

BEKAERT

FY results a slight beat, good debt reduction

GENERAL INDUSTRIES
BELGIUM

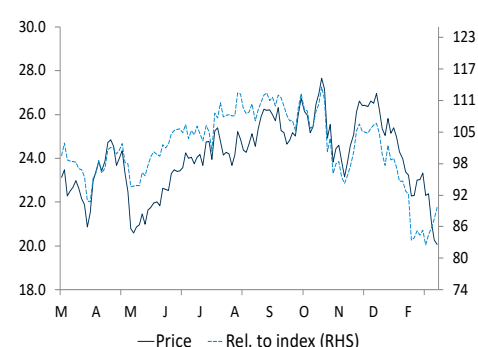
CURRENT PRICE € 19.80
TARGET PRICE € 25.00

HOLD
RATING UNCHANGED

Bekaert's FY19 underlying EBIT increased by 15%, which was 2% better than our forecast and almost 3% better than CSS, with good progress in debt reduction (net debt/EBITDA of 2.1x). Bekaert did not issue a precise FY20 guidance, stating it has limited visibility on the potential COVID-19 impact. The company did reiterate its medium term 7% underlying EBIT margin target. 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 attractive entry point and maintain our Hold rating on the stock.

FY19 underlying EBIT grew by 15% to € 242m (margin up from 4.9% to 5.6%), which was 2% above our € 238m forecast and almost 3% above CSS of € 236m. The increase was mainly realised on the back of pricing and mix improvements (+€ 57m) and cost & overhead reductions (+€ 36m), partly offset by negative inventory valuation effects (-€ 59m). Results surprised positively for Steel Wire Solutions, Specialty Businesses and overheads, while being lower than expected for Rubber Reinforcement. 2H underlying EBIT increased by 17% to € 116m (KBCS € 112m, CSS 110m). 4Q consolidated revenue declined by 5% vs -1.2% expected. **Rubber Reinforcement:** FY sales increased by 2% to € 1,953m (KBCS +3.9% to € 1983m, CSS € 1975m), with 4Q sales declining by 6% and 2H sales down 2%. FY underlying EBIT declined by 6% to € 172m (KBCS +3% to € 183m, CSS € 180m), with a 16% drop in 2H19 to € 78m (KBCS -5% to € 89m). **Steel Wire Solutions:** FY sales decreased by 3% to € 1448m (close to our and CSS of respectively € 1450m and € 1451m), with a 4Q drop of 6% and an 2H drop of 5%. FY underlying EBIT declined by 11% to € 51m, which was better than our and CSS forecasts of respectively € 44m (-23%E) and € 41m, with underlying EBIT up 21% in 2H to € 23m (KBCS -16% to € 16m). **Specialty Businesses:** FY sales grew by 1% to € 414m (KBCS € -1% to € 406m, CSS € 405m), with a 9% increase in 4Q and a 4% growth in 2H. FY underlying EBIT doubled to € 52m (KBCS +78% to € 46m, CSS € 42m), with 2H19 underlying EBIT that increased from € 7m to € 27m. (KBCS € 21m). **BBRG:** FY sales grew by 6% to € 489m, close to our and CSS forecasts of respectively € 492m and € 491m), with a 4Q growth of 1% and a 4% growth in 2H19. Underlying EBIT grew from € -7m in FY18 to € 12m in FY19 (KBCS € 14m, CSS € 15m), with 2H evolving from € -9m to € 6m. **Net debt** declined from € 1253m in mid-year to € 977m, which was significantly better than our € 1.16bn forecast (CSS € 1,081m) and which corresponds to a net debt/REBITDA multiple of 2.1x. Increased used of factoring only delivered a small contribution to the much improved balance sheet.

Outlook: Bekaert commented that its plants in China resumed operations on 10 February and are currently operating at fairly normal levels with the supply chain being reasonably fluid at the moment. Visibility on the potential COVID-19 impact is limited though. The profit improvement actions are starting to improve profitability, and Bekaert commented they should enable to make further progress toward the 7% underlying EBIT margin goal. The statements compare to our and CSS forecasts of a 6.1% margin in 2020.



Source: Thomson Reuters Datastream

Bloomberg	BEKB BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 1,196.1m
Shares outst.	60.4m
Volume (daily)	€ 1,759,792
Free float	58.8%

Next corporate event
General Assembly 19: 13 May 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)	11.7	7.6	6.6
EV/REBITDA	5.7	5.1	4.5
FCF yield	14.1%	17.5%	16.4%
Dividend yield	3.5%	3.8%	4.3%

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