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BEKAERT (BUY, TP €225.0): Still not expensive, in spite of recent rally

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- We revise upwards our 2011F EPS by 3%, mainly by taking into account the announced wire business expansion in China. On our new estimates, the shares still only trade at 2011F PER of 11.2x, in line with historical averages. Given the company's high (vs past 10 years) and growing exposure to Emerging Markets and very strong financial position (allowing for acquisitions/shareholder remuneration), we believe the shares should re-rate further. We increase our TP to €225 and keep Bekaert as a Benelux top pick.
- Bekaert acquired 75% of the spring wire & overhead conductor business of Xinyu Iron & Steel in China. The acquisition fits Bekaert's ambition to broaden its product offer in Asia-Pac and invest in fast growing activities (energy transmission and data communication in China). We estimate the impact on 2011F sales at €60m, with an 8% REBIT margin. For 2011-12F, our assumptions for Bekaert are low single digit growth in EMEA & North America, mid-single-digit growth in Lat-Am and low-double-digit growth in Asia-Pac. The latter is underpinned by: (1) the expected GDP growth in China; (2) Bekaert's ambition to drive organic growth by broadening the product offer; (3) growth outside China (India, Indonesia) and (4) ongoing tyre cord production outsourcing by tyre producers. Further, we estimate 2011-12F REBIT at 8% in EMEA (in line with 8% underlying in 1H10), recovery to 7-8% in North America (vs 6% underlying in 1H10), recovery to 10-11% in Lat-Am (vs 8% underlying in 1H10, but 13% in 1H08) and 32-29.5% in Asia-Pac (vs 36.5% underlying in 1H10). The latter takes into account a 250bp organic margin decline per year (which implies that Asia-Pac margins should decline to 'normal' group levels within 10 years) and the recent acquisition of the lower margin wire business.
- On our new estimates, and in spite of the recent share price rally, the shares still only trade at 2011F PER of 11.2x. This is exactly in line with the average multiple of the past 10 years, and down from trading at 12-13x in 2H09-1H10. Still, Bekaert's exposure to (higher growth) Emerging Markets has grown significantly over this period (from 35% of sales in 2002 to 60% in 1H10), and should continue to grow since 80% of expansion capex (c.€110m) in 2010F is also invested in Emerging Markets. In addition, Bekaert has a stronger financial position (2011F net debt/EBITDA of 0.5x), allowing for acquisitions/higher shareholder remuneration. In our view both these elements suggest that Bekaert deserves a premium vs historical multiples. Hence, we increase our TP to €225 (from €190), targeting 13x 2011F (or 2011F EV/EBITDA of 6.5x, adjusted for the value of the JV's) and 2012F PER of 12x