

Bekaert (Add - EUR 92.2): Strong results, Strong outlook

Facts

- Revenues were already pre-announced at EUR 2,010m.
- Gross profit increased by 1% to EUR 395m, beating our forecast by 4.1%, a strong performance in the light of the high energy and raw material markets
- Operating expenses were 4.4% lower than expected leading to an EBITDA reaches EUR 262m, beating our forecast by 5%. Declared EBITA reached EUR 146m vs EUR 136m expected. This includes EUR 17m non recurring costs linked to the restructuring of Wire plants mainly in the US. We were expecting only EUR 10m restructuring costs, implying that underlying EBIT amounted to EUR 163m, or 11% ahead of our forecasts.
- Financial charges were slightly higher than expected at EUR -32m (EUR -27m exp), but this was offset by lower than expected tax charges at EUR -18m (EUR 27m exp).
- The equity consolidated companies, mostly Latin America, posted a profit of EUR 51m, 8% below our forecast of EUR 55m. Dividends received from associates amounted to EUR 35m, in line with forecasts.
- All in all, net profit came in at EUR 142m, 6% our forecast of EUR 134m. Consensus stood at EUR 135m. Excluding restructuring costs, adjusted net profit reaches EUR 159m, or 10% ahead of our forecasts.
- The Board of Directors will propose a gross dividend of EUR 2.50 per share, ahead of expectations of EUR 2.20
- At year end 2006, the group already bought back and cancelled 636,656 shares or 3% of the outstanding capital. In February Bekaert repurchased and cancelled 546 779 shares or another 2.6% of its outstanding shares.
- Outlook: 'Bekaert has made a good start in 2007, but expects raw material prices to become more volatile again this year. Bekaert will continue to step up the pace of investment in order to strengthen its market and technological leadership and to participate in the growth in the BRIC countries'

Our View

Bekaert once again delivered a strong set of results driven by ongoing growth in China and strong cost control. Despite the high raw material prices and the high energy costs, Bekaert surprised with better than expected margins. We believe this is a result of the group's continuous product mix upgrade and move towards emerging markets.

Traditionally, Bekaert is guiding in a prudent way stating that visibility is low. For the first time since record year 2004, the group gives a bullish guidance by stating that the year started strongly. We hope to receive more quantitative information at the analyst meeting this afternoon

Conclusion

The group's strategy is simple and clear: investing in steel cord, in which it is worldwide leader, in areas where the underlying market is growing. As a result, Bekaert is becoming more and more a player on the emerging markets.

It seems that the group has added a second leg in its investing strategy: buying back its own share and optimizing its balance sheet, a strategy we applaud.

Forecasts and our EUR 99 target price will be raised after the analyst meeting.

Add reiterated

	2005	2006e	2006
Revenues	1,914	2,010	2,010
EBITDA	275.3	249.3	262.0
Depreciations	107.5	112.9	116.0
EBIT	167.9	136.4	162.7
Financial result	(26.9)	(27.1)	(31.7)
Other non-operating income & exp	65.8	1.3	0.0
Associates	56.9	55.4	51.0
Taxes	(30.3)	(26.8)	(18.1)
Minorities	(12.0)	(5.0)	(4.8)
Net profit	189.9	134.2	142.3
Net adjusted earnings	149.4	134.2	142.3
avg n° of shares outstanding	21.6	21.4	20.9
EPS in EUR	6.91	6.28	6.80

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