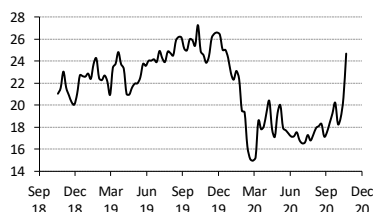


BUY (vs. HOLD)

Price (20/11/2020)	EUR 24.70
Target price	32.00
Risk	High
Reuters	BERTt.BR
Bloomberg	BEKB BB
Shares number (m)	60.10
Market cap. (m)	1,484
Net debt 12/20e (m)	831
Net debt/EBITDA 12/20e	1.88
1 year price perf.	2.1%
Diff. with Euro Stoxx	4.9%
Volume (sh./day)	69,912
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

Margin surprise still not fully priced in

- *Cost savings and mix improvement measures have resulted in much stronger than anticipated margins in 20H2 and we expect this can be sustained.*
- *We have increased our REBIT estimates by more than 20%.*
- *Even after the double-digit share price jump of last Friday, we see room for more upside. Hence, we upgrade to Buy, with a TP of EUR 32 based on our SOTP (=9.5x 2021E EV/REBIT).*

Strong REBIT margin is the main surprise in 20H2

The 20Q3 trading update surprised on the strong rebound in volumes (only -2% yoy), in particular in Rubber Reinforcement (+50% qoq) as demand for tires rebounded, but also Steel Wire solutions returned quicker than anticipated to more normal levels (e.g. construction, agriculture). Nevertheless, the main positive surprise was the new FY20 outlook of a REBIT 'close to' the level of FY19 (EUR 243m). This means that the 20H2 REBIT will be around EUR 145m vs 'only' EUR 92m in 20H1. This implies a REBIT margin of around 7% for 20H2. Bekaert's mid-term ambition was to reach 7%+, and it is impressive that they will be able to reach this amidst COVID-related uncertainty. This is owed to a mix of structural and temporary cost saving measures (e.g. closing plants last year) and mix improvement measures (e.g. at BBRG). These improvements have clearly become visible now that trading conditions have become more normalized, after the lockdowns in 20Q2.

REBIT estimates increased by more than 20%

We have increased our FY20, FY21 and FY22 REBIT estimates by 25%, 25% and 21% respectively. For FY20 REBIT from EUR 190m to EUR 238m, and for FY21 from EUR 223m (5.6% REBIT margin) to EUR 280m (7.0% REBIT margin). We do not see any reasons why the REBIT margin should fall back below 7% in 2021, especially because there is room for volume recovery to more normal levels. Although part of the current cost savings is temporary (e.g. COVID mitigation was EUR 52m in 20H1), there is still a spill-over from the structural savings and mix improvement measures. The competitive environment is a bit uncertain though, as Bekaert may have benefited from supply chain issues at local competitors. We acknowledge that COVID should continue to create uncertainty, but we estimate that Bekaert should be able to show 6-7% top line growth in 2021. The comparison base for Q2 is easy (-29% in 20Q2 due to lockdowns and plant closures). Note that our FY21 revenue estimate roughly equals the annualized the 20Q3 revenues run rate and is still 8-9% below that of FY19.

EUR	12/16	12/17	12/18	12/19	12/20e	12/21e	12/22e
Sales	3,713	4,098	4,306	4,323	3,726	3,974	4,133
EBITDA	479.1	512.8	386.8	403.2	442.8	484.0	524.3
Adj. profit	103	159	38.7	41.2	115	144	183
EPS	1.78	2.77	0.67	0.72	2.00	2.50	3.19
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	5.4	4.7	4.1
P/E	21.6	13.2	31.2	36.9	12.3	9.9	7.7
FCF Yield	11.2%	2.6%	7.3%	19.6%	13.0%	7.4%	10.3%
Div. Yield	2.9%	3.0%	3.3%	1.3%	1.4%	2.8%	3.2%

Balance sheet is fully back under control

In 20Q3, net debt reduction was also stronger than anticipated with a decline of EUR 118m in one quarter to EUR 834m (DGP EUR 890m). This reflects strong working capital control and capex cuts. In 20Q4, the sale of two sites in Belgium (one being Hemiksen) will kick in (EUR 33m cash-in), which could mean a further reduction in net debt. As a result, net debt/EBITDA will fall below the target of 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 removed some uncertainty. With its strong cash position, it can now comfortably redeem the upcoming EUR 380m convertible of June 2021.

