

Engineering & machinery

Belgium

Maintained

Buy

Bekaert

We raise our TP to €140 following strong FY09 results

26/02/10

Previously: €128

Reuters: BEKB.BR

Price: €118.85

12-mth target: €140.00

- Bekaert's 2H09 results came in substantially above expectations, driven by a margin recovery in EMEA and continued excellent margins in China. We increase our 2010F-11F EPS by c.15% via very careful extrapolation of the 2H09 results. On our new estimates, we believe Bekaert trades at a compelling 11.6x 2010F and 10.5x 2011F PER. We lower our valuation multiple from 13.0x to 12.5x 2011F PER and raise our TP from €128.0 to €140.0. We maintain our BUY rating.

Excellent FY09 results. Bekaert's consolidated 2009 sales declined as expected by 8.5% to €2,437m. FY REBIT, however, came in substantially above expectations at €257m, which implies a 10.5% margin (INGF €206m or 8.5%). The latter implied an impressive 2H09 REBIT margin of 13.8% (vs INGF 9.7%), driven by a better-than-expected performance in EMEA (2H09 REBIT margin of 5.5% vs INGF -0.5%) and Asia Pacific (36.1% vs INGF 31.4%). Bottom line, Bekaert reported a 2009 Adj. EPS of €8.94 (reported €7.69) and increased the DPS by 5% to €2.94. Finally, Bekaert maintains its balance sheet strength, with a net debt/EBITDA at 1.2x.

Outlook – 15% EPS increase. Management did not provide a quantified outlook for 2010, but maintained its long-term EBIT margin guidance range between 7.0% and 9.0%, in spite of the massive beat in 2H09. Management acknowledged that the current Asia Pacific margins are not sustainable, but should be expected to defend them as long as possible. 2010 capex is guided at €175-200m (from €158m in 2009) and should be used mainly to increase steel-cord capacity from 350kt in China at end-2009 to 400kt at end-2010 (including the Bridgestone plant). We keep our top-line assumptions fairly unchanged, with some difference between regions. We increase our top-line assumptions for EMEA, North America and Asia Pacific with low single digit percentages, but lower our Latin America estimates by c.13%. The reason for the latter is the estimated €50m impact of hyperinflation on Venezuela sales (estimated at c.€80m in 2009). In terms of margins, we increase our 2010 REBIT margin estimates from 1% to 5.5% for EMEA and from 6.5% to 10% for Latin America, following the strong 2H09 results. We cautiously keep our Asia Pacific margin at 31% after Bekaert management suggested that competition from Xingda (amongst others) should be stronger in 2010. Bottom line, we increase our Adj. EPS estimates by 15% to €10.25 in 2010F and €11.28 in 2011F (see page 2 for detailed estimates).

We increase our TP from €128 to €140. Bekaert currently trades close to historical highs, which warrants some cautiousness. Still, on our new estimates, we believe Bekaert trades at a compelling 11.6x 2010F and 10.5x 2011F PER. We lower our valuation multiple from 13.0x to 12.5x 2011F PER and raise our TP from €128.0 to €140.0. We maintain our BUY rating.

12-month forecast returns (%)	
Share price	17.8
Dividend	3.3
12m f'cst total return	21.1

Forecasts and ratios		
Yr to Dec (€m)	2008	2009
Turnover	2,663.0	2,437.8
EBITDA	419.2	395.8
Net profit	174.1	151.8
Adj EPS (€)	11.58	8.94
Adj PER (x)	3.4	10.6
Dividend yield (%)	7.2	3.1
EV/EBITDA (x)	3.5	6.1
Price/NAV (x)	0.7	1.5
ROE (%)	0.0	0.0

Share data	
No. of shares (m)	19.7
Daily turnover (shares)	267,414
Free float (%)	60.9
Enterprise value (€m)	2,925.2
Market cap (€m)	2,346.1



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Fig 1 Bekaert: change in key estimates (€m)

