

# Benelux First Call

ING sales daily

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## **BEKAERT (BUY, TP €98.0): Feedback from capital markets events in Slovakia day 1**

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- We see two main take-aways from the first day of the CME. First, Bekaert's emerging markets exposure is (even) higher than we thought: today c.50% from EMEA sales is generated in 'emerging Europe'. Hence, a very high 74% from combined sales for the group are generated in 'emerging markets' (Asia Pac 28%, Latam 34% and Emerging Europe 12%).
- Second conclusion: Bekaert generates sustainable profitable growth in Europe, be it in Eastern\Emerging Europe. We visited the plant in Hlohovek. This previously state-owned (ie not very performant) plant was acquired 9 years ago for c€30m. Today, €70m capex later, Bekaert management calls this plant a benchmark plant, with a wire and steel cord capacity of 200,000t (probably the largest in Europe, and one of the largest worldwide). Assuming minimum annual sales of c200m (€1 per kg, or even a bit more) and assuming a REBIT margin of 10% (in any case above the reported 2010 EMEA margin of 8.9%), pre-tax ROCE for this investment should amount to 20% or higher. Tomorrow 4 March, a visit to the greenfield plant of Sladkovicovo is planned. This should be a good opportunity to get some more background on Bekaert's highly profitable sawing wire operations.

## **Feedback day 2 of CME**

- Focus of day 2 was on sawing wire, which is, in our view, Bekaert's highest growth/margin business. Sawing wire is used to cut polysilicon ingots into wafers for the PV business. The conclusion is that, apart from Bekaert, most likely no other company in the world for the moment is able to meet customer requirements in terms of (1) reliability (spools of 1,200km without welding points and very low risk of breakage; if the wire breaks during cutting, the ingot with a value of c€20,000 is lost), (2) technology (standard thickness of 110µm to reduce kerf losses; note that Xingda is entering the market with wires of 140µm, which are 30% less efficient; also note that Bekaert is technically even capable of mass production of 80µm wires) and (3) quantity (industrial/large scale production). Hence, Bekaert seems best placed in the short to medium term to capture further market growth (growth was 115% in 2010). Longer term (by 2030) growth in PV market seem given. Short to medium term however, Bekaert faces some challenges: (1) price pressure on panels to get to grid parity (prices declined 60% in past 3 years), (2) substitution risk for polysilicon (although most industry experts however assume polysilicon's market share should remain flat at c75%), (3) (low ST) risk of new wafering/cutting technologies and (4) risk in volatility in short term growth (Germany currently accounts for c50% of global demand, and the country should lower subsidies in 2H11; meanwhile China seems to step up its renewable energy efforts). Industry exports see the 2011F PV market growth between -15% and +33%. Bekaert management (by guiding for a strong 1H11) suggested a negative growth in 2011 seems unlikely. We currently (in our view reasonably) estimate 1Q11F Asia Pac sales in line with 4Q10, and 2Q11-4Q11F sales 6% above 4Q10.