Benelux First Call
ING sales daily

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BEKAERT (BUY, TP €140.0): Roadshow feedback
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- Yesterday, ING hosted a roadshow wit Bekaert post FY09 result in London, with CEO Bert De Graeve and IR Jacques Anckaert.
- Overall, Mr. De Graeve spoke with confidence, but also with a large dose of realism on Bekaert's outlook, in our view.
- Given Bekaert's exceptional results in 2009 in Asia Pacific (13.5% top line growth and 35.6% REBIT margin), China was a key topic of discussion. Currently, China operates at full capacity, and Bekaert is investing 80% of its 2010 expansion capex (c€60-70m) in the country. The investments seem the sensible thing to do from both a growth and a strategic perspective: Bekaert wants to capture the expected Chinese GDP growth (whether it's 7% or 13%), but also wants to avoid leaving room for a potential entry of a new competitor in the Chinese tire-cord market, which could disturb Bekaert's nice duopoly with Xingda (excluding the captive tire producers). And yes, high top line growth in the highest margin region bodes well for the overall margins in 2010, but this is already included in our estimates (INGF 200bp REBIT margin increase in 2010 to 11.9%). The more difficult question is: how fast should margins decline in China going forward. Mr. De Graeve clearly reiterated that the market should expect the margins to return to the company's LT guidance (7% to 9%) over time, but meanwhile the company will not just give up current margins. We currently expect a 2010 REBIT margin decline of 460 bp to 31%, which seems cautious enough.
- Regarding the mature markets (EMEA and North America), Bekaert reiterated its cautious stance, given that visibility on sustainable sales levels remains low. That being said, Mr. De Graeve did not seem unhappy with current levels. On the margin side, Bekaert is seeing some price increases in wire rod prices (i.e. raw material), but does not seem convinced that these increases are sustainable, given the current level of demand. Mr. De Graeve did mention that although Bekaert generally has strong market positions, passing on raw material price increases in the current market is not self-evident in some markets. On a more positive note, Mr. De Graeve pointed out that the relative weak performance of North America in 2009 (top line -22% and a REBIT margin of -1.1%) was the result of a relative good performance in the US and a poor performance in Canada. Mr. De Graeve seems determined to tackle the Canadian problems in 2010 (bear in mind that Bekaert guided for a negative €25m in non-recurring elements in 2010). As a result, our 1% REBIT margin forecast for North America in 2010 might prove to be too cautious.
- Comments on Latam were mixed. On the positive side, the negative impact from the current hyperinflation in Chili (c.€80m in 2009 sales, or 3% of group sales) should not impact Bekaert's bottom line (which we assumed), since the decline in top line and margins should be compensated by lower other financial costs (which Bekaert booked/provisioned in 2009). On the negative side, Mr. De Graeve mentioned increased competition in Brazil, which is attracted to the company due to the currently more stable currency (bear in mind that Brazil is an important part of Bekaert equity accounted business). Hence, Bekaert has to defend its current high market shares. This could imply sub-GDP growth and some ST margin pressure, in order to force out new competitors. Hence, our expected 4.2% growth in the share of JV's might be slightly optimistic.

- Bekaert management also reiterated the key triggers for Bekaert going forward: (1) broadening the product offer in Asia Pacific. In 2009, the bulk of sales in the region came from automotive and energy/utilities. This implies that Bekaert could broaden this with its large range of construction, agriculture, consumer goods, engineering and basic material products. (2) Strengthening of the Chinese renminbi (translation effect). (3) Expansion of activities in Russia, India and Indonesia. (4) Potentially more captive tire producers 'outsourcing' tire cord production (to Bekaert). (5) More new product via the continued high R&D (3% of sales annually)
- On valuation and estimates, Mr. De Graeve said that market expectations for 2010 seem well managed. This implies in our view that, without unforeseen circumstances, Bekaert could meat/beat consensus estimates. Bekaert currently trades at 11.9x PER and 5.5x adj. EV/EBITDA 2011. This seems in line with Benelux cyclicals. Given Bekaert's strong position in terms of products & regions and given the large number of potential triggers, we believe that a valuation at 13x PER or 6x EV/EBITDA could be justified. The latter multiples equate to a TP of €145 on our current estimates. Hence, we see further upside, but become a bit more cautious.