



ISSUER RATING

Long-Term

Outlook Stable

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Rating Action and Rationale

- EthiFinance Ratings reaffirms Bekaert's "BBB" rating, maintaining its Stable outlook.
- This rating is mainly supported by several qualitative and financial aspects that strengthen the group's credit profile. We highlight the following: i) Bekaert focuses its activity on a sector with strong barriers to entry (such as the high level of assets and investment necessary to carry out its activity) as well as positive levels of profitability (EBIT margin around 8%/10%), ii) solid and robust competitive positioning in the global market (with facilities in Europe, America and Asia mainly) that allow them to have greater proximity to the client, strengthening its competitive advantages and market share (reference player with 30% share of the global tire cord market), iii) favorable operational and geographic diversification at the end of 2022, with 37% of sales in EMEA, 26% in APAC, 19% in NAM and 18% in LATAM. In addition, wide variety for end-markets, with mobility reaching 42% of the business, construction & infrastructure with 21% and the rest being distributed in other markets such as energy & utilities, equipment, consumer goods and basic materials among others, and iv) listed company with adequate management that has been implementing a prudent financial policy in recent years, with low levels of debt in relation to the operating performance generated (NFD/EBITDA <1.5x).
- Additionally, from the economic-financial side, the group has a balanced situation, showing for 2022 and 1H2023, stable and adequate ratios such as NFD/EBITDA below 1.5x, FFO/NFD > 50%, interest coverage > 12x and high levels of solvency (Equity/TFD greater than 120%).
- However, the rating is constrained by: i) decreasing trend in activity and results, with revenue and EBIT declining by 8.2% and 10.2%, respectively in H1 2023 compared to H1 2022, ii) the two main end markets are cyclical industries which may affect the volatility and profitability of the company. Furthermore, uncertainty in the automotive sector (where it is estimated that global auto sales will need between 1 and 3 more years to recover from the pandemic), economic challenges and the fuel crisis, are aspects that makes us cautious about the company's growth outlook due to a potential (albeit slight) impact on the economic-financial ratios in the short-medium term.
- The company shows a favourable ESG assessment (85/100), which has a positive impact on the rating. The governance score stands out with 4 independent board members, prioritizing ESG issues of the group. We also highlight Bekaert has stepped up its ambitions in terms of ESG. They aim to reduce scope 1 and 2 CO2 emissions by 46% by 2030 and become net zero by 2050. In 2022, the group sourced 40% of its electricity consumption from renewable energy and, in addition, of its total volume of wire rod directly purchased and processed, 34% was from recycled material. In addition, Scope 1 and 2 GHG emissions were also reduced by 8.3% compared to 2021. We can also highlight the responsible purchasing policy including social criteria and the low turnover of employees.
- In line with our methodology, the capital goods sector has a medium to high ESG risk (sector heatmap between 3.5 and 3.9) given its impact on the environment. This results in a sector rating being downgraded one notch by industry-related ESG considerations. Heavy industries are by nature using a significant amount of raw materials, generating impact from extraction, transportation, etc. On top of GHG emissions, the production process tends to generate a high level of waste and recycling is still pending further advancement and development.

Issuer Description

Bekaert was founded in 1880. The main shareholder is the legal vehicle of Bekaert's founding family with a 37% stake. Bekaert has been listed on the Belgian stock exchange since 1972. The company has 26,980 employees and is mainly active in the global steel wire processing and coating market. Bekaert focuses on two main activities: i) Rubber Reinforcement (42% sales in 2022) which develops, manufactures and supplies products as well as solutions for the tire sector, and ii) Steel Wire Solutions (38% sales in 2022) which develops, manufactures and supplies a very wide range of steel wire products and solutions for customers in sectors such as energy, utilities, mining or construction among others.

In 2022, Bekaert had revenues of €5,652m and EBITDA of €653m (margin of 11.6%), with a NFD/EBITDA ratio of 1.2x and a coverage ratio of 15x.

