04 March 2020

Bekaert (Buy) - Delivering on self-help and cash generation (EUR 19.80 - TP EUR 27.00 from EUR 33.00)

Facts: Underlying EBIT EUR 242m versus EUR 236m consensus and EUR 244m expected

- Update Covid-19: “to date none of Bekaert’s employees have been infected with the virus and our plants in China resumed operations on 10 February. At present, our production plants globally are operating at fairly normal levels and the supply chain remains reasonably fluid. We have limited visibility on the potential impact of Covid-19 on our markets in coming months.”
- Further in its outlook, the company states: “The actions taken in 2019 have significantly strengthened our balance sheet structure and have started to improve our profitability. This has made us more resilient to short-term uncertainties and will enable us to make further progress toward our 7% underlying EBIT margin goal.”
- Bekaert’s consolidated sales came in at EUR 4,322m versus EUR 4,387m expected and consensus of EUR 4,351m.
- Underlying EBIT was in-line with expectations at EUR 242m and above consensus of EUR 236m. The EUR 32m improvement versus 2018 was the results of overhead cost reduction and improved operational cost effectiveness for EUR 36m, the small decline in sales volumes (-1%), which had a positive impact of EUR 1m on underlying EBIT due to a favorable mix effect across business units while the steep decline in wire rod prices resulted in major adverse non-cash inventory valuation adjustments which accounted for EUR -59m (the aggregate effect of EUR +24m in 2018 and EUR -35m in 2019). Better pricing and an improved mix accounted for a total effect of EUR +57m.
- One-off charges amounted to EUR 87m, which was expected.
- Cash generation was strong with working capital down 20%,capex reduced to EUR 98m (EUR 115me) and, as a result, net debt down to EUR 977. We had expected net debt of EUR 943m but consensus was at EUR 1,081m. Net debt/EBITDA went down from 2.7x EBITDA to 2.1x yoy.
- The company keeps the dividend stable at EUR 0.70/share.
- On a divisional level, sales Rubber reinforcement sales came in at EUR 1,953m versus EUR 1,975m consensus and Underlying EBIT amounted to EUR 172m versus EUR 180m consensus. Business was particularly strong in China with 10% volume growth, but manly in the first half.
- Steel Wire Solutions sales came in at EUR 1,448m against EUR 1,451m anticipated but Underling EBIT reached EUR 51m against EUR 41m anticipated. Automotive and Latam suffered, while China and India performed well. With 3 factory closures or adjustments, there is further margin upside in 2020.
- Specialty Business was better than expected with sales of EUR 414m versus EUR 405m anticipated and Underlying EBIT at EUR 52m versus EUR 42m expected. This was mainly thanks to reduced losses from sawing wire and strong Fiber technology sales (Dramix).
- BBRG sales were in-line with expectations and Underlying EBIT amounted to EUR 12m versus EUR 15m consensus.

Our View: Self-help measures will offer relief

Bekaert improved margins despite quite some headwinds in 2019. At stable raw material prices, underlying EBIT of EUR 242m would have been roughly EUR 35m higher in 2019. Wire rod prices are down significantly in China (much less in other regions) in the first months of the year but Bekaert does not witness or anticipate a similar negative impact as in 2019.
The measures takes in 2019 will have a FY impact in 2020, which will further support margin improvement. We expect a 6.4% operating margin in 2020 and 7.0% in 2021.
Cash flow generation was strong with WC down 20%, 5% of which from increased factoring and 15% from organic WC improvement. The EUR 120m factoring was anticipated and similar to the June 30 level, even if it increased versus the end of 2018.

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Investment Conclusion: Buy maintained - Target Price EUR 27.00

In a difficult market environment with trade tensions and political and social unrest, Bekaert managed to improve EBIT margin from 4.9% to 5.6%, largely thanks to self-help and despite a EUR 59m (+24m in ’18 and -35m in ’19) negative delta in inventory valuation. We expect the market to be relieved with these numbers. FCF yields to equity for the next years hover between 15% -20% with PER 2020 at around 6.5x.

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