

## Bekaert (Buy - EUR 97.6): Another impressive quarter

High capex is translated in growth acceleration

### Facts

Bekaert issued a very strong Q1 trading update. Revenues increased by 15.3% to EUR 593m, beating all expectations. Organically revenues were up by an impressive 13.5% vs +5% expected. Half of the organic revenue growth was driven by prices hikes, the balance by volume increases.

- Key driver for this outperformance was once more China which posted a revenue growth of not less than 75.7% vs +20% expected. Bekaert clearly added much more capacity than we expected and announced that it has already 275,000 tonnes steel cord capacity. We expected this capacity would only be reached in Q3. In addition, selling prices were increased significantly, while the product mix improved thanks to a strong growth in high margin products such as Off the road tires.
- Besides on the ongoing strong performance in China, Wire Asia posted a strong 25% revenue growth and Building products grew by 16 % vs 5% expected. The Wire division in Europe does not show any signs of slowdown with revenues up by 6.2% where we were expecting a flat evolution. For the third quarter in a row, Wire US surprised positively (-1% vs -11% exp), implying an organic revenue growth of 13.2% driven by strong demand for Offshore products and increasing exports. Revenues of Steelcord outside China declined by 7.5% in line with forecasts and driven by capacity closures. Wire Latin America posted a revenue growth of 18.4% vs +14% expected. Bekaert states that this was a result of higher volumes and higher selling prices reflecting the immediate pass-through of price increases of raw material.
- Outlook: Bekaert is given a more bullish guidance. The group expects to achieve strong sales growth in the first half of the year, thanks to its strategic positioning in the growth markets

### Our View

Bekaert issued another strong trading update with a clear acceleration in Bekaert's organic revenue growth to 13.5% compared to 8% in Q3 and 12% in Q4'07. Again the key driver is the impressive growth in China, which accounts already for 20% of the consolidated revenues. In addition, the US Wire business showed clear growth as well, while we see no signs of weakness in Europe. Also the group's Building products continue to show double digit growth driven by its flagship product Dramix.

We believe that these results should take away the fear that Bekaert would not be able to pass through the strong price hike of its raw materials. We expect more price hikes in Q2. In addition, the group's order book seems not point towards a slowdown for the moment and it continues taking market share in the emerging markets. The group's underlying message obviously is getting more positive pointing towards a strong sales growth in H1.

The group does not give any indication about profitability, but given the prices hikes and the strong volumes growth, we believe that margins will not be under pressure, on the contrary.

### 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 high capex is paying off and translates in a significant improvement of its organic growth profile.

In our model we pencilled in a modest slowdown of Bekaert's US and European business for 2008, while we expect China to grow by 20%. It is clear that these assumptions prove to be too cautious. We will increase our FY sales and profit forecasts after the AGM today.

Given its strategic and geographical positioning with more than 54% of revenues generated in Emerging Markets, we believe that Bekaert is well positioned to outperform the market.

Buy reiterated with TP of EUR 122

	Q1'07	Q1'08e	Q1'08	Diff
Advanced Wire Products	437	476	517	8.6%
Advanced Materials	47	48	47	-2.5%
Advanced Coatings	31	28	28	1.0%
Other & intercompanies	(1)	0	1	
<b>Revenues</b>	<b>514</b>	<b>552</b>	<b>593</b>	<b>7.4%</b>
Associates	297	300	310	3.2%
<b>Combined revenues</b>	<b>811</b>	<b>853</b>	<b>903</b>	<b>5.9%</b>