Upgrade to Buy, TP of EUR 32, with room for more

We now value Bekaert towards the higher end of its historical average multiples of approximately 5.5x EV/EBITDA and 9.5x EV/REBIT. These multiples are still relatively low, which is because the steel wire industry is capital intensive, embeds a risk of commoditization, and has fragmented competition. Still, Bekaert is the only truly global player and it is continuously investing in product innovation and mix improvement. Valuing Bekaert at an aggregate target multiple of 9.5x EV/REBIT on our substantially increased 2021E estimates, translates in a SOTP of EUR 32 (exhibit 1). If we would value Bekaert on our 2022E estimates, our TP would reach high 30's, but given the still uncertainty around the impact of COVID, we believe it is still too early to do so. Nevertheless, even after last Friday's share price jump, we believe that this EBIT margin surprise is still not fully priced in. We therefore upgrade from Hold to Buy and set a TP of EUR 32.

Exhibit 1 Our SOTP based on 2021E estimates

	REBIT 2021E	EV/REBIT	Enterprise value
Rubber reinforcement	158	9.5	1,504
Steel wire solutions	80	9.0	721
Specialty businesses	51	10.0	511
Bridon Bekaert rope group	35	9.0	319
Other	-45	8.0	-360
REBIT total	280	9.6	2,695
Net debt 2020E			-731
Pension liabilities			-123
Equity investments			169
Minority interest			-96
Off balance sheet factoring			-100
			1,813
Number of shares (ex treasury shares)			57.4
Equity value per share			32

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	3,726.4	3,974.3	4,132.8
Gross profit	687.9	657.2	527.4	527.8	462.1	516.7	586.9
EBITDA	479.1	512.8	386.8	403.2	442.8	484.0	524.3
EBITA	302.1	301.3	210.3	243.0	237.8	280.0	320.3
EBIT	257.1	314.8	146.8	155.2	252.8	264.0	306.3
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	-83.5	-68.2	-75.1
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	115.1	143.7	183.2
Net adjusted earnings	102.6	159.3	38.7	41.2	115.1	143.7	183.2
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	252.8	264.0	306.3
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	51.1	-24.0	-19.1
Others	24.2	-26.9	-14.6	-46.7	-39.0	-25.0	-15.0
Operational Cash Flow	474.8	428.1	355.4	519.3	419.0	384.0	446.2
Tax expenses	-96.4	-66.7	-69.0	-60.6	-83.5	-68.2	-75.1
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	294.0	273.6	332.7
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	170.0	85.5	104.6
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	724.4	748.4	767.5
Total Equity	1,597.9	1,583.0	1,516.0	1,531.5	1,561.6	1,649.3	1,764.4
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	831.3	730.8	615.2
Total assets	4,304.3	4,444.7	4,449.5	4,304.7	4,051.3	4,002.3	4,012.7
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	2.00	2.50	3.19
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	12.3	9.9	7.7
P/BV	1.5	1.4	0.9	1.1	1.0	0.9	0.9
EV/EBITDA	7.2	6.5	6.2	6.0	5.4	4.7	4.1
EV/EBIT	13.3	10.7	16.3	15.5	9.4	8.6	7.0
EV/FCF (1)	8.3	17.3	10.7	5.6	9.3	13.2	10.2
FCF yield (2)	11.2%	2.6%	7.3%	19.6%	13.0%	7.4%	10.3%
Dividend yield	2.9%	3.0%	3.3%	1.3%	1.4%	2.8%	3.2%
Financial ratios							
Net Debt/EBITDA	2.3	2.3	3.1	2.5	1.9	1.5	1.2
Net Debt/Equity	68.1%	73.6%	77.9%	64.8%	53.2%	44.3%	34.9%
ROCE post-tax	5.7%	8.1%	-3.7%	1.9%	5.8%	7.4%	9.1%
ROCE post-tax (grossed gdwll)	5.7%	8.1%	-3.7%	1.9%	5.8%	7.4%	9.1%
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%	6.8%	6.6%	7.4%
Tax rate	42.4%	31.8%	163.6%	72.8%	46.5%	35.0%	31.0%
Growth analysis							
Sales	1%	10%	5%	0%	-14%	7%	4%
Adjusted EPS	1%	55%	-76%	6%	179%	25%	27%

(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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