Benelux First Call

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BEKAERT (BUY, TP €98.0): Company continues to fire on all cylinders

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- We keep Bekaert as a Benelux top pick and increase our TP to €98.0 after the company reported better-than-expected results (39% 4Q10 sales growth and a 17.4% 2H10 REBIT margin), improved balance sheet strength and provided guidance for a strong 1H11 performance while trading at attractive multiples.
- Bekaert reported better-than-expected results, with a 39% growth in 4Q10 sales to €861m (vs consensus forecast of +24%) and a €301m 2H10 REBIT, which implies a 17.4% margin (90bp above consensus forecast). Main beat vs expectations came again from Asia-Pacific, with a 67% 4Q10 sales growth and a 37.9% REBIT margin (vs 37.4% in 1H10). Automotive (tyre cord) and solar energy related products (sawing wire) reported the highest growth, as expected. 2H10 REBIT margins in the rest of the world came in slightly below our estimates. Bottom line, Bekaert reported a 124% FY10 normalised EPS growth to €6.68 (reported EPS was €6.21), 4% above INGF. Net debt came in above our forecast at €578m, but net debt/EBITDA declined further from 1.2x in 2009 to 0.8x in 2010. Unlike Bekaert (management typically has one to two months visibility), management guided for another strong performance in 1H11 and guided for a continued record capex (c.€250m) and R&D (c.€100m) in 2011 to support future growth. We understood during the analysts' meeting that the company's cautiousness post 1H11 was mainly a call on macro uncertainty.
- Based on the strong 2H10 results and comforting 1H11 outlook, we revise upwards our 2011F and 2012F normalised EPS by 6% and 5% to €7.03 and €7.65, respectively. Our estimates are c.5-6% above consensus. Note that we assume a 320bp REBIT margin decline in 2011F in Asia-Pacific. If Asia-Pacific margins remain flat, there is c.21% upside potential to our EPS estimate.
- On our new estimates, Bekaert's valuation seems attractive, in spite of the significant share price performance over the past 18 months. The shares trade at 11.2x 2011F and 10.3x 2012F PER, 6.1x 2011F and 5.8x 2012F EV/EBITDA (adjusted for JVs and LT pension liabilities). These multiples imply an 11% to 19% discount to European cap goods, whereas we argue the stock deserves to trade at least in line (2010 post tax ROCE of 17%). Our TP implies a valuation of 7.5x 2011F adjusted EV/EBITDA (unchanged), in line with European cap goods. Next trigger for the shares is the Capital Markets Event of 3-4 March in Slovakia (with a focus on sawing wire).