

Bekaert (Buy - EUR 100.33): Ends talks with Uralkord

No impact on investment case.

Facts

Bekaert ended talks with Uralkord regarding a potential take-over. In February 2006 Bekaert announced that it entered into exclusive talks with Uralkord, the leading steelcord manufacturer in Russia with an estimated market share of 25%. This resulted into a letter of intent in December 2006 that indicated that Bekaert would acquire Uralkord for an EV of EUR 47m pending due diligence. It appears that the due diligence did not deliver the outcome Bekaert hoped for. The group will for the moment continue to provide the Russian market out of its East European production sites and announces that it will further investigate how it can step up a local production plant in Russia.

Our View

- Entering Russia via local production was and still is part of Bekaert's BRIC strategy. Unfortunately no deal could be reached with Uralkord and a lot of time has been wasted. On the other hand, Bekaert's management always indicated that it would walk away from any acquisition if its acquisition criteria could not be met. In that sense we applaud the financial discipline of the group.
- Bekaert still wants to expand to Russia. We believe a greenfield operation is likely since Uralkord was probably the best asset on the market.

Conclusion

- We did not yet pencil in the acquisition in our model. The potential contribution was also much smaller than the expansion and revenue growth Bekaert is currently recording in China. At the end of the year we expect that Bekaert will operate a steelcord capacity of 250,000 tons in China compared to 25,000 tons estimated for Uralkord. The total size of the Russian market is estimated at 70,000 tons.
- It is a pity that the group's move to Russia is been delayed. However better no deal than a bad deal. Impact on investment case is limited. Buy rating reiterated with a TP of EUR 122.

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