

Engineering & machinery

Belgium

Maintained

Bekaert

Buy

Moving beyond trough multiples; TP raised to €60

18/03/09

Previously: €48

Reuters: BEKB.BR

Price: €47.48

12-mth target: €60.00

- **FY08 underlying earnings came in slightly above our expectations and reassured the market of Bekaert's resilience. We increase our FY09F EPS by 5.0% to €6.22. The company has a sound financial structure, an attractive long-term geographical coverage and product mix, and should benefit strongly from an economic recovery. We shift our valuation methodology to a mid-cycle trading multiple of 10.0x 2010F PER and raise our TP to €60.0. BUY.**

Resilient 2H08. Bekaert reported a 22.5% increase in consolidated sales in FY08 to €2.66bn. The surge was mainly due to a 17.7% growth in organic sales (passed on raw material price increases and improved product mix) and a 5.8% consolidation effect in Latin America. In 4Q08, organic sales were flat YoY, underlining Bekaert's resilience in a difficult macro environment. FY08 REBIT came in up 57.9% at €294m, which equates to an 11% margin. Even in 2H08, the margin amounted to 9.7%, comfortably above the group's long-term guidance range of 7-9%. FY08 net income increased by 'only' 18.7% to €174.1m, hit by €83.7m in non-recurring elements. FY08 adj. EPS surged 53.7% to €11.58.

Confident outlook. Bekaert did not provide a quantified outlook, apart from reiterating that FY09F sales will benefit from the further change in Latin American consolidation scope (guidance €140m impact on consolidated sales). The group acknowledged the very limited short-term visibility, but reiterated confidently that it does not expect the current slowdown to last on a company-wide scale. We have fine-tuned our estimates and increased FY09 EPS by 5.0% to €6.22. This still implies a 46% decline YoY, followed by another 3% decline in FY10 to EPS of €6.0.

TP raised to €60 (from €48). 2009-10F will be challenging for Bekaert, due to the economic turmoil. Still, we believe that our FY09-10F EPS estimates will mark the trough for Bekaert. Meanwhile, the group is on a sound financial footing, with net debt/EBITDA at 1.6x. Hence, the 6% dividend yield is not at risk (payout still below 50%). Further, the company has an attractive long-term geographical coverage, with roughly 60% of sales in emerging markets and 40% in mature markets (ie, when demand picks up, Bekaert is in the right place). Also, Bekaert has a strong product mix (worldwide market leader in resilient niche markets such as steel cord for radial tires (75% replacement) and Dramix concrete reinforcement (mainly used for large infrastructure projects), which is constantly improved via significant R&D expenses (3% of sales). Previously, we valued Bekaert at a trough multiple of 8.0x 2009F PER. Looking at the company's share price performance lately, we conclude that investor appetite for a more cyclical stock has returned earlier than we anticipated. We intend to reflect this in our valuation and raise our TP to €60, targeting a mid-cycle multiple of 10.0x PER on a trough 2010F EPS. **BUY** maintained.

12-month forecast returns (%)

Share price	26.4
Dividend	5.9
12m f'cst total return	32.3

Forecasts and ratios (€m)

Yr to Dec	2008	2009F
Turnover	2,663.0	2,451.6
EBITDA	461.2	333.9
Net profit	174.1	108.0
Adj EPS (€)	11.58	6.24
Adj PER (x)	4.1	7.6
Dividend yield (%)	5.9	5.9
EV/EBITDA (x)	3.0	4.0
Price/NAV (x)	0.8	0.8
ROE (%)	15.6	9.3

Share data

No. of shares (m)	19.8
Daily turnover (shares)	108,997
Free float (%)	60.9
Enterprise value (€m)	1,326.9
Market cap (€m)	939.3

Share price performance



Source: ING

Resilient earnings

Fig 1 Key estimates (€m)

	1H07	2H07	1H08	2H08	2007	2008	2009F	2010F	2011F
Consolidated sales	1,065.0	1,109.0	1,303.0	1,360.0	2,174.0	2,663.0	2,451.6	2,402.6	2,498.7
% change			22.3	22.6	8.2	22.5	-7.9	-2.0	4.0
REBIT	90.3	96.0	162.9	131.4	186.3	294.2	183.9	180.2	212.4
REBIT margin (%)	8.5	8.7	12.5	9.7	8.6	11.0	7.5	7.5	8.5
Non-recurring	-3.8	-8.0	-17.6	-66.2	-11.7	-83.8	-15.0	-15.0	-15.0
EBIT	86.5	88.1	145.3	65.2	174.6	210.5	168.9	165.2	197.4
EBIT margin (%)	8.1	7.9	11.2	4.8	8.0	7.9	6.9	6.9	7.9
Net financing charges	-16.3	-24.7	-22.4	-26.9	-41.0	-49.2	-49.0	-48.9	-47.1
Taxes	-15.0	-4.1	-25.5	0.0	-19.1	-25.5	-28.5	-30.9	-41.3
Share in the JVs	23.4	23.7	35.7	20.4	47.1	56.1	33.1	32.5	36.9
Minorities	-5.8	-3.0	-7.1	-10.6	-8.7	-17.7	-14.6	-13.9	-17.2
Net profit	72.9	80.0	126.0	48.0	152.9	174.1	109.8	104.0	128.7
EPS	3.61	4.02	6.40	2.43	7.63	8.83	5.57	5.28	6.53
% change			77.4	-39.6	14.6	15.8	-36.9	-5.3	23.7
Adj. EPS	3.71	3.82	6.98	4.59	7.53	11.58	6.24	6.04	7.29
% change			88.1	20.2	9.2	53.7	-46.1	-3.2	20.7

