

Bekaert

9 March 2009

Earnings preview

Engineering & Machinery

Current price € 39.01

Buy

Belgium

Target price € 70.00

Rating Unchanged

Performance over	1m	3m	12m
Absolute	-14%	-19%	-56%
Rel. BEL20	7%	-5%	6%
12m Hi/Lo	€ 120.32/37.88		
Reuters	BEKB.BR		
Bloomberg	BEKB BB		
Market Cap	€ 767m		
Next corporate event	Results FY08: 13 March 2009		

FY/e 31.12	2007	2008E	2009E	2010E
Sales (€m)	2,173.6	2,663.0	2,481.4	2,601.2
REBITDA (€m)	310.3	456.3	371.5	373.3
Net earnings (€m)	152.9	196.1	110.2	123.6
Diluted adj. EPS (€)	8.05	11.78	6.59	6.75
Dividend (€)	2.76	3.25	3.25	3.25
P/E	12.19	3.31	5.92	5.78
EV/REBITDA	7.84	2.89	3.30	3.16
Free cash flow yield	2.5%	-4.3%	20.6%	14.2%
Dividend yield	2.8%	8.3%	8.3%	8.3%

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 recorded 22.5% sales growth in 2008
- Even in the fourth quarter, Bekaert surprised, realising 5% y/y sales growth
- Steel cord capacity in China has been increased dramatically over the past couple of years to over 300kt p.a.
- Bekaert has improved its product mix and geographical spread but is not immune to the economic crisis

Bekaert will report its FY08 results on Friday, March 13. The company released a pleasantly surprising 4Q trading update, posting consolidated growth for the quarter of 5% y/y. For the full year, Bekaert realised healthy 22.5% y/y growth in consolidated sales to €2.66bn.

We expect solid results, especially on the back of a stellar H1, when the company proved extremely successful in passing on price increases. Looking from a structural viewpoint, Bekaert is reaping the benefits of its improved geographic spread and product mix.

Despite the absence of clear guidance on profitability, management appeared fairly confident in the trading update, saying that “despite limited short-term visibility, Bekaert does not expect the current slowdown to last on a company-wide scale.”

We remain relatively prudent for the current year, now incorporating a 6.8% drop in sales to €2,481m and a net result of €110.2m (-43.8% y/y).

4Q trading update: a positive surprise

Bekaert sprang a positive surprise in its 4Q trading update (20 February). Consolidated and combined sales for the full year rose to €2,663m and €4,010m, up respectively 22.5% and 17.3%. Organic growth in consolidated sales was 17.7%, largely driven by the passing on of raw material price increases, and 5.8% from the acquisitions in Vicson (Venezuela) and Proalco (Colombia). Exchange differences tempered growth by 1.0%.

The company was previously guiding for consolidated 4Q sales comparable to 4Q07 (€585m) but we took a more prudent stance, projecting €538.5m, down 7.5% y/y. Bekaert ultimately beat expectations however, publishing consolidated 4Q sales of €616.0m, up 5.4% y/y. The contribution of advanced wire products, advanced materials and advanced coatings amounted to €529m (+5.6%), €54m (flat) and €28m (-9.7%) vs. our forecasts for €466.1m, €50.8m and €28.5m.

Consolidated and combined sales by business segment

	Consolidated sales		Combined sales	
	€m	y/y	€m	y/y
Advanced wire products	2,331	26.4%	3,690	19.2%
Advanced materials	199	-2.0%	199	-2.0%
Advanced coatings	121	-3.1%	121	-3.1%
Intersegment sales and others	12	-	-	-
Total	2,663	22.5%	4,010	17.3%

Source: company data

Combined sales by activity platform (FY08 vs. FY07)

	Advanced wire products	Advanced materials	Advanced coatings
Wire Europe	7.3%	Stainless	-33.5%
Wire North America	19.2%	Fibre technologies	3.7%
Wire Latin America	19.8%	Combustion technologies	-5.6%
Wire Asia	73.8%	Composites	42.9%
Building Products	21.7%		
Steel cord China	63.7%	Advanced coatings	-3.1%
Steel cord others	1.4%	Industrial coatings	-7.0%
Other advanced wire products	-24.3%	Specialised films	-0.1%

Source: company data

Firm FY results expected

Bekaert will report its FY08 results on Friday, 13 March. We expect solid results, especially on the back of a stellar 1H, when the company proved extremely successful in passing on price increases. From a more structural standpoint, Bekaert is reaping the benefits of its improved geographic spread and product mix.

