

Bekaert (EUR 105.3 - BUY) - The outsourcing trend accelerates

Facts: Buying 2 tire cord factories from Bridgestone with long-term supply agreement

- Bekaert today announced the acquisition of two Bridgestone tire cord plants and a multi-year supply agreement.
- "Bekaert and Bridgestone signed an agreement for the purchase by Bekaert of BMI, Sardinia (Italy) and BSSH, Huizhou (Guangdong Province, China). The share deal includes all of the personnel and assets of the two manufacturing sites."
- The transaction, with an enterprise value of approximately EUR 70m, is subject to customary closing conditions and is expected to close in the second quarter of 2010.
- The production amounts to 40k ton of which an estimated 60% Italy and 40% China.

Our View: Outsourcing trend accelerates

Together with Pirelli (still 100%) Bridgestone was and is still one of the most vertically integrated tire manufacturers in the world. We estimate that it makes 85% of tire cord in-house and outsources 15%. We estimate Michelin is at around 70/30 and Continental at 60/40.

We are convinced that this outsourcing trend will continue and will remain a significant growth driver for Bekaert in the coming years, as we wrote in our report dated November 09. End last year, also Michelin announced a large investment program and we are convinced this expansion will be too hard to carry if Michelin would build both the tire factories and the tire cord factories.

The Chinese factory is a brand new one and the Italian factory has recently been upgraded. The Bridgestone equipment is of high quality and well known to Bekaert from previous co-operations. We believe the Chinese factory is running at full capacity and the factory in Sardinia at a good but not 100% capacity level. With this agreement Bekaert gets capacity at almost the same price of a greenfield investment while being immediately operational and with a long term supply agreement included.

Conclusion: BUY reiterated - Price target slightly raised to EUR 128.

This deal clearly highlights the trend from "make" to "buy" by the tire manufacturers. This is one of the biggest growth drivers for Bekaert in the years to come together with the Chinese and emerging market growth and the growth of newly developed products. The emerging market growth was highlighted last Friday, with Bridgestone's announcement for India, where Bekaert is the only tire cord manufacturer.

In the short term, also the economic recovery should improve capacity utilisation and improve profitability in Europe and the US. On the back of this, we also increase our 2010 EBIT estimate from EUR 228m to EUR 238m and our EPS from EUR 8.80 to EUR 9.15. At a 2010 EV/EBITA of EUR 8.7, we reiterate our BUY rating and increase our target price from EUR 126 to EUR 128.