

Bekaert (Buy - EUR 89.4): Good results, but look at the FCF!

Facts

- Revenues were already pre-announced at EUR 2,174m
- Gross profit increased by 10% yoy to EUR 434m, exactly in line with our estimates. SG&A reached EUR 259m or 0.7% below forecasts despite higher than expected restructuring costs (EUR 11.7m vs EUR 10m expected). This leads to an EBIT growth of 20% to EUR 174.6m, which is 1.4% ahead of our forecasts and 2.5% ahead of consensus. EBIT excluding exceptional items comes in at EUR 186.3m vs EUR 182m expected.
- Financial charges were lower than expected at EUR -32.5m vs EUR -34.9m expected. On the other hand, non-operating non cash financial expenses came in at EUR -8.5m where we were going for a zero impact.
- The equity consolidated companies, mostly Latin America, posted a profit of EUR 47.1m compared to EUR 44m expected.
- Taxes come in at EUR 19m vs EUR 31m expected. Bekaert continues to keep its tax rate low thanks to tax breaks received in the countries where it is heavily investing.
- This leads to a net profit came in at EUR 153m compared to EUR 140m forecasted and a consensus estimate of EUR 143m.
- Cash flow from operations increases by 16% to EUR 245m vs only EUR 204m expected. Key swing factor is the dividend received from the associates, which went up from EUR 35m to EUR 54.7m, significantly above our forecast of EUR 37m. Capex increased to EUR 192m. All in all, this leads to a net debt of EUR 448m compared to EUR 511m expected.
- Dividend is increased by 10.4% to EUR 2.76 per share
- Outlook: Bekaert expects continuous growth in its activities in 2008, supported by strong capital investment programs of EUR 200m, mainly in China, India, Indonesia and Russia. Management will pay particular attention to the rising wire rod prices and procurement.

Our View

Bekaert posted good operating results. Despite high energy, high raw material prices and a 14% increase in its R&D costs, the group expands EBITA margin to 8.6% from 8.1% last year. This implies that the strong revenue in China is profitable and expanding margins. Net profit comes in 9.5% ahead of forecasts, helped by a low tax rate. We believe that given the high capex programs, Bekaert will further benefit from tax breaks and as such we expect that tax rate will remain below our expectations in the coming years.

The biggest positive surprise comes at the FCF level, mainly thanks to the strong dividend step up received from the associates amounting to EUR 2.8 per Bekaert share. Nevertheless cash conversion of the consolidated business was also ahead of forecasts. Given the absence of debt at the associates, we believe that payout will remain at higher level than we have seen in the past years. We pencilled in a payout ratio of 75% for the next years. We believe that the significant increase of dividends paid Bekaert's joint ventures is next step in the group's shareholder value creation as it should unlock the value of these assets.

Traditionally, Bekaert's outlook is non quantitative. Nevertheless, the group seems confident that it will further grow in 2008, which makes us believe that order book remains good and that the year started well for the group.

Conclusion

Overall results are slightly ahead of forecasts, while FCF generation is significantly better than expected.

The strong step up of dividends received from its Latam business points out the value of these assets. A combination of a DCF for Bekaert's activity and a DDM for the joint ventures, leads to a fair value for the group of EUR 122 per share.

For 2008, we penciled in a model a slowdown of Bekaert's US (-8%) and European (-3%) business, while we expect China to grow by 20%. Given its strategic and geographical positioning with more than 50% of profits generated in Emerging Markets, we believe Bekaert is well positioned to post another good performance in 2008 in spite of the tough economic environment.

Buy reiterated with TP of EUR 122

Details

	2006	2007e	2007	vs exp
Revenues	2,010	2,174	2,174	
EBITDA	262.2	292.2	298.6	2.2%
Depreciations	116.2	120.0	124.0	3.3%
EBIT	145.9	172.2	174.6	1.4%
Financial result	(25.1)	(34.9)	(32.5)	-6.8%
Other non-operating income & exp	(6.6)	0.1	(8.5)	
Associates	51.0	44.3	47.1	6.4%
Taxes	(18.1)	(31.1)	(19.1)	-38.5%
Minorities	(4.8)	(11.0)	(8.7)	
Net profit	142.3	139.6	152.9	
Net adjusted earnings	147.8	139.6	152.9	9.5%
avg n° of shares outstanding	21.5	20.0	20.0	
EPS in EUR	6.88	6.97	7.63	9.5%