	1H08	2H08	2008	1H09	2H09	2009	2010F	2010F	% change	2011F	2011F	% change
							Old	New		Old	New	
EMEA	612.1	555.7	1167.8	410.0	418.0	828.0	842.1	864.6	2.7%	895.8	910.5	1.6%
% change				-33.0%	-24.8%	-29.1%		4.4%			5.3%	
North America	289.0	316.2	605.2	263.4	210.0	473.4	475.4	487.6	2.6%	494.4	502.2	1.6%
% change				-8.9%	-33.6%	-21.8%		3.0%			3.0%	
Latin America	84.0	92.6	176.6	159.9	167.0	326.9	353.9	307.4	-13.2%	375.2	322.7	-14.0%
% change				90.4%	80.3%	85.1%		-6.0%			5.0%	
Asia Pacific	318.0	395.0	713.0	366.5	443.0	809.5	898.3	910.7	1.4%	980.2	1011.9	3.2%
% change				15.3%	12.2%	13.5%		12.5%			11.1%	
Consolidated sales	1,303.0	1,359.5	2,663.0	1,199.8	1,238.0	2,437.8	2,569.8	2,570.2	0.0%	2,745.6	2,747.3	0.1%
% change				-7.9%	-8.9%	-8.5%		5.4%			6.9%	
EMEA	53.0	15.0	68.0	-21.0	22.0	1.0	8.4	47.6	466.1%	17.9	54.6	205.2%
REBIT margin	8.7%	2.7%	5.8%	-5.1%	5.3%	0.1%	1.0%	5.5%		2.0%	6.0%	
North America	21.0	4.0	25.0	-5.0	0.0	-5.0	4.8	4.9	1.6%	9.9	15.1	52.2%
REBIT margin	7.3%	1.3%	4.1%	-1.9%	0.0%	-1.1%	1.0%	1.0%		2.0%	3.0%	
Latin America	11.0	5.0	16.0	9.0	19.0	28.0	23.0	30.7	33.6%	26.3	32.3	22.7%
REBIT margin	13.1%	5.4%	9.1%	5.6%	11.4%	8.6%	6.5%	10.0%		7.0%	10.0%	
Asia Pacific	107.0	143.0	250.0	128.0	160.0	288.0	278.5	282.3	1.4%	284.2	293.4	3.3%
REBIT margin	33.6%	36.2%	35.1%	34.9%	36.1%	35.6%	31.0%	31.0%		29.0%	29.0%	
Other	-29.1	-35.6	-64.8	-25.2	-30.0	-55.2	-60.0	-60.0	0.0%	-61.0	-61.0	0.0%
REBIT	162.9	131.4	294.2	85.8	171.0	256.8	254.7	305.5	19.9%	277.3	334.4	20.6%
REBIT margin	12.5%	9.7%	11.0%	7.2%	13.8%	10.5%	9.9%	11.9%		10.1%	12.2%	
Non-recurring	-17.6	-66.2	-83.8	-7.1	-17.5	-24.6	-15.0	-25.0	66.7%	-15.0	-15.0	0.0%
EBIT	145.3	65.2	210.5	78.7	153.5	232.2	239.7	280.5	17.0%	262.3	319.4	21.8%
EBIT margin	11.2%	4.8%	7.9%	6.6%	12.4%	9.5%	9.3%	10.9%		9.6%	11.6%	
Net financing charges	-22.4	-26.9	-49.2	-30.5	-35.1	-65.6	-49.2	-58.3	18.6%	-45.3	-53.5	18.1%
Taxes	-25.5	0.0	-25.5	-13.3	-20.6	-33.9	-48.3	-64.3	33.0%	-58.0	-78.7	35.6%
Share in the JV's	35.7	20.4	56.1	17.4	20.3	37.8	37.9	39.5	4.3%	40.2	41.5	3.3%
Minorities	-7.1	-10.6	-17.7	-8.2	-10.5	-18.6	-19.0	-20.0	5.3%	-20.0	-21.0	5.0%
Net profit	126.0	48.0	174.1	44.2	107.6	151.8	161.1	177.4	10.1%	179.2	207.8	15.9%
Adj. net profit	137.5	90.7	228.2	51.3	125.1	176.4	176.1	202.4	14.9%	194.2	222.8	14.7%
EPS (€)			8.83			7.69	8.17	8.99	10.0%	9.09	10.52	15.8%
% change						-12.9%		16.8%			17.1%	
Adj. EPS (€)			11.58			8.94	8.93	10.25	14.8%	9.85	11.28	14.6%
% change						-22.8%		14.7%			10.1%	

Source: Company data, ING estimates

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, (ie, 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 the 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 a global market leader in steel cord for radial tyre reinforcement and Dramix fibres for concrete reinforcement.

