

Benelux First Call

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BEKAERT (BUY, TP €140.0): 1Q10 trading update preview

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- The 1Q10 trading update is due on 12 May before market opening.
- We expect 1Q consolidated sales flat QoQ at €622m (+0.5% vs. €619 in 4Q09), which implies a 5.1% increase YoY. We expect combined sales (including JV's) up 8.4% to €854.7m.
- We expect significant changes QoQ between the different regions. EMEA sales should come in in line with 4Q09 at €220m (up 4.5% YoY). Bear in mind that 4Q09 was the strongest quarter of 2009, mainly due to volume recovery and stable raw material prices. North America 1Q sales should increase 14% QoQ to €119m (but still down 16% YoY), as we believe we will see a strong volume recovery compared to the poor volumes in 4Q09. In addition, we think Bekaert should have started to handle the very poor results in its Canadian activities. Latam 1Q sales are expected down 18% both QoQ and YoY to €66m, mainly due to the hyperinflation in Venezuela (currency lost two-thirds of its value). Venezuela accounted for roughly 25% of sales for the region in 2009. Finally, we expect Asia Pacific 1Q sales up 2% QoQ to €218m. This implies a 37% increase YoY, but bear in mind that sales before Chinese new-year in 2009 (on 26th of January) had dropped very severely.
- The outlook statement is typically not quantified. At the FY09 results, Bekaert mentioned the first signs of recovery in mature markets. However, we will have to wait for the 1H10 numbers to get confirmation on the margin recovery in the mature markets and to see whether or not the record Asia-Pacific margins hold up for now (REBIT margin of 35.6% in 2009). We do not change our estimates ahead of the trading update, but we see reasons for optimism (if the current market turmoil doesn't spread out too far): (1) spot wire rod prices (i.e. raw material) are increasing and we believe Bekaert's market position is strong enough to pass those on, (2) we believe that Bekaert's should be operating close to full capacity, in spite of the 14% steel cord capacity expansion in China (from 350,000t end 2009 to 400,000t end 2010, including the announced Bridgestone acquisition), since the China Association of Automobile Manufacturers announced that 1Q10 vehicle sales was up 56% YoY. On the negative side, the evolution in Venezuela seems more problematic than we first assumed
- Key triggers for Bekaert going forward are: (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)
- Bekaert currently trades at 10.8x PER and 5.3x adj. EV/EBITDA 2011F. Given Bekaert's strong position in terms of products & regions and given the large number of potential triggers, we believe that a valuation at 12.5x PER or 6.0x EV/EBITDA is justified.