

Morning Note

22 November 2006

Bekaert

BERTt.BR / BEKB BB

Engineering & Machinery
Belgium

Current price € 87.95
Target price € 87.00
Market cap € 1,894m
Free float 57%

	EPS (€)	P/E
FY05	6.97	9.4
FY06E	6.46	13.6
FY07E	6.55	13.4

Second thoughts on deal with Shougang

Over the past week, we attended Bekaert's Capital markets event in China. On Thursday, Bekaert officially opened its newest production unit for advanced wire products in Jiangyin. The new plant will trade as Bekaert Binjiang Steel Cord and produces sawing wire. At the same campus, Bekaert held the beam raising ceremony for a new half products workshop. After revisiting the prospectus of the capital increase at Shougang Concord Century Holdings, we believe there might be a link with the investment in Shougang and the construction of a new half products workshop at the site we have visited. As a reminder, Bekaert announced in September the acquisition of an 18.85% stake for € 16.5m. At that time, we regarded the investment as a smaller one, though of a strategic nature. Shougang is the mother company of Jiaxing Eastern Steel Cord (JESC), which has a tyre cord capacity of approximately 30k tonnes p.a. Shougang intends to use the proceeds from the capital increase to increase capacity at JESC to 60k tonnes p.a. by the end of 2007 with the aim to further increase capacity to 80k tonnes p.a. later in the future. Together with the deal there are two co-operation agreements. The first is a service contract for the planning and design of the capacity increase at JESC. The second is a supply contract in which Bekaert will provide certain materials (including brass coated wire), which are used for the production of steel cord. And there we have it, while we were initially puzzled by the rationale why Bekaert is constructing a new half products workshop, we would not exclude it is to supply JESC. As such the deal concluded earlier with Shougang goes further than initially thought.

Accumulate

Rating Unchanged

[Back to contents](#)

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