

Bekaert

Engineering & machinery

Maintained

Hold
Belgium

Bekaert's strong 2005 results and capex plan confirm the company's commitment to its long-term strategy – focusing on its core activities in growth areas (China, Russia), while aiming for higher profitability and monitoring its working capital.

Investment thesis

We maintain our **HOLD** recommendation and our DCF-based target price of €88.5 (5% below our DCF valuation) as we believe the earnings momentum is set to diminish, partly due to a more difficult competitive environment, partly as a result of the increasingly tough comparison basis. However, we still consider Bekaert a long-term investment opportunity, backed by its strategy to build, ahead of its competitors, a worldwide platform in (growth) areas such as China, Latin America, Central Europe, India and Russia. Besides this first-mover advantage, we believe that Bekaert will remain a leading worldwide player thanks to its other fundamental strengths: strong worldwide market shares, leading technology, focus on quality, etc.

Key newsflow

Bekaert posted strong 2005 results, with 4Q05 sales (€474.4m, up 8.2% YoY) mainly driven by steel cord and wire products in China (up c.54% and c.30% YoY, respectively) and by Bekaert's advanced materials (up 39% YoY). The 2H05 gross margin, however, slipped 290bp compared with 1H05, which in our view is due not only to the typical seasonal pattern and following an adverse revaluation of inventory under IFRS in 2H05, but also the consequence of higher raw material and energy costs, which it is becoming gradually more difficult to recover from Bekaert's clients because of the intensifying competition.

2005 results comprised €32m non-recurring costs following the closure or streamlining of several plants (€24m) and €8m impairment charges. We expect 2006F will comprise c.€15m of these costs, which are inherent to Bekaert's business model. As such, 2006F should already have a €17m EBIT-enhancing element to offset possible margin pressure, which in our view will almost offset a forecast 100bp lower gross margin in advanced wire products.

Valuation

Bekaert's EV/EBITDA, adjusted for the sizeable contribution of the Latin American equity affiliates to the group's net results (c.40%), points to some further upside. The 2006F and 2007F adjusted EV/EBITDA lies at 6.3x and 5.9x, respectively. This compares with a 2006F EV/EBITDA for Belgian small & mid caps of 8.2x, on average. Bekaert trades at a c.9% discount to Belgian small & mid caps on average, but has a more cyclical profile justifying a c.10% discount.

Price (21/04/06)	€91.6
	Maintained
Target price (12 mth)	€88.5
Market cap	€1,966.6m
Reuters	BERTt.BR

12-month forecast returns (%)

Share price	(3.4)
Dividend	2.5
12m f'cst total return	(0.9)

Newsflow

Date	Description
10 May 2006	1Q06 trading update
10 May 2006	AGM
28 July 2006	1H06 results

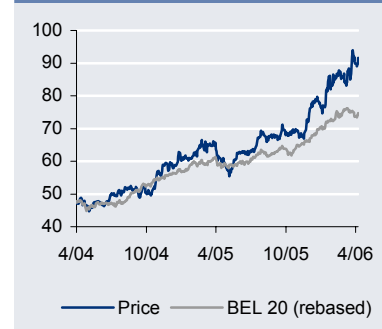
Main shareholders (%)

Stichting administratiekantoor Bekaert	21.7
Oberson	10.2
Beauval	4.6
Tirhold	4.6

Share data

No. of shares (m)	21.5
Daily turnover (shares)	52,691
Free float (%)	60.0
Enterprise value (€m)	2,294.9
Market cap (€m)	1,966.6

Share price performance



Source: ING

Company profile

Overview

Bekaert produces and markets a range of products based on metal-forming and coating technologies. Incorporated in 1880, it has evolved from a small manufacturing and trading company into a global group. Internationalisation began in the 1920s in Western Europe, then in Latin America and, since the 1970s, in North America and Asia. In January 2005, it divested from European fencing systems.

Advanced wire products

This is the company's main division (c.85% of sales), which groups wire and steel cord activities. Bekaert produces mainly for the automotive and construction sectors. Its product range includes industrial spring wire, flexible hose reinforcement wire, plastic-coated specialities and champagne cork wire. Bekaert's steel cord activities are mainly linked to tyre reinforcement (tyre cord and bead wire).

