

Bekaert

Luc Struelens

			2005	2006F	2007F
Recommendation	Buy	Sales (€m)	1,914.3	2,051.6	2,239.7
Price (€)	71.5	EBITDA (€m)	257.4	262.1	285.5
Target price (€)	88.50	Net attr. profit (€m)	189.9	133.1	145.0
Market cap (€m)	1,534	Adj. EPS (€)	6.32	6.20	6.76
Net debt 2006F (€m)	328	Dividend (€)	3.00	2.25	2.40
EV 2006F (€m)	1,862	Adj. PER (x)	11.3	11.5	10.6
Gearing 2006F	27%	EV/EBITDA (x)	7.2	7.1	6.6
		Yield (%)	4.2%	3.1%	3.4%

Company data, ING estimates

Bekaert: Feedback from last Friday's analysts' meeting. Upgrade to BUY

Bekaert scheduled an analysts' meeting on Friday afternoon (28 July 2006) in order to provide some additional detail on 1H06 results. Highlights of the meeting included the following:

- The negotiations with Uralkord (Russian market leader in steelcord with an estimated market share of 20-25%) appear to be more difficult and might take some time before potentially materialising. Bekaert seeks to invest in Russia anyway and is therefore also considering other alternatives as well.
- Turkish activities of c.€5m weighed on 1H06's net result, not only due to the devaluation of the Turkish Lira, but also due to a more difficult local market situation.
- Bekaert will set up an add-on R&D centre in China so as to offer a better service for its Chinese clients and so as to capitalise on the available Chinese development know-how of its engineers.
- 1H06 results comprised only a minor (€1m) positive revaluation on inventory.
- Bekaert suffers in its mature markets (US and Europe, 54% of combined sales) of the high volatility in commodity prices (eg, wire rod, zinc) and has therefore difficult to determine an adequate (selling) price policy in view of the intensified competition (and the slightly declining volumes). Management expects this volatility to persist in the near future. The outlook for its growth markets (LAM and Asia, 44% of combined sales) however remains sound, although pricing competition is also increasing. Management did not provide any specific guidance on FY06.

Investment case

We will fine-tune our forecasts to incorporate the elements of the 1H06 results announcement. We upgrade Bekaert from a Hold to a **BUY** recommendation in view of (1) the overall strong 1H06 results, which had a tough comparison basis and (2) Bekaert low valuation multiples (2006F PER of 11.5x) (3) the anticipated return of Bekaert shares in a 12-month horizon (in relation to our unchanged DCF-based €88.50 target price) increased considerably (to 26.9%, including a 3.1% dividend yield) and (4) Bekaert sound long term strategy of building up, 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 world wide market shares, leading technology, focus on quality, etc.

Luc Struelens, Brussels (32 2) 547 36 78