We expect recurring EBIT of €296.3m, up 59% y/y. Recurring EBIT in H2 is forecast at €133.4m, up from €96.0m in the same period of 2007. This implies a recurring EBIT margin of 9.8% in 2H, which is above the normal range of 7% to 9%. As Bekaert has announced the reorganisation of its steel wire and steel cord activities in Belgium, we expect above-average non-recurring charges in 2H (€32.4m). Hence, we expect a result from operations of €101.0m in 2H and €246.3m for the full year.

Key figures (in €m)

	1H07	2H07	FY07	1H08	3Q08	4Q08	2H08E	FY08E
Sales	1,065.0	1,108.6	2,173.6	1,303.0	744.0	616.0	1,360.0	2,663.0
Advanced wire products	897.0	947.0	1,844.0	1,138.0	664.0	529.0	1,193.0	2,331.0
Advanced materials	101.0	103.0	204.0	101.0	44.0	54.0	98.0	199.0
Advanced coatings	64.0	60.0	124.0	61.0	32.0	28.0	60.0	121.0
Others	3.0	-1.0	2.0	3.0	4.0	5.0	9.0	12.0
REBIT	90.3	96.0	186.3	162.9			133.4	296.3
REBIT margin %	8.5%	8.7%	8.6%	12.5%			9.8%	11.1%
Result from operations	86.5	88.1	174.6	145.3			101.0	246.3
Interest income & expenses	-16.7	-24.3	-41.0	-22.4			-20.0	-42.4
Income taxes	-14.9	-4.2	-19.1	-25.5			-25.3	-50.8
Result after taxes	55.0	59.5	114.5	97.4			55.7	153.1
Joint ventures and associates	23.4	23.7	47.1	35.7			19.3	55.0
Minority interests	-5.8	-3.0	-8.7	-7.1			-4.9	-12.0
Consolidated net result	72.6	80.2	152.9	126.0			70.1	196.1

Source: company data, KBC Securities

On the bottom line, we expect a net result of € 70.1m in H2 (-12.6% y/y) and € 196.1m for the full year (+18.3% y/y).

CAPEX for FY08 was guided to peak at “around €250m”. Last year, Bekaert expanded its steel cord capacity in China to around 325kt by year-end and has started building a fourth Chinese steel cord plant in a joint-venture with Ansteel. We expect Bekaert to cut back on its CAPEX program in the current year.

In the 4Q trading update, Bekaert said that short-term visibility is extremely limited. However, management remained relatively upbeat, stating it does not expect the current activity slowdown to last on a company-wide scale. We are prudent for the current year, now incorporating a 6.8% drop in sales to €2,481m and net result of €110.2m, down 43.8% y/y.