Advanced materials

This division (c.7% of sales) is focused on specific innovative industrial products in less cyclical markets (fibre technologies and combustion technologies).

Advanced coatings

Bekaert is specialised in sputtering, a high-end process in which a coating is deposited on a substrate under vacuum. Applications include diamond-like coatings (eg, used in DVD production) and specialised window films (for solar control and safety enhancement). This activity represents c.8% of sales.

SWOT

Strengths

Strong worldwide market shares, eg, for steel cord used in tyre reinforcement

Recent restructuring has produced a leaner, more profit-oriented company

Weaknesses

Cyclical nature of business

High capex requirements, limiting free cash flow generation

Opportunities

Investments in China, targeting a huge, fast-growing market

Threats

Margin pressure due to rising wire rod prices and energy costs

US dollar sensitivity

Financials

Yr to Dec (€m)	2005	2006F	2007F	2008F
Income statement				
Turnover	1,914.3	2,051.6	2,239.7	2,353.3
EBITDA	257.4	262.1	285.5	298.8
EBITA	136.3	143.9	157.1	166.7
EBIT	136.3	143.9	157.1	166.7
Operating exceptionals	0.0	0.0	0.0	0.0
Net financial charges	(15.3)	(19.4)	(20.0)	(21.3)
Income from associates (pre-tax)	0.0	0.0	0.0	0.0
Pre-tax profit	177.9	177.8	191.5	188.1
Taxes	(30.3)	(34.4)	(37.9)	(40.2)
Minorities	(12.0)	(10.2)	(8.5)	(8.5)
Net profit	189.9	133.1	145.0	139.4
Adj net attributable profit	135.7	133.1	145.0	139.4
Balance sheet				
Working capital	396.8	403.7	441.9	464.8
Goodwill	79.9	79.9	79.9	79.9
Tangible fixed assets	799.8	841.6	878.2	916.0
Other intangible assets	45.5	45.5	45.5	45.5
L/T investments	314.0	367.3	421.7	464.5
Net debt	321.3	328.3	355.5	364.7
L/T non-interest-bearing liabilities	184.4	184.4	184.4	184.4
Minority interests (equity)	51.1	61.3	69.8	78.3
Shareholders equity	1,079.2	1,164.1	1,257.6	1,343.3
Capital employed	1,451.6	1,553.6	1,682.8	1,786.3
Cash flow				
Operating cash flow (pre-tax)	307.5	324.6	298.4	316.6
Cash taxes	(30.3)	(34.4)	(37.9)	(40.2)
Operating cash flow (after-tax)	277.3	290.2	260.5	276.4
Net financial charges (CF)	(15.3)	(19.4)	(20.0)	(21.3)
Capital expenditures (net of disposals)	(204.5)	(160.0)	(165.0)	(170.0)
Free cash flow	57.5	110.8	75.5	85.1
Ratios (%)				
EBITDA margin	13.4	12.8	12.7	12.7
EBITA margin	7.1	7.0	7.0	7.1
Net margin	10.5	7.0	6.9	6.3
Tax rate	25.0	27.6	27.7	27.7
Pay-out ratio	47.47	36.28	35.53	38.49
ROACE	9.3	8.4	8.4	7.7
ROE	13.6	11.9	12.0	10.7
Net debt/equity	28.4	26.8	26.8	25.7
Growth (%)				
Turnover	(11.9)	7.2	9.2	5.1
EBITDA	(18.7)	1.8	9.0	4.6
Adj EPS	(20.27)	(1.88)	8.93	(3.85)
Per share data (€)				
Adj EPS	6.32	6.20	6.76	6.50
Cash EPS from ordinary operations	11.96	11.71	12.74	12.65
Dividend	3.00	2.25	2.40	2.50
NAV	50.27	54.22	58.57	62.57
Valuation				
Enterprise value	2,287.9	2,294.9	2,322.1	2,331.3
EV/turnover (x)	1.2	1.1	1.0	1.0
EV/EBITDA (x)	8.9	8.8	8.1	7.8
EV/EBIT (x)	16.8	16.0	14.8	14.0
Adj PER (x)	14.5	14.8	13.6	14.1
Cash PER (x)	7.7	7.8	7.2	7.2
Price/NAV (x)	1.8	1.7	1.6	1.5
Dividend yield (%)	3.3	2.5	2.6	2.7

Source: Company data, ING estimates