

Bekaert

Belgium/General Industrials

Analysers



Accumulate

Recommendation unchanged

Share price: EUR 202.10

closing price as of 08/10/2010

Target price: EUR 220.00

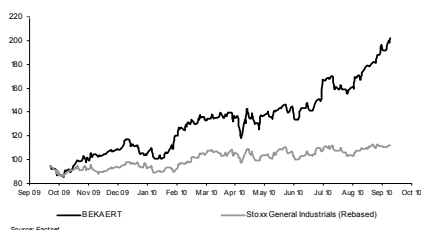
vs Target Price: EUR 190.00

Reuters/Bloomberg

BEKB.BR/BEKB.BB

Market capitalisation (EURm)	4,021
Current N° of shares (m)	20
Free float	61%
Daily avg. no. trad. sh. 12 mth	53,554
Daily avg. trad. vol. 12 mth (m)	7
Price high 12 mth (EUR)	202.10
Price low 12 mth (EUR)	85.22
Abs. perf. 1 mth	20.66%
Abs. perf. 3 mth	41.73%
Abs. perf. 12 mth	121.70%

Key financials (EUR)	12/09	12/10e	12/11e
Sales (m)	2,437	2,947	3,320
EBITDA (m)	387	615	655
EBITDA margin	15.9%	20.9%	19.7%
EBIT (m)	232	455	493
EBIT margin	9.5%	15.4%	14.9%
Net Profit (adj.)(m)	170	342	356
ROCE	8.7%	14.7%	15.0%
Net debt/(cash) (m)	429	444	330
Net Debt/Equity	0.3	0.3	0.2
Debt/EBITDA	1.1	0.7	0.5
Int. cover(EBITDA/Fin. int)	6.8	15.6	20.5
EV/Sales	1.0	1.5	1.3
EV/EBITDA	6.4	7.1	6.5
EV/EBITDA (adj.)	6.4	7.1	6.5
EV/EBIT	10.7	9.6	8.7
P/E (adj.)	12.6	11.8	11.3
P/BV	1.7	2.6	2.3
OpFCF yield	18.0%	5.0%	8.5%
Dividend yield	1.5%	2.4%	2.6%
EPS (adj.)	8.58	17.18	17.88
BVPS	64.78	77.49	89.04
DPS	2.94	4.94	5.20



Source: Factset

Steel cord capacity increased in China

The facts: Last Friday, Bekaert announced the expansion of its steel cord plant in Shenyang (China). Bekaert took up the challenge to build its greenest steel cord plant ever. Indeed Bekaert designed and manufactured new equipment for optimised energy-efficiency. Immediate measurable returns include 18% reduction of CO₂ emissions, waste volume decrease by a factor of 8, a 35% cut in material handling loads, and a decrease in machine noise exposure by 8 dB on average.

Our analysis: This expansion project adds another 25,000 tonne of tire cord capacity in China and thus will bring Bekaert's steel cord capacity in china to 450,000 tonne by year end instead of 425,000 tonnes announced previously. Hence, at the end of 2010, Bekaert will have the same level of capacity in steel cord than its main competitor Xingda (1899 HK).

We recall than Xingda aspire to have a steel cord capacity of 550,000 tonnes at the end of 2012. Currently the two companies have the same market share in China (approximately one-third each) and we believe Bekaert has not the will to leave the leadership to its main competitor. Hence we now assume Bekaert will also have steel cord production capacity at about 550,000 tonnes in FY12. As a result, in our model we have increased steel cord capacities in the Asia-Pacific region by 8% and 12% for the year 2011 and 2012, respectively. This result into an increase of 5% and 7.5% of our estimated FY11-12 Rebit at EUR 518m and EUR 548m, respectively.

Bekaert: estimates review	2009	2010		2011		2012	
(in EUR m)		old	new	old	new	old	new
Sales	2,437	2,947	2,947	3,239	3,320	3,462	3,591
% change			0.0%		2.5%		3.7%
Rebit	256.8	479.7	479.7	494.3	518.1	509.8	548.1
margin (%)	10.5%	16.3%	16.3%	15.3%	15.6%	14.7%	15.3%
% change			0.0%		4.8%		7.5%
-EMEA ¹	2.0	90.8	90.8	93.4	93.4	96.6	96.6
% change			0.0%		0.0%		0.0%
-North America	-5.0	37.2	37.2	37.2	37.2	36.9	36.9
% change			0.0%		0.0%		0.0%
-Latin America	28.0	28.1	28.1	26.8	26.8	28.4	28.4
% change			0.0%		0.0%		0.0%
-Asia Pacific	288.0	383.6	383.6	394.8	418.7	407.3	445.6
% change			0.0%		6.0%		9.4%
- Corporate	-56.2	-60.0	-60.0	-58.0	-58.0	-59.5	-59.5
% change			0.0%		0.0%		0.0%
EBIT	232	455	455	469	493	485	523
margin (%)	9.5%	15.4%	15.4%	14.5%	14.9%	14.0%	14.6%
Financial results	-66	-49	-49	-41	-42	-27	-29
Associates	38	39	39	44	44	49	49
Net result (group)	152	323	323	334	337	351	366
% change			0.0%		1.0%		4.4%
Net current result (group)	170	342	342	352	356	369	385
% change			0.0%		0.9%		4.2%
Adj. EPS (in EUR)	8.58	17.18	17.18	17.71	17.88	18.56	19.34
% change			0.0%		0.9%		4.2%

Sources : Bekaert / Bank Degroof estimates

¹ EMEA= Europe, the Middle East and Africa

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Conclusion & Action: Bekaert proves it will to not leave the leadership to Xingda in the highly profitable Chinese steel cord market. We have increased our estimated steel cord capacity for the coming years, which result into significant earnings upward revisions. Based on the last five years forward P/E of 12.3x, excluding the abnormal multiples of the period between September 2008 to March 2009, we obtain a new 12 month target price of EUR 220 instead of EUR 190 previously. We maintain our positive stance on Bekaert.