13 May 2020

Bekaert (Under Review): Impact of COVID19 is already there (EUR 18.9/TP UR)

20Q1 showed -11% on revenues which is worse than our estimated low single digit decline. The impact of COVID19 already became visible, especially in tire and automotive in China. The outlook gives not much guidance. For now, we keep our rating UR.

Facts: Double digit revenues decline in 20Q1

- The 20Q1 trading update showed -11% in revenues (-9% in volumes), worse than our estimated low single digit decline. The main decline was in Rubber reinforcement (-17% in revenues, -14% volumes and rest impact lower wired rod prices), mainly due to a decline in China tires and automotive. The other market segments kept up relatively well.
- Net debt was flat vs year-end, due to strong working capital control in the first quarter. This keep its net debt to EBITDA at 2.1x. Liquidity is up more than EUR 190m vs. year-end and it had over EUR 750m in cash at hand.
- Outlook: the Q2 sales are projected to decline 'markedly'. As the duration of the crisis is still uncertain, Bekaert indicates that there is no visibility on a full-year impact in its business. Bekaert continues to apply strict control on costs, working capital and capital expenditure.

Our view: Impact of COVID19 is already more visible than we had expected

End of March Bekaert had already warned that the temporary plant shutdowns and demand evolutions would 'significantly impact' its business performance in 2020. In the same update it indicated that its 20Q1 numbers would still be' encouraging'. Although from a cash flow perspective, Bekaert indeed did a good job, on top line the impact from Covid19 already became more visible than we had anticipated. Still, it is no surprise that Bekaert is hit hard by the COVID 19 crisis, for instance given its high exposure to automotive. Its outlook gives not much guidance, which is understandable. We currently foresee a 25% drop in REBIT to EUR 183m in 2020, so margin down from 5.5% to 4.4%, so far off from its medium-term target of 7%. Obviously earnings visibility is very low.

Conclusion: Cost cutting and cash preservation mode

It is logical that Bekaert has moved into a cost cutting (temporary working hours reduction) and cash preservation mode (e.g. dividend was cut in half to EUR 0.35 and payment postponed to later in the year).Liquidity does not seem to be an issue, also due to the refinancing actions taken in 2019. For now, we keep our rating and TP under review.

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