



Bekaert

Wire & Cable Products / Belgium

Wires for tyres? Not this time!

Earnings/sales releases - 04/08/2020

Bekaert posted a 20.2% yoy revenue contraction, mainly affected by its 42.2% exposure to the tyre & automotive sector (-29.1% yoy) and 18.9% exposure to the Construction sector (-28.8% yoy). Limiting this contraction, the basic materials and energy & utilities sectors grew by 33.4% yoy and 10.6% yoy, respectively. This translated into a €87m EBIT (benefiting from lower overhead costs, temporary plant shutdowns, and an increased focus on higher margin activities). As of now, the company has not given renewed guidance.

Fact

H1 20 revenue was €1.8bn (-20.2% yoy), split by industry (largest only):

- Tyre & automotive (42.2% of total sales vs. 47.4% in H1 19) shrank by 29.1% yoy.
- Construction (18.9% of total sales vs. 21.2% in H1 19) reduced by 28.8% yoy.
- Basic materials (10% of total sales vs. 6% in H1 19) grew by 33.4% yoy.
- Energy & utilities (9.1% of total sales vs. 6.6% in H1 19) grew by 10.6% yoy.
- Equipment (8.4% of total sales vs. 7.1% in H1 19) shrank by 4.9% yoy.

Reported EBITDA was €188m (-16.8% yoy), with a margin of 10.6% vs. 10.2% in H1 19.

Net income was €-54m (margin of -1.9% vs. -3.5% in H1 19).

Net debt was €955m (-23.8% yoy), and FCF €16.8m (vs. €41.8m in H1 19) which included a working capital increase of €32.8m (vs. a working capital increase of €65.3m in H1 19) and a capex of €50.8m (-13.2% yoy).

Analysis

Bekaert released its H1 20 results exhibiting a mixed set of numbers. Revenue shrank by 20.2% yoy with a growing EBITDA margin (10.6% in H1 20 vs. 10.2% in H1 19). Unsurprisingly, the rubber reinforcement segment (40% of total sales) led the contraction (-30.1% yoy) as 95% of the segment's sales come from its tyre & automotive customers. Unfortunately, the company does not offer detailed enough data on its exposure to each market (OEMs or replacement). However, to put this contraction into context, passenger car and light truck tyre volumes shrank by c.34% yoy in OEMs and c.-21% in the replacement market, while in the heavy truck tyres market volume shrank by 15% in OEMs and -19% in the replacement market. Therefore, with the given ratios, we are able to imply that most of its revenue come from the OEMs in the passenger car and light truck market. As such, we expect the segment's FY20 revenue to contract by c.17%, rooted in our FY20 tyre market expectations: passenger car and light truck tyre volume to shrink by c.18% yoy, while the heavy truck tyre contracts by c.15% yoy.

On the construction-dominated Steel Wire Solutions segment (36% of total sales), revenue was down by 14.9% yoy due to its c.27% and c.16% exposure to the construction and tyre & auto sectors, respectively. Adding to the contraction,



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Buy	Upside: 46.3%
Target Price (6 months)	€ 24.5
Share Price	€ 16.8
Market Cap. €M	1,012
Price Momentum	NEGATIVE
Extremes 12Months	13.5 ▶ 27.3
Fundamental Strength	0 / 10
Bloomberg	BEKB BB Equity
Reuters	BEKB.BR


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PERF	1w	1m	3m	12m
Bekaert	0.30%	-2.22%	-11.8%	-31.5%
Capital Goods	-0.85%	5.13%	24.0%	22.2%
STOXX 600	-0.69%	-0.49%	6.94%	-3.84%

Sector Opinion	Underweight
Strongest upside	Bilfinger
Worst potential	Kone

[Complete Sector Analysis](#)

Last updated: 10/07/2020	12/19A	12/20E	12/21E	12/22E
Adjusted P/E (x)	32.2	14.1	7.19	6.17
Dividend yield (%)	1.50	4.18	4.18	4.18
EV/EBITDA(R) (x)	5.50	5.41	4.25	4.08
Adjusted EPS (€)	0.72	1.19	2.33	2.72
Growth in EPS (%)	-32.3	63.5	96.6	16.6
Dividend (€)	0.35	0.70	0.70	0.70
Sales (€M)	4,322	3,859	4,135	4,369
EBIT margin (%)	5.60	4.48	5.50	5.84
Attributable net profit (€M)	41.3	67.7	133	155
ROE (after tax) (%)	2.92	4.79	9.39	10.3
Gearing (%)	75.7	68.5	54.5	42.1

