

Small- and mid-cap long/overweight

Bekaert

Add						Price: EUR 52.28		
Target price: 70.00						Market cap (m): 1,028		
Metal technology						RIC: BERTt.BR - Bloomberg: BEKB BB		
(EUR)	12/09e	12/10e		12/09e	12/10e		12/09e	12/10e
EPS	6.85	7.93	P/E	7.6	6.6	EV/EBITDA	4.5	4.0
Div.	2.85	2.95	Div. yield	5.5%	5.6%	EV/FCF	7.6	6.8
FCF	7.92	8.78	FCF yield	15.2%	16.8%	Net debt/EBITDA	1.8	1.5

Investment Case

- Bekaert's core strategy in recent years has been to relocate and increase capacity in geographic areas with high underlying market growth such as China, Brazil, Russia and India.
- By buying out minorities in countries such as Turkey, Venezuela and Colombia, by developing joint-venture agreements such as in China and by starting up Greenfields such as in Russia, Bekaert keeps on reinforcing its emerging market exposure and increasing its global presence.
- These long term growth regions already represent more than 50% of sales.
- New management created more focus on clients and internal R&D products instead of the engineering-only part, making the business less cyclical. These internally developed products, such as e.g. metal fibres for diesel particulate filters, biodegradable polymer coatings, etc already represent more than 10% of sales.
- Despite its high exposure to the automotive and construction markets, Bekaert showed resilient 2008 earnings. Thanks to its global presence and product diversification we believe Bekaert will continue to show a much less volatile margin evolution.

Main opportunities and or risk factors

- On the back of a strong balance sheet and a less cyclical earnings pattern, Bekaert will benefit from this economic slowdown to strengthen its market position organically as well as by acquisitions.
- The economic slowdown might accelerate the tyre producers' move to more outsourcing.
- A prolonged downturn in the automotive sector will have its impact but should remain limited as the bulk of Bekaert's business is for the replacement market.

Valuation update and triggers

- With a free cash flow yield above 15% for the coming years, Bekaert is attractively valued compared to other industrial companies in our coverage universe.
- The government incentive programs worldwide, and especially in China, should support Bekaert's business as from the second part of 2009.