

Bekaert: 1Q11 preview, another strong quarter expected

On May 11th we expect Bekaert to report a 24% YoY increase in consolidated sales to €862m. Combined sales are expected to be up 21% to €1,156m. The YoY increase is mainly based on easy comparables, as our 1Q11 forecast implies a flat evolution QoQ. This seems achievable, in view of apparent continued solid trading conditions for peers/clients (Michelin and Pirelli 1Q market data suggested double digit growth, and Meyer Burger started the year with a 12 month+ order backlog). We assume flat QoQ sales for all regions. This implies that the largest YoY increase should be noted in Asia Pacific (+50%), which in turn should have a positive mix effect on 1H11 margins. We expect all other regions to report a c.10% sales increase YoY. Current issues in the Middle East should not have a material negative effect on earnings and the Japanese nuclear problems could even have a slight positive impact as Bridgestone might temporarily shift (part of its) tire production to China.

Bekaert provided an unusually optimistic guidance at the FY10 results by expressing its confidence in a sustained strong performance in 1H11 (typically, Bekaert only has 1 to 2 months visibility). The company was more cautious on 2H11 (but not on the medium term, as the company is investing a record amount of capex), mainly because of uncertainty on the impact of lower German solar subsidies on the sawing wire activities. Given however that consensus is already taking into account significant Asia Pacific margin pressure for 2011 (for which the company has been guiding ever since they provided regional data), we are not overly concerned with consensus estimates.

We continue to note Bekaert's global market leadership strategy, with a strong presence in emerging markets (c.70% of sales), which provides the company with a solid growth outlook, high entry barriers and bargaining power, in our view. Valuation remains attractive, trading at 10.0x 2012F PER and 6.0x EV/EBITDA 2012F adjusted for JVs. The latter suggests an 18% discount to European capital goods peers. Given Bekaert's growth (high single digit) and ROCE (17%) prospects, we would argue that a premium is justified.

Bekaert key estimates

€m	1Q10	4Q10	1Q11F	% change	Consensus
Consolidated sales EMEA	244	269	270	10.7%	XXX
Consolidated sales North America	141	154	154	9.2%	XXX
Consolidated sales Latin America	67	78	75	11.9%	XXX
Consolidated sales Asia Pac	242	360	363	50.0%	XXX
Consolidated sales	694	861	862	24.2%	XXX
Combined sales	953	1,162	1,156	21.3%	XXX

Source: Company data, ING estimates

Price: €84.0. Last published: target price: €98.0; recommendation: BUY

Filip De Pauw, Brussels +32 2 547 60 97