Financial data

Income statement (€m)	2007	2008E	2009E	2010E	2011E
Sales	2,173.6	2,663.0	2,481.4	2,601.2	2,724.1
Gross profit	433.9	549.6	449.2	472.6	500.9
EBIT	174.6	246.3	166.5	176.3	190.6
Pre-tax earnings	133.6	203.9	124.0	138.9	157.4
Net earnings	152.9	196.1	110.2	123.6	133.2
EBITDA	298.6	406.3	341.5	358.3	376.2
REBITDA	310.3	456.3	371.5	373.3	391.2
REBITA	186.3	296.3	196.5	191.3	205.6
Balance sheet (€m)	2007	2008E	2009E	2010E	2011E
Intangible assets	122.0	122.0	122.0	122.0	122.0
Tangible assets	917.6	1,007.6	1,032.6	1,025.6	990.0
Financial assets	290.4	290.4	290.4	290.4	290.4
Net other assets & liabilities	-21.6	-21.6	-21.6	-21.6	-21.6
Net working capital	582.1	713.2	664.6	696.6	729.6
Net debt	502.2	589.6	495.4	450.0	365.9
Provisions	241.8	241.8	241.8	241.8	241.8
Minorities	48.4	48.4	48.4	48.4	48.4
Equity	1,098.2	1,226.2	1,282.3	1,339.2	1,409.7
Capital employed	1,566.7	1,787.8	1,764.2	1,789.3	1,786.5
TOTAL ASSETS	2,312.6	2,462.4	2,458.4	2,495.0	2,543.1
Cash flow statement (€m)	2007	2008E	2009E	2010E	2011E
Cash flow from operations	240.1	217.4	358.1	284.3	298.1
Net capital expenditure	-192.4	-250.0	-200.0	-175.0	-150.0
Free cash-flow	47.7	-32.6	158.1	109.3	148.1
Acquisitions / disposals	-17.9	0.0	0.0	0.0	0.0
Dividend payments	-57.2	-54.7	-63.9	-63.9	-63.9
Shares issues	-110.0	0.0	0.0	0.0	0.0
New borrowings / reimbursements	83.1	-50.0	-50.0	-50.0	-50.0
Other	46.4	0.0	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	-7.9	-137.4	44.2	-4.6	34.1
Performance criteria	2007	2008E	2009E	2010E	2011E
Sales growth	8.2%	22.5%	-6.8%	4.8%	4.7%
Gross margin	20.0%	20.6%	18.1%	18.2%	18.4%
REBITDA margin	14.3%	17.1%	15.0%	14.4%	14.4%
REBITA margin	8.6%	11.1%	7.9%	7.4%	7.5%
EBIT margin	8.0%	9.2%	6.7%	6.8%	7.0%
Net debt / Equity + Minorities	43.8%	46.3%	37.2%	32.4%	25.1%
Net debt / EBITDA	1.68	1.45	1.45	1.26	0.97
EBITDA / net interest	7.29	9.58	8.03	9.59	11.33
Pay-out ratio	35.8%	32.6%	58.0%	51.7%	48.0%
= Return on Equity (avg)	14.1%	16.9%	8.8%	9.4%	9.7%
Return on Capital Employed (avg)	10.0%	11.7%	7.5%	7.9%	8.3%
Per share data (€)	2007	2008E	2009E	2010E	2011E
weighted average # shares, diluted	20,169,889	19,853,743	19,853,743	19,853,743	19,853,743
Basic EPS	7.63	9.96	5.60	6.29	6.77
Diluted EPS	7.58	9.88	5.55	6.23	6.71
Diluted, adjusted EPS	8.05	11.78	6.59	6.75	7.21
Net book value / share	55.38	62.34	65.19	68.09	71.67
Free cash flow / share	2.38	-1.66	8.04	5.56	7.53
Dividend (€)	2.76	3.25	3.25	3.25	3.25
Valuation data	2007	2008E	2009E	2010E	2011E
Reference share price (€)	98.17	39.01	39.01	39.01	39.01
Reference market capitalisation (€)	1,946.8	767.2	767.2	767.2	767.2
Enterprise value (€m)	2,431.7	1,318.7	1,224.5	1,179.1	1,095.0
P/E	12.2	3.3	5.9	5.8	5.4
EV/sales	1.1	0.5	0.5	0.5	0.4
EV/EBITDA	8.1	3.2	3.6	3.3	2.9
EV/Capital employed	1.6	0.7	0.7	0.7	0.6
P/ NBV	1.8	0.6	0.6	0.6	0.5
Free cash flow yield	2.5%	-4.3%	20.6%	14.2%	19.3%
Dividend yield	2.8%	8.3%	8.3%	8.3%	8.3%

Source: KBC Securities

*Historic valuation data are based on historic prices

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Stock rating	Definition
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

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Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	37.60%	0.00%
ACCUMULATE	39.60%	0.00%
HOLD	17.80%	0.00%
REDUCE	5.00%	0.00%
SELL	0.00%	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
11-FEB-09	Buy	€ 70.00
05-NOV-08	Buy	€ 105.00
01-AUG-08	Buy	€ 125.00
19-MAY-08	Accumulate	€ 115.00

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