

Bekaert

Metals & Mining/Belgium

Strong 3Q20, FY20 EBIT guidance higher than consensus

23 November 2020

Exp. Performance:	-11.5%
Exp. Dividend Yield:	+2.5%
Exp. Total Return:	-8.9%

Analysts

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Conclusion:

Bekaert's trading update was full of positives. The 3Q20 sales beat consensus by 3.1% while the FY20 underlying EBIT guidance ('to be close to the FY19 level') implies an EBITu of EUR 230m (-5% vs FY19) compared to consensus of EUR 189m (ABNe EUR 188m). The leverage ratio was <2x at the end of the quarter, which the company expected to achieve at year-end (FY20 ABNe 1.9x). A more than solid quarter for Bekaert, which will result in FY20 consensus sales and EBIT to move up considerably. We maintain a Hold rating because of possible kitchen sinking when a new CEO is appointed and still suboptimal corporate governance.

Details:

- The underlying EBIT guidance for the full year is a surprise given the very cautious wording at the 1H20 results presentation when the company warned about weakening markets and substantially lower covid-19 related savings.
- Apparently, markets have held up better or improved faster, especially in Rubber Reinforcement (growth in high margin China) and in SWS (unexpected rebound in Latin America). But the restructuring measures announced in 2H19 (and executed in 2H19 and the early parts of FY2) are probably still the key driver.
- Rubber Reinforcement (beat of 4.3%) reported just a 1.6% decline in volume YoY (ABNe -10%) which means restarting production but especially restocking have had a far greater impact. Bekaert also mentions that 4Q20 is expected to show solid demand. SWS (beat of 7.5%) benefited from strong demand in Europe and China and an unexpected uptick in Latin America although seasonality will mean 4Q20 will resemble 3Q20
- Specialty benefited from a recovery in automotive and Asian industrial activity with expectations for 4Q20 roughly stable versus 3Q20. BBRG disappointed (miss of 9%) even though our expectations were already low as A-cords and ropes markets softened (end of orderbook of earlier periods, we assume). Bekaert guides for 4Q20 to be equal to 3Q20, which is relatively positive.

Figure 1:

	3Q19A	3Q20 ABNe	3Q20 Cons	3Q20A	Beat (Mis)
Sales					
Rubber Reinforcement	480	418	419	437	4.3
Steel Wire Solutions	357	307	319	343	7.5
Specialty Businesses	109	106	100	103	3.0
BBRG	123	115	111	101	-9.0
Other	6	6	6	1	-83.3
Sales	1,075	952	955	985	3.1

Source: ABN AMRO Equity Research

Year To December	2018A	2019A	2020E	2021E	2022E
Sales (EURm)	4,305	4,322	3,686	3,915	4,017
EBITDA (EURm)	365	384	397	446	490
EBIT (EURm)	147	155	188	234	269
EPS (fully diluted EUR)	0.66	0.68	1.24	2.27	2.68
DPS (EUR)	0.70	0.35	0.54	0.95	1.12
EV / EBITDA (x)	6.9	6.3	5.8	5.1	4.5
EV / EBIT (x)	13.9	12.2	12.6	9.8	8.3
P/E (fully diluted, x)	41.3	36.3	17.4	9.4	8.0
Equity FCF Yield (%)	(1.6%)	21.0%	17.8%	3.3%	4.0%
ROCE (%)	6.1%	7.2%	5.2%	6.6%	7.3%
Net Debt / EBITDA (x)	2.8	2.1	1.9	1.6	1.5

Source: Factset, ABN AMRO Equity Research

Fundamentals	
Market Cap (EURm)	1,296
Average Daily Volume (EURm)	1.4
Number of Shares (m)	60.4
Free Float (%)	0.7
52 Week High (EUR)	27.0
52 Week Low (EUR)	13.8
3 Month Performance (%)	26.0
6 Month Performance (%)	22.1
12 Month Performance (%)	(16.0)
Reuters Symbol	BEKB.BR
Bloomberg Symbol	BEKB BB
Website	www.bekaert.com

Source: Factset, ABN AMRO Equity Research