

Bekaert

4 August 2008

Impressive first-half results

Engineering & Machinery

Current price € 111.00

Buy

Belgium

Target price € 125.00

Rating Unchanged

Performance over	1m	3m	12m
Absolute	17%	14%	6%
Rel. BEL20	21%	51%	53%
12m Hi/Lo	€ 111.00/76.54		
Reuters	BEKB.BR		
Bloomberg	BEKB BB		
Market Cap	€ 2,183m		
Next corporate event	Results 3Q08: 7 November 2008		

FY/e 31.12	2007	2008E	2009E	2010E
Sales (€m)	2,173.6	2,591.2	2,718.3	2,849.7
REBITDA (€m)	310.3	444.9	424.8	421.8
Net earnings (€m)	152.9	212.0	187.2	194.5
Diluted adj. EPS (€)	8.05	11.82	10.38	10.37
Dividend (€)	2.76	3.25	3.25	3.25
P/E	12.2	9.4	10.7	10.7
EV/REBITDA	7.2	6.1	6.3	6.1
Free cash flow yield	2.7%	-0.1%	5.8%	7.4%
Dividend yield	3.1%	2.9%	2.9%	2.9%

Source: KBC Securities

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Description: Bekaert is an international group with core expertise in metal transformation and coating technologies.

Investment arguments

- Bekaert reported impressive 1H08 results
- Steel cord China remains the key growth driver, recording an impressive 80.5% y/y sales increase
- Bekaert is speeding up its capacity expansion in China and has announced an alliance with Ansteel
- At maintenance CAPEX, Bekaert continues to offer an attractive FCF yield

Bekaert reported impressive first-half results, blowing away market expectations. In an environment of rising wire rod and energy prices, Bekaert proved very successful in passing on price increases without delay. In addition, the company is reaping the benefits of its improved geographic spread and product mix.

Consolidated sales increased by a stunning 22.3%, of which 20.0% was organic growth. Recurring EBIT increased by 80.3% to €162.9m. This corresponds to a margin of 12.5%, up from 8.5% in the same period last year. Although this margin is a result of strength, demonstrated by Bekaert's ability to pass on price increases without delay, it is obvious that the performance is not sustainable. However, some of the improvements are structural and related to the strategy followed over the last couple of years. Following a revision of our scenario, we have increased our EPS forecasts for 2008 and 2009 from €8.27 and €8.42 to €11.82 and €10.38.

Passing on price increases without delay

Bekaert reported impressive results that far exceeded market expectations. The first half was characterized by steep price increases in both raw materials and energy prices, but Bekaert managed to pass these on without delay. In addition, Bekaert is benefiting from an improved geographic spread and product mix, softening the impact from an economic downturn in mature markets.

Consolidated sales increased by 22.3% y/y to €1,303m (beating our forecast of €1,162m) with organic growth of 20.0%, 7.6% net movement in acquisitions and divestments and an adverse impact from exchange rates of 5.3%. The former joint ventures and associates in Venezuela and Colombia (Vicson and Proalco) are now part of consolidated sales. Combined sales, including joint ventures and associates, increased by 18.0% y/y to €1,971m.

Consolidated and combined sales by business segment (in €m)

	Consolidated sales		Combined sales	
Advanced wire products	1,138	26.8%	1,811	20.1%
Advanced materials	101	0.1%	101	0.1%
Advanced coatings	61	-4.1%	61	-4.1%
Intersegment sales and others	3	-	-2	-
Total	1,303	22.3%	1,971	18.0%

Source: company data

Consolidated and combined sales of advanced wire products rose by respectively 26.8% y/y and 20.1% y/y. At constant currencies, combined sales growth would have been 23.8%. Strong sales growth was recorded across the board, but Steel cord China (+80.5%) was particularly impressive, even though its growth is partially at the expense of steel cord sales in the other markets, which declined by 4.7%. Also note that Steel cord China, Wire Latin America and Wire Asia now contribute up to 55% of revenues in the Advanced wire products business segment. The company's target to achieve steel cord production capacity in China of around 300k tonnes p.a. by the end of the year has already been achieved and management is now targeting 325k tonnes p.a. by the end of the year.

Sales of Wire North America increased by 8.5% y/y but would have increased by 24% at constant currencies. Sales were down by over 20% in the textile-sector-related Other advanced wire products. Sales of Building products increased by a robust 18% y/y.

Combined sales growth by activity platform (1H08)

Advanced wire products	20.1%	Advanced materials	0.1%
Wire Europe	15.7%	Stainless	-32.2%
Wire North America	8.5%	Fibre technologies	3.3%
Wire Latin America	24.9%	Combustion technologies	5.2%
Wire Asia	63.3%	Composites	38.6%
Building Products	18.0%		
Steel cord China	80.5%	Advanced coatings	-4.1%
Steel cord others	-4.7%	Industrial coatings	-8.8%
Other advanced wire products	-21.8%	Specialised films	-0.6%

Source: Company data

Sales of the Advanced materials business segment were steady y/y. However, a sharp decline of the stainless activities was offset by the other activities. The decline of the stainless business was due to a volume decline and reduced nickel-based wire rod prices. While sales of some fibre activities were down y/y, this was more than offset by a strong increase in sales of fibres for diesel particulate filters.

