

Bekaert (Buy - EUR 92.1): Organic growth accelerates to 8% in Q3

China +61% in Q3, US for the first time positive since 5 quarters

Facts

Bekaert issued its Q3 trading update. Revenues increased by 5.6% to EUR 524m or clearly ahead of our forecast of EUR 490m. Organically revenues were up by 8% vs +3.1% expected. Key driver for this outperformance was once more China which posted an impressive 61% revenue growth vs +30% expected. Bekaert clearly added more capacity than we expected and we estimate that the installed steelcord capacity at end end of Q3 was already close to the 250,000 tons targeted for the end of the year.

- **Advanced Wire:** revenues were up by 6% to EUR 446m. Besides on the ongoing strong performance in China, Wire Asia posted a strong 16% revenue growth. Building products grew by 3.6% vs 3% expected. The Wire division in Europe confirmed its H1 trend and recorded a 6% revenue growth vs +2% forecasted. A positive surprise came from the US wire business (+1% vs -7% exp) that posted the first positive quarter since 5 quarters and this despite the USD weakening. Bekaert indicates that the USD weakening led to export opportunities and that there was a pick up in demand for wire for offshore applications. Revenues of Steelcord outside China posted revenues down by 6% (-10% exp).
- **Advanced materials:** Revenues were up by 25% to EUR 49m compared to our EUR 45m forecast and includes now the stainless business which was previously reported within the Wire Europe division.
- **Advanced Coatings** witnessed a revenue drop of 20% to EUR 29m vs EUR 30m expected due to ongoing weakness in film coating in the US and the USD.

Outlook: Bekaert expects to maintain its revenue growth for the FY, which implies that the group targets revenue growth of approximately 5.5% for the FY despite the USD evolution in Q4. In addition, the Venezuelan activities will be consolidated from Q4 onwards vs our expectation of 2008

Our View

Bekaert issued a strong trading update with a clear acceleration in Bekaert's organic revenue growth to 8%. This is mainly driven by the impressive growth in China, which accounts already for 20% of the consolidated revenues. In addition, for the first time in 5 quarters, the US Wire business contributed positively to the group's revenue growth. We expect that Bekaert will further step up in production capacity in China which will lead to upward revision of our forecasts. Despite the USD evolution, also forecasts of the US based activities will be raised.

Conclusion

Thanks to its aggressive expansion, Bekaert is taking significant market share in China and is clear market leader in the fastest growing market for its products. The group's strategy is simple and clear: expanding steel cord capacity in regions where the underlying demand is strong such as China. Bekaert has the financial strengths to expand fast and aggressive, while its worldwide leadership in steelcord provides cost leadership.

A combination of a DCF for Bekaert's activity and a DDM for the joint ventures, leads to a fair value for the group of EUR 122 per share. The group offers a FCF yield of 9.6% in 2008 and 12% in 2009. On an EV/EBITDA basis, Bekaert trades at 6x 2007 and 5.2x 2008. Buy reiterated

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