

BEKAERT

Preview: EBIT up in 2H, increasing worries on 2020

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 20.06
TARGET PRICE € 25.00

HOLD
RATING UNCHANGED

Partly helped by easy comparables, we forecast Bekaert's 2H underlying EBIT to grow by 12.7% y/y (close to CSS of +12.4%), which would then result in a FY underlying EBIT growth of about 13% and a margin recovering from 4.9% in 2018 to 5.5% in 2019. Whereas our forecasts for 2020 still imply a further margin recovery at the moment, mainly on the back of self help initiatives, we are increasingly worried that the COVID-19 virus outbreak and weakening macro and automotive/truck markets will make this challenging. Given the highly cyclical and competitive nature of most of Bekaert's activities, we refrain from viewing the recent share price weakness as an entry point and maintain our Hold rating on the stock ahead of the FY19 results release.

Bekaert will release FY19 results on 4 March before market. We remind that Bekaert posted a roughly flat consolidated revenue figure in 3Q19, while at the time of the 3Q trading update (Mid November) the company sounded fairly conservative on the outlook, commenting it expected 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 were projected to further contract in 4Q, because of social protest actions in Latin America, trade tariffs and a global macro slowdown. Construction markets were expected to hold up fairly well. Business conditions of BBRG were guided to remain challenging. Furthermore Bekaert expect to take significant non-cash inventory impairments in 2H. We expect 4Q consolidated revenue to decline by 1.2% y/y with FY consolidated revenue expected to increase by 1.2% to € 4,359m (which is 0.2% above the CSS figure of € 4,351m). We forecast FY19 underlying EBIT to land at € 238m (+13% y/y) vs a € 236m consensus figure, with our forecast implying a margin of 5.5% (2018: 4.9%, CSS 5.4%). Our 2H underlying EBIT forecast stands at € 112m (margin 5.2%, +13% y/y, helped by easy comparables though).

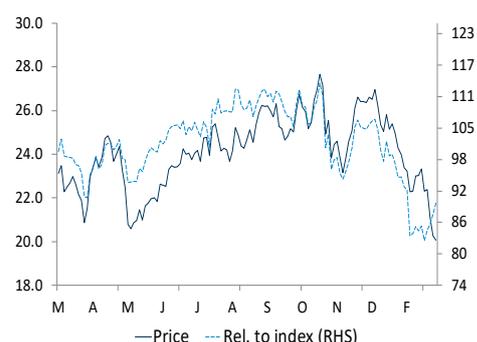
Rubber Reinforcement: We forecast FY sales to increase by 3.9% to € 1983m (CSS € 1975m), implying a 4Q growth of 0.2% and a 2H19 growth of 0.9%. We forecast FY underlying EBIT to show 3% growth to € 183m (CSS € 180m), with our forecast implying a 5% drop in 2H19 to € 89m.

Steel Wire Solutions: We forecast FY sales to decrease by 3.1% to € 1450m (CSS € 1451m), implying a 4Q drop of 5.5% and a 2H drop of 4.9%. We forecast FY underlying EBIT to decline by 23% to € 44m (CSS € 41m), with our forecast implying a 16% decline in 2H19 to € 16m.

Specialty Businesses: We forecast FY sales to decrease by 1.2% to € 406m (CSS € 405m), implying a flat 4Q sales figure and a 1% growth in 2H19. We forecast FY underlying EBIT to increase by 78% to € 46m (CSS € 42m), with 2H19 underlying EBIT to roughly double to € 21m (note very easy comps).

BBRG: We forecast FY sales to grow by 6.4% to € 492m (CSS € 491m), implying 4.5% growth in 4Q and a 5.7% growth in 2H19. We forecast underlying EBIT to grow from € -7m in FY18 to € 14m in FY19 (CSS € 15m), with 2H evolving from € -9m to € 8m.

Outlook: Our current forecasts for 2020 bank on a further underlying EBIT margin recovery (from 5.5% in FY19e to 6.1% in FY20e). Consensus also banks on a 6.1% margin in 2020, albeit with an underlying EBIT forecast that is in absolute terms about 2.6% below our forecast (€ 264m vs € 271m).



Source: Thomson Reuters Datastream

Bloomberg	BEKB BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 1,211.8m
Shares outst.	60.4m
Volume (daily)	€ 1,778,469
Free float	58.8%

Next corporate event
Results FY19: 4 March 2020

€ m	2019E	2020E	2021E
Sales	4,358.6	4,412.2	4,495.8
REBITDA	463.6	497.1	530.7
Net earnings	45.2	167.9	191.7
Adj. EPS (€)	1.69	2.62	2.99
P/E (x)	11.9	7.7	6.7
EV/REBITDA	5.8	5.1	4.5
FCF yield	13.9%	17.2%	16.2%
Dividend yield	3.5%	3.7%	4.2%

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