

# Benelux First Call

ING sales daily

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## BEKAERT (HOLD, TP €90.0): 3Q09 trading update preview

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- Bekaert will release its 3Q09 trading update on 13 November before market opening. In its trading updates, Bekaert typically only provides top lines numbers, both on a consolidated and combined level. The latter includes sales from the joint ventures and associates.
- We expect 3Q09F consolidated sales at €622m. This implies a 16.4% decline YoY, but a 2.4% improvement QoQ. Combined sales are expected to come in at €850.4m, down 26% YoY, but up 2.9% QoQ.
- The expected YoY sales decline is mainly due to the decline in raw material prices (wire rod prices are down roughly 40%), which impacts Bekaert's top line via its cost plus model. This element should however be partly compensated by Bekaert's strong performance in China (as already evidenced by 1H09 numbers). Bekaert is the largest producer of steel cord for tyre reinforcement in China. In this perspective, the 84% YoY sales surge in China car sales in September bodes very well for Bekaert.
- On a geographical level, we expect the consolidated sales split up as follows: EMEA €204m (-32.5% YoY, +2.2% QoQ), North America €118m (-31.6% YoY, -2.9% QoQ), Latin America €83m (+69.7% YoY, +4.7% QoQ) and Asia Pacific €217m (-1.6% YoY, +4.7% QoQ). Note that the YoY improvement in Latin America mainly stems from the first time consolidation of Prodac (Peru) and Ideal Alambrec (Ecuador).
- The limited QoQ improvement in sales we expect across the globe is mainly due to re-stocking effects. North America is no exception, but US sales in € terms should be impacted by the weakened US\$.
- Typically, Bekaert outlook statements are pretty vague. At the end of 1H09, Bekaert reiterated its limited visibility, especially in the mature markets, and hinted at stabilising raw material prices. The company remained confident that its broad geographical coverage with a strong presence in emerging markets, as well as its growing portfolio of product innovations and strong balance sheet, should continue to be of strategic importance.
- Currently, Bekaert trades close to our TP at 11x 2010F PER. We admit that this does not seem demanding versus Benelux cyclicals which currently trade at 12.5x to 13.0x 2010F PER. A comforting trading update could trigger a higher trading multiple.