

Change in recommendation

Engineering & machinery

Belgium

Bekaert

Previously: Buy

Hold

Time for a breather. Downgrade to HOLD

17/04/09

Previously: €60

Reuters: BEKB.BR

Price: €69.73

12-mth target: €67.00

- **We downgrade our rating on Bekaert to HOLD as the shares have surged 81% in less than two months, and remove the company from our Benelux top picks list. We increase our 2010F EPS estimate by 12% to €6.7, as we assume that trading conditions in 2010F will be slightly better than in 2009F. On our new estimates, Bekaert trades at 10.3x 2010F EPS. We continue to value the company at 10.0x 2010F PER, hence we increase our 12-month TP to €67.0.**

Very strong share price performance. Bekaert's shares have surged 81% higher in less than two months. We believe the shares benefitted from: (1) the broader market rally in cyclicals; (2) more upbeat comments from company management recently, and this mainly on the recovery of the Chinese steel cord activities after Chinese new year; and (3) acknowledgement of Bekaert's strong long-term product, geographical and financial position.

Limited short-term visibility. Visibility on short-term results (mainly on margins) is low. On 8 April, at a Paris roadshow with ING, CEO Bert De Graeve did not rule out that the 1H09F EBIT margin could come in below 7%. Last Friday, during the Investor Day, company management warned that 1H09F results will still be impacted by negative inventory adjustments (the trend for global long steel products (raw material) is still negative). 1Q09F sales guidance is in the range of €575-600m (INGF 584.4m). Further, Bert De Graeve called the 2009F consensus EBIT of €176m 'challenging' (INGF €169.1m). Hence, we might see 2009F consensus estimates come down. On the positive side (for cash flow), we lower our 2009F capex estimate from €200m to €175m (the new guidance range is €150-175m) and increase our 2010F EPS estimates by 12% to €6.74, given that our current assumption of flat 2010F earnings is probably too cautious. Also, Bekaert is improving its long-term visibility, as it has decided to provide investors with geographical segment reporting as of 1Q09F.

Downgrade to HOLD, target price raised to €67. On our new estimates, Bekaert trades at 10.3x 2010F PER. We continue to value the company at 10.0x 2010F PER, which seems fair in the current economic cycle, given that Benelux cyclicals currently trade at 9.1x 2010F PER (Factset median). Hence we increase our 12-month target price from €60 to €67. Since we no longer have more than 15% upside and due to the lack of short-term triggers, we downgrade our recommendation to **HOLD**. The largest downside risk to our rating is lower-than-expected growth in China (with social unrest as the worst-case scenario). The largest upside risk to our estimates is a faster-than-expected economic recovery (mainly in Europe, which accounts for 41% of consolidated sales, and on which Mr De Graeve confirmed there is absolutely no visibility as to when activities will pick up again). A faster-than-expected recovery could push 2010F EPS closer to €8.0 per share, and valuation to around €80.0 per share.

12-month forecast returns (%)

Share price	(3.9)
Dividend	4.0
12m f'cst total return	0.1

Forecasts and ratios (€m)

Yr to Dec	2008	2009F
Turnover	2,663.0	2,451.6
EBITDA	461.2	334.1
Net profit	174.1	107.5
Adj EPS (€)	11.58	6.21
Adj PER (x)	6.0	11.2
Dividend yield (%)	4.0	4.0
EV/EBITDA (x)	3.9	5.2
Price/NAV (x)	1.2	1.2
ROE (%)	15.6	9.3

Share data

No. of shares (m)	19.8
Daily turnover (shares)	103,164
Free float (%)	60.9
Enterprise value (€m)	1,744.5
Market cap (€m)	1,379.6

Share price performance

Source: ING

Filip De Pauw

Brussels (32 2) 547 6097

filip.de.pauw@ing.be

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SEE THE DISCLOSURES APPENDIX FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

Company profile

Overview

Bekaert is an international group, headquartered in Belgium. Core competencies are advanced metal transformation, advanced materials and coatings. This unique combination is the company's key strength. Bekaert's basic raw material is wire rod steel wire about the thickness of a finger, which it converts by mechanical deformation and heat treatment into wires that can be as fine as one-50th of the thickness of a human hair. These wires are then turned into cable and cord, woven or knitted into cloth, or processed into ultra-fine filters and fibres, for a wide range of industrial applications in virtually all sectors of the economy but mainly in the automotive (31% of sales), infrastructure (23%) and utilities (16%) sectors.

Key numbers

Bekaert recorded 2008 combined sales (ie, sales of consolidated companies +100% of sales of joint ventures and associates after intercompany elimination) of €4.0bn and a net result of €174.1m. The company employs c.23,000 people and is organised into three business segments: advanced wire products (98.5% of REBIT); advanced materials; and advanced coatings.

Geographical breakdown of combined sales (2008)

Latin America 38%, Europe 27%, Asia 19%, US 15%, ROW 1%.

Risks

Short-term visibility, raw material prices (during 2008, Bekaert was able to pass on higher raw material prices. We would not rule out the possibility of Bekaert facing difficulties if raw material prices increase during the economic downturn. That said, raw material prices and the economy tend to move in the same direction), exchange rates (Bekaert has important sales and production facilities outside Europe and therefore has a natural currency hedge. Still, the company faces translation risk, which is not hedged), the need to streamline operations (since 2002, Bekaert has been constantly downsizing operations in mature markets and investing in emerging markets. The company is expected to continue to do so for the foreseeable future. As the latter entails restructuring charges, we expect the company to report €15m in non-recurring charges on an annual basis).

