

BEKAERT

1Q consolidated sales -11%

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 18.84
TARGET PRICE € 25.00

HOLD
RATING UNCHANGED

1Q sales declined by 11% slightly lower than our -9.4% forecast, with a 17% drop in the largest segment, Rubber Reinforcement. Bekaert does not give precise guidance but expects a marked sales decline in 2Q (no surprise). Luckily enough Bekaert has significantly strengthened its balance sheet last year, with net debt/underlying EBITDA currently at 2.1x. It remains very difficult to make profit projections at this stage, and we currently forecast a 27% drop in FY underlying profit. Given the very limited visibility and highly cyclical nature of many of Bekaert's businesses, we stick to our conservative Hold rating for now.

Bekaert reported an 11% drop (to € 977m) in 1Q20 consolidated revenue, which compares to our forecast calling for a 9.4% decline to € 991m. Divisional overview of 1Q consolidated sales:

Rubber Reinforcement: 1Q sales dropped by 17% to € 417m (KBCS -14% to € 432m). Volumes declined by 13.5%, while the aggregate impact of lower passed-on wire prices and price/mix was about 4%. 1Q volumes dropped by 20% in China and the US while the decline in EMEA and India was more than -10%. Bekaert commented that the tire sector anticipates low demand in 2Q while not projecting to rebound to the 2019 levels in the second half of the year.

Steel Wire solutions: 1Q sales declined by 8% to € 345m (KBCS -5% to € 357m), with volumes down -3.8%, passed-on lower raw materials prices -6.2%, price/mix +4.6% and FX -2.8%. Volumes grew by 22% in China and by 13% in EMEA, while also agricultural and utility markets in the US were strong. Volumes were weak in India (-38%) and Latin America (-14%) due to lockdowns. Overall, the lockdowns and low demand from automotive and oil markets is expected to weigh in 2Q, while demand for agricultural and utility applications is guided to remain relatively stable.

Specialty Businesses: 1Q sales grew by 1% to € 98m (KBCS -5% to € 92m). Sales were roughly stable for Building Products, slightly higher in Fiber Technologies and moderately lower in Combustion. Volumes for sawing wire dropped due to weak demand from the (export-driven) Chinese solar industry.

BBRG: 1Q sales declined by 2% to € 115m (KBCS -6% to € 110m). The 8.2% volume decline was largely offset by better business and price mix. Key ropes markets such as mining, oil & gas, crane & industrial have been less impacted by COVID-19 so far. In the advanced cords business, timing belt and elevator markets remained solid, while demand from automotive markets dropped.

Balance sheet and liquidity update. Net debt was slightly up in 1Q (from € 977m at the end of 2019 to € 986m), with net debt/underlying EBITDA fairly stable at 2.1x. The working capital increased by € 35m vs year-end, partly supported further by increased use of factoring (+€ 13m to € 134m). Bekaert commented to have drawn down an additional € 190m on committed facilities, and now has a liquidity position of € 758m. 1Q capex was limited to € 20m.

Outlook: Unsurprisingly, Bekaert commented to project a marked decline in 2Q sales in different sectors that are relevant to the company. The magnitude of the impact of the COVID-19 pandemic starts to become visible, but the duration is highly uncertain. Bekaert does not issue a precise guidance at this stage. Our forecasts incorporate a 27% drop in FY20 underlying EBIT to € 178m.



Source: Thomson Reuters Datastream

Bloomberg	BEKB BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 1,138.1m
Shares outst.	60.4m
Volume (daily)	€ 1,708,394
Free float	58.8%

Next corporate event

Results 1H20: 31 July 2020

€ m	2019	2020E	2021E
Sales	4,322.5	3,813.9	4,201.4
REBITDA	468.0	393.7	482.0
Net earnings	41.3	96.7	168.5
Adj. EPS (€)	1.60	1.63	2.63
P/E (x)	15.0	11.6	7.2
EV/REBITDA	5.8	5.8	4.7
FCF yield	25.2%	14.9%	7.9%
Dividend yield	2.9%	3.7%	4.2%

Wim Hoste

+32 2 429 37 13

wim.hoste@kbcsecurities.be