

Benelux First Call

ING sales daily

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BEKAERT (BUY, TP €128.0): FY09 preview and update

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- 2009 results. Bekaert reports results on 26 February at 7:30am CET. An analysts' meeting is scheduled for 2:00pm CET. We expect a 2009F decline of 8.5% in consolidated sales to €2,438m, which implies 4Q09F sales flat vs 3Q09 (in line with guidance). Although in line with consensus, we expect a very resilient 2009F REBIT of €206m (8.5% margin), which implies a 2H09F REBIT of €120.2m (9.7%) vs €85.8m (7.2%) in 1H09. Bear in mind that 1H09 REBIT was negatively impacted by €40m from decreasing steel (raw material) prices. After stripping this out, the risk to our 2H09F estimates seems to be on the upside. 2009F net profit is expected at €112.4m, and net debt at €483.9m. See page 2 for detailed estimates.
- Outlook. Bekaert typically does not provide a quantified outlook, but we believe the market underestimates Bekaert's growth potential in the BRIC countries (70% of combined sales) along with some recovery in mature markets. For Asia Pacific, we cautiously estimate 8.0% organic growth in 2010F-11F (vs 15.3% in 1H09) and a decline in REBIT margin to 31%-29% in 2010F-11F, respectively (vs 34.9% in 1H09). Bekaert mainly produces steel cord for radial tyres (and steel fibres for concrete reinforcement) in Asia Pacific. Growth for the first should be supported by: (1) the very strong Chinese automobile growth in 1H09 (trucks +16.5% and cars +21.6%), which suggests a strong replacement market going forward; (2) the expected increase in tyre radialisation rate from +70% in 1H09 to 80-90% in 2010F (source: China Rubber Industry Association); and (3) the clear steel cord production outsourcing trend. Bridgestone (historically integrated) and Bekaert should finalise an agreement in 2Q10F in which Bekaert acquires two plants (in Italy and China) from Bridgestone for €70m and sign a long-term steel cord supply agreement. We forecast annual sales at €40m for Italy and €20m for China and margins in line with our current estimates for the regions. Also, the announced capacity expansion from Michelin in India bodes well, since Bekaert is the only tire cord producer present in India. Michelin is c.70% integrated (ie, 30% could be bought from Bekaert), but also suggested more outsourcing going forward. In EMEA and North America, we currently merely expect flat-to-low single digit organic growth in 2010 and 1% REBIT margin, which also suggest the risk is on the upside.
- Valuation. In our view, valuation remains compelling at 11.9x 2010F and 10.7x 2011F PER, on estimates that are 7% and 2.6%, respectively, ahead of consensus. We maintain our €128 TP, targeting 13.0x 2011F PER.