

Bekaert (Upgrade to Buy - EUR 89.9): Expanding in Emerging Markets at attractive price

Facts

- Yesterday evening Bekaert announced that it has signed an agreement with Siderurgica Venezolana Sivensa for the acquisition of 50% of the shares in Vicson, in which Bekaert had already a 50% stake. As a result, Bekaert gets full ownership.
- Vicson manufactures wire products for industrial, construction and agricultural applications. The company staffs 650 employees. With an annual production capacity of about 100 000 metric tons, Vicson records annual sales of USD 135m or EUR 96m.
- Hereby Bekaert also indirectly acquires a majority interest in the joint venture Proalco in which Vicson has a 75% share. Combined with the 12.5% share that Bekaert holds through its joint venture in Ecuador, Bekaert becomes a 87.5% shareholder of Proalco. This company staffs 340 employees and posts annual sales of USD 65m or EUR 50m. Proalco produces similar wire products for the Colombian market
- Total purchase price related to this transaction amounts to USD 35.5m or EUR 25.4m. There is no debt on the acquired business.

Our View

We believe that Sivensa wanted to quit the downstream business in line with its business strategy to concentrate on the hot briquetted iron and steel businesses, in which the company has steadily grown in recent years.

As a result, Bekaert was able to buy its JV partner out at a very attractive price. The group is paying only 6x earnings and 4x EBIT. Vicson contributed in 2006 EUR 3.8m to Bekaert's results via equity consolidation and generated an ROE of 19.7% in 2006.

In total Bekaert will add EUR 143m revenues or 6.8% of its estimated 2007 revenues. The Latin American activities had a higher profitability than Bekaert's consolidated business. We pencilled in for Vicson an EBIT margin of 12.5% in line with these of the average of the associates. For Colombia we pencilled in a 10% EBIT margin. As a result, the acquisition should add 10% to Bekaert's EBIT. Since the contribution from the associates will decline, we estimate that the deal is EPS enhancing by 5%.

Conclusion

We applaud this transaction from a financial and strategic point of view. Bekaert further increases at a very attractive price its exposure to emerging markets where growth for its traditional wire products is significantly higher than in the mature Western markets.

Combined with the aggressive expansion and market share wins in China, Bekaert is becoming more and more a play on the emerging markets. Hence, the growth profile of the group further improves. In addition, Bekaert generates above average margins in the faster growing regions.

The stock price fell back after the recent market turmoil. Valuation becomes very attractive. Bekaert is trading at 11.5x EPS 2008 and EV/EBITDA 2008 stands only at 5x, while Bekaert offers a FCF Yield of 10.3%.

We upgrade Bekaert to Buy with a target price of EUR 122 per share

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