Source: Company data, ING estimates

Bekaert reported a 22.5% increase in consolidated sales in FY08 to €2.66bn. The surge was mainly due to 17.7% growth in organic sales (passed on raw material price increases and improved product mix) and a 5.8% consolidation effect in Latin America. Fluctuations in several exchange rates largely compensated each other, with a net negative impact of 1.0%. In 4Q08, organic sales were flat YoY, underlining Bekaert's resilience in a difficult macro environment.

FY08 REBIT was up 57.9% at €294m (INGF €289.8m), which equates to an 11% margin. Even in 2H08, the margin amounted to 9.7%, comfortably above the group's LT guidance range of 7% to 9%.

Non-recurring expenses totalled €83.7m (INGF €50.5m) and included provisions for the restructuring of the Belgian manufacturing operations of advanced wire products (€42.5m).

The rise in net financing charges was due to the increase in the net financial debt position to €656.5m (above INGF of €587m), incurred to finance major capital expenditures (€238.6m) and an increased working capital level in line with growth. Still, the balance sheet remains strong (net debt/EBITDA at 1.6x).

Taxation on profit amounted to €25m compared with €19m in 2007.

In spite of the transfer of Vicson and Proalco to the consolidated perimeter, the share in the results of joint ventures totalled €56.1m (INGF €56.1m). This increase was driven mainly by the operations in Brazil.

FY08 net income increased by 'only' 18.7% to €174.1m, but FY08 adj. EPS surged 53.7% to €11.58.

Lastly, the dividend increases to €2.80 (INGF €2.85), which seems sustainable, given INGF FY09 EPS of €5.55 (50% payout and 5.7% yield).

Company profile

Overview

Bekaert is an international group, headquartered in Belgium. Core competences are advanced metal transformation, advanced materials and coatings. This unique combination of competences is Bekaert'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-fiftieth 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 reported 2008 combined sales (ie, sales of consolidated companies +100% of sales of joint ventures and associates after intercompany elimination) of €4.0bn and reported 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	2,402.6	2,498.7
EBITDA	461.2	333.9	330.2	362.4
Net financial charges	(49.2)	(49.0)	(48.9)	(47.1)
Operating exceptionals	0.0	0.0	0.0	0.0
Adj pre-tax profit	301.1	168.0	163.8	202.2
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	153.0	148.8	187.2
Taxes	(25.5)	(30.3)	(30.9)	(41.3)
Extraordinary items (net)	0.0	0.0	0.0	0.0
Minorities	(17.7)	(14.6)	(13.9)	(17.2)
Preference dividend	0.0	0.0	0.0	0.0
Net profit	174.1	108.0	104.0	128.7
Balance sheet				
Total fixed assets and L/T investments	1,408.7	1,458.7	1,458.7	1,458.7
Working capital	645.7	604.7	581.0	603.5
L/T non-interest-bearing liabilities	225.6	225.6	225.6	225.6
Enterprise net assets	1,828.8	1,837.9	1,814.1	1,836.6
Group equity	1,172.3	1,226.9	1,274.8	1,344.4
Net debt	656.5	610.9	539.3	491.2
Capital employed	1,828.8	1,837.9	1,814.1	1,835.6
Cash flow				
Operating cash flow	327.2	374.8	353.9	339.9
Cash taxes	(25.5)	(30.3)	(30.9)	(41.3)
Net financial charges (CF)	(49.2)	(49.0)	(48.9)	(47.1)
Gross cash flow	252.4	295.5	274.2	251.5
Capital expenditures (net of disposals)	(295.2)	(200.0)	(150.0)	(150.0)
Free cash flow	(42.8)	95.5	124.2	101.5
Ratios (%)				
EBITDA margin	17.3	13.6	13.7	14.5
Operating margin	11.0	7.5	7.5	8.5
Net debt/equity	56.0	49.8	42.3	36.5
ROACE	15.3	9.0	8.6	9.6
ROE	15.6	9.3	8.6	10.2
Growth (%)				
Turnover	22.5	(7.9)	(2.0)	4.0
EBITDA	50.7	(27.6)	(1.1)	9.8
Net profit	13.9	(37.9)	(3.7)	23.7
Valuation				
EV/EBITDA (x)	3.0	4.0	3.8	3.3
Adj EPS (€)	11.58	6.24	6.04	7.29
Adj PER (x)	4.1	7.6	7.9	6.5
Price/NAV (x)	0.8	0.8	0.8	0.7
DPS (€)	2.80	2.80	2.85	3.00
Dividend yield (%)	5.9	5.9	6.0	6.3

Source: Company data, ING estimates

Disclosures Appendix

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PRICE & RATINGS HISTORY TO 02/03/09: BEKAERT (BEKB.BR)



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