

Bekaert (Buy - EUR 88): Impressive Q4

Facts

Bekaert issued a strong trading update. Q4 revenues increased by 17.4% to EUR 585m, beating our EUR 548m forecast by 7%. Consensus stood at EUR 545m. Organic revenue growth amounted to an impressive 12% vs 6% expected.

Key driver for strong performance was once more China which posted an 30% revenue growth, in line with expectations. Bekaert increased its capacity towards 250,000 tons at the end of 2007 compared to 200,000 tons at the end of 2006. However the main surprise came from the US Wire division that posted a revenue growth of 3% in Q4 where we were expecting a 7% decline. Bekaert states that the weak dollar created export opportunities, more particularly for reinforcement of flexible pipes in the offshore sector. Building products also held up much better than expected with a Q4 growth of 9% vs only 2% expected. In Wire Europe, revenues were up by 3% vs our forecast of 2%. Bekaert indicates that a strong demand for flat and profiled wire for reinforcement of flexible pipes and an improved product mix was responsible for the European growth. Steel cord activities outside China were down by 1% in Q4, where we were expecting a 4% drop. The decline is mainly driven by capacity reductions in US, but underlying demand seems to pick up compared to previous quarters. Latin America performed also very strongly in Q4 with revenues up by 22% vs +15% expected.

This results in a revenues growth of 8.2% in 2007 to EUR 2,174m vs our forecast of EUR 2,137m. Organically revenues were up by 8% vs +6.3% expected.

Outlook: Bekaert expects the continued growth of its activities in 2008 and will relentlessly continue to pursue its strategy for sustainable, profitable growth. Bekaert will closely monitor the rising wire rod prices and the effects of any potential economic correction in the markets in which Bekaert is active.

Our View

Bekaert issued another strong trading update with a clear acceleration in Bekaert's organic revenue growth to 12% in Q4. This is mainly driven by the impressive growth in China, which accounts already for 20% of the consolidated revenues. In addition, the US Wire business contributed for the second quarter in a row positively to the group's revenue growth.

With the rising steel prices, driven by an expected hike of approximately 50% in iron ore prices, inventory build up at the customers' side could have helped Q4 demand. On the other hand, the group's order book seems not point towards a slowdown for the moment. We hope to receive more information on this topic at next weeks analyst day during which it will give a strategy update of the group and of its divisions as well as an update of its R&D pipeline. We are mainly looking forward to the group's further capacity plans in China and management's comments regarding the business environment and the order book. FY results will be reported on March 14.

Conclusion

Thanks to its aggressive expansion, Bekaert is taking significant market share in China and is clear market leader in the fastest growing market for its products. The group's strategy is simple and clear: expanding steel cord capacity in regions where the underlying demand is strong such as China. Bekaert has the financial strengths to expand fast and aggressive, while its worldwide leadership in steelcord provides cost leadership.

In our model we pencilled in a modes slowdown of Bekaert's US and European business for 2008, while we expect China to grow by 20%. We will currently not change our assumptions and we refine forecasts after the analyst day next week. On our current forecasts, the group is trading at 5.4x EBITDA 2008 and offers a FCF Yield of 11%. Given its strategic and geographical positioning with more than 50% of profits generated in Emerging Markets, we believe that Bekaert is well positioned to outperform the market. Buy reiterated.