

## Engineering &amp; machinery

Belgium

Maintained

## Bekaert

Buy

## Broad recovery

11/05/10

Previously: €140

Reuters: BEKB.BR

Price: €130.60

12-mth target: €155.00

● 1Q sales increased a very strong 17% YoY and 12% QoQ, based on a broad recovery and a continuation of the Chinese success story. Management guides for a similarly strong 2Q. We revise upwards our 2010F and 2011F EPS by 25% and 17%, respectively. On our new estimates, we believe valuation remains compelling. In addition, we see multiple triggers. We increase our TP from €140.0 to €155.0 and maintain our BUY rating.

**Very strong 1Q10 trading update.** Consolidated sales increased 17% YoY and 12% QoQ to €694m, beating our €622m forecast by 12%. Organic consolidated sales growth was 23.9% (mainly volume-driven), while currency movements, particularly in Venezuela, had a negative 6.7% impact. Combined sales increased 21% to €953m, 11% above our €855m forecast.

**Regional split-up.** EMEA consolidated sales increased a surprising 16% YoY and 11% QoQ to €244m (INGF €220m, consensus €221m), mainly due to a sustained (volume) recovery. In the press release, Bekaert mentioned high capacity utilisation, which should result in more solid margins. North America consolidated sales went down 1% YoY, but increased 36% QoQ to €141m (INGF €119m, consensus €123m). YoY volumes increased, but this was offset by lower selling prices and weaker currencies. We assume Bekaert is tackling its Canadian issues, which should lead to some margin recovery, but there was no mentioning of this in the press release. LatAm consolidated sales were reported down 17% both QoQ and YoY to €67m (INGF €66m, consensus €67m), mainly due to the Venezuelan hyperinflation. Asia-Pacific consolidated sales jumped 52% YoY and 13% QoQ to €242m (INGF €218m, consensus €200m), driven by solid industrial development. Here again, Bekaert cites high capacity utilisation. This suggests that our assumption of a REBIT margin decline from 35.6% in 2009 to 31% in 2010F is likely to be too cautious.

**2010F and 2011F EPS revised upwards 25% and 17%, respectively.** Bekaert expects continued strong performance in 2Q10, but remains cautious about market developments for 2H10. Based on the better-than-expected 1Q sales and the solid sales guidance for 2Q, we increase our 2010F and 2011F sales by 10% and 8% to €2.83bn and €2.97bn, respectively. We further increase our 2010F and 2011F REBIT margin assumptions from 11.9% and 12.2% to 13.0% and 12.8%, respectively (see page 2 for split up per region). Thus, we revise upwards our 2010F and 2011F adj. EPS by 25% and 17% to €12.85 and €13.20, respectively.

**TP revised upwards from €140.0 to €155.0.** At a €140 share price, Bekaert trades at 10.6x PER and 5.4x adj. EV/EBITDA 2011F. Given Bekaert's strong position in terms of products and regions, we believe that a valuation 6.0x EV/EBITDA is justified. Triggers are (1) broadening the product offer in Asia Pacific, (2) expansion in Russia, India and Indonesia, (3) more captive tire producers 'outsourcing' tire cord production to Bekaert, (4) product innovation (R&D amounts to 3% of sales).

12-month forecast returns (%)	
Share price	18.7
Dividend	2.4
<b>12m f'cst total return</b>	<b>21.1</b>

Forecasts and ratios		
Yr to Dec (€m)	2009	2010F
Turnover	2,437.8	2,833.0
EBITDA	395.8	514.2
Net profit	151.8	228.6
Adj EPS (€)	8.94	12.85
Adj PER (x)	14.6	10.2
Dividend yield (%)	2.3	2.4
EV/EBITDA (x)	7.9	6.2
Price/NAV (x)	2.0	1.8
ROE (%)	12.6	16.7

Share data	
No. of shares (m)	19.7
Daily turnover (shares)	103,933
Free float (%)	60.9
Enterprise value (€m)	3,169.8
Market cap (€m)	2,578.1



Source: ING

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Fig 1 Bekaert: changes in key estimates (€m)

