

19 February 2008

Bekaert (Buy - EUR 90.6): Buying out minorities in Turkey at attractive price

Facts

- Bekaert and Sabanci Holding have signed a letter of intent for the acquisition by Bekaert of 50% of the shares in Beksa in Turkey.
- As a result Bekaert will acquire full ownership of Beksa, in which it already has a 50% stake. The purchase price is estimated at EUR 40,3m. The transfer of shares will be executed after receiving approvals from the respective authorities
- Beksa, located in Izmit, manufactures steel cord products and Dramix metal fibers for concrete reinforcement. Beksa employs about 330 people and recorded EUR 80m sales in 2006. Beksa will be further developed both as a key supplier to the growing domestic tire market and as an export base

Our View

After the taking 100% in Vicson in Venezuela in September 2007, Bekaert is further buying out minorities in joint ventures in emerging markets. As a result, the group is further reinforcing its emerging markets profile at an attractive price.

Bekaert is acquiring the remaining 50% at 1x 2006 revenues. Beksa produces Dramix and steel cord, which are 2 of Bekaert's most profitable product group's. As a result, we believe that Beksa's profitability is above Bekaert's average profitability.

Bekaert was already consolidating Beksa for 100%. As a result the transaction has no impact on revenues and EBIT level. Bottom line net result will be impacted by financial charges linked to the acquisition and the minority line which will decline significantly. All in all, we estimate that the acquisition will have a relative impact on EPS 2008 of 2%.

Conclusion

The group's strategy is simple and clear: investing its FCF in products where it has worldwide leadership such as steel cord and Dramix in regions where the underlying market is growing such as China, Latin America and now Turkey. Bekaert is a clear play on the economic development in emerging markets, which according to our estimates contribute already approximately 55% of the group's profits.

We will refine forecasts after the analyst day this Friday. On our current forecasts, the group is trading at 5.5x EBITDA 2008 and offers a FCF Yield of 11%. Buy reiterated