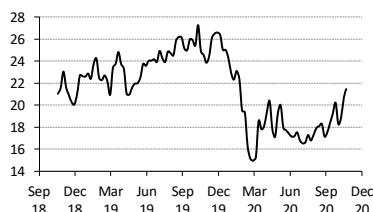


UNDER REVIEW (vs. HOL)

Price (19/11/2020)	EUR 21.46
Target price	-
Risk	High
Reuters	BERTt.BR
Bloomberg	BEKB BB
Shares number (m)	60.10
Market cap. (m)	1,290
Net debt 12/20e (m)	843
Net debt/EBITDA 12/20e	2.06
1 year price perf.	-16.0%
Diff. with Euro Stoxx	-12.4%
Volume (sh./day)	68,916
Free Float	59.0%
H/L 1 year	26.96 - 13.79

Company description

Bekaert is a global market leader in steelwire transformation and coating technologies, and the world's largest independent manufacturer of drawn steel wire products. Bekaert employs >28K people and serves customers in 120 countries.



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Bekaert

A much stronger than anticipated margin recovery

- The 20Q3 revenues declined to -8%, less than our estimate of -10.6%, with volumes down only 2% yoy.
- Outlook: Bekaert expects FY20 REBIT to be close to FY19 (was EUR 243m), which means significant earnings upgrades as we are currently at EUR 190m (consensus EUR 196m). Margins strongly benefit from cost cutting and mix improvement actions.
- We put our rating, estimates and TP (was EUR 20) under review.

Facts: Strong rebound in 20Q3 volumes, strong FY20 outlook

- The 20Q3 revenues decline of -8% was better than our estimate of -10.6%. Volumes were down only 2%, while FX had more adverse impact than expected (-5% vs our estimate of -3%). Rubber reinforcement showed a strong rebound (+50% qoq due to tire sales) and many regions strongly recovered from the lockdowns. See exhibit 1 for the breakdown per division.
- Net debt was down by EUR 143m in the quarter to EUR 834m, much lower than our estimate of EUR 890m, due to ongoing stringent working capital and capex control. Net debt to EBITDA is now below 2x.
- Outlook: Bekaert still sees FY20 REBIT to be 'close to' FY19 level (was EUR 243m). This means significant earnings upgrades as we are currently at a FY20 REBIT of EUR 190m and consensus EUR 196m.

Our View: Impressive margin improvement in 20H2

20Q3 revenues rebounded stronger than anticipated and also for 20Q4 Bekaert is positive: further improvement in Q4 for Rubber Reinforcement and pretty stable trading conditions for the other divisions. We are impressed by the projected margin improvement for 20H2, which is the reflection of implemented cost savings and product mix improvement actions. REBIT in 20H2 should be close to EUR 145-150m, while it was 'only' EUR 92m in 20H1. This implies that the REBIT margin will already be close to 7% in 20H2, its medium-term target. We were at a FY20 REBIT of EUR 190m (consensus EUR 196m), meaning that we have to move up some 20% towards the guidance level of around EUR 235-240m. Also, for 2021 and onwards we put our estimates under review and these will have to move up significantly due to the higher than anticipated REBIT margins.

EUR	12/16	12/17	12/18	12/19	12/20e	12/21e	12/22e
Sales	3,713	4,098	4,306	4,323	3,652	3,957	4,116
EBITDA	479.1	512.8	386.8	403.2	409.7	411.4	454.7
Adj. profit	103	159	38.7	41.2	88.6	107	145
EPS	1.78	2.77	0.67	0.72	1.54	1.86	2.52
Div.	1.10	1.10	0.70	0.35	0.35	0.70	0.80
EV/EBITDA	7.2	6.5	6.2	6.0	5.3	5.2	4.5
P/E	21.6	13.2	31.2	36.9	13.9	11.5	8.5
FCF Yield	11.2%	2.6%	7.3%	19.6%	14.0%	4.9%	8.9%
Div. Yield	2.9%	3.0%	3.3%	1.3%	1.6%	3.3%	3.7%

