

Bekaert

BERTI.BR / BEKB.BB

Engineering & Machinery
Belgium

Current price € 71.45
Target price € 84.00
Market cap € 1,538m
Free float 57%

	EPS (€)	P/E
FY05	6.97	9.4
FY06E	6.46	11.1
FY07E	6.55	10.9

First thoughts on 1H06 results

Bekaert this morning released its 1H06 results. Consolidated sales amounted to € 1,009m in-line with our expected € 1,010m. Growth amounted to 4% with currency movements adding 2% and acquisitions 4%. Combined sales growth amounted to 7%. Growth in Europe and North America amounted to -4% and 7% against 16% and 18% for the Latin America and Asia. REBIT declined from € 94.3m to € 80.0m or a margin decline from 9.7% to 7.9%. We were looking for a REBIT of 90.3% (margin of 8.9%). As expected, Bekaert was faced with an increased pressure on prices in the mature markets in Europe and North America. At the same time, the company experienced rapidly rising costs of energy and raw materials such as zinc and wire rod. Bekaert faced more intense competition in the European steel cord market, especially in passenger tires. However, one should also take into account the impact on EBIT of increased investments in R&D (€ 2.5m) and the sales organisation (€ 3.7m), which explains about one third of the decline in margins. Inventory revaluation had a minor positive impact of € 700k. Interest income and expenses amounted to € -12.6m, € -2.1m higher than expected while the income tax amounted to € 15.5m, € 5.6m lower than expected. Contribution from joint ventures and associates was flat at € 27.8m, € 1.1m below our expectations. After very low minorities (down from € 7.3m to € 500k vs. € 6.5m expected), the net result finally came out at € 75.5m vs. our estimate of € 73.5m and consensus of € 71.4m. Although that the margin pressure over the 1H06 was even more pronounced than initially expected, we are rather relieved by this statement and increase our rating from accumulate to buy with target price of € 84 per share (€ 90).

Buy
Rating Upgraded