EthiFinance Ratings

NV BEKAERT SA

0405.388.536 CORPORATE

BBB ISSUER RATING
Long term

OUTLOOK
Positive

Initiation date	29/11/2022
Rating Date	10/10/2024

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Rating Action and Rationale

- EthiFinance Ratings affirms NV Bekaert SA's long-term rating at BBB, but changes the outlook from Stable to Positive.
- Our positive outlook results from the expected improvement in credit metrics, some already visible. Bekaert maintains a robust financial profile with an A+ rating, backed by solid credit metrics (NFD/EBITDA < 1.5x; EBITDA/Interest >15.0x; Equity/Debt>120%) driven by the company's resilient profitability margins, and a prudent financial policy. Notably, there has been a consistent reduction in net debt, with a decrease of €286m vs FY22, and €357m vs FY20. This is despite the cash impact of a €400m payout to shareholders in FY22 and FY23, through dividends and buybacks. Overall, the net adjusted leverage improved from 1.7x in FY22 to 1.2x in FY23, and we expect it to improve further during our forecast period (2024-26), to reach 0.5x by FY26, driven by stable EBITDA generation. The group's profitability is also supported by significant results generated through Bekaert's steel wire JVs in Brazil, which accounted for 9% of EBITDA on average in the last 5 years. Should credit metrics evolve in line with our expectations for the next 15 months, our assessment of Bekaert's financial policy and management quality could be upgraded, thereby removing the existing cap on the overall rating.
- Bekaert operates in a capital-intensive industry requiring significant CapEx, in order to build-up plants, along with the advanced technical expertise critical for managing long-term infrastructure projects. With an improved geographic mix, advanced R&D and technical expertise, Bekaert is a renowned market leader in the Steel Fiber Reinforced Concrete (SFRC) industry, holding a 40% market share.
- In addition to the existing capping, our rating is constrained by the company's size (BB+) due to a decline in sales, which amounted to 13.5% in FY23, and continued into 1H24 with another decrease of 11.1% compared to 1H23. This downward trend is due to lower volumes (-3.8%) and raw materials and energy inflation (-5.1%). According to management guidance and our forecasts, we expect this decline to persist into the 2nd half of the year. Nonetheless, this doesn't compromise future profitability margins, which are expected to remain stable throughout the current year, thanks partially to cost saving programs. Another constraint on our rating is the company's exposure to cyclical market fluctuations, particularly in its major end-markets such as agriculture (c. 16% of FY23 sales), and construction (20%). While management aims to reduce this exposure in the mid-term, it remains unfavorable for a stable and predictable business model.
- In accordance with our methodology, the capital goods industry has a medium-to-high ESG risks (sector heatmap between 3.5 and 4), due to its environmental impact. Consequently, the sector's ESG rating is downgraded by one notch due to these industry-specific ESG concerns. Heavy industries inherently consume substantial quantities of raw materials, leading to environmental degradation from extraction and transportation. Additionally, the production processes in this industry often result in significant waste generation. While greenhouse gas emissions are a primary concern, the sectors also face challenges in advancing recycling technologies and processes.
- We note that Bekaert has stepped up its ESG ambitions, aiming to reduce scope 1 and 2 CO2 emissions by 46% by 2030, using 2019 as the baseline year, and to achieve net zero emissions by 2050. In pursuit of this goal, the company has already reduced these emissions by 15% in FY23 compared to 2019. The company's ESG score is ranging between 1 and 1.5, which is considered as advanced and positively counts in our financial assessment, thereby counterbalancing the negative impact from the industry assessment.

Issuer Description

NV Bekaert SA is a Belgian company founded in 1880 and specializing in steel wire transformation and coating technologies. The company operates on a global scale, and is organized into four main segments: Rubber Reinforcement, Steel Wire Solutions, Specialty Businesses, and Bridon-Bekaert Ropes Group (BBRG). These segments offer a range of products and services to various industries, including auto components (Tire manufacturers), construction, energy, and agriculture. It employs 21,044 employees across 69 production facilities, and 10 research/engineering sites in 23 different countries covering multiple regions: EMEA, North America, Latin America and Asia-Pacific.

