

BEKAERT

Read-through Michelin results and preview 1Q

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 36.88
TARGET PRICE € 40.00

ACCUMULATE

RATING UNCHANGED

Michelin kicked off 2021 with 8.3% organic sales growth in 1Q21 and tire volumes up 7.5%, which we believe further increases confidence on Bekaert's current trading momentum as well. We forecast Bekaert to report top line growth of 7.8% in 1Q21, with the FY21 underlying EBIT margin expected to increase by 50bps (or the midpoint of the 40-60bps guidance range). All in all, we remain convinced that, under the helm of the renewed management team, Bekaert is making significant progress with efficiency improvement & portfolio upgrading efforts, and in light of the still attractive valuation (P/E22e of 10.2x, EV/REBITDA21e 5.3x) we maintain our Accumulate rating but decided to up our target price from € 35 TP to € 40.

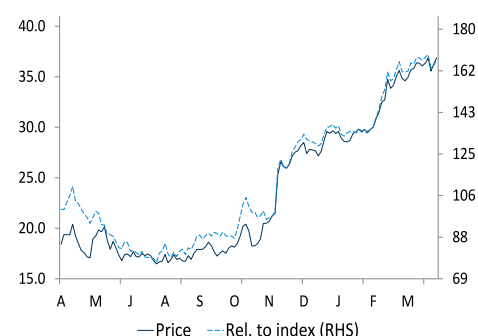
News: Michelin released its 1Q21 trading update, commenting on an increase in passenger car/light truck tire market of 9% and an increase in truck tire markets of 20% in 1Q21. Demand rebounded in China in all market segments, returning to near 2019 levels. Michelin furthermore indicated that its 1Q sales were up 2.3% (+8.3% organically) to € 5.45bn, with tire volumes up 7.5%, tire prices up 0.3% and a mix effect of +0.6%. Michelin confirms earlier guidance and forecasts passenger car/light truck tire markets to expand by 6-10% over the year 2021, with truck tire markets expected to grow 4-8%.

Our view: We see a positive read-through from Michelin's statements for Bekaert, confirming further market recovery in the first quarter of 2021. Bekaert will release its 1Q trading update on 12 May, and we forecast an increase in 1Q21 consolidated sales of 7.8% to € 1,053m (consensus +5.3% to € 1029m), broken down as follows:

Rubber Reinforcement +14% to € 475m (CSS +9.8% to € 458m, recall 1Q20 -16.8%), Steel Wire Solutions +6.0% to € 366m (CSS +4.6% to € 361m, recall 1Q20 -8.3% to € 345m), Specialty Businesses +6.5% to € 104m (CSS +2.0% to € 100m, recall 1Q20 +0.7% to € 98m) and BBRG -8% to € 106m (CSS -6.1% to € 108m, recall 1Q20 -2.1% to € 115m).

We obviously look forward as to whether Bekaert will reconfirm its FY21 guidance which calls for a FY21 consolidated sales level of at least € 4bn (+6% y/y) and an underlying EBIT margin up 40-60bps (to 7.6-7.8%). Note that we currently forecast FY21 sales of € 4235m (+12.3% - CSS € 4073m) with underlying EBIT margin up 50bps to 7.7% (CSS 7.8%).

Investment case: we see further cyclical recovery potential for Bekaert's main end markets and remain convinced that, under the helm of the renewed management team, Bekaert is making significant progress with efficiency improvement & portfolio upgrading efforts. The improved operational performance is also leading to a more attractive free cash flow generation and the balance sheet has already significantly strengthened last year. In light of the still attractive valuation (P/E22e of 10.2x, EV/REBITDA22e 5.3x) we maintain our Accumulate rating but decided to up our target price from € 35 TP to € 40.



Source: Thomson Reuters Datastream

Bloomberg	BEKB BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 2,227.9m
Shares outst.	60.4m
Volume (daily)	€ 2,397,943
Free float	58.8%

Next corporate event

Trading update 1Q21: 12 May 2021

€ m	2020	2021E	2022E
Sales	3,772.4	4,235.3	4,381.3
REBITDA	479.0	528.6	556.9
Net earnings	134.7	183.5	232.5
Adj. EPS (€)	2.28	3.21	3.63
P/E (x)	8.8	11.5	10.2
EV/REBITDA	4.5	5.9	5.3
FCF yield	29.9%	6.3%	11.1%
Dividend yield	5.0%	2.7%	3.0%

Wim Hoste

+32 2 429 37 13

wim.hoste@kbcsecurities.be