	2008	2009	2010F OLD	2010F NEW	% ch vs OLD	2011F OLD	2011F NEW	% ch vs OLD
EMEA	1167.8	828.0	864.6	997.9	15.4	910.5	1037.6	14.0
YoY chg (%)		-29.1		20.5			4.0	
North America	605.2	473.4	487.6	570.3	17.0	502.2	590.5	17.6
YoY chg (%)		-21.8		20.5			3.5	
Latin America	176.6	326.9	307.4	274.1	-10.8	322.7	288.5	-10.6
YoY chg (%)		85.1		-16.1			5.2	
Asia Pacific	713.0	809.5	910.7	990.6	8.8	1011.9	1056.4	4.4
YoY chg (%)		13.5		22.4			6.6	
<b>Consolidated sales</b>	<b>2,663.0</b>	<b>2,437.8</b>	<b>2,570.2</b>	<b>2,833.0</b>	<b>10.2</b>	<b>2,747.3</b>	<b>2,973.0</b>	<b>8.2</b>
YoY chg (%)		-8.5		16.2			4.9	
EMEA	68.0	1.0	47.6	59.9	25.8	54.6	67.4	23.5
REBIT margin (%)	5.8	0.1	5.5	6.0		6.0	6.5	
North America	25.0	-5.0	4.9	20.0	309.5	15.1	23.6	56.4
REBIT margin (%)	4.1	-1.1	1.0	3.5		3.0	4.0	
Latin America	16.0	28.0	30.7	27.4	-10.7	32.3	28.9	-10.7
REBIT margin (%)	9.1	8.6	10.0	10.0		10.0	10.0	
Asia Pacific	250.0	288.0	282.3	321.9	14.0	293.4	322.2	9.8
REBIT margin (%)	35.1	35.6	31.0	32.5		29.0	30.5	
Other	-64.8	-55.2	-60.0	-60.0	0.0	-61.0	-61.0	0.0
<b>REBIT</b>	<b>294.2</b>	<b>256.8</b>	<b>305.5</b>	<b>369.2</b>	<b>20.8</b>	<b>334.4</b>	<b>381.1</b>	<b>14.0</b>
<b>REBIT margin (%)</b>	<b>11.0</b>	<b>10.5</b>	<b>11.9</b>	<b>13.0</b>		<b>12.2</b>	<b>12.8</b>	
Non-recurring	-83.8	-24.6	-25.0	-25.0	0.0%	-15.0	-15.0	0.0%
<b>EBIT</b>	<b>210.5</b>	<b>232.2</b>	<b>280.5</b>	<b>344.2</b>	<b>22.7%</b>	<b>319.4</b>	<b>366.1</b>	<b>14.6%</b>
EBIT margin (%)	7.9	9.5	10.9	12.1		11.6	12.3	
Net financing charges	-49.2	-65.6	-58.3	-58.3	0.1	-53.5	-53.5	0.0
Taxes	-25.5	-33.9	-64.3	-80.8	25.7	-78.7	-91.7	16.6
Share in the JVs	56.1	37.8	39.5	43.5	10.2	41.5	45.7	10.2
Minorities	-17.7	-18.6	-20.0	-20.0	0.0	-21.0	-21.0	0.0
<b>Net profit</b>	<b>174.1</b>	<b>151.8</b>	<b>177.4</b>	<b>228.6</b>	<b>28.8</b>	<b>207.8</b>	<b>245.6</b>	<b>18.2</b>
<b>Adj. net profit</b>	<b>228.2</b>	<b>176.4</b>	<b>202.4</b>	<b>253.6</b>	<b>25.3</b>	<b>222.8</b>	<b>260.6</b>	<b>17.0</b>
<b>EPS (€)</b>	<b>8.83</b>	<b>7.69</b>	<b>8.99</b>	<b>11.58</b>	<b>28.8</b>	<b>10.52</b>	<b>12.44</b>	<b>18.3</b>
% change		-12.9		50.6			7.5	
<b>Adj. EPS (€)</b>	<b>11.58</b>	<b>8.94</b>	<b>10.25</b>	<b>12.85</b>	<b>25.3</b>	<b>11.28</b>	<b>13.20</b>	<b>17.0</b>
% change		-22.8		43.7			2.8	

Source: Company data, ING estimates

## Company profile

### Overview

Bekaert is an international group, headquartered in Belgium and employs c.23,000 people. The group has a production platform in 30 countries and customers in over 120 countries, in all markets and sectors. The two core competences of Bekaert are metal transformation (influence the properties of steel, (ie, wire rod) and metal coating (adjust the surface properties and hence provide corrosion protection etc). The combination of the two core competences results in a broad range of high technological products (3% of annual consolidated sales is invested in R&D).

