

Maintained

Buy**Bekaert**

Small non-core divestment

Price (03/06/08) €104.59

Maintained

12m target price €114.00

12m forecast returns (%)

Share price 9.0

Dividend 2.7

12m fcst total return 11.7

Market cap €2,057.3m

Reuters BEKB.BR

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Forecasts and ratios

Yr to Dec (€m)	2007	2008F	2009F	2010F
Turnover	2,173.6	2,391.5	2,525.2	2,662.5
EBITDA	298.6	322.8	342.9	359.5
Net profit	152.9	157.6	164.8	166.5
Adj EPS (€)	7.71	8.01	8.38	8.46
Adj PER (x)	13.6	13.1	12.5	12.4
Dividend yield (%)	2.6	2.7	2.9	2.9
EV/EBITDA (x)	8.6	8.2	7.9	7.5
Price/NAV (x)	1.9	1.7	1.6	1.5
ROE (%)	14.1	13.8	13.3	12.4

Source: Company data, ING estimates

News

Bekaert announced it intends to sell its diamond-line coating activity (DLC) to Sulzer, a Swiss company, which among others, specialises in thin coatings.

Investment thesis

DLC represent c.€15m in annual sales, which is marginal for Bekaert (c.0.7% of group sales). The intended transaction would comprise the full transfer of 164 employees and six production plants, Bekaert would only keep the R&D patents for the DLC process on wire (for mass production).

In our view, Sulzer invests on DLC in a long-term horizon, as the technology basis of this acquisition (DL coatings reduce, eg, wear and friction in machine parts or engines) requires additional funding so as to capitalise on the commercialisation in the vast scope of potential DLC applications. As Bekaert wants to stick close to its core business, DLC will be divested from. We expect other smaller non-core activities to follow.

Following Bekaert strong 1Q08 trading update, we also revised our forecasts upwards. This resulted in an increase of our EPS forecasts by respectively 7.8%, 8.6% and 5.5% for 2008F, 2009F and 2010F.

Conclusion

We believe Bekaert made the correct decision in letting another Group commercialise the R&D potential of this niche activity for Bekaert. It also highlights Bekaert's desire to become a leaner organization, focusing on fully (and globally) commercialising a selection of high volume products, rather than broadening its assortment as much as possible.

The high-value added component of DLC could represent an interesting financial injection for Bekaert, providing the Group with additional ammunition in their expansion in emerging markets.

We retain our BUY recommendation and our DCF-based €114 TP. Bekaert shares trade in line with the median for Belgian Small & Mid caps in terms of PER, adj. EV/EBIT and adj. EV/EBITDA 2008-09F (adjusted for the sizeable contribution of the Latin American equity affiliates). Although Bekaert's business is cyclical in nature, we believe that Bekaert's shares hold strong potential in view of Bekaert's 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, while also continuously streamlining its operations in mature markets. Risks: Bekaert's business model is sensitive to economic cycles (at a global level), to US\$ weakness (compared with the euro) and could suffer from raw material (wire rod) price increases when the economic climate weakens, as this would lower the company's pricing power.