,605	2.39	3.12	P/E	11.2	8.6	Sales	4,441	4,551
RIC : BERTt.BR - Bloomberg : BEKB BB				Div. Yield	2.8%	3.2%	EBITA	265	303
				EV/EBITDA	5.5	4.6	Adj.Profit	138	180

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Bekaert - Sales in line and additional cost measures in Steel Wire

Facts: Sales exactly in line at EUR 3,292m for the first 9 months

- Bekaert releases 9m sales of EUR 3,293 (+2%) versus exactly EUR 3,293m expected.
- Sales for the quarter were stable at EUR 1,075m.
- Bekaert states that: “The business conditions have trended lower in various sectors as a result of tighter markets and continued uncertainty. Our tire markets held up well in the first nine months of 2019 but are expected to slow down in the fourth quarter as a result of the normal seasonality and destocking actions throughout the supply chain in anticipation of a continued weak business climate. The steel wire solutions activities are projected to further contract in the last quarter, mainly because of the impact of the social protest actions in Latin America, trade tariffs, and further economic slowdown globally.”
- Working capital improvements have taken place and year-end net debt / EBITDA should be below the target of 2.5x. Net debt amounted to EUR 1,181m versus EUR 1,253m at 30/06.
- However, despite the inventory reduction actions, there will be a significant adverse non-cash adjustments to the year-end inventory valuation due to raw material prices decreasing more significantly than anticipated, driven by the overall economic downturn.
- In this scenario of economic slowdown and year-end seasonality, Bekaert continues to implement actions to offset the external headwinds.
- Management has started executing the restructuring program in Belgium after having reached, on 1 October 2019, an agreement with the unions on the related social plan. A provision of EUR 30m has been booked for the costs related to the social plan in addition to the one-off elements already accounted for in the first half of the year (EUR 7m).
- The business unit Steel Wire Solutions has been significantly affected by continued low demand, fierce price competition, and the effects of trade tariffs. Bekaert has decided to close two manufacturing sites and to exit part of the related steel wire markets served (Kentucky (US) and Ipoh, Malaysia). Also in Dubai and the US additional closures will be carried out.
- These additional restructuring measures and other actions are expected to add approximately EUR 50m in one-off provisions for asset impairments and severance package costs, and are expected to deliver positive margin impact as from their implementation onwards.
- On a divisional level, sales were in-line. In Ruber reinforcement, the business recorded 5.2% sales growth for the first nine months of 2019. This stemmed from volume-driven organic growth (+3.4%) and favorable currency movements (+1.8%). The business unit achieved more than 11% volume growth in China thanks to strong demand in the first half of the year and increased market share throughout the first nine months.
- The business unit Steel Wire Solutions reported a sales decrease of -2.4% compared with the first nine months of 2018. Favorable currency movements (+1.6%) combined with the positive aggregate effect (+1.0%) of price-mix and passed-on wire rod price changes could not entirely offset the impact from lower volumes (-5.0%). Sales worsened in the third quarter, which have resulted in the additional above mentioned restructuring measures.

Our View: Additional restructuring but 2020 should see improvement

Bekaert takes additional measures to restore profitability in the Steel Wire Solutions. This implies quite heavy additional restructuring costs again but should have a positive margin impact as from next year. The Ruber Reinforcement business continues to do well with Chinese volume growth at 11% against 12% in the first 6 months.

The decline of raw material prices will have a negative non-cash earnings impact in the second half. Net debt evolution seems to be on target.

Bekaert is not providing margin guidance for the FY and is not giving a medium term indication either. We hope to get a better feeling at the Capital Markets Day today.

Investment Conclusion: Buy maintained / Target Price EUR 33.00

Bekaert's Ruber Reinforcement business is holding up well while the Steel Wire business is facing difficult times. 2019 will be a year to forget with heavy restructuring costs but improvement measures are taken, which should support 2020 margin recovery. With double digit FCF yields, valuation is undemanding. More details after today's Capital Markets Day.