

Benelux Eye-Opener

Taking the foot off the brake

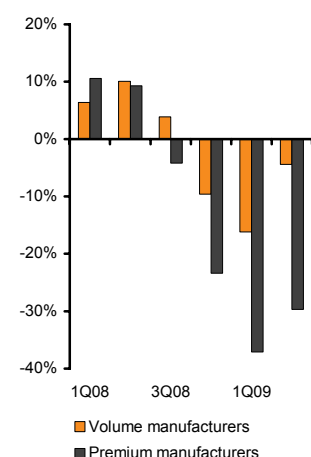
We expect a soft landing for automotive demand in 2010, while the premium auto demand could return to growth. We have ranked the Benelux companies with the highest exposure to the European automotive sector, expecting Umicore and Aalberts to gain the most from an upturn in the premium car segment.

Table 1 : Automotive exposure Benelux

	Automotive production exposure EMEA as % of total revenues	EMEA automotive revenue growth 1H09	Revenue loss EMEA automotive revenues as % of total	Benefits from premium segment recovery	Rating
Umicore	17%	-24%	13%	v	Sell
Bekaert	8%	-21%	7%		Buy
Aalberts	11%	-35%	7%	v	Buy
Solvay	5%	-31%	4%		Hold
DSM	4%	-31%	3%		Buy
Draka	4%	-34%	3%		Buy

Source: ABN AMRO estimates on basis of company statements

Chart 1 : Volume/premium manufacturers production % change yoy



Source: ABN AMRO and company data

Markets still fear the collapse of Western European cars sales, but our automotive analyst colleague Jose Asumendi argues in his *2010 premium recovery?* report dated 9 September that the lesson learned from 2009 should be that European governments will again support car sales in 2010 if needed, creating a soft landing. Our economists believe the Western European economy is slowly turning the corner, which should at least cushion a further fall. Anecdotal evidence within the automotive production chain indicates that production schedules have stabilised. Within the European automotive sector, we see most upward potential in the premium segment: 1) the lack of incentive schemes has caused a much steeper fall in sales than the volume manufacturers (in 2Q09, -19% vs -4%, respectively); and 2) production cuts have also been much steeper in the premium segment than the volume segment (in 2Q09, -30% vs -11%, respectively). Overall, we expect a soft landing (but still a decrease) for the European volume manufacturers in 2010, but that the premium car segment has seen the lows in 1H09, which should result in an upturn in 2010.

In Table 1 we rank the Benelux companies with the highest exposure to automotive production. We estimate how much EMEA automotive revenues deteriorated in 1H09 yoy and whether these companies enjoy a relative benefit from a recovery in the premium car segment. Both Aalberts (heat and surface treatment) and Umicore (automotive catalysts) benefit from a recovery in the premium segment on top of higher volumes due to the higher product requirements. Bekaert (steel cord for tyre reinforcement), DSM (engineering plastics), Draka (cable) and Solvay (specialty polymers and plastic fuel systems) benefit mainly from an increase in production volume. From the Benelux companies, Umicore, Bekaert and Aalberts have seen the largest relative revenue loss because of the European automotive downturn and we believe should gain most from a recovery in car production. From these three, we prefer Bekaert and Aalberts and think Aalberts would benefit sooner from a recovery due to the expected benefits from a premium segment recovery. We rate Umicore a Sell as expiration of hedging contracts will cancel out the automotive recovery.

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Important disclosures can be found in the Disclosures Appendix.

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Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

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The tables below show the distribution of ABN AMRO's recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where ABN AMRO has an investment banking relationship.

Long Term recommendations (as at 14 Sep 2009)		
	Global total (IB%)	Europe total (IB%)
Buy	493 (4)	148 (12)
Add	0 (0)	0 (0)
Hold	388 (3)	159 (6)
Reduce	0 (0)	0 (0)
Sell	137 (0)	50 (0)
Total (IB%)	1018 (3)	357 (8)

Source: ABN AMRO

Trading recommendations (as at 14 Sep 2009)		
	Global total (IB%)	Europe total (IB%)
Trading Buy	0 (0)	0 (0)
Trading Sell	0 (0)	0 (0)
Total (IB%)	0 (0)	0 (0)

Source: ABN AMRO

Valuation and risks to target price

Aalberts Industries (RIC: AALB.AS, Rec: Buy, CP: €9.52, TP: €11.00): Key risks to our valuation and multiple-based target price are: 1) a continued weakening of industrial production in Europe; and 2) construction markets in Europe and the US not recovering or even worsening further; both could once again put debt covenants into jeopardy.

Bekaert (RIC: BEKB.BR, Rec: Buy, CP: €97.51, TP: €100.00): A key risk to our DCF- and DDM-based valuation and target price would be a shortage of raw materials. A sudden drop in the price of wire rods could squeeze margins, as we have seen in 1H09, although an increase in the price would be beneficial. In addition, deterioration of the global tyre market could impose a risk.

Draka Holding (RIC: DRAK.AS, Rec: Buy, CP: €12.03, TP: €7.50): The main risk to our SOTP-based target price is a more severe collapse of the E&I and I&S end markets. Most of Cableteq's end markets are construction-related; therefore, GDP is the most important driver. Draka's current EBIT growth forecasts are driven by Communications, as well as some part of the Specialty Cable business.

DSM (RIC: DSMN.AS, Rec: Buy, CP: €25.89, TP: €29.00): The key risk to our sum-of-the-parts-based target price is a return to aggressive pricing by Asian producers on bulk vitamins and anti-infectives. A significant continuation of the slowdown in important end markets, such as the European construction and automotive markets, could hurt sales.

Solvay (RIC: SOLB.BR, Rec: Hold, CP: €73.65, TP: €82.00): Our target price is based on a sum-of-the-parts valuation. Economic headwinds, and energy and raw material prices represent downside risks. And the potential sale of the Pharma unit could be an upside or downside risk depending on the price. Upside risks include a lower sales decline for key drugs than we forecast and meeting cost-saving targets.

Umicore (RIC: UMI.BR, Rec: Sell, CP: €19.57, TP: €14.00): The main upside risk to our SOTP-based target price is a sudden spike in prices of precious metals, which would benefit its PMS divisions, and an appreciation in the US dollar. We believe a sudden recovery in the prices of PGMs - platinum, palladium and rhodium, the main raw materials for Umicore's Precious Metals division - would improve the division's profitability.

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