

Bekaert

16 March 2009

Improved mix pays off

Engineering & Machinery

Current price € 46.11

Buy

Belgium

Target price € 70.00

Rating Unchanged

Performance over	1m	3m	12m
Absolute	12%	-5%	-48%
Rel. BEL20	23%	6%	15%
12m Hi/Lo	€ 120.32/37.88		
Reuters	BEKB.BR		
Bloomberg	BEKB BB		
Market Cap	€ 912m		
Next corporate event			
General Assembly 08: 13 May 2009			

FY/e 31.12	2008	2009E	2010E	2011E
Sales (€m)	2,662.4	2,506.8	2,627.9	2,752.3
REBITDA (€m)	495.9	362.3	372.2	394.6
Net earnings (€m)	174.1	108.6	130.3	143.1
Diluted adj. EPS (€)	12.02	6.51	7.07	7.69
Dividend (€)	2.80	2.80	2.80	2.80
P/E	7.34	7.08	6.52	5.99
EV/REBITDA	4.99	3.96	3.71	3.26
Free cash flow yield	-0.5%	15.4%	12.0%	16.7%
Dividend yield	3.2%	6.1%	6.1%	6.1%

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 def. not immune to the economic crisis

Bekaert reported solid FY08 results which showed resilience to the economic downturn thanks to the improved geographical spread and product mix. In advanced wire products, growth markets now account for over 70% of sales.

Last year, Bekaert posted solid 22.5% growth in consolidated sales to €2.66bn. 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%.

Recurring EBIT increased from €186.3m in 2007 to €294.2m last year, matching expectations. This equates to a REBIT margin of 11.1% (vs. 8.6% in 2007), split into 12.5% in H1 and 9.7% in H2, still substantially above the 'normal' range of 7% to 9%. Bekaert had a stellar H1, when the company proved extremely successful in passing on price increases. However, the biggest positive surprise comes from Bekaert's resilience in H2.

No doubt 2009 and especially H1 will prove extremely challenging. Nevertheless, the company issued a relatively upbeat statement, saying that "despite limited short-term visibility, Bekaert does not expect the current slowdown to last on a company-wide scale." We have kept our 2009 numbers largely unchanged, banking on a 33% decline in REBIT.

Bekaert shows resilience in H2

Bekaert reported solid FY08 results. 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%.

Key figures (in €m)									
	2H07	FY07	1H08	3Q08	4Q08	2H08	FY08	FY08E	FY09
Sales	1,108.6	2,173.6	1,303.0	744.0	615.4	1,359.4	2,662.4	2,662.4	2,506.8
Advanced wire products	947.0	1,844.0	1,138.0	664.0	529.0	1,193.0	2,331.0	2,331.0	2,199.2
Advanced materials	103.0	204.0	101.0	44.0	54.0	98.0	199.0	199.0	189.1
Advanced coatings	60.0	124.0	61.0	32.0	28.0	60.0	121.0	121.0	118.6
Others	-1.0	2.0	3.0	4.0	4.4	8.4	11.4	11.4	0.0
REBIT	96.0	186.3	162.9			131.4	294.2	296.3	197.3
REBIT margin %	8.7%	8.6%	12.5%			9.7%	11.1%	11.1%	7.9%
Result from operations	88.1	174.6	145.3			65.2	210.5	246.3	167.3
Interest income & expenses	-24.3	-41.0	-22.4			-26.9	-49.3	-42.4	-49.9
Income taxes	-4.2	-19.1	-25.5			0.0	-25.5	-50.8	-25.8
Result after taxes	59.5	114.5	97.4			38.2	135.7	153.1	91.6
Joint ventures and associates	23.7	47.1	35.7			20.4	56.1	55.0	38.0
Minority interests	-3.0	-8.7	-7.1			-10.6	-17.7	-12.0	-21.0
Consolidated net result	80.2	152.9	126.0			48.0	174.1	196.1	108.6

Source: Company data, KBC Securities

EBITDA firmed from €298.6m to €412.2m (€406.3m exp.). EBITDA of the advanced wire products increased from €314m to €448m, beating expectations of €435.9m, but the contributions of advanced materials and advanced coatings disappointed. EBITDA of advanced materials declined from €26m to €18m (€24.9m exp.) while advanced coatings was unchanged y/y at €11m (€12.1m exp.).

Recurring EBIT increased from €186.3m in 2007 to €294.2m last year, matching expectations (€296.3m). This equates to a REBIT margin of 11.1% (vs. 8.6% in 2007), split into 12.5% in H1 and 9.7% in H2, still well above the 'normal' range of 7% to 9%. Bekaert had a stellar H1, when the company proved extremely successful in passing on price increases. However, the biggest positive surprise was Bekaert's resilience in H2. We attribute this to structural improvements with Bekaert reaping the benefits of its improved geographical spread and product mix.

