

# Benelux First Call

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## **BEKAERT (BUY, TP €225.0): Further 12.5% steel cord capacity expansion in China**

**For further information contact analyst: Filip De Pauw, Brussels (32) 2 547 60 97**

- Bekaert, one of our Benelux top picks, announced this morning the inauguration of a new (and 'greenest ever') steel cord plant in China. This expansion project adds another 25,000 tons of tire cord capacity, bringing the total annual tire cord capacity of Bekaert in China to 450,000 tons by year-end.
- Given that Bekaert had reached its earlier year-end target of a 400,000 tons capacity by mid-year 2010, the announcement implies a further 12.5% capacity expansion for the Chinese operations.
- The announcement this morning is in our view positive, since (1) it confirms Bekaert's conviction that demand for steel cord in China should continue to grow significantly in the medium term and (2) our estimates for Asia Pacific look very achievable. Recall that we expect 2H sales in Asia Pacific 2.5% below 1H (to take into account seasonality). In addition, we expect c.10% organic growth in 2011-12F., while capacity by year-end 2010 already allows for higher growth.
- On our current estimates Bekaert trades 11.5x 2011F PER. This is 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. Our TP to €225 targets 13x 2011F (or 2011F EV/EBITDA of 6.5x, adjusted for the value of the JV's) and 2012F PER of 12x