Bekaert (EUR109.45 - BUY) - And further upside ahead

Preview

Period	2009 FY results
Date/Time	Friday, February 26, before opening
Recommendation	BUY
Target price	128

	FY 08	FY 09	% change
Combined sales (m)	**4,010**	**3,333**	**-16.9%**
Consolidated sales (m)	**2,662**	**2,433**	**-8.6%**
EMEA	1,168	836	-28.4%
North America	605	484	-20.0%
Latin America	177	327	84.9%
Asia Pacific	713	786	10.3%
EBITDA (m)	**411**	**330**	**-19.9%**
EMEA	60	27	-56.1%
North America	41	4	-89.6%
Latin America	20	27	35.9%
Asia Pacific	305	329	7.8%
Other	-65	-57	-13.6%
EBIT (m)	**210**	**188**	**-10.2%**
EMEA	-9	-30	239.1%
North America	25	-15	-158.3%
Latin America	16	18	12.9%
Asia Pacific	244	269	10.2%
Other	-65	-54	-18.2%
PBT	161	129	-19.4%
Taxes	-26	-29	12.1%
Equity results	56	40	-29.3%
Net earnings	**174**	**125**	**-27.8%**

Analyst Meeting	2pm CET

Analyst: Stefaan Genoe, Phone: +32 2 229 64 66, E-mail: stefaan.genoe@petercam.be
Sales contact: Stefaan Genoe , Phone: +32 (2) 229 64 66, E-mail: stefaan.genoe@petercam.be

Key items

1. We expect Bekaert to release a strong set of results for a year in which the sharp drop in raw material prices versus 2008 had a significant negative impact on sales but in which profitability resisted very well thanks to a very strong performance from its Chinese business. As a result, we expect a FY sales drop of 9% but an operating margin resisting well within the company's long term guidance range of 7 - 9%, at 7.7%.
2. The decline in consolidated sales is mainly due to lower prices and volumes (organic decline of -18% expected) not fully compensated by an estimated positive consolidation scope impact of 5.4% and a positive forex contribution of 3.7%. On combined revenues, the consolidation of formerly equity accounted businesses has no impact. As a result, combined sales are expected to be down by 17% of which also an estimated 18% organically.
3. With the EUR 40m FIFO related charge from H1 disappearing and with higher capacity utilization in most geographic zones compared to H1, profitability in H2 should be higher compared to H1. We anticipate H2 EBITA to be EUR 31m above H1, which in view of the non-recurrence of the negative EUR 40m impact from H1, seems prudent.

Conclusion

This latter is also the reason why we also see further upside on our 2010 numbers. In 2010, the EUR 40m impact should not come back either considering current more stable raw material prices. On top of this, Bekaert will benefit from the integration of the recently announced acquisition of 2 tire cord factories and generally higher volumes and capacity utilization across the different geographical regions compared to 2009, which still faced a very difficult H1. Remember that until Chinese new year in 2009, also capacity utilization in china was very low. As from 2010, EBIT will be impacted by a change in accounting for inflation accounting related to Venezuela, but this will be compensated by an elimination of linked other operating charges. Even though we believe our earnings forecasts our prudent, the shares only trade at an EV/EBITDA 2010 of 5.8. Hence we reiterate our BUY rating. At our target price the shares trade at EUR 6.7 EV/EBITDA and 10.0x EV/EBITA. The most important growth drivers remain the emerging markets (70% of combined sales) in general, more outsourcing by tire manufacturers and leveraging newly developed products to new markets.

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