

Benelux First Call

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BEKAERT (HOLD, TP €67.0): Potential import duties on Chinese tires into US

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- The U.S. International Trade Commission recommended imposing punitive duties on low-cost Chinese tire imports because they are disrupting the U.S. market. The new duties, which US President Obama must approve, would total 55% of total value in the first year, 45% in the second year and 35% in the third year. The President has until September to decide whether to act on the advice. Former US President Bush rejected every recommendation that the ITC gave him.
- It seems early to speculate on the outcome of President Obama's decision, but we believe that even if the President would approve the advice, the impact for Bekaert should be limited. Certainly, Bekaert expanded its production capacity for steel cord in China, in order to service the growing Chinese tire makers. And the latter are exporting roughly 40% of production abroad, i.e. also to the US. Still, Bekaert is present in US with steel cord capacity, which is probably not operating at full capacity, given the decline in demand in the past years (and in spite of past capacity reductions). Hence, additional demand in the US from local tire producers would simply imply a shift in demand. And if demand in the US would exceed Bekaert's production capacity, the company can chose to export steel cord from Latin-America or China to the US, since the newly proposed import duties should only impact tire imports.
- We see Bekaert as a very well managed company, with a strong long-term product, geographical and financial position. Still, the shares trade at 13.7x 2009F and 12.5x 2010F Adj. EPS on our estimates, which seem fair. HOLD maintained.