2009F combined sales (ie, sales of consolidated companies +100% of sales of joint ventures and associates after intercompany elimination) are estimated at of €3.3bn and the net result is estimated at €108.5m.

### Geographical breakdown of combined sales (9M09)

Latin America 37%, EMEA 24%, Asia Pacific 24%, North America 15%.

### End market breakdown of combined sales (1H09)

Automotive 31% (of which 75% replacement market), infrastructure 23%, utilities 16%, agri 9%, consumer 9%, mechanical engineering 7%, basic materials 5%.

Bekaert is global market leader in steel cord for radial tyre reinforcement and Dramix fibres for concrete reinforcement.

### Risks

(1) Short-term visibility, (2) 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), (3) 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), (4) 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	2009	2010F	2011F
<b>Income statement</b>				
Turnover	2,663.0	2,437.8	2,833.0	2,973.0
EBITDA	419.2	395.8	514.2	531.1
Net financial charges	(49.2)	(65.6)	(58.3)	(53.5)
Operating exceptionals	0.0	0.0	0.0	0.0
Adj pre-tax profit	301.1	229.0	354.4	373.3
Corporate exceptionals	(83.8)	(24.6)	(25.0)	(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	204.4	329.4	358.3
Taxes	(25.5)	(33.9)	(80.8)	(91.7)
Extraordinary items (net)	0.0	0.0	0.0	0.0
Minorities	(17.7)	(18.6)	(20.0)	(21.0)
Preference dividend	0.0	0.0	0.0	0.0
Net profit	174.1	151.8	228.6	245.6
<b>Balance sheet</b>				
Total fixed assets and L/T investments	1,534.0	1,706.7	1,816.7	1,826.7
Working capital	739.9	590.9	687.3	721.3
L/T non-interest-bearing liabilities	445.1	457.0	457.0	457.0
Enterprise net assets	1,828.8	1,840.6	2,047.1	2,091.0
Group equity	1,172.3	1,373.6	1,544.1	1,728.5
Net debt	656.5	467.0	502.9	361.5
Capital employed	1,828.8	1,840.6	2,047.1	2,090.0
<b>Cash flow</b>				
Operating cash flow	270.8	544.8	417.8	497.1
Cash taxes	(25.5)	(33.9)	(80.8)	(91.7)
Net financial charges (CF)	(49.2)	(65.6)	(58.3)	(53.5)
Gross cash flow	196.0	445.3	278.6	351.9
Capital expenditures (net of disposals)	(295.2)	(127.0)	(255.0)	(160.0)
Free cash flow	(99.2)	318.3	23.6	191.9
<b>Ratios (%)</b>				
EBITDA margin	15.7	16.2	18.2	17.9
Operating margin	11.0	10.5	13.0	12.8
Net debt/equity	56.0	34.0	32.6	20.9
ROACE	15.3	12.1	14.6	14.0
ROE	15.6	12.6	16.7	15.9
<b>Growth (%)</b>				
Turnover	22.5	(8.5)	16.2	4.9
EBITDA	37.0	(5.6)	29.9	3.3
Net profit	13.9	(12.8)	50.6	7.5
<b>Valuation</b>				
EV/EBITDA (x)	7.8	7.9	6.2	5.7
Adj EPS (€)	11.58	8.94	12.85	13.20
Adj PER (x)	11.3	14.6	10.2	9.9
Price/NAV (x)	2.3	2.0	1.8	1.6
DPS (€)	2.80	2.94	3.10	3.20
Dividend yield (%)	2.1	2.3	2.4	2.5

Source: Company data, ING estimates

# Disclosures Appendix

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PRICE & RATINGS HISTORY TO 05/04/10: BEKAERT (BEKB.BR)



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