

Bekaert

12 February 2009

4Q08 vs. 9M08: the shock

Engineering & Machinery

Current price € 44.38

Buy

Belgium

Target price € 70.00

Rating Unchanged



Source: Thomson Financial Datastream

Bloomberg BEKB.BB

Reuters BEKB.BR

www.bekaert.com

Market Cap € 873.0m

Shares outst. 19.7m

Volume (daily) € 3,323,278

Free float 61.4%

Next corporate event

Trading update 4Q08: 20 February 2009

(€ m)	2008E	2009E	2010E
Sales	2,585.5	2,352.3	2,465.6
REBITDA	437.5	347.9	353.7
Net earnings	202.4	126.3	139.4
Adj. EPS (€)	11.43	7.38	7.67
P/E (x)	3.9	6.1	5.8
EV/REBITDA	3.2	3.7	3.6
FCF Yield	-0.7%	18.3%	12.6%
Dividend yield	7.3%	7.3%	7.3%

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Friday 20 February, Bekaert will release its fourth quarter trading update. As a reminder, Bekaert will only give sales numbers together with some qualitative comments. Publication of FY08 results is scheduled for 13 March.

Over the first nine months, Bekaert reported impressive sales growth. Consolidated and combined sales amounted to respectively € 2,047m and € 3,119m, an increase by 28.8% and 24.0% y/y. Consolidated sales growth was 24.7% organic, largely driven by the passed on raw materials prices, 7.9% from the net movement in acquisitions and divestments (Vicson and Proalco) while exchange differences tempered growth by 3.8%.

For the fourth quarter, Bekaert was guiding for consolidated sales to be comparable to the last quarter of 2007 (€ 585m). This is substantially lower than sales recorded in 3Q08 (€ 644m) and a reflection of the economic downturn and decreasing raw material prices (wire rod).

Our View:

We are taking a more prudent stance and now expect Bekaert to post 4Q08 sales of € 538.5m, down by 7.5% y/y. Sales of Advanced Wire Products, Advanced Materials and Advanced Coatings are forecasted at respectively € 466.1m (-7.0% y/y), € 50.8m (-5.9% y/y) and € 28.5m (-8.0% y/y).

This leads us to a recurring EBIT for the full year of € 277.5m, EBIT of € 247.5m and net result of € 202.5m.

Following a revision of our scenario, we have cut our fully diluted adjusted EPS estimates for 2009 and 2010 from respectively € 9.10 and € 7.89 to € 7.32 and € 7.59. For the current year, we now forecast sales of € 2,352.3m down by 9.0% y/y on our FY08 estimates. Recurring EBIT and the net result are forecasted at € 172.9m (-37.7% y/y) and € 126.3m (-37.6% y/y).

Conclusion:

While there is no doubt that Bekaert has improved its product mix and geographical spread, the company is obviously not immune to the economic downturn. We have lowered our EPS estimates for the current year by approximately 20% and cut our target price to € 70 per share, ahead of the 4Q trading update.