

BEKAERT

Feedback CMD

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 24.92
TARGET PRICE € 25.00

HOLD
RATING UNCHANGED

Bekaert's Capital Markets Day last Friday followed the release of a 3Q trading update. Business conditions are in general difficult and have weakened, while there is little hope of an upturn in the short run. Bekaert is focusing on efficiency improvement, pricing discipline and portfolio pruning to grow towards its underlying EBIT margin target of above 7%, but this will clearly take time. We have slightly lowered our FY19 forecasts while confidence in a margin upturn next year has somewhat increased on the back of the quantification of efficiency measures. All in all, we maintain our Hold rating for now, with a slightly increased target price (up from € 23 to € 25), with valuation overall considered roughly fair (P/E19e 13.1x, EV/REBITDA19e 5.9x).

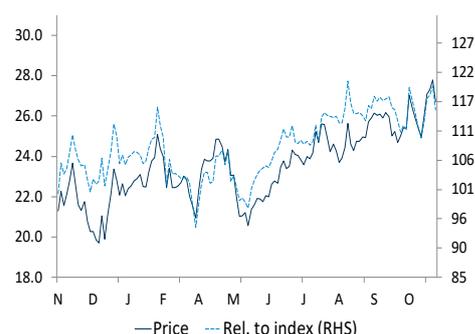
Restructurings and savings : Bekaert announced that the restructuring of the Belgian operations would lead to about € 30m additional provisions in 2H19 (on top of the one-offs of € 7m already booked in 1H19). Expected savings of this restructuring are about € 20m by 2021 (of which around € 15m should already be realized next year). The other restructurings announced now (Steel wire Solutions plant closures in Kentucky, US and Ipoh, Malaysia; as well as the relocation of the hose reinforcement wire operations in Georgia, US and the closure of the in-house rigging facility of BBRG in Dubai), which will lead to an additional € 50m one-offs in 2H19, are expected to allow to avoid losses which are currently estimated at about € 8m on a full year basis. Precise savings are not disclosed but should obviously be higher. The one-offs that will be booked this year (€ 87m in total) should have a cash nature for about 70% of the amount (hence about € 60m), while the remainder is non-cash.

An Underlying EBIT margin of above 7% remains the ambition (FY18 : 4.9%, 1H19 : 5.7%) but will take time to realize. This year's EBIT bridge is for about € 50m (9M19) negatively impacted by the FIFO inventory revaluation (effect of declining raw materials prices), vs about € 30m at the end of June.

Rubber reinforcement: Bekaert is clearly the number one in tire cord, with a global market share of just under 30%. Bekaert has taken market share in the past two years, partly by its technology lead on higher tensile tire cords. Bekaert hopes that its technology and innovation focus will help the company to grow profitably, but expects that its customers will continue to use the smaller, price-oriented Chinese competitors to keep the market in balance. The construction of the new major plant in Vietnam (with about 75kt of capacity in a first phase) will require € 45-50m additional capex both in 2020 and 2021.

Sawing wire : Bekaert focuses on the semiconductor market. capacity is sold out while they believe to have a good technology. Pricing for the thin diameters of diamond wire has stabilized, allowing the company to be around EBITDA break-even. Bekaert is reluctant to invest more money in sawing wire and is in discussion with potential investors which would share the risk of additional investments. If this cannot be found Bekaert will probably exit this market.

Earnings model adjusted : Given the weak top line trends and the increasing FIFO revaluation effect, we decided to lower our FY19 underlying EBIT forecast from € 251m to € 238m (CSS prior to the 3Q trading update was € 245m), corresponding to an underlying EBIT margin of 5.5%. For next year we forecast a margin 6.1% (€ 268m) while our earnings model assumes a 7% margin to be reached in 2022.



Source: Thomson Reuters Datastream

Bloomberg	BEKB BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 1,504.5m
Shares outst.	60.4m
Volume (daily)	€ 2,402,567
Free float	59.9%

Next corporate event

€ m	2018	2019E	2020E
Sales	4,305.3	4,355.8	4,392.6
REBITDA	426.0	481.4	531.0
Net earnings	39.8	95.1	162.3
Adj. EPS (€)	1.27	1.91	2.44
P/E (x)	22.3	13.1	10.2
EV/REBITDA	7.2	5.9	5.2
FCF yield	-0.1%	11.9%	11.4%
Dividend yield	2.5%	3.2%	3.6%

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