



# Bekaert

Wire &amp; Cable Products / Belgium

## Profitability rises faster than top line

Earnings/sales releases - 04/12/2020

**Q3 20 trading update: the top line was pushed by tyre demand while the margin outlook exceeded expectations. Consolidated sales recovered +24% qoq, while FX acted as a brake. Management resumed FY20 guidance, expecting the underlying EBIT margin to rise despite sales down yoy. As a result, the net debt/underlying EBITDA ratio should end the year below 2.0x.**

### Fact

Bekaert reported first nine months consolidated sales of €2,755m, down 16%, while organic growth was -14% as the COVID-19 pandemic severely hit the company in the second quarter.

In Q3, consolidated sales jumped +24% qoq, with volumes “only” down 2% yoy as demand from the automotive industry significantly rebounded while being offset by an unfavourable FX effect. Quarter on quarter, sales growth came at +50% for Rubber Reinforcement (42% of sales), +16% for Steel Wire Solution (36% of sales), +18% for Speciality Businesses (11% of sales) and -11% for BBRG (i.e. Bridon-Bekaert Ropes Group; 12% of sales).

A €200m 7-year 2.75% bond offering was placed in early October in order to reimburse partly the remaining €380m convertible bond due in June 2021.

Net debt as of 30 September 2020 stood at €834m, i.e. around -15% ytd. As a consequence, the company reported a net debt/underlying EBITDA ratio slightly below 2.0 (i.e. -50bp yoy and -10bp ytd).

### Analysis

Quarterly sales were in line with consensus, reflecting the strong rebound in the tyre market and the two-speed geographical recovery. Indeed, the Asian region experienced strong demand, while EMEA was back to normalised activity in the Rubber Reinforcement segment. Simultaneously, the Steel Wire Solutions saw a positive trend in EMEA and China, coupled with a strong performance in Latin America, the business being mainly exposed to the construction and auto sectors. As for BBRG, the 9M 20 sales down 9.7% with volumes down 11.3% resulted from divestments in low margin activities as part of the efficiency plan. According to the company, Q4 sales should benefit from the sustained demand from the tyres industry in the RR segment, while other businesses should look quite similar to Q3 despite facing usual seasonal effects.

The 2020 outlook was reset. Management is expecting FY20 results with consolidated sales down but underlying EBIT steady yoy, resulting in an improved underlying EBIT margin. It should come ahead of the 7% underlying EBIT margin mid-term target. Additionally, thanks to the strong cash generation implied by an efficient working capital management and structural and COVID-19-related cost reductions, the company targets a net debt/underlying EBITDA ratio maintained below 2.0x.



**Valentin MORY**  
capitalgoods@alphavalue.eu  
+33 (0) 1 70 61 10 50  
www.alphavalue.com

Add	Upside: 4.09%
Target Price (6 months)	€ 27.4
Share Price	€ 26.3
Market Cap. €M	1,591
Price Momentum	<b>STRONG</b>
Extremes 12Months	13.5 ▶ 26.6
Fundamental Strength	0 / 10
Bloomberg	BEKB BB Equity
Reuters	BEKB.BR


[Download Full Analysis](#)
[Company Page](#)


PERF	1w	1m	3m	12m
Bekaert	1.31%	42.6%	46.3%	15.9%
Capital Goods	-0.77%	6.34%	6.96%	14.1%
STOXX 600	0.02%	10.0%	7.00%	-1.70%

Sector Opinion	Underweight
Strongest upside	Zardoya Otis
Worst potential	Kone

[Complete Sector Analysis](#)

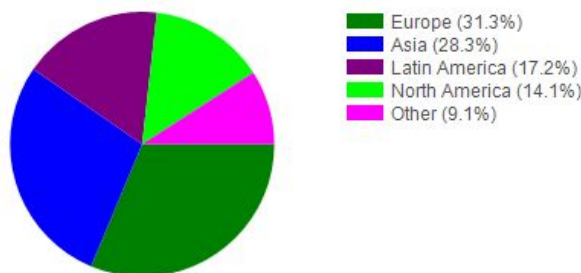
Last updated: 01/12/2020	12/19A	12/20E	12/21E	12/22E
Adjusted P/E (x)	33.1	22.2	11.3	9.76
Dividend yield (%)	1.46	2.66	4.47	4.66
EV/EBITDA(R) (x)	5.57	6.49	6.10	5.37
Adjusted EPS (€)	0.72	1.18	2.33	2.70
Growth in EPS (%)	-32.3	63.4	96.6	15.9
Dividend (€)	0.35	0.70	1.18	1.23
Sales (€M)	4,322	3,804	4,075	4,306
EBIT margin (%)	5.60	4.97	5.94	6.23
Attributable net profit (€M)	41.3	67.7	133	154
ROE (after tax) (%)	2.92	4.64	9.07	10.5
Gearing (%)	75.7	64.4	66.9	61.1

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

## ■ Impact

Given the new outlook, we will upgrade our EBIT estimates for 2020 and 2021. Moreover, we will slightly trim our capex forecast based on management's higher investment selectivity objectives. Combined with lower WCR, this will have a positive impact on our net debt forecasts. Looking into 2021, we expect volumes to continue their recovery while being still below 2019's level. However, 2021 profitability should exceed 2019's figures, benefiting from the disciplined cost reduction plan.

