

Bekaert

Engineering & machinery

Maintained

Hold
Belgium

Bekaert's 2H06 results impressed. Together with its capex plan, they confirm Bekaert's commitment to its long-term strategy – focusing on its core activities in growth areas (ie, China, Russia), while aiming for higher profitability and shareholder value (through share buybacks).

Investment thesis

We consider Bekaert a solid long-term investment, 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 Bekaert will remain a leading worldwide player thanks to its other fundamental strengths – strong worldwide market shares, leading technology, focus on quality and geographically well-balanced manufacturing platform. We rate Bekaert a **HOLD** with a €100 target price (backed by our DCF valuation that points to €103.5).

Key newsflow

Bekaert published strong 2H06 results. 4Q06 sales comprised a higher organic top-line growth (+4% YoY), capitalising on c.85% YoY growth in Chinese steelcord sales (following further rollout of capacity). Wire Europe also confirmed the strong rebound of 3Q06. US activities remained under pressure, not only in wire, but also in steelcord (due to the Goodyear strike). Bekaert's 2H06 (full) results also surprised positively, thanks to better-than-expected gross margin resilience and efficient cost control. Contribution from Latin American affiliates was down slightly YoY (as expected due to higher competitive pressure).

Bekaert will continue to invest in growth areas. In 2007, Bekaert will invest €100m in China to keep track with (high) market growth. Besides, Bekaert is No.1 worldwide in steel cord for tyre reinforcement (also in China).

Bekaert increased its dividend 25% YoY to €2.50 gross and is pursuing its share buyback programme by buying and cancelling another 2.6% of outstanding shares in the beginning of 2007.

Bekaert provided a vague outlook statement: "Bekaert made a good start in 2007, but expects raw material prices to become more volatile again this year. As such, we expect a 35bp gross margin decrease in 2007."

Valuation

Bekaert trades at a c.10% discount to the median for Belgian small & mid-caps in terms of 2007F-08F PER, adjusted EV/EBIT and adjusted EV/EBITDA (adjusted for the sizeable contribution of the Latin American equity affiliates), which is understandable in view of the cyclical nature of its business. On the other hand, and thanks to its orientation to growth markets and a continuous streamlining of its operations in the mature markets, we believe Bekaert shares hold potential from a long-term perspective.

Price (20/03/07)	€95.19
	Maintained
Target price (12 mth)	€100
Market cap Reuters	€1,941.9m BERTt.BR

12-month forecast returns (%)

Share price	5.1
Dividend	2.6
12m f'cst total return	7.7

Newsflow

Date	Description
09 May 2007	1Q07 trading update
09 May 2007	AGM
31 July 2007	1H07 results

Main shareholders (%)

Stichting administratiekantoor Bekaert	22.0
Oberson	10.3
Beauval	4.6
Tirhold	4.6

Share data

No. of shares (m)	20.4
Daily turnover (shares)	93,270
Free float (%)	60.0
Enterprise value (€m)	2,318.9
Market cap (€m)	1,941.9

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.

Advanced Coatings

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Risks

Bekaert's business model is sensitive to economic cycles (at a global level) and US dollar weakness (compared with the euro) and could suffer from raw material (wire rod) price increases when the economic climate weakens as this would lower Bekaert's pricing power.

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 fast-growing markets such as China, Russia.

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	2,009.6	2,135.1	2,249.4
EBITDA	257.4	262.2	277.4	288.1
EBITA	136.3	145.9	157.1	163.9
EBIT	136.3	145.9	157.1	163.9
Operating exceptionals	0.0	0.0	0.0	0.0
Net financial charges	(15.3)	(31.7)	(25.3)	(27.8)
Income from associates (pre-tax)	0.0	0.0	0.0	0.0
Pre-tax profit	177.9	165.2	182.1	183.6
Taxes	(30.3)	(18.1)	(36.5)	(37.6)
Minorities	(12.0)	(4.8)	(2.0)	(2.0)
Net profit	189.9	142.3	143.6	144.0
Adj net attributable profit	135.7	142.3	143.6	144.0
Balance sheet				
Working capital	396.8	409.4	418.4	437.0
Goodwill	79.9	77.0	77.0	77.0
Tangible fixed assets	799.8	824.2	868.8	914.6
Other intangible assets	45.5	57.5	57.5	57.5
L/T investments	314.0	343.9	394.2	441.7
Net debt	321.3	415.0	377.0	397.9
L/T non-interest-bearing liabilities	184.4	175.6	175.6	175.6
Minority interests (equity)	51.1	48.9	50.9	52.9
Shareholders equity	1,079.2	1,072.5	1,212.5	1,301.4
Capital employed	1,451.6	1,536.4	1,640.4	1,752.2
Cash flow				
Operating cash flow (pre-tax)	307.5	312.6	316.0	317.0
Cash taxes	(30.3)	(18.1)	(36.5)	(37.6)
Operating cash flow (after-tax)	277.3	294.5	279.4	279.4
Net financial charges (CF)	(15.3)	(31.7)	(25.3)	(27.8)
Capital expenditures (net of disposals)	(204.5)	(252.6)	(165.0)	(170.0)
Free cash flow	57.5	10.2	89.2	81.6
Ratios (%)				
EBITDA margin	13.4	13.0	13.0	12.8
EBITA margin	7.1	7.3	7.4	7.3
Net margin	10.5	7.3	6.8	6.5
Tax rate	25.0	15.9	27.7	27.6
Pay-out ratio	47.47	36.79	38.36	38.26
ROACE	9.3	9.6	8.4	7.8
ROE	13.6	13.2	12.6	11.5
Net debt/equity	28.4	37.0	29.8	29.4
Growth (%)				
Turnover	(11.9)	5.0	6.2	5.4
EBITDA	(18.7)	1.8	5.8	3.9
Adj EPS	(20.27)	7.52	3.59	0.26
Per share data (€)				
Adj EPS	6.32	6.80	7.04	7.06
Cash EPS from ordinary operations	11.96	12.34	12.94	13.15
Dividend	3.00	2.50	2.70	2.70
NAV	50.27	51.20	59.44	63.79
Valuation				
Enterprise value	2,263.2	2,408.9	2,318.9	2,339.8
EV/turnover (x)	1.2	1.2	1.1	1.0
EV/EBITDA (x)	9.2	9.2	8.4	8.1
EV/EBIT (x)	17.4	16.5	14.8	14.3
Adj PER (x)	15.1	14.0	13.5	13.5
Cash PER (x)	8.0	7.7	7.4	7.2
Price/NAV (x)	1.9	1.9	1.6	1.5
Dividend yield (%)	3.2	2.6	2.8	2.8

Source: Company data, ING estimates