

Bekaert (Add - EUR 94.5): Impressive Chinese growth and share buy back

Facts

- Bekaert issued its 2006 trading update. Revenues increased by 5% to EUR 2,010m, or 1 % ahead of our forecasts. Organically revenues were up by a 1%. Key driver was once more China.
- Advanced Wire: revenues were up by 5% to EUR 1,724m compared to our forecast of EUR 1,699m. Main drivers were China with a revenue growth of 54%. Supported by its substantial investment program, Bekaert was able to advance its market position in China significantly despite the heightened competition. Building products also reported a better than expected 11% revenue growth, while the Wire division in Europe confirmed its turnaround with a 8% revenue growth. Just like in the first half of the year, the US based Wire business slowed down and witnessed a 6% revenue drop. Also Steelcord outside China continued to contribute negatively with revenues down by 6%. Bekaert indicates that Q4 was heavily impacted by the Goodyear strike. Latin America is up by 7%.
- Advanced materials: Revenues were up by 11% to EUR 156m compared to our EUR 155m forecast.
- Advanced Coatings: Revenues grew by 3% to EUR 136m vs EUR 139m expected
- Outlook: Bekaert will continue in 2007 to strive for sustainable profitable growth in its various business segments and regions. The company will respond proactively to the rising demand from the growth markets and intends to further strengthen its position, most significantly in the BRIC countries.
- The group also issued a second press release in which it states to have acquired and cancelled 557,000 shares at the end of 2006 or 2.5% of the outstanding capital. Bekaert indicates that the group will continue to optimize its balance sheet in 2007, or in other words, Bekaert will continue to buy back and cancel shares in 2007.

Our View

Bekaert published a good set of figures with organic growth accelerating to 4% in Q4 thanks to China (+66% in Q4) and Europe (+18% in Q4). In addition, the group faced low steel cord volumes in Q4 in the US due to the Goodyear strike, which makes the underlying growth even stronger. In H1, revenues were still down by 2% organically

Bekaert's outlook remains traditionally vague, but we believe that the message that the group will react proactively on the rising demand in growth markets is an important sign that they will continue to invest cash flow in China, Russia, etc. We estimate that China already represents 12% of the group's revenues. We also applaud the group's move to buy back its own shares. Our EPS numbers will be lifted by approximately 2% linked to the share buy back.

Conclusion

The group's strategy is simple and clear: investing in steel cord, in which it is worldwide leader, in area's where the underlying market is growing. As a result, Bekaert is becoming more and more a play on the emerging markets. Including its equity consolidated companies, Latin America and Asia combined represent 44% of total revenues. We estimate that given the higher profitability, these emerging regions contribute approximately to 55% of profits.

In addition, the group is acquiring its own shares, which will improve leverage of the balance sheet (current gearing stands at 24%)

Add reiterated.

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