## Sales by Geography



## Consolidated P&L Accounts

		12/19A	12/20E	12/21E
Sales	€M	4,322	3,804	4,075
Change in sales	%	0.41	-12.0	7.12
Change in staff costs	%	4.97	-7.45	5.83
EBITDA	€M	480	419	472
<b>EBITDA(R) margin</b>	%	<b>11.1</b>	<b>11.0</b>	<b>11.6</b>
Depreciation	€M	-198	-190	-190
Underlying operating profit	€M	242	189	242
<b>Operating profit (EBIT)</b>	<b>€M</b>	<b>155</b>	<b>184</b>	<b>242</b>
Net financial expense	€M	-84.7	-92.4	-77.0
of which related to pensions	€M		11.1	10.1
Exceptional items & other	€M			
Corporate tax	€M	-51.1	-45.0	-50.0
Equity associates	€M	29.0	28.0	28.0
Minority interests	€M	-6.87	-7.00	-10.0
<b>Adjusted attributable net profit</b>	<b>€M</b>	<b>41.3</b>	<b>67.7</b>	<b>133</b>
NOPAT	€M	198	153	190

## Cashflow Statement

		12/19A	12/20E	12/21E
EBITDA	€M	480	419	472
Change in WCR	€M	169	-17.9	-150
Actual div. received from equity holdi...	€M	0.00	0.00	0.00
Paid taxes	€M	-60.6	-45.0	-50.0
Exceptional items	€M			
Other operating cash flows	€M	-63.9	-47.0	-80.0
Total operating cash flows	€M	524	309	192
Capital expenditure	€M	-111	-110	-175
Total investment flows	€M	-91.1	-110	-175
Net interest expense	€M	-84.7	-92.4	-77.0
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	1,035	-1,125
Change in cash position	€M	167	1,234	-1,108
<b>Free cash flow (pre div.)</b>	<b>€M</b>	<b>329</b>	<b>107</b>	<b>-60.3</b>

## 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
<b>Benchmark EPS</b>	<b>€</b>	<b>0.72</b>	<b>1.18</b>	<b>2.33</b>
Restated NAV per share	€			
<b>Net dividend per share</b>	<b>€</b>	<b>0.35</b>	<b>0.70</b>	<b>1.18</b>

## Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 18.1	35%	■ Faurecia
NAV/SOTP per share	€ 25.1	20%	● Salzgitter
EV/Ebitda	€ 33.4	20%	● Outokumpu
P/E	€ 45.5	10%	■ Prysmian
Dividend Yield	€ 36.4	10%	■ Nexans
P/Book	€ 23.8	5%	■ SSAB
TARGET PRICE	€ 27.4	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	1,255
Financial fixed assets	€M	161	170	170
WCR	€M	797	815	965
Other assets	€M	219	230	210
Total assets (net of short term liab.)	€M	2,886	2,845	2,960
<b>Ordinary shareholders' equity</b>	<b>€M</b>	<b>1,435</b>	<b>1,483</b>	<b>1,453</b>
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
<b>Net debt (cash)</b>	<b>€M</b>	<b>992</b>	<b>916</b>	<b>1,026</b>
Total liab. and shareholders' equity	€M	2,886	2,845	2,960

## Capital Employed

		12/19A	12/20E	12/21E
Capital employed after depreciation	€M	2,666	2,614	2,750

## Profits & Risks Ratios

		12/19A	12/20E	12/21E
<b>ROE (after tax)</b>	%	<b>2.92</b>	<b>4.64</b>	<b>9.07</b>
ROCE	%	7.44	5.84	6.92
<b>Gearing (at book value)</b>	%	<b>75.7</b>	<b>64.4</b>	<b>66.9</b>
Adj. Net debt/EBITDA(R)	x	2.38	2.54	2.49
Interest cover (x)	x	2.86	1.83	2.78

## Valuation Ratios

		12/19A	12/20E	12/21E
<b>Reference P/E (benchmark)</b>	<b>x</b>	<b>33.1</b>	<b>22.2</b>	<b>11.3</b>
Free cash flow yield	%	24.3	7.17	-4.05
P/Book	x	0.94	1.00	1.03
<b>Dividend yield</b>	%	<b>1.46</b>	<b>2.66</b>	<b>4.47</b>

## EV Calculation

		12/19A	12/20E	12/21E
Market cap	€M	1,355	1,489	1,489
+ Provisions	€M	327	316	363
+ Unrecognised actuarial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	843	766	876
+ Leases debt equivalent	€M	149	150	150
- Financial fixed assets (fair value)	€M			
+ Minority interests (fair value)	€M	0.00	0.00	0.00
= EV	€M	2,675	2,721	2,879
<b>EV/EBITDA(R)</b>	<b>x</b>	<b>5.57</b>	<b>6.49</b>	<b>6.10</b>
EV/Sales	x	0.62	0.72	0.71

Analyst : Valentin Mory, Changes to Forecasts : 01/12/2020.