

Maintained

Buy

Price (31/07/08) €97.84

Maintained

12m target price €114.00

12m forecast returns (%)

Share price 16.5

Dividend 2.9

12m fcst total return 19.4

Market cap €1,924.5m

Reuters BEKB.BR

Luc Struelens

Brussels +32 2 547 3678

Bekaert

Very strong 1H08 results driven by emerging markets and price hikes

Forecasts and ratios (€m)

Yr to Dec	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)	12.7	12.2	11.7	11.6
Dividend yield (%)	2.8	2.9	3.1	3.1
EV/EBITDA (x)	8.2	7.8	7.5	7.1
Price/NAV (x)	1.8	1.6	1.5	1.4
ROE (%)	14.1	13.8	13.3	12.4

Source: Company data, ING estimates

News

Bekaert reported a very strong set of 1H08 results, driven by growth in emerging steel cord markets as well as successful price hikes, offsetting raw material price inflation and reported weakness in the US and Europe. Net profit was 60% above our forecast and consensus. An analyst meeting will be held at 14:00 CET.

- Sales growth of 22% (20% organic) to €1,303m largely exceeded our forecast of 13%, driven mainly by (1) volume growth from strong demand in emerging markets for steel cord (emerging markets now account for 55% of group sales, from 48% previously) and raised capacity at Bekaert, as well as (2) successful price hikes to compensate for raw material price inflation. Steel cord demand in mature economies is reported to be weak, leading to lower volumes and margin pressure.
- Operational leverage, improved pricing and geographic mix contributed to the sharply stronger-than-expected margins: gross margins reached 23.6% (INGF 19.9%) up from 20.1% in 1H07, EBITDA (€225m) at 17.3% (INGF 13%) and REBIT at 12.5% from 8.5%.
- Net profit (€126m) was 60% above our forecast, driven by the abovementioned factors and strong growth in equity-accounted results (+53% to €35.7m).
- Outlook. The company expects to “maintain solid top-line growth for the balance of the year”. We expect 2H08F sales growth of just 6.8%, which suggests we may have to revise up our forecasts. Wire rod prices remain on the rise, which may weigh on demand as Bekaert will have to continue to pass it onto customers.

Investment thesis

We are reviewing our estimates in the light of the strength of 1H08 and the encouraging guidance. We stick to our **BUY** recommendation and our DCF-based €114 TP.

Conclusion

A refreshing surprise from Bekaert in the midst of weak results from other Belgian small and mid caps. We will be tracking the resilience of emerging market demand to the global economic slowdown and the risk of higher pricing. **Risks:** Bekaert's business model is sensitive to economic cycles (at a global level), to 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 the company's pricing power.