Risks

(1) Short-term visibility, (2) raw material prices (during 2008, Bekaert was able to pass on higher raw material prices. We would not rule out the possibility of Bekaert facing difficulties if raw material prices increase during the economic downturn. That said, raw material prices and the economy tend to move in the same direction), (3) exchange rates (Bekaert has important sales and production facilities outside Europe and therefore has a natural currency hedge. Still, the company faces translation risk, which is not hedged), (4) the need to streamline operations (since 2002, Bekaert has been constantly downsizing operations in mature markets and investing in emerging markets. The company is expected to continue to do so for the foreseeable future. As the latter entails restructuring charges, we expect the company to report €15m in non-recurring charges on an annual basis).

Financials

Yr to Dec (€m)	2008	2009	2010F	2011F
Income statement				
Turnover	2,663.0	2,437.8	2,570.2	2,747.3
EBITDA	419.2	395.8	450.5	484.4
Net financial charges	(49.2)	(65.6)	(58.3)	(53.5)
Operating exceptionals	0.0	0.0	0.0	0.0
Adj pre-tax profit	301.1	229.0	286.7	322.4
Corporate exceptionals	(83.8)	(24.6)	(25.0)	(15.0)
Profit/loss on sale of tangible fixed assets	0.0	0.0	0.0	0.0
Amortisation of goodwill	0.0	0.0	0.0	0.0
Pre-tax profit	217.3	204.4	261.7	307.4
Taxes	(25.5)	(33.9)	(64.3)	(78.7)
Extraordinary items (net)	0.0	0.0	0.0	0.0
Minorities	(17.7)	(18.6)	(20.0)	(21.0)
Preference dividend	0.0	0.0	0.0	0.0
Net profit	174.1	151.8	177.4	207.8
Balance sheet				
Total fixed assets and L/T investments	1,534.0	1,706.7	1,816.7	1,826.7
Working capital	739.9	590.9	623.6	666.6
L/T non-interest-bearing liabilities	445.1	457.0	457.0	457.0
Enterprise net assets	1,828.8	1,840.6	1,983.3	2,036.3
Group equity	1,172.3	1,373.6	1,492.9	1,639.5
Net debt	656.5	467.0	490.4	395.8
Capital employed	1,828.8	1,840.6	1,983.3	2,035.3
Cash flow				
Operating cash flow	270.8	544.8	417.8	441.4
Cash taxes	(25.5)	(33.9)	(64.3)	(78.7)
Net financial charges (CF)	(49.2)	(65.6)	(58.3)	(53.5)
Gross cash flow	196.0	445.3	295.2	309.3
Capital expenditures (net of disposals)	(295.2)	(127.0)	(255.0)	(160.0)
Free cash flow	(99.2)	318.3	40.2	149.3
Ratios (%)				
EBITDA margin	15.7	16.2	17.5	17.6
Operating margin	11.0	10.5	11.9	12.2
Net debt/equity	56.0	34.0	32.8	24.1
ROACE	15.3	12.1	12.4	12.8
ROE	15.6	12.6	13.2	14.1
Growth (%)				
Turnover	22.5	(8.5)	5.4	6.9
EBITDA	37.0	(5.6)	13.8	7.5
Net profit	13.9	(12.8)	16.8	17.1
Valuation				
EV/EBITDA (x)	7.3	7.3	6.5	5.8
Adj EPS (€)	11.58	8.94	10.25	11.28
Adj PER (x)	10.3	13.3	11.6	10.5
Price/NAV (x)	2.1	1.8	1.7	1.5
DPS (€)	2.80	2.94	3.10	3.20
Dividend yield (%)	2.4	2.5	2.6	2.7

Source: Company data, ING estimates

Disclosures Appendix

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Buy	45%	53%
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	100%	

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PRICE & RATINGS HISTORY TO 02/02/10: BEKAERT (BEKB.BR)



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