Main Financial Figures

Main financial figures. Thousands of €. ⁽¹⁾				
	2021	2022	1H2023 ⁽²⁾	22vs21
Turnover	4,839,659	5,651,790	2,318,000	16.8%
EBITDA	685,120	653,565	317,566	-4.6%
EBITDA Margin	14.2%	11.6%	13.7%	-2.6pp
EBIT	512,120	458,565	226,000	-10.5%
EBIT Margin	10.6%	8.1%	9.7%	-2.5pp
EBT	473,799	316,159	185,000	-33.3%
Total Assets	4,839,288	4,829,313	-	-0.2%
Equity	2,097,663	2,229,557	-	6.3%
Total Financial Debt	1,416,323	1,503,996	-	6.2%
Net Financial Debt	642,328	755,118	-	17.6%
Equity/TFD	148.1%	148.2%	-	0.1pp
NFD/EBITDA	0.9x	1.2x	-	0.2x
Funds From Operations	468,568	486,409	-	3.8%
FFO/NFD	72.9%	64.4%	-	-8.5pp
EBITDA/Interest	15.4x	15.0x	-	-0.4x

⁽¹⁾ EBIT and EBITDA have been adjusted for one-off items (€92.8m in 2022 and €1.5m in 2021). These are non-recurring items and include impairments and restructuring costs among others, and ⁽²⁾ No further information available for 1H2023.

Credit Rating

Credit Rating	
Business Risk Profile	BB+
<i>Industry Risk Assessment</i>	<i>BB+</i>
<i>Sector ESG Adjustment</i>	<i>Yes</i>
<i>Competitive Positioning</i>	<i>BBB-</i>
<i>Governance</i>	<i>BBB-</i>
Financial Risk Profile	A+
<i>Cash flow and leverage</i>	<i>A</i>
<i>Solvency</i>	<i>A-</i>
<i>Company's ESG Adjustment</i>	<i>Yes</i>
Anchor Rating	BBB+
Cap*	BBB
<i>Modifiers</i>	<i>No</i>
Rating	BBB

*Based on Ethifinance Ratings methodology, the group's rating is capped at BBB, due to its lower business profile (BB+, not investment grade).

Rating Sensitivity

- **Long-term rating positive factors (↑)**

Continuation of the positive revenue trend, with better operating and final results, improving operating margins (EBIT margin above 11%). Moreover, ratios such as NFD/EBITDA <1x, FFO/NFD >70%, interest coverage >20x and equity/TFD above 150%.

- **Long-term rating negative factors (↓)**

Significant decrease in the group's turnover and profits, worsening EBITDA margins below 8%. In addition, ratios such as NFD/EBITDA above 2x, FFO/NFD <40%, interest coverage <12x and equity/TFD below 120%.

REGULATORY DISCLOSURES

LEI: 5493008SR6XZECH6BN71.

Follow-up report of the long-term corporate rating.

Last rating action: “BBB” rating with a Stable outlook to Bekaert (November 29, 2022).

Rating nature: Unsolicited long-term rating (this report is paid by investors, not the issuer).

With rated entity or related third party participation: No - The report was published without having been reviewed by the issuer.

With access to internal documents: No.

With access to management: No.

Ancillary services provided to the entity: *In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months Ethifinance Ratings has not provided ancillary services to the rated entity or its related third parties.*

Name of the rating committee chair: Antonio Madera, Senior Director.

Material sources used to support the rating decision:

- * 1Q23 trading update, 2Q23 Results.
- * 2022, 2021, 2020 annual reports.
- * Company presentation.
- * Bloomberg.

Limitation of the Rating action:

- Ethifinance Ratings believes that the quality and quantity of information available on the rated entity is sufficient to provide a rating.
- Ethifinance Ratings has no obligation to audit the data provided.

The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies, and in accordance with the Corporate Rating Methodology and Outlook Methodology that can be consulted on <https://www.ethifinance.com/en/ratings/methodologies> and according to the Long-term Corporate Rating scale available at <https://www.ethifinance.com/en/ratings/ratingScale>.

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