

BEKAERT

FY EBIT guidance of almost flat is positive surprise

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 21.46
TARGET PRICE € 28.00

ACCUMULATE
RATING UPGRADED

3Q revenue dropped by 8% vs our and CSS forecasts of around -11%. Bekaert positively surprised with underlying EBIT guidance for the full year that is expected to be close to 2019 levels (vs KBCS -18% and CSS -19%). We view in the guidance a clear sign that the restructuring and portfolio upgrading efforts are gaining pace. We will up our forecasts but decided to already increase our rating from Hold to Accumulate with TP upped from € 25 to € 28.

News/our view: 3Q consolidated sales dropped by 8% y/y to € 985m which compares to our and CSS forecasts of around -11% (KBCS -10.8% y/y to € 959m, CSS -11.3% y/y to € 954m).

Rubber Reinforcement: 3Q revenue declined by 9% to 437m (KBCS -13% to € 418m, CSS -12.7% to € 419m). 3Q revenue represents a significant sequential rebound (+50%), with volumes only -1.6% below 3q19 and strong demand in Asia with a progressive rebound to fairly normal levels in EMEA. Bekaert forecasts sales to further increase in 4Q, driven by strong demand in tire markets.

Steel Wire Solutions: 3Q revenue declined by 4% to € 342m (KBCS -10.0% to € 321m, CSS -10.6% to € 319m). Volumes were up+1.2% but FX was negative for 6.9%. Bekaert forecasts 4Q sales to remain solid despite usual seasonality.

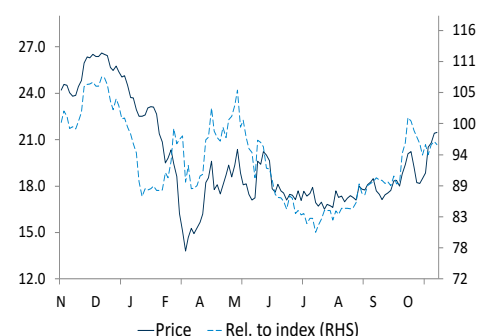
Specialty Businesses: 3Q revenue dropped by 5% to € 103m (KBCS & CSS -8% to € 100m). Demand in construction markets improved in 3Q but will see some usual seasonality in 4Q. Fiber Technologies saw improved demand in automotive applications with weaker sales to aviation. Combustion Technologies have picked up in 3Q.

BBRG: 3Q revenue dropped by 18% to € 101m (KBCS -6% to € 116m, CSS -10% to € 111m). The decline is partly due to Bekaert's strategy to reduce low margin products. Ropes demand in north America was weak in 3Q and markets for advanced cords softened. 4Q sales are guided to be flattish vs 3Q.

Balance sheet: net debt dropped from € 955m at the end of 2Q to € 834m at the end of 3Q, which net debt to underlying EBITDA reducing to below 2x (from 2.5x at the end of June), a testimony to the improved EBITDA generation. Bekaert intends to maintain the leverage level at below 2x for the end of this year (which compares to our 2.3x forecast).

Outlook: Bekaert guides for overall lower sales than last year in 2020, with underlying EBIT for the full year expected to be close to 2019, resulting in an improved underlying EBIT. We remind that 1H underlying EBIT dropped by 27% while our and CSS forecasts are banking on a FY underlying EBIT decline of respectively -18% and -19%. A flat FY underlying EBIT would represent a 2H figure of € 150m (KBCS 109m, CSS 107m, 2H19 € 116m).

Investment case: Bekaert surprised positively with its FY profit guidance, in which we view a clear sign that the restructuring and portfolio upgrade efforts are gaining traction. We will up our forecasts but note that already on our old forecasts, valuation is fairly low (P/E21e of 8.9x and EV/REBITDA21e of 5.1x). We up our rating from Hold to Accumulate with target price upped from € 25 to € 28.



Source: Thomson Reuters Datastream

Bloomberg	BEKB BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 1,296.4m
Shares outst.	60.4m
Volume (daily)	€ 1,457,822
Free float	58.8%

Next corporate event

€ m	2019	2020E	2021E
Sales	4,322.5	3,681.4	4,081.6
REBITDA	468.0	402.8	461.0
Net earnings	41.3	93.1	154.2
Adj. EPS (€)	1.60	1.51	2.41
P/E (x)	15.0	14.2	8.9
EV/REBITDA	5.8	6.1	5.1
FCF yield	25.2%	10.1%	11.5%
Dividend yield	1.5%	1.6%	3.3%

Wim Hoste

+32 2 429 37 13

wim.hoste@kbcsecurities.be