[Company Valuation](#) - [Company Financials](#)

Bekaert's decision to close its loss-generating plants in Shelbyville (US) and Ipoh (Malaysia) negatively contributed to the segment's sales. Offsetting this contraction, the company relied on its significant (c.57% of sales) exposure to more resilient sectors (i.e. energy & utilities, agriculture, and basic materials). All in all, reported EBIT reached €40m (+44% yoy, with a 5.9% margin vs. 3.4% in H1 19). This segment's profitability surge was due to an improved business mix (reduced exposure to its lower margin activities). Looking towards H2 20, the company expects the segment margin to be lower due to the continued uncertainty and usual seasonality effects. In this context, we expect the segment's FY20 revenue to shrink by c.7% (assuming a c.+1% yoy growth in H2 20), while expecting its construction exposure to shrink by c.10% yoy, and its energy & utilities and agriculture exposures to both remain flat yoy.

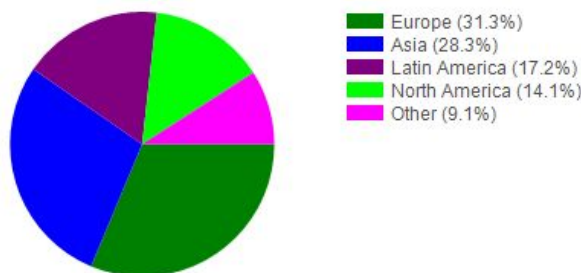
Lastly, on the Bridon-Bekaert Ropes Group (BBRG) (13% of total sales), revenue fell by 5.4% yoy due to its exposure to resilient sectors such as energy & utilities, equipment, and its growing multi-industry basic materials business (i.e. conveyor belt cord, timing belts, cut-resistant gloves, etc.) Also, as is the case in the Steel Wire Solutions segment, part of the volume decrease in H1 20 comes from BBRG moving away from its lower margin activities. This resilience (exposed to industries generally considered "essential") improved its EBIT margins from 3.4% in H1 19 to 10.3% in H1 20 (or a +200% yoy growth). Looking towards FY20, we expect the segment's revenue to shrink by c.-6% yoy as the company continues with its reduction of lower margin activities.

As for the FY20 outlook, the company gave none, stating that there is still too much uncertainty in the market. However, it vaguely stated that the tyre markets should experience a gradual recovery throughout the remainder of the year. We agree with this statement as we are expecting a c.17% yoy contraction in its tyre-and-automotive-dominated rubber reinforcement segment, that is, a c.4% yoy contraction in H2 20. All in all, we expect revenue to be down by c.12% yoy, while its EBIT margin should be lower than in H1 20 because of the usual seasonality effects of H2. That is, despite the revenue contraction, we expect to see positive profitability for FY20.

■ Impact

Due to Bekaert's H1 20 results, we will slightly trim our revenue estimates (from €3.86bn to €3.8bn) and adjust our cost estimates to reflect more accurately Bekaert's cost reduction efforts (i.e. closing lower margin activities). Consequently, our earnings estimates should be downgraded, while remaining positive. All in all, taking into account a lower WCR and capex than previously expected, FCF should be slightly upgraded, hence, pushing net debt down.

Sales by Geography



Consolidated P&L Accounts

		12/19A	12/20E	12/21E
Sales	€M	4,322	3,859	4,135
Change in sales	%	0.41	-10.7	7.15
Change in staff costs	%	4.97	-7.45	5.83
EBITDA	€M	480	403	462
EBITDA(R) margin	%	11.1	10.4	11.2
Depreciation	€M	-198	-190	-195
Underlying operating profit	€M	242	173	227
Operating profit (EBIT)	€M	155	173	227
Net financial expense	€M	-84.7	-63.0	-67.0
of which related to pensions	€M		11.1	10.1
Exceptional items & other	€M			
Corporate tax	€M	-51.1	-45.0	-45.0
Equity associates	€M	29.0	18.0	28.0
Minority interests	€M	-6.87	-15.0	-10.0
Adjusted attributable net profit	€M	41.3	67.7	133
NOPAT	€M	198	131	180

