

Bekaert (EUR 52.75 - ADD) - Downgrade from BUY – Further adapting numbers to economic downturn

Facts: It's the economy

- In-line with most industrial companies, Bekaert has been faced with a significant business slowdown since mid October.
- We believe that also Bekaert's Chinese business will be hurt by slowing demand as its Chinese production is, directly and indirectly combined, about 40% related to export. A significant part of this is related to US customers and hence is facing significant demand reduction. The problems faced by the US automotive sector are only highlighting this issue.
- In Latam, business has been more resilient so far, but also the Brazilian industrial production is slowing rapidly.
- The automotive sector in general remains in the doldrums as highlighted by the Toyota profit warnings as well as the Michelin profit warning of December 22: "November saw a sharper month-on-month decline in demand for tires in all European, North American, Asian and South American markets"... "In this way, Michelin is taking the necessary steps to effectively manage inventories and maintain its flexibility moving into 2009."
- The situation at other tire manufacturers is not materially different and also at other industrial customers in general. Actually, we believe the customer inventory reduction has only just started and will take at least another quarter.
- As a result of slowing demand, also wire rod prices have been declining and currently are between USD 500-700 per ton. These levels are, on average for Q4, still above the levels of Q4 2007 but represent a significant decline versus the top levels of about USD 1,100 mid this year. As such, while Bekaert's earnings benefited from price rises for some EUR 10 – 15m in H1, this will reverse in H2.
- In the meantime, Bekaert is slowing down production but also continues with executing its structural long term strategy, all be it at a more moderate (controlled) pace. The recently announced Belgian factory closures are a result of this. The closure of the Hemiksem plant affects 264 employees and implies a restructuring charge of an estimated EUR 23m.

Our View: Reducing estimates

Based on the recent macro evolutions and recent restructuring measures announced by Bekaert we reduce our earnings estimates downwards. We reduce our 2008 EBIT forecast from EUR 259m to EUR 234m, mainly as a result of the restructuring charges. For 2009, we reduce our sales forecast from EUR 2.75bn to EUR 2.69bn and our EBIT forecast from EUR 203m to EUR 189m (7.0% margin).

We also reduce our dividend estimate from EUR 3.00 to EUR 2.85 and keep this dividend stable in 2009 and 2010.

Business visibility in general on 2009 remains extremely poor. While knowing that H1 will be very difficult it is impossible today to forecast the turnaround. Our current forecasts, assume an improvement as from H2.

Conclusion: Downgrade from BUY to ADD

Based on our new estimates, Bekaert trades at 3.5x EV/EBITDA 2009, 6.1x EV/EBIT and offers a gross yield of 6.1%. At these levels we rate the shares ADD and set our target price at EUR 70, i.e. a 20% discount to our DCF model. Bekaert has a very attractive long term geographical mix, more than 10% of sales are based on new R&D products and products such as Dramix continue to grow. However, in 2009 especially the first 6 months will be challenging. Our new estimates are attached.