

Benelux First Call

ING sales daily

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BEKAERT (BUY, TP €240.0): Another very solid 3Q10 trading update

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- Bekaert reported another very solid quarters in terms of sales, comfortably above the high end of the expectations range. 3Q10F consolidated sales came in 7% above/below our f/c at €866m (INGF +31% to €810m, consensus €802m). Q10 combined sales, including the (mainly Latin-American JV's) increased %33.8.
- The increase in sales was broad based in all geographies. Consolidated sales in Asia Pacific came in 6.4% above our f/c at €336m (INGF +38% to €316m, cons. €321m). EMEA sales of €271m were 3.7% above our f/c (INGF +32% to €261m, cons. €255m). North America sales of €170m were 12.3% above our f/c (INGF +43% to €151m, cons. €147m). Latin-America sales of €89m were 9.6 above our f/c (INGF -7% to €81m, cons. €79m), due to continued forex problems in Venezuela.
- Growth in sales was entirely driven by organic growth (+30.8%), while acquisition (1.1%) and forex (-0.3%) had only a minor effect.
- Net debt end of 3Q also surprised positively €463m, while we expected net debt at €540m end of year, suggesting strong cash flow generation.
- Outlook: Bekaert expects 4Q sales in line with the average of 1H10 (ie €770m vs. INGF €750m). The company added that seasonal effects, as well as negative currency effects and measures toward controlled growth in China are indicators for more tempered sales growth in the months ahead.
- Conclusion: 3Q10 sales came in 7% above expectations and FY10F sales estimates will have to be revised up by (at least) 2% to 3%. We expect a (modest) positive share price reaction today, taking into account the already very strong performance of the shares in previous days/weeks.
- Valuation: on our current estimates, Bekaert trades at a 2011F PER of 12.2x, which still does not seem too expensive given its: (1) 60% exposure to emerging markets; (2) focus on growing activities (Energy was up from 8% of sales in 2008 to 27%) and resilience (radial tyres are 75% replacement); (3) market leadership in key products; (4) internal engineering, ensuring cost-competitive equipment and (5) ongoing recovery in mature markets and construction.