Financials

Yr to Dec (€m)	2008	2009F	2010F	2011F
Income statement				
Turnover	2,663.0	2,451.6	2,500.6	2,600.7
EBITDA	461.2	334.1	350.1	371.1
Net financial charges	(49.2)	(49.0)	(48.4)	(46.6)
Operating exceptionals	0.0	0.0	0.0	0.0
Adj pre-tax profit	301.1	168.3	185.5	212.9
Corporate exceptionals	(83.8)	(15.0)	(15.0)	(15.0)
Profit/loss on sale of tangible fixed assets	0.0	0.0	0.0	0.0
Amortisation of goodwill	0.0	0.0	0.0	0.0
Pre-tax profit	217.3	153.3	170.5	197.9
Taxes	(25.5)	(30.4)	(35.6)	(43.6)
Extraordinary items (net)	0.0	0.0	0.0	0.0
Minorities	(17.7)	(15.4)	(16.9)	(19.3)
Preference dividend	0.0	0.0	0.0	0.0
Net profit	174.1	107.5	117.9	134.9
Balance sheet				
Total fixed assets and L/T investments	1,408.7	1,433.7	1,433.7	1,433.7
Working capital	645.7	604.7	603.9	627.4
L/T non-interest-bearing liabilities	225.6	225.6	225.6	225.6
Enterprise net assets	1,828.8	1,812.9	1,812.1	1,835.5
Group equity	1,172.3	1,224.6	1,286.3	1,362.1
Net debt	656.5	588.3	525.8	472.4
Capital employed	1,828.8	1,812.9	1,812.1	1,834.5
Cash flow				
Operating cash flow	327.2	375.1	350.8	347.6
Cash taxes	(25.5)	(30.4)	(35.6)	(43.6)
Net financial charges (CF)	(49.2)	(49.0)	(48.4)	(46.6)
Gross cash flow	252.4	295.7	266.8	257.4
Capital expenditures (net of disposals)	(295.2)	(175.0)	(150.0)	(150.0)
Free cash flow	(42.8)	120.7	116.8	107.4
Ratios (%)				
EBITDA margin	17.3	13.6	14.0	14.3
Operating margin	11.0	7.5	8.0	8.5
Net debt/equity	56.0	48.0	40.9	34.7
ROACE	15.3	9.0	9.4	10.0
ROE	15.6	9.3	9.7	10.5
Growth (%)				
Turnover	22.5	(7.9)	2.0	4.0
EBITDA	50.7	(27.6)	4.8	6.0
Net profit	13.9	(38.3)	9.7	14.4
Valuation				
EV/EBITDA (x)	3.9	5.2	4.8	4.4
Adj EPS (€)	11.58	6.21	6.74	7.60
Adj PER (x)	6.0	11.2	10.3	9.2
Price/NAV (x)	1.2	1.2	1.1	1.0
DPS (€)	2.80	2.80	2.85	3.00
Dividend yield (%)	4.0	4.0	4.1	4.3

Source: Company data, ING estimates

Disclosures Appendix

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	Equity coverage	Investment Banking clients*
Buy	38%	25%
Hold	45%	27%
Sell	17%	27%
	100%	

* Percentage of companies in each rating category that are Investment Banking clients of ING Financial Markets LLC or an affiliate.

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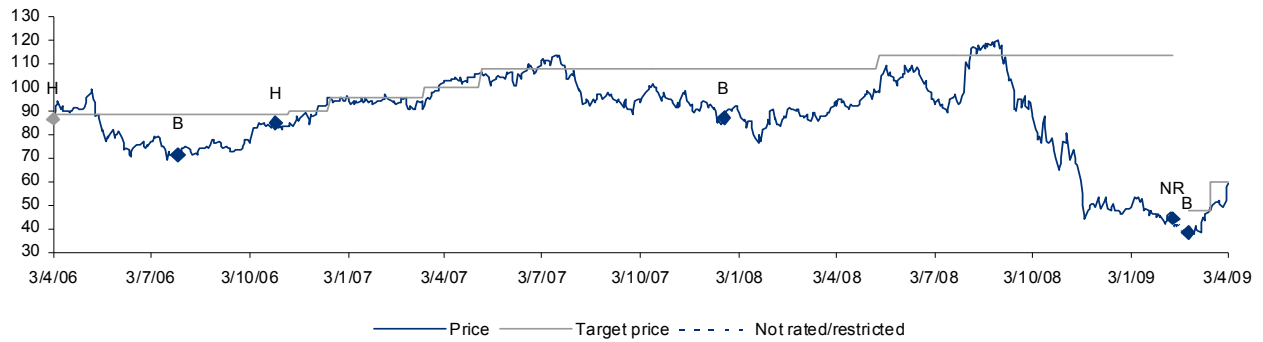
Buy: Forecast 12-mth absolute total return greater than +15%

Hold: Forecast 12-mth absolute total return of +15% to -5%

Sell: Forecast 12-mth absolute total return less than -5%

Total return: forecast share price appreciation to target price plus forecast annual dividend. Price volatility and our preference for not changing recommendations too frequently means forecast returns may fall outside of the above ranges at times.

PRICE & RATINGS HISTORY TO 03/04/09: BEKAERT (BEKB.BR)



B = Buy; H = Hold; S = Sell; NR = Not Rated; R = Restricted

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