

4 November 2009

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Bekaert

Preview 3Q trading Update

Buy

Target price
€100.00

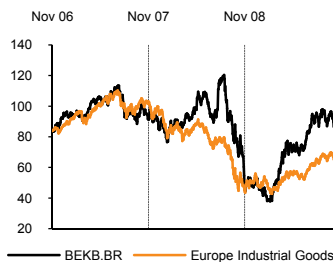
Price
€85.22

Short term (0-60 days)
n/a

Sector relative to market
Overweight

Price performance

	(1M)	(3M)	(12M)
Price (€)	86.97	87.66	76.54
Absolute (%)	-2.0	-2.8	11.3
Rel market (%)	-2.6	-5.5	7.3
Rel sector (%)	-2.6	-6.7	-7.7



Market capitalisation
€1.69bn

Average (12M) daily turnover
€5.15m

RIC: BEKB.BR, BEKB BB
Priced at close of business 3 Nov 2009.
Source: Bloomberg

Analyst

Pieter Zwinkels
+31 20 383 6797
pieter.zwinkels@rbs.com

Gustav Mahlerlaan 10, 1082 PP
Amsterdam, Netherlands

<http://www.abnamroresearch.com>

Key forecasts

	FY07A	FY08A	FY09F	FY10F	FY11F
Revenue (€m)	2173	2662	2526	2695	2873
EBITDA (€m)	300.5	335.0	348.4	390.3	464.4
Reported net profit (€m)	152.9	174.1	129.2	155.4	201.7
Normalised net profit (€m)	152.9	174.1	129.2	155.4	201.7
Normalised EPS (€)	7.58	8.79	6.44	7.74	10.0
Dividend per share (€)	2.76	2.80	2.57	3.10	4.02
Dividend yield (%)	3.24	3.29	3.02	3.63	4.72
Normalised PE (x)	11.2	9.69	13.2	11.0	8.48
EV/EBITDA (x)	11.2	10.8	9.15	7.69	5.91
EV/invested capital (x)	1.20	1.16	1.11	1.05	0.97
ROIC - WACC (%)	6.09	5.14	4.33	6.05	9.95

Accounting standard: IFRS
Source: Company data, ABN AMRO forecasts

year to Dec, fully diluted

Trading update on 13 November

Bekaert will publish its 3Q trading update on 13 November before market opens. The update will contain sales numbers only, no outlook. We forecast combined (including JV) sales of €877m, ie, a 24% yoy decrease but note that 3Q08 was the best quarter ever for Bekaert. After 1H09, the company had indicated lower raw material prices, which would impact the sales numbers. In 3Q, wire rod prices, which is Bekaert's main raw material, were down some 35% on average. The company will not announce profit numbers on 13 November, but we expect EBIT to have stabilised in 3Q vs 2Q. We expect no outlook for 2009 but believe the tone of the press release to be rather bullish given the stabilisation in wire rod prices and improving end markets.

Again China

Bekaert has become a play on China but the drop in wire rod prices has hampered the picture. We forecast a 30% sales decline in EMEA (2Q: -38%) to €209m. We also expect a 30% sales decline in North America (2Q: -22%) to €120m, driven by a 35% organic decline (-37% in 2Q) and a 5% stronger US\$. In Latin America, Bekaert should show a sales decline of 26% (-26% in 2Q) to €334m, hampered by a 6% lower Brazilian real in 3Q. The bright spot in the portfolio should be, again, Asia Pacific, where sales growth should be -5% to €215m, driven by expansion from the Ansteel JV and a stronger renminbi.

Investment case

1H09 EBIT was hampered by €40m incurred for FIFO adjustments, which were related to a strong decline in wire rod prices. Adjusting for that and assuming zero growth in 2010, EBIT should be €252m, still some 13% above consensus. Growth could be achieved by capacity expansion in China and the rollout of new, innovative products. Also, wire rod prices are stabilising, which is positive for Bekaert. The stock remains on our Benelux favourite list.

Important disclosures can be found in the Disclosures Appendix.

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Income statement

€m	FY07A	FY08A	FY09F	FY10F	FY11F
Revenue	2173	2662	2526	2695	2873
Cost of sales	-1613	-1935	-1855	-1989	-2127
Operating costs	-259.3	-391.3	-323.1	-315.7	-280.9
EBITDA	300.5	335.0	348.4	390.3	464.4
DDA & Impairment (ex gw)	-125.9	-124.5	-141.0	-140.0	-142.0
EBITA	174.6	210.5	207.4	250.3	322.4
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	174.6	210.5	207.4	250.3	322.4
Net interest	-32.5	-41.4	-54.4	-56.5	-56.5
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	-8.48	-7.83	-7.39	-6.00	-6.00
Reported PTP	133.6	161.2	145.7	187.7	259.8
Taxation	-19.1	-25.5	-32.8	-46.9	-65.0
Minority interests	-8.73	-17.7	-20.2	-25.2	-34.8
Other post-tax items	47.1	56.1	36.5	39.8	41.7
Reported net profit	152.9	174.1	129.2	155.4	201.7
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	300.5	335.0	348.4	390.3	464.4
Normalised PTP	133.6	161.2	145.7	187.7	259.8
Normalised net profit	152.9	174.1	129.2	155.4	201.7