As of end-2023, Bekaert reported revenues of €4.3bn, for adjusted EBITDA of €572m, and an adjusted net leverage ratio of 1.2x. The company is publicly listed and on the Euronext Brussels under the ticker symbol BEKB. As of 3 October 2024, it had a market capitalization of c. €1.87 billion.

Liquidity

We assess the liquidity profile of NV Bekaert SA as "Good" reflecting its strong refinancing profile, and its high level of liquidity.

Main Financial Figures & Forecasts

Main financial figures. millions of EUR	FY22	FY23	FY24e	FY25e	FY26e	23vs22
Turnover	5,004	4,328	4,155	4,279	4,451	-13,5%
Adj EBITDA (1)	578	572	589	602	615	-1,1%
Adj EBITDA Margin (1)	11,6%	13,2%	14,2%	14,1%	13,8%	1,7pp
EBIT	317	334	332	346	351	5,5%
EBIT Margin	6,3%	7,7%	8,0%	8,1%	7,9%	1,4pp
EBT	364	315	352	367	372	-13,3%
Total Assets	4,829	4,081	4,330	4,476	4,489	-15,5%
Equity	2,230	2,166	2,347	2,529	2,709	-2,9%
Total Financial Debt (2)	1,714	1,328	1,303	1,244	1,048	-22,5%
Net Financial Debt (2)	981	695	564	464	309	-29,2%
Equity/TFD (2)	130,1%	163,1%	180,2%	203,3%	258,5%	33,0pp
NFD/EBITDA (1) (2)	1,7x	1,2x	1,0x	0,8x	0,5x	-0,5x
Funds From Operations	468	399	436	447	469	-14,7%
FFO/NFD (2)	47,7%	57,4%	77,3%	96,4%	151,9%	9,7pp
EBITDA/Interest (1)	17,4x	14,9x	14,8x	15,8x	21,4x	-2,5x

(1) Adj EBITDA includes dividend received from JVs and a portion of the other non operating revenues/expenses : restructuring costs, governments grants and gains (losses) on disposal of assets and business disposal.

(2) Adj debt includes pension benefits and factoring.

Credit Rating

Credit Rating	
Business Risk Profile	**BB+**
Industry risk assessment	*BB+*
Industry's ESG	*Negative*
Competitive Positioning	*BBB-*
Governance	*BBB*
Financial Risk Profile	**A+**
Cash flow and leverage	*A*
Capitalisation	*A*
Company's ESG	*Positive*
Anchor Rating	**BBB+**
Modifiers	*Cap at BBB*
Rating	**BBB**

Rating Sensitivity

- List of ratings:
  - LT Rating: BBB

Factors that may (individually or collectively) impact the rating:

- **Positive factors (↑)**

As reflected by the positive outlook, we could consider upgrading our LT rating should the company improve its credit metrics in line with our expectations. As outlined in the rationale, such an evolution would entail the removal of the capping mechanism. A potential trigger for this would be achieving and maintaining a net adjusted leverage ratio of 0.9x; coupled with either (i) an interest coverage ratio of 17.0x or higher, or (ii) a company ESG score ranging from 0 to 1. Moreover, a rating upgrade would also be subject to a recovery in sales volume, and to a more predictable outlook for some of the company's business segments.

- **Negative factors (↓)**

We could downgrade our LT rating should the company's credit metrics deteriorate, contrary to our expectations. A potential trigger for such a downgrade would be a net adjusted leverage ratio of 2.0x or higher; coupled with either (i) an interest coverage ratio of 9.0x or lower, or (ii) an ESG score ranging from 1.5 to 5. Such a deterioration in credit metrics could result from a continuous decline in sales combined with higher costs, which would further impact profitability margins.

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Corporate Governance Report.
3. Corporate Website.
4. Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- 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. Principal methodology used in this research are :
  - Corporate Rating Methodology - General : https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203
- The rating scale used in this report is available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- 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 provided ancillary services to the rated entity, but not to its related third parties. However, according to our Conflict of Interest Policy, it does not involve a conflict of interest, since the aggregate sale does not exceed 5% of net turnover.
- The issued credit rating has been notified to the rated entity, and has not been modified since.