

BEKAERT

Read-through from Michelin tire market data

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 18.70
TARGET PRICE € 25.00

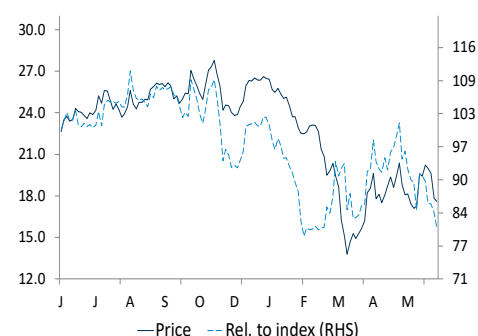
HOLD
RATING UNCHANGED

Michelin's tire market data for May still show significant declines across most regions and segments, with only a bit of a green shoot from the Chinese passenger car replacement market (up 7% y/y). Our Rubber Reinforcement top line forecasts for Bekaert incorporate a 28% drop in 2Q, which might seem on the optimistic side in light of the Michelin data. We remain cautious on the short term top line trends and maintain our Hold rating for the moment.

Facts: Michelin issued a tire market update for the month of May. Passenger car & light truck tire demand was still down significantly in all regions in the OEM market (Europe including CIS -66%, North America -78% and South America -86%, with China down 10%). In the bigger Replacement market, China showed 7% growth, with the other regions still down (Europe -32%, North America -29% and South America -55%). In the first five months of the year, regional demand was down between 34-50% in the OEM market and down between 18% and 25% in the Replacement market.

In the truck & bus market, regional declines in May vary between 50% and 68% (Europe -50%, North America -68%, South America -59%, China NA) in the OEM market and down between 22% and 51% in the Replacement market (Europe -33%, North America -22% and South America -51%, China NA). Over the first five months of the year, regional demand was down between 33% and 42% in the OEM market, while in the Replacement market the declines were between 5% and 25%.

Our view/read-through for Bekaert: We remind that Bekaert posted a 17% drop in Rubber Reinforcement sales in 1Q, with volumes down 13.5% and the aggregate impact of lower passed-on wire prices and price/mix of about 4%. We remind as well that 1Q volumes were said at that time to have dropped by 20% in China and the US while the decline in EMEA and India was more than 10%. Bekaert mentioned that the domestic Chinese market showed already a bit of a rebound in March, while export-oriented Chinese manufacturers increasingly suffered from low demand in global markets. Bekaert commented also that the tire sector anticipated low demand in 2Q while not projecting to rebound to the 2019 levels in the second half of the year. Our forecasts incorporate a 28% drop in Rubber Reinforcement sales in 2Q, followed by a bit of recovery in the second half of the year (3Q -16% y/y, 4Q -10% y/y). Our forecasts seem a bit on the optimistic side in light of the Michelin May data.



Source: Thomson Reuters Datastream

Bloomberg	BEKB BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 1,129.6m
Shares outst.	60.4m
Volume (daily)	€ 1,660,695
Free float	58.8%

Next corporate event
Results 1H20: 31 July 2020

€ m	2019	2020E	2021E
Sales	4,322.5	3,757.5	4,138.0
REBITDA	468.0	409.0	465.9
Net earnings	41.3	90.3	148.9
Adj. EPS (€)	1.60	1.53	2.32
P/E (x)	15.0	12.2	8.0
EV/REBITDA	5.8	5.5	4.8
FCF yield	25.2%	17.6%	5.7%
Dividend yield	1.5%	1.9%	3.7%

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