Non-recurring items amounted to €83.7m (€50m exp.) and included provisions for the restructuring of the Belgian manufacturing operations of advanced wire products (€42.5m), for production platform moves within Europe, for environmental liabilities and for several asset impairments. The impairments included those related to carding solutions (other advanced wire products: €10m) and several activities within the advanced materials segment (€18.8m), applying mainly to stainless and combustion technologies. The higher-than-forecast non-recurring charges explain the result of operations of €210.5m, which remained below expectations (€246.3m).

The contribution of joint-ventures and associates increased from €47.1m to €56.1m, slightly above our €55m estimate. This better-than-expected performance was mainly driven by the operations in Brazil. The net result, group share, increases from €152.9m to €174.1m (€196.1m exp.).

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	11	-	-	-
Total	2,662	22.5%	4,010	17.3%

Source: Company data

Combined sales by activity platform (FY08 vs. FY07)

Advanced wire products	19.2%	Advanced materials	-2.0%
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

Advanced wire products

Consolidated and combined sales of the advanced wire products increased y/y by an impressive 26.4% and 19.2% respectively. Recurring EBIT increased by 63.7% y/y to €352m. REBIT margin improved from 11.7% in 2007 to an impressive 15.1% last year. The solid performance is driven by an improved geographical spread and product mix.

Bekaert realised solid sales growth in nearly all activity platforms: Wire Europe (+7.3%), Wire North America (+19.2%), Wire Latin America (+19.8%), Wire Asia (+73.8%), Building Products (+21.7%), Steel cord China (+63.7%) and Steel cord others (+1.4%). Combined sales of other advanced wire products declined by 24.3%.

Steel cord China (16%), wire Asia (1%) and wire Latin America (39%) now account for 56% of advanced wire products combined sales. If we also take into account the sales generated by the activities in CEE, the share of emerging markets adds up to over 70% of advanced wire products combined sales. Bekaert remained rather secretive on the level of installed steel cord capacity it expects to have in China by year end. However, while the target to achieve steel cord production capacity in China of around 300k tonnes p.a. by the end of 2008 was already achieved at the end of H1, it seems Bekaert has slowed down further capacity hikes in H2. Questions about current capacity utilisation at steel cord China were rebuffed but Bekaert stated quite firmly that it would keep output in line with market demand in order to avoid building up inventories.

In addition to an improved geographic spread, Bekaert is also benefiting from the higher margins created by the improved product mix. Last year, Bekaert increased its R&D expenses from €56.7m in 2007 to €68.5m and the company has no plans to ease up on its R&D efforts this year either.

Advanced materials

Sales of advanced materials declined by 2% y/y to €199m, equivalent to approximately 5% of total group sales. Recurring EBIT fell from €17m to just €1m last year. Sales of the composites and fibre technologies increased by respectively 42.9% and 3.7% y/y while sales of combustion technologies (-5.6%) and especially stainless (-33.5%) declined y/y. The drop in stainless sales was a result of decreased volumes and sustained pressure on margins from strong fluctuations in nickel-based raw material prices. The other activity platforms operated in a highly competitive market environment and were impacted by the economic downturn by year-end.

Advanced coatings

Sales of advanced coatings declined by 3.1% y/y to €121m. Recurring EBIT was up by a third on 2007 (€3m) but still weak at only €4m. Sales of industrial coatings (42% of advanced coatings sales) declined by 7% y/y, with the last months of the year particularly impacted by the economic downturn. Sales of specialised films were unchanged y/y (-0.1%) with the nominal growth (6%) wiped out by fx movements.

Balance sheet

Net financial debt (adjusted, Bekaert def.) increased from €448m to €627m, a bit higher than forecast mainly due to higher working capital requirements. Working capital increased from €494m at year-start to €653m at year-end. Inventories are up sharply from €385m to €511m and reflect the inclusion of Vicson and Proalco but especially higher raw material prices and lower demand in Q4.

CAPEX increased from €192.4m in 2007 to €238.6m last year. This is just short of the guidance for around €250m and is probably a reflection of Bekaert slowing down capacity increases in China.

Bekaert proposes a gross dividend of €2.80 (payable 20 May). Although we were a bit more aggressive on the dividend (€3.25) we do regard the €2.80 payout as sustainable going forward.

Outlook

With regards to the outlook, Bekaert reiterated its position laid out at the Q4 trading update: "Short-term visibility is extremely limited. However, Bekaert does not expect the current activity slowdown to last on a company-wide scale."

We remain prudent with regards to the current year and have kept our numbers almost unchanged. Consolidated sales are forecast to decline to €2,506.8m, despite the consolidation of the regional holding (80% Bekaert) covering the businesses in Ecuador, Peru, Venezuela and Colombia. As a reminder, this change in consolidation scope is expected to boost revenues by approximately €140m while the increase in recurring EBIT (approximately €7 to €8m) will be offset by a lower contribution of associates and higher minority interests.

We bank on a 33% drop in recurring EBIT to €197.3m. This corresponds to a REBIT margin of 7.9%, down from 11.1% last year but in the 'normal' range of 7 to 9%. H1 in particular will be extremely challenging, especially in an environment of declining pricing and hence margin pressure. The consolidated net result is expected to drop from €174.1m last year to €108.6m.