Cashflow Statement

		12/19A	12/20E	12/21E
EBITDA	€M	480	403	462
Change in WCR	€M	169	-77.3	134
Actual div. received from equity holdi...	€M	0.00	0.00	0.00
Paid taxes	€M	-60.6	-45.0	-45.0
Exceptional items	€M			
Other operating cash flows	€M	-63.9	0.00	0.00
Total operating cash flows	€M	524	280	551
Capital expenditure	€M	-111	-110	-175
Total investment flows	€M	-91.1	-110	-175
Net interest expense	€M	-84.7	-63.0	-67.0
Dividends (parent company)	€M	-53.4	-19.8	-39.6
Dividends to minorities interests	€M	0.00	0.00	0.00
New shareholders' equity	€M	-9.46		
Total financial flows	€M	-269	1,064	-1,115
Change in cash position	€M	167	1,235	-739
Free cash flow (pre div.)	€M	329	107	309

Per Share Data

		12/19A	12/20E	12/21E
No. of shares net of treas. stock (year...	Mio	56.5	56.5	56.5
Number of diluted shares (average)	Mio	57.0	57.2	57.2
Benchmark EPS	€	0.72	1.19	2.33
Restated NAV per share	€			
Net dividend per share	€	0.35	0.70	0.70

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 21.9	35%	■ Faurecia
NAV/SOTP per share	€ 25.9	20%	● Salzgitter
EV/Ebitda	€ 26.5	20%	● Outokumpu
P/E	€ 32.2	10%	■ Prysmian
Dividend Yield	€ 21.7	10%	■ Nexans
P/Book	€ 19.3	5%	■ SSAB
TARGET PRICE	€ 24.5	100%	● Danieli & Co

NAV/SOTP Calculation

Balance Sheet

		12/19A	12/20E	12/21E
Goodwill	€M	150	150	150
Total intangible	€M	210	210	210
Tangible fixed assets	€M	1,350	1,270	1,250
Financial fixed assets	€M	161	170	170
WCR	€M	797	874	740
Other assets	€M	219	230	210
Total assets (net of short term liab.)	€M	2,886	2,754	2,580
Ordinary shareholders' equity	€M	1,435	1,393	1,443
Quasi Equity & Preferred	€M			
Minority interests	€M	96.4	89.4	79.4
Provisions for pensions	€M	272	286	313
Other provisions for risks and liabilities	€M	55.2	30.0	50.0
Total provisions for risks and liabilities	€M	327	316	363
Tax liabilities	€M	34.2	40.0	38.0
Other liabilities	€M	0.27	0.27	0.27
Net debt (cash)	€M	992	916	656
Total liab. and shareholders' equity	€M	2,886	2,754	2,580

Capital Employed

		12/19A	12/20E	12/21E
Capital employed after depreciation	€M	2,517	2,524	2,370

Profits & Risks Ratios

		12/19A	12/20E	12/21E
ROE (after tax)	%	2.92	4.79	9.39
ROCE	%	7.88	5.20	7.59
Gearing (at book value)	%	75.7	68.5	54.5
Adj. Net debt/EBITDA(R)	x	2.07	2.27	1.42
Interest cover (x)	x	2.86	2.33	2.95

Valuation Ratios

		12/19A	12/20E	12/21E
Reference P/E (benchmark)	x	32.2	14.1	7.19
Free cash flow yield	%	24.9	11.3	32.6
P/Book	x	0.92	0.68	0.66
Dividend yield	%	1.50	4.18	4.18

EV Calculation

		12/19A	12/20E	12/21E
Market cap	€M	1,320	947	947
+ Provisions	€M	327	316	363
+ Unrecognised actuarial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	992	916	656
+ Leases debt equivalent	€M	0.00	0.00	0.00
- Financial fixed assets (fair value)	€M			
+ Minority interests (fair value)	€M	0.00	0.00	0.00
= EV	€M	2,640	2,179	1,967
EV/EBITDA(R)	x	5.50	5.41	4.25
EV/Sales	x	0.61	0.56	0.48

Analyst : David Chaucayanqui, Changes to Forecasts : 10/07/2020.