Conclusion: Rating, estimates and TP under review

As we have to digest this surprisingly strong 20Q3 trading update, in particular on the margins, we put our estimates, rating (was Hold) and TP (was EUR 20) under review. This afternoon Bekaert will host a conference call at 15:30 CET. Although COVID continues to create uncertainty, Bekaert structural improvement actions on costs and product mix clearly become visible now that trading conditions have more normalized. Its balance sheet is also back in safe territory with a net debt to EBITDA below 2x. Furthermore, the successful issue of the EUR 200m retail bond in October means that Bekaert no longer has to issue a new convertible, which has also taken away some uncertainty. With its strong cash position, it can now comfortably redeem the upcoming EUR 380m convertible of June 2021.

Exhibit 1 20Q3 revenues vs our and consensus expectations

Revenues in EUR	19Q3	20Q3	yoy	DGP estimate	%	Consensus
Rubber Reinforcement	480	437	-9%	432		419
Steel Wire Solutions	357	342	-4%	311		319
Specialty Businesses	109	103	-6%	98		100
BBRG	123	101	-18%	113		112
Other	6	2	-65%	6		5
Consolidated sales	1075	985	-8%	961	3%	955

Source: Degroof Petercam estimates

Profit & Loss (EUR m)	12/16	12/17	12/18	12/19	12/20e	12/21e	12/22e
Revenues	3,713.1	4,098.0	4,306.0	4,323.1	3,652.1	3,957.1	4,116.3
Gross profit	687.9	657.2	527.4	527.8	452.9	514.4	584.5
EBITDA	479.1	512.8	386.8	403.2	409.7	411.4	454.7
EBITA	302.1	301.3	210.3	243.0	189.7	223.4	264.7
EBIT	257.1	314.8	146.8	155.2	204.7	207.4	250.7
Net Financial Result	-73.0	-69.8	-85.0	-66.4	-58.3	-59.0	-56.0
Exceptionals (gross)	-	-	-	-	-	-	-
Taxes	-62.1	-66.7	-59.5	-51.3	-61.8	-48.4	-57.9
Except./discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net declared earnings	102.6	159.3	38.7	41.2	88.6	107.0	144.9
Net adjusted earnings	102.6	159.3	38.7	41.2	88.6	107.0	144.9
Cash Flow (EUR m)	12/16	12/17	12/18	12/19	12/20e	12/21e	12/22e
EBIT	257.1	314.8	146.8	155.2	204.7	207.4	250.7
Depreciation	222.0	198.0	240.0	248.0	205.0	204.0	204.0
Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Impairment charges	0.0	0.0	0.0	57.0	0.0	0.0	0.0
Changes in provision	-44.9	0.0	-36.4	-61.3	-60.0	-35.0	-30.0
Changes in working capital	16.3	-57.8	19.5	167.1	65.6	-35.2	-19.3
Others	24.2	-26.9	-14.6	-46.7	-30.0	-25.0	-15.0
Operational Cash Flow	474.8	428.1	355.4	519.3	385.3	316.2	390.5
Tax expenses	-96.4	-66.7	-69.0	-60.6	-61.8	-48.4	-57.9
Dividends from associates	22.4	15.5	24.1	18.8	16.8	16.8	17.6
Net interest charges	-56.1	-69.8	-60.8	-55.0	-58.3	-59.0	-56.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CF from operating activities	344.8	307.1	249.7	422.5	282.0	225.6	294.2
CAPEX	-164.5	-250.0	-185.0	-112.0	-101.0	-163.0	-180.0
Acquisitions	0.0	0.0	2.8	0.0	0.0	0.0	0.0
