

Bekaert (Buy - EUR 94.1): H1 preview**Preview**

Period	HY 2007
Date/Time	Friday August 1 before market opening
Recommendation	Buy
Target price	126.0

in EUR	H1'07	H1'08
Revenues (m)	1,065	1,193
EBITDA (m)	144.9	171.1
EBIT (m)	86.5	105.1
Fin result (m)	-16.7	-21.0
Associates	23.4	21.4
Net profit (m)	72.6	82.8
EPS	3.60	4.20

Analyst Meeting 2pm in Brussels

Key items

1. Bekaert issued a very strong Q1 trading update with revenues up by 15%. Organically revenues were up by an impressive 13.5%, half driven by prices hikes, the balance by volume increases. Bekaert gave also a bullish H1 guidance by stating that it expected to achieve strong sales growth in H1 thanks to its strategic positioning in the growth markets
2. We expect H1 revenues to be up by 12% to EUR 1,193m, driven by an organic growth of 10.4%. Key item to watch will once again be China, which recorded an astonishing revenue growth of 75.7% in Q1. Bekaert added much more capacity in China than expected (275,000 tons end of Q1). We believe that at the end of June Bekaert will be close to 300,000 tons, a figure which was targeted for the end of 2008. We penciled in slowing momentum in US and Europe, which both performed strongly in Q1.
3. Despite high raw material and energy prices we expect that the price hikes, high utilization rate and the continuously improving product mix will lead to gross margin expansion to 20.8% from 20.1% last year. We expect that Bekaert, just like in 2004, will have to reevaluate its inventories to the wire rod price inflation, which could give an additional boost to gross margin. We expect SG&A to increase by 12%, mainly driven by a step up in R&D spend and restructuring charges of EUR 10m for the closure of plants in Europe. This should lead to an EBIT of EUR 105m, implying a margin of 8.8%, close to the top of its guided 7-9% range. Consensus stands at EUR 100m. Financial charges are expected to increase to EUR 21m as a result of the releveraging of the balance sheet via share buy backs and investments in China. We expect a 9% decline in profit contribution from associates due to the buy-out of Venezuelan joint venture. This leads to a net adjusted profit of EUR 82.8m and an EPS growth of 17% to EUR 4.20.
4. Guidance: Traditionally Bekaert gives a non quantitative guidance. We are looking forward towards the group's indication regarding the start of H2 (slowdown in orderbook or not) and towards its comments regarding the announced 4th steel cord plant in China and the expected capacity expansions.

Conclusion

We expect also a strong set of HY results. The group's high capex is paying off and translates in a significant improvement of its organic growth profile. Emerging Markets make up 54% of revenues and we estimate more than 60% of profits. This profile will be further reinforced by more capacity expansions.

Despite the strong stock price performance, valuation remains attractive. Bekaert is trading at 5.4x EBITDA 2008 and offers a FCF Yield of 8.7%. Driven by its strategic and geographical positioning, we believe that Bekaert will continue to outperform the market. Buy reiterated with a TP of EUR 126.