

Bekaert

Buy

 Belgium
 Engineering & machinery

 Price (31/12/09) €108.50
 Target price (12 mth) €128.00

 Market cap €2,140.6m
 Reuters BEKB.BR

Investment case

Bekaert's focus on emerging markets and innovative products proved to be crucial in enabling it to get through the crisis: in 1H09, almost all the company's REBIT was generated in Asia Pacific (mainly steel cord for radial tyre reinforcement in China), at REBIT margins of 34.9% (versus Bekaert's long-term guidance range of 7.0-9.0%). As expected, 3Q09 consolidated sales improved 2% QoQ to €619m and Bekaert is guiding for 4Q09F sales in line with previous quarters. We consider our 2010F estimates as cautious, since our 2010F sales estimates are equal to 4x 3Q09 sales plus 1.5% (ie, inflation), while our EBIT margin assumptions are close to the margins reported in 1H09, excluding the €40m negative FIFO impact on inventories. We remain BUYers of Bekaert with a €128.0 target price. The latter is based on a fair mid-cycle multiple of 13.0x 2011F PER.

Company profile

Overview

Bekaert is an international group, headquartered in Belgium and employs c.23,000 people. The group has a production platform in 30 countries and customers in over 120 countries, in all markets and sectors. The two core competences of Bekaert are metal transformation (influence the properties of steel, (i.c. wire rod) and metal coating (adjust the surface properties and hence provide corrosion protection, etc). The combination of the two core competences results in a broad range of high technological products (3% of annual consolidated sales is invested in R&D).

2009F combined sales (ie, sales of consolidated companies +100% of sales of joint ventures and associates after intercompany elimination) are estimated at of €3.3bn and net result is estimated at €108.5m.

Geographical breakdown of combined sales (9M09)

Latin America 37%, EMEA 24%, Asia Pacific 24%, North America 15%

End market breakdown of combined sales (1H09)

Automotive 31% (of which 75% replacement market), infrastructure 23%, utilities 16%, agri 9%, consumer 9%, mechanical engineering 7%, basic materials 5%.

Bekaert is global market leader in steel cord for radial tyre reinforcement and Dramix fibres for concrete reinforcement.

Financials

Yr to Dec (€m)	2007	2008	2009F	2010F	2011F
Income statement					
Turnover	2,174.0	2,663.0	2,437.8	2,513.1	2,663.9
EBITDA	306.0	461.2	346.0	389.0	417.0
EBITA	186.3	294.2	201.0	244.0	272.0
Operating exceptionals	0.0	0.0	0.0	0.0	0.0
Net financial charges	(41.0)	(49.2)	(58.3)	(45.2)	(39.7)
Pre-tax profit	180.7	217.3	158.1	221.6	257.4
Taxes	(19.1)	(25.5)	(32.9)	(46.7)	(58.1)
Net profit	152.9	174.1	108.5	155.9	179.3
Adj net attributable profit	151.0	228.2	129.4	170.9	194.3
Balance sheet					
Working capital	591.4	739.9	609.5	653.4	692.6
Goodwill	70.1	59.1	59.1	59.1	59.1
Tangible fixed assets	917.6	1,070.7	1,085.7	1,100.7	1,115.7
Other intangible assets	51.9	52.3	52.3	52.3	52.3
L/T investments	368.9	351.9	351.9	351.9	351.9
Net debt	497.5	656.5	487.8	450.0	387.0
L/T non-int-bearing liabs	355.9	445.1	445.1	445.1	445.1
Minority interests (equity)	48.4	41.8	41.8	41.8	41.8
Shareholders' equity	1,098.2	1,130.6	1,183.8	1,280.6	1,396.8
Cash flow					
Op cash flow (pre-tax)	253.6	312.8	476.5	345.1	377.8
Cash taxes	(19.1)	(25.5)	(32.9)	(46.7)	(58.1)
Op cash flow (after-tax)	234.5	287.2	443.5	298.3	319.7
Net financial charges (CF)	(41.0)	(49.2)	(58.3)	(45.2)	(39.7)
Net capex	(210.3)	(295.2)	(160.0)	(160.0)	(160.0)
Free cash flow	(16.8)	(57.2)	225.2	93.1	120.0
Ratios (%)					
EBITDA margin	14.1	17.3	14.2	15.5	15.7
EBITA margin	8.6	11.0	8.2	9.7	10.2
Net margin	7.4	7.2	5.1	7.0	7.5
ROE	13.9	15.6	9.4	12.7	13.4
Net debt/equity	43.4	56.0	39.8	34.0	26.9
Growth (%)					
Turnover		22.5	-8.5	3.1	6.0
EBITDA		50.7	-25.0	12.4	7.2
Adj EPS		53.68	-43.36	32.12	13.72
Per share data (€)					
Adj EPS	7.53	11.58	6.56	8.66	9.85
Dividend	2.76	2.80	2.80	3.00	3.20
NAV	55.38	57.15	60.01	64.91	70.80
Valuation					
EV/turnover (x)	1.2	1.1	1.1	1.0	1.0
EV/EBITDA (x)	8.8	6.2	7.7	6.8	6.2
EV/EBIT (x)	14.5	9.7	13.3	10.8	9.4
Adj PER (x)	14.4	9.4	16.5	12.5	11.0
Price/NAV (x)	2.0	1.9	1.8	1.7	1.5
Dividend yield (%)	2.5	2.6	2.6	2.8	2.9

12-month forecast returns (%)

Share price	18.0
Dividend	2.6
12m f'cst total return	20.6

Share data

No. of shares (m)	19.7
Daily turnover (shares)	3,017.0
Free float (%)	60.9
Enterprise value (€m)	2,632.3
Market cap (€m)	2,140.6

Sources: Company data, ING estimates, ING

Share price performance

