

13 November 2009

BEKAERT

Strong cash flow generation

ENGINEERING & MACHINERY
BELGIUM

CURRENT PRICE € 90.81
TARGET PRICE € 100.00

ACCUMULATE
RATING UPGRADED



Source: Thomson Financial Datastream

Bloomberg BEKB.BB
Reuters BEKB.BR

www.bekaert.com

Market Cap € 1,796.6m
Shares outst. 19.8m
Volume (daily) € 6,930,914
Free float 61.4%

Next corporate event

Payment dividend FY09: 15 May 2010

(€ m)	2008	2009E	2010E
Sales	2,662.4	2,408.0	2,524.1
REBITDA	495.9	337.4	366.0
Net earnings	174.1	101.7	123.7
Adj. EPS (€)	12.02	5.65	6.75
P/E (x)	7.3	16.1	13.5
EV/REBITDA	5.0	7.0	6.3
FCF Yield	-1.0%	11.8%	7.5%
Dividend yield	3.2%	3.1%	3.1%

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Bekaert this morning released 3Q09 sales in-line with expectations. Consolidated sales in 3Q have been reported at € 619m, in-line with our forecast for € 616.3m and consensus looking for € 618m. Looking to the sales numbers by region, EMEA performed in-line with expectations, North America was substantially weaker than expected while sales in both Latin America and Asia Pacific outperformed on expectations. Sales increased slightly Q/Q (consolidated sales +2%, combined sales +4%) driven by volume growth while the effect of raw material price fluctuations and currency movements were insignificant (Q/Q).

Consolidated sales in EMEA were little changed from 2Q at € 198m while sales in North America further declined by a further 13% on the previous quarter to € 106m. Sales in both Latin America and Asia Pacific increased by 10% on the previous quarter to respectively € 87m and € 228m.

Consolidated 9M09 sales decreased by 11.2% y/y. Organically, sales decreased by 21.7% on especially weak market demand in EMEA and North America. This was partially offset by the integration of the former joint ventures in Peru and Ecuador, adding 5.7% as well as favourable currency movements adding 4.9%. Combined 9M09 sales (including joint ventures and associates) declined 20.8% with the organic decline of 22.4% being slightly tempered by favourable exchange differences (1.7%).

Conclusion:

While third quarter sales were perfectly in-line with expectations, the trading update did contain several supportive elements. Sales volumes steadily improved and Bekaert expects to maintain high sales volumes in 4Q, especially driven by solid market demand in emerging markets. Raw material prices are stabilising, hence the negative impact of lower raw material prices on margins from the first half is unlikely to be repeated in the second half. Obviously, there is still a substantial y/y impact on sales. Finally, Bekaert is generating strong cash flows as is illustrated by the reduction in net financial debt from € 622m at the end of June to around € 500m at the end of September.

The Bekaert shares have flat-lined since publication of 1H results at levels around € 90 per share, underperforming the market. However, given the gradual improving trends we believe the time is right to upgrade our recommendation from Hold to Accumulate with revised target price of € 100 per share (€ 90). Earnings momentum for the company is expected to pick-up on a continued strong performance in emerging markets with recovery potential in EMEA and North America. In addition, the current multiples the company is trading at are far from excessive.