Financial data

Income statement (€m)	2007	2008	2009E	2010E	2011E
Sales	2,173.6	2,662.4	2,506.8	2,627.9	2,752.3
Gross profit	433.9	601.8	456.8	489.1	522.5
EBIT	174.6	210.5	167.3	185.6	204.5
Pre-tax earnings	133.6	161.2	117.4	149.7	173.7
Net earnings	152.9	174.1	108.6	130.3	143.1
EBITDA	298.6	412.2	332.3	357.2	379.6
REBITDA	310.3	495.9	362.3	372.2	394.6
REBITA	186.3	294.2	197.3	200.6	219.5
Balance sheet (€m)	2007	2008	2009E	2010E	2011E
Intangible assets	122.0	111.5	111.5	111.5	111.5
Tangible assets	917.6	1,070.7	1,105.7	1,109.1	1,084.0
Financial assets	290.4	199.9	199.9	199.9	199.9
Net other assets & liabilities	-21.6	-6.2	-6.2	-6.2	-6.2
Net working capital	582.1	792.9	671.4	703.8	737.1
Net debt	502.2	672.9	480.2	426.2	329.6
Provisions	241.8	323.4	323.4	323.4	323.4
Minorities	48.4	41.8	41.8	41.8	41.8
Equity	1,098.2	1,130.6	1,236.8	1,326.6	1,431.5
Capital employed	1,566.7	1,848.7	1,762.2	1,798.0	1,806.3
TOTAL ASSETS	2,312.6	2,667.2	2,808.3	2,864.5	2,936.2
Cash flow statement (€m)	2007	2008	2009E	2010E	2011E
Cash flow from operations	240.1	241.8	340.3	284.4	302.0
Net capital expenditure	-192.4	-250.0	-200.0	-175.0	-150.0
Free cash-flow	47.7	-8.2	140.3	109.4	152.0
Acquisitions / disposals	-17.9	0.0	0.0	0.0	0.0
Dividend payments	-57.2	-54.7	-55.4	-55.4	-55.4
Shares issues	-110.0	0.0	0.0	0.0	0.0
New borrowings / reimbursements	83.1	215.8	-50.0	-50.0	-50.0
Other	46.4	-107.8	107.8	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	-7.9	45.1	142.7	4.0	46.6
Performance criteria	2007	2008	2009E	2010E	2011E
Sales growth	8.2%	22.5%	-5.8%	4.8%	4.7%
Gross margin	20.0%	22.6%	18.2%	18.6%	19.0%
REBITDA margin	14.3%	18.6%	14.5%	14.2%	14.3%
REBITA margin	8.6%	11.1%	7.9%	7.6%	8.0%
EBIT margin	8.0%	7.9%	6.7%	7.1%	7.4%
Net debt / Equity + Minorities	43.8%	57.4%	37.6%	31.1%	22.4%
Net debt / EBITDA	1.68	1.63	1.45	1.19	0.87
EBITDA / net interest	7.29	8.37	6.66	9.95	12.29
Pay-out ratio	35.8%	31.8%	51.0%	42.5%	38.7%
= Return on Equity (avg)	14.1%	15.6%	9.2%	10.2%	10.4%
Return on Capital Employed (avg)	10.0%	10.4%	7.6%	8.3%	8.8%
Per share data (€)	2007	2008	2009E	2010E	2011E
weighted average # shares, diluted	20,169,889	19,796,210	19,861,194	19,861,194	19,861,194
Basic EPS	7.63	8.83	5.49	6.59	7.23
Diluted EPS	7.58	8.79	5.47	6.56	7.20
Diluted, adjusted EPS	8.05	12.02	6.51	7.07	7.69
Net book value / share	55.38	57.15	62.52	67.06	72.36
Free cash flow / share	2.38	-0.42	7.09	5.53	7.68
Dividend (€)	2.76	2.80	2.80	2.80	2.80
Valuation data	2007	2008	2009E	2010E	2011E
Reference share price (€)	98.17	88.25	46.11	46.11	46.11
Reference market capitalisation (€)	1,946.8	1,745.9	912.1	912.1	912.1
Enterprise value (€m)	2,431.7	2,476.7	1,435.5	1,381.5	1,284.9
P/E	12.2	7.3	7.1	6.5	6.0
EV/sales	1.1	0.9	0.6	0.5	0.5
EV/EBITDA	8.1	6.0	4.3	3.9	3.4
EV/Capital employed	1.6	1.3	0.8	0.8	0.7
P/ NBV	1.8	1.5	0.7	0.7	0.6
Free cash flow yield	2.5%	-0.5%	15.4%	12.0%	16.7%
Dividend yield	2.8%	3.2%	6.1%	6.1%	6.1%

Source: KBC Securities

*Historic valuation data are based on historic prices

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The company disclosures can also be consulted on our website <http://www.kbcsecurities.be/disclosures>.

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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	38.00%	0.00%
ACCUMULATE	40.00%	0.00%
HOLD	18.00%	0.00%
REDUCE	4.00%	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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