Source: Company data, ABN AMRO forecasts

year to Dec

Balance sheet

€m	FY07A	FY08A	FY09F	FY10F	FY11F
Cash & market secs (1)	58.1	104.8	224.7	324.4	444.2
Other current assets	919.0	1154	1207	1320	1386
Tangible fixed assets	917.6	1071	1090	1090	1088
Intang assets (incl gw)	122.0	111.5	111.5	111.5	111.5
Oth non-curr assets	295.9	226.6	249.3	253.3	257.5
Total assets	2313	2667	2882	3099	3287
Short term debt (2)	253.0	503.1	415.6	415.6	415.6
Trade & oth current liab	387.5	478.0	411.5	505.9	525.4
Long term debt (3)	322.5	288.1	560.1	560.1	560.1
Oth non-current liab	203.0	225.6	235.6	235.6	235.6
Total liabilities	1166	1495	1623	1717	1737
Total equity (incl min)	1147	1172	1259	1382	1550
Total liab & sh equity	2313	2667	2882	3099	3287
Net debt	517.4	686.5	750.9	651.3	531.5

Source: Company data, ABN AMRO forecasts

year ended Dec

Cash flow statement

€m	FY07A	FY08A	FY09F	FY10F	FY11F
EBITDA	300.5	335.0	348.4	390.3	464.4
Change in working capital	-59.8	-145.8	30.2	-19.0	-46.4
Net interest (pd) / rec	-41.0	-49.2	-61.8	-62.5	-62.5
Taxes paid	-14.5	-44.5	-34.6	-46.9	-65.0
Other oper cash items	98.7	84.4	25.4	35.8	37.6
Cash flow from ops (1)	284.0	179.8	307.6	297.6	328.0
Capex (2)	-219.3	-277.5	-160.0	-140.0	-140.0
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	0.00	0.00	0.00	0.00	0.00
Cash flow from invest (3)	-219.3	-277.5	-160.0	-140.0	-140.0
Incr / (decr) in equity	-106.1	-7.70	-36.8	0.00	0.00
Incr / (decr) in debt	83.1	215.8	184.5	0.00	0.00
Ordinary dividend paid	-56.6	-62.4	-62.4	-57.9	-68.2
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	26.3	-4.96	-112.9	0.00	0.00
Cash flow from fin (5)	-53.3	140.7	-27.6	-57.9	-68.2
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	11.4	43.0	120.0	99.7	119.8
Equity FCF (1+2+4)	64.7	-97.8	147.6	157.6	188.0

Lines in bold can be derived from the immediately preceding lines.
Source: Company data, ABN AMRO forecasts

year to Dec

Recommendation structure

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.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For UK-based Investment Funds research the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For listed property trusts (LPT) or real estate investment trusts (REIT) the recommendation is based upon the target price plus the dividend yield, ie total return.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months. Sector relative to market: The sector view relative to the market is the responsibility of the strategy team. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside. Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

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 04 Nov 2009)

	Global total (IB%)	Europe total (IB%)
Buy	584 (10)	226 (25)
Add	0 (0)	0 (0)
Hold	408 (5)	175 (11)
Reduce	0 (0)	0 (0)
Sell	122 (0)	46 (0)
Total (IB%)	1114 (7)	447 (17)

Source: ABN AMRO

Trading recommendations (as at 04 Nov 2009)

	Global total (IB%)	Europe total (IB%)
Trading Buy	2 (0)	0 (0)
Trading Sell	1 (0)	0 (0)
Total (IB%)	3 (0)	0 (0)

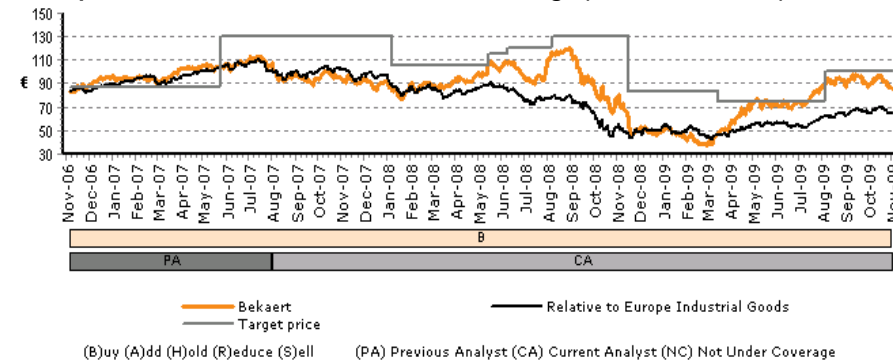
Source: ABN AMRO

Valuation and risks to target price

Bekaert (RIC: BEKB.BR, Rec: Buy, CP: €85.22, 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.

Bekaert coverage data

Stock performance, recommendations and coverage (as at 04 Nov 2009)



Pieter Zwinkels started covering this stock on 2 Aug 07

Source: ABN AMRO

Trading recommendation history

Date	Rec	Analyst
n/a	n/a	n/a

Source: ABN AMRO

Regulatory disclosures

None

Global disclaimer

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