Advanced coatings' sales were down by 4.1% y/y due to difficult market conditions in industrial coatings, especially sputter technologies. Specialised films performed strongly but the 14% growth was cancelled out by exchange rate movements.

Bekaert: key figures (in €m)								
	1H07	2H07	FY07	1Q08	2Q08E	1H08	2H08E	FY08E
Sales	1,065.0	1,108.6	2,173.6	567.0	736.0	1,303.0	1,288.2	2,591.2
Advanced wire products	897.0	947.0	1,844.0	489.0	649.0	1,138.0	1,130.1	2,268.1
Advanced materials	101.0	103.0	204.0	49.0	52.0	101.0	103.0	204.0
Advanced coatings	64.0	60.0	124.0	30.0	31.0	61.0	58.0	119.0
Others	3.0	-1.0	2.0	-1.0	4.0	3.0	-3.0	0.0
REBIT	90.3	96.0	186.3			162.9	122.0	284.9
REBIT margin %	8.5%	8.7%	8.6%			12.5%	9.5%	11.0%
Result from operations	86.5	88.1	174.6			145.3	109.6	254.9
Interest income & expenses	-16.7	-24.3	-41.0			-22.4	-18.7	-41.1
Income taxes	-14.9	-4.2	-19.1			-25.5	-23.3	-48.8
Result from ordinary activities after taxes	55.0	59.5	114.5			97.4	67.6	165.1
Share in the result of joint ventures & associates	23.4	23.7	47.1			35.7	23.3	59.0
Minority interests	-5.8	-3.0	-8.7			-7.1	-5.0	-12.1
Consolidated net result of the group	72.6	80.2	152.9			126.0	85.9	212.0
Discontinued operations	0.0	0.0	0.0			0.0	0.0	0.0
Total consolidated net result	72.6	80.2	152.9			126.0	85.9	212.0

Source: Company data, KBC Securities' estimates

Bekaert reported a recurring EBIT of €162.9m, up 80% y/y and far exceeding market expectations. This recurring EBIT corresponds to an impressive margin of 12.5%, compared to 8.5% for the same period of 2007. Including non-recurring items, result from operations was €145m. EBITDA was a record-high €225m.

The contribution of joint ventures and associates was an impressive €35.7m, up 52.6% y/y. We were looking for a small decline given the full consolidation of the activities in Venezuela and Columbia (Vicson and Proalco). The results were driven in particular by a strong performance in Brazil.

The net result was finally up by 73.6% to €126.0m, way ahead of the €80m consensus.

Net financial debt increased from €448m at year-start to €534m at the end of June. Working capital further increased from €494.1m at year-start to €651.7m. Average working capital on sales amounted to 22.0%, compared to 22.4% in 1H07.

CAPEX in the first half amounted to €94m. For the full year, Bekaert expects CAPEX to reach €250m. The company is currently building a fourth steel cord plant in China, in a joint-venture with Ansteel. The plant will be located in Chongqing and is expected to become operational in the second quarter of next year. This year, Bekaert will expand its tire cord capacity in China to 325k tonnes p.a. by year-end.

Outlook

Bekaert remained quite vague on the outlook, saying only that it expects to maintain solid top-line growth for the balance of the year. However, management remains prudent on the impact of further price increases on final demand.

We have made a major upgrade to our scenario, raising our recurring EBIT forecast by 39.7% to €284.9m. This corresponds to a recurring EBIT margin of 9.5% in H2. We regard the 12.5% recurring EBIT margin in H1 as a sign of strength (price increases are normally passed on with a delay) but for obvious reasons, we remain prudent in extrapolating this exceptional performance. Our recurring EBIT margin in our 2009 scenario amounts to 9.2%. This is still at the upper end of the normal range of 7 to 9%. We upped our forecast for the net result by 39% to €212.0m. Our EPS estimates for 2008 and 2009 go from €8.27 and €8.42 to €11.82 and €10.38.