Divestments	0.0	0.0	56.1	2.1	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CF from investing activities	-164.5	-250.0	-126.1	-109.8	-101.0	-163.0	-180.0
Dividend payment	-63.4	-66.1	-66.1	-53.0	-21.0	-21.0	-42.1
Minor. & pref. dividends	0.0	0.0	0.0	-13.0	-2.0	-4.0	-6.0
Equity financing	0.0	0.0	-11.3	-10.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CF from financing activities	-63.4	-66.1	-77.4	-76.0	-23.0	-25.0	-48.1
Net debt/cash change	116.9	-9.0	46.2	236.6	158.0	37.6	66.1
Balance Sheet (EUR m)	12/16	12/17	12/18	12/19	12/20e	12/21e	12/22e
Tangible fixed assets	1,514.7	1,501.0	1,459.4	1,498.7	1,394.7	1,353.7	1,329.7
Goodwill	152.3	149.9	149.3	149.8	149.8	149.8	149.8
Other intang. assets	140.4	125.2	114.5	60.3	60.3	60.3	60.3
Financial fixed assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Fixed assets	2,136.5	2,124.2	2,049.6	2,048.0	1,938.2	1,891.4	1,861.8
Working capital	907.3	951.2	926.1	775.6	710.0	745.1	764.4
Total Equity	1,597.9	1,583.0	1,516.0	1,531.5	1,535.1	1,586.1	1,662.8
Provisions & deferred taxes	298.3	241.3	208.5	182.6	182.6	182.6	182.6
Net financial debt	1,088.3	1,165.6	1,180.4	992.3	843.3	790.8	713.7
Total assets	4,304.3	4,444.7	4,449.5	4,304.7	4,013.6	3,936.5	3,908.7
Shares - per share data (EUR)	12/16	12/17	12/18	12/19	12/20e	12/21e	12/22e
Adjusted EPS	1.78	2.77	0.67	0.72	1.54	1.86	2.52
Dividend	1.10	1.10	0.70	0.35	0.35	0.70	0.80
No shares - average (m)	57.60	57.60	57.40	57.40	57.40	57.40	57.40
Ratios	12/16	12/17	12/18	12/19	12/20e	12/21e	12/22e
Valuation analysis							
Adjusted P/E	21.6	13.2	31.2	36.9	13.9	11.5	8.5
P/BV	1.5	1.4	0.9	1.1	0.9	0.8	0.8
EV/EBITDA	7.2	6.5	6.2	6.0	5.3	5.2	4.5
EV/EBIT	13.3	10.7	16.3	15.5	10.7	10.3	8.2
EV/FCF (1)	8.3	17.3	10.7	5.6	9.0	17.2	11.9
FCF yield (2)	11.2%	2.6%	7.3%	19.6%	14.0%	4.9%	8.9%
Dividend yield	2.9%	3.0%	3.3%	1.3%	1.6%	3.3%	3.7%
Financial ratios							
Net Debt/EBITDA	2.3	2.3	3.1	2.5	2.1	1.9	1.6
Net Debt/Equity	68.1%	73.6%	77.9%	64.8%	54.9%	49.9%	42.9%
ROCE post-tax	5.7%	8.1%	-3.7%	1.9%	4.6%	5.8%	7.4%
ROCE post-tax (grossed gdwll)	5.7%	8.1%	-3.7%	1.9%	4.6%	5.8%	7.4%
Margin analysis and tax rate							
Gross margin	18.5%	16.0%	12.2%	12.2%	12.4%	13.0%	14.2%
EBIT margin	6.9%	7.7%	3.4%	3.6%	5.6%	5.2%	6.1%
Tax rate	42.4%	31.8%	163.6%	72.8%	47.0%	35.0%	31.0%
Growth analysis							
Sales	1%	10%	5%	0%	-16%	8%	4%
Adjusted EPS	1%	55%	-76%	6%	115%	21%	35%

(1) Based on FCF to Enterprise - (2) Based on FCF to Equity

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	SELL	REDUCE	HOLD	ADD	BUY
High Beta >= 1.3	RP < -15%	-15% <= RP < -6%	-6% <= RP < +6%	+6% <= RP < +15%	RP >= 15%
Medium 0.9 < Beta < 1.3	RP < -10%	-10% <= RP < -4%	-4% <= RP < +4%	+4% <= RP < +10%	RP >= 10%
Low Beta <= 0.9	RP < -6%	-6% <= RP < -2%	-2% <= RP < +2%	+2% <= RP < +6%	RP >= 6%

RP : Relative Performance against Degroof Petercam coverage universe

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