

26 February 2010

Bekaert (EUR 109.00 - BUY) - Blow out numbers

Estimates up by 15 to 20% - target price up to EUR 137

Facts: EBIT of EUR 232m against EUR 210m expected

- Bekaert brought in an excellent set of Q4 and FY 2009 results with strong margins and CF generation.
- Sales were in-line at EUR 2,437m with an organic decline of 17.5% against -18% expected.
- REBIT came in at EUR 257m against EUR 204m anticipated and consensus of EUR 211m.
- EBITDA amounted to EUR 386m against our estimate of EUR 330m.
- On a divisional level, all regions outperformed vs. expectations. EBITDA EMEA came in at EUR 47m against EUR 27m anticipated, North America EUR 13m vs. EUR 4m expected, Latam EUR 36m vs. EUR 27m anticipated and Asia Pacific EUR 349m vs. EUR 329m expected. The other activities (R&D) were negative for EUR 63m vs. EUR -57m anticipated.
- We estimate that capacity is around 100% in China, 85 - 90% rest emerging, 80-85% Europe with improvement while US remains difficult at +/-80%.
- Joint venture results came in at EUR 37.8m against EUR 40m expected.
- Net earnings amounted to EUR 174m against EUR 125 foreseen.
- Bekaert will expand capacity in China from 325k ton year-end 09 to 400k ton year-end 10.
- Net debt only reached EUR 395m compared to EUR 484m expected and EUR 500m end Q3. Working capital improvement totaled EUR 195m, and of course also benefited from overall lower raw materials.
- The dividend will be raised from EUR 2.80 to EUR 2.94.
- Traditionally, the company offers no quantified outlook but issues a confident statement: "Notwithstanding uncertainties in monetary policies and exchange rate developments in Asia and in Latin America, Bekaert remains confident of the opportunities in emerging markets and will meet continued strong demand with additional investments in Asia and in other growth markets. As for the signs of recovery in mature markets, Bekaert will continue to follow a prudent approach while remaining poised for an upturn in the respective segments."

Our View: Excellent cost management and emerging market growth

Bekaert clearly benefits from strong emerging market exposure while at the same time it improves profitability in the more mature markets thanks to stringent cost management.

Capacity utilization in China was still extremely low in the first 3 months of 2009 and is running at 100% currently. For the FY 2010, China should therefore further improve volumes and profitability. While the US remains the most doubtful region currently, also the other regions should have much higher average capacity utilization in 2010.

The company is further expanding capacity and thanks to its very strong balance sheet it should be able to make add-on acquisitions or increase the shareholder remuneration going forward.

Conclusion: BUY reiterated - Target price raised preliminary to EUR 137 and estimates up by 15% to 20%

We will raise our 2010 estimates by a preliminary 15 to 20%. At EUR 114, the shares trade at 5.7x EV/EBITDA and 8.5x EV/EBITDA. At our new preliminary target price and based on our preliminary new estimates the shares trade at 10.4x EV/EBITDA and 6.7x EV/EBITDA.

Details

	FY 08	FY 09	Actual	% change
Combined sales (m)	4,010	3,333	3,343.0	0.3%
Consolidated sales (m)	2,662	2,433	2,437.0	0.2%
EMEA	1,168	836	827.0	-1.1%
North America	605	484	474.0	-2.1%
Latin America	177	327	327.0	0.1%
Asia Pacific	713	786	809.0	2.9%
EBITDA (m)	411	330	386.0	17.0%
EMEA	60	27	47.0	77.4%
North America	41	4	13.0	202.3%
Latin America	20	27	36.0	35.8%
Asia Pacific	305	329	349.0	6.1%
Other	-65	-57	-63.0	11.5%
EBIT (m)	210	188	232.0	23.1%
EMEA	-9	-30	-19.0	
North America	25	-15	-8.0	
Latin America	16	18	26.0	48.6%
Asia Pacific	244	269	288.0	7.1%
Other	-65	-54	-63.0	17.8%
PBT	161	129	161.2	24.5%
Taxes	-26	-29	-25.5	-10.7%
Equity results	56	40	56.1	41.5%
Net earnings	174	125	174.1	38.9%