Financial data

Income statement (€m)	2006	2007	2008E	2009E	2010E
Sales	2,009.6	2,173.6	2,591.2	2,718.3	2,849.7
Gross profit	394.9	433.9	550.1	534.4	549.4
EBIT	145.9	174.6	254.9	224.8	224.8
Pre-tax earnings	114.2	133.6	213.8	183.6	189.3
Net earnings	142.3	152.9	212.0	187.2	194.5
EBITDA	262.2	298.6	414.9	399.8	406.8
REBITDA	279.0	310.3	444.9	424.8	421.8
REBITA	162.7	186.3	284.9	249.8	239.8
Balance sheet (€m)	2006	2007	2008E	2009E	2010E
Intangible assets	134.5	122.0	122.0	122.0	122.0
Tangible assets	824.2	917.6	1,007.6	1,032.6	1,025.6
Financial assets	328.3	290.4	290.4	290.4	290.4
Net other assets & liabilities	-33.3	-21.6	-21.6	-21.6	-21.6
Net working capital	530.5	582.1	694.0	728.0	763.2
Net debt	411.2	502.2	558.4	495.2	396.9
Provisions	251.7	241.8	241.8	241.8	241.8
Minorities	48.9	48.4	48.4	48.4	48.4
Equity	1,072.5	1,098.2	1,241.0	1,368.9	1,491.3
Capital employed	1,428.6	1,566.7	1,768.6	1,827.6	1,855.8
TOTAL ASSETS	2,216.9	2,312.6	2,464.6	2,554.0	2,648.3
Cash flow statement (€m)	2006	2007	2008E	2009E	2010E
Cash flow from operations	143.9	240.1	248.6	327.1	337.3
Net capital expenditure	-152.8	-192.4	-250.0	-200.0	-175.0
Free cash-flow	-8.9	47.7	-1.4	127.1	162.3
Acquisitions / disposals	-51.3	-17.9	0.0	0.0	0.0
Dividend payments	-74.1	-57.2	-54.7	-63.9	-63.9
Shares issues	-54.4	-110.0	0.0	0.0	0.0
New borrowings / reimbursements	-41.6	83.1	-50.0	-50.0	-50.0
Other	88.7	46.4	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	-141.5	-7.9	-106.2	13.2	48.4
Performance criteria	2006	2007	2008E	2009E	2010E
Sales growth	5.0%	8.2%	19.2%	4.9%	4.8%
Gross margin	19.7%	20.0%	21.2%	19.7%	19.3%
REBITDA margin	13.9%	14.3%	17.2%	15.6%	14.8%
REBITA margin	8.1%	8.6%	11.0%	9.2%	8.4%
EBIT margin	7.3%	8.0%	9.8%	8.3%	7.9%
Net debt / Equity + Minorities	36.7%	43.8%	43.3%	34.9%	25.8%
Net debt / EBITDA	1.57	1.68	1.35	1.24	0.98
EBITDA / net interest	8.27	7.29	10.10	9.72	11.44
Pay-out ratio	36.8%	35.8%	30.2%	34.1%	32.9%
= Return on Equity (avg)	13.2%	14.1%	18.1%	14.3%	13.6%
Return on Capital Employed (avg)	8.8%	10.0%	12.2%	10.0%	9.8%
Per share data (€)	2006	2007	2008E	2009E	2010E
weighted average # shares, diluted	21,596,843	20,169,889	19,853,743	19,853,743	19,853,743
Basic EPS	6.62	7.63	10.76	9.52	9.89
Diluted EPS	6.59	7.58	10.68	9.43	9.80
Diluted, adjusted EPS	7.22	8.05	11.82	10.38	10.37
Net book value / share	51.20	55.38	63.09	69.59	75.82
Free cash flow / share	-0.41	2.38	-0.07	6.46	8.25
Dividend (€)	2.50	2.76	3.25	3.25	3.25
Valuation data	2006	2007	2008E	2009E	2010E
Reference share price (€)	82.18	98.17	111.00	111.00	111.00
Reference market capitalisation (€)	1,721.4	1,946.8	2,183.4	2,183.4	2,183.4
Enterprise value (€m)	2,088.2	2,431.7	2,728.9	2,665.7	2,567.4
P/E	11.4	12.2	9.4	10.7	10.7
EV/sales	1.1	1.0	1.1	1.0	0.9
EV/EBITDA	8.5	7.5	6.6	6.7	6.3
EV/Capital employed	1.6	1.4	1.5	1.5	1.4
P/ NBV	1.7	1.6	1.8	1.6	1.5
Free cash flow yield	-0.5%	2.7%	-0.1%	5.8%	7.4%
Dividend yield	2.8%	3.1%	2.9%	2.9%	2.9%

Source: KBC Securities

*Historic valuation data are based on historic prices

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BUY	Expected total return (including dividends) of 10% or more over a 6-month period
ACCUMULATE	Expected total return (including dividends) between 0% and 15% over a 6-month period
HOLD	Expected total return (including dividends) between -5% and 5% over a 6-month period
REDUCE	Expected total return (including dividends) between -15% and 0% over a 6-month period
SELL	Expected total return (including dividends) of -10% or worse over a 6-month period

Due to external factors and in exceptional cases, KBC Securities allows the use of ratings such as Accept the Offer, Black Out, No Recommendation or Suspended.

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Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	47.40%	0.00%
ACCUMULATE	38.80%	0.00%
HOLD	8.60%	0.00%
REDUCE	4.30%	0.00%
SELL	0.90%	0.00%

Bekaert is an international group with core expertise in metal transformation and coating technologies.

The price target for Bekaert is based on following parameters: Discounted Cash Flow (DCF), Absolute Multiples, Peer Group Multiples

The risks which may impede the achievement of our price target are: Evolution on the raw materials markets, currencies, global economic outlook, capacity additions

Any reference made to a DCF valuation for Bekaert is based on the following parameters: a forecast period from 2007 until 2016, a perpetual growth rate of 1.5% and a calculated WACC of 8.5%.

Below is an overview of the stock ratings and target price history in the last 12 months for the stock described in this report.

Date	Rating	Target price
01-AUG-08	Buy	€ 125.00
19-MAY-08	Accumulate	€ 115.00

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