KBC Securities
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Bekaert : feedback analyst meeting

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) on the back of good progress in working capital management and (temporarily) reduced capex spend. 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, which compares to a 5.6% margin achieved in 2019. Despite the significant additional benefits from self-help measures, we are increasingly worried that the COVID-19 virus outbreak and weakening macro and automotive/truck markets will impact profitability. We will lower our 2020 forecasts somewhat from a previous assumption of a 6.1% underlying EBIT margin . 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.

Headlines analyst meeting :

- COVID-19 : management is not seeing a major disruption today because of COVID-19, with its Chinese plants operational and the supply chain fairly fluid so far. Nevertheless, management was fairly open in saying that things will likely degrade. Probably customers have been worried in recent weeks about supply security and might have ordered in excess of underlying demand in order to build some safety stocks themselves. As underlying demand is weak, this order building pattern will most likely stop soon anyway, and the weakening demand will become visible.
- Rubber Reinforcement : competition has so far not become very active in the higher tensile cords, as they cannot play in this segment without jeopardizing margins (because of a technology backlog, the Chinese players are forced to order higher quality and more expensive wire rod grades from abroad, which eats away the selling price difference). Xingda is probably the only other player that is able to make the higher tensile tire cord out of locally sourced wire rod. Overall, it seems that Bekaert's Chinese management team has chosen in the past few months to defend the market share gains it has made, and this has come a bit at the expense of price/mix. Bekaert is now re-evaluating this strategy, we believe, as there are also some local management changes at its Chinese Rubber Reinforcement business.
- Capex guidance : after capex was just below € 100m in 2019, capex will be increased in 2020 to € 150-170m, with expansion of the Dramix capacity and the planned Vietnamese tire cord plant as the two biggest drivers for the increased capex.

- Wire rod availability and pricing. Availability is good, and there is no real change to the legislative framework in the US (still quota system with Brazil). In light of the weak demand, CEO believes that wire rod prices might slightly decline further.
- Net debt nicely reduced at year-end 2019 with a net debt/EBITDA multiple of 2.1x. Bekaert made nice progress on the working capital management (reaching 16.4% of sales at year-end, the lowest level in the past decades). Management commented to have made good progress on inventory management and on receivables management (especially reducing overdue payments balance).
- Efficiency improvements : Bekaert should see significant additional benefits from efficiency measures (like the announced plant closures in the US and Malaysia as well as the Belgian restructurings). No fresh number was given this time but we recall that previously a number of about € 30m savings has been communicated on these initiatives.
- Sawing wire is running at break-even levels at the moment. Management does not want to invest themselves into additional capacity but is still in active discussions with potential partners that would fund future investments while Bekaert would then license or contribute its diamond wire technology.