

Bekaert

Buy				Price: EUR 133.50				
Target price: 170.00				Market cap (m): 2,626				
Metal technology				RIC: BERTt.BR - Bloomberg: BEKB BB				
(EUR)	12/10e	12/11e		12/10e	12/11e		12/10e	12/11e
EPS	11.61	12.19	P/E	11.5	11.0	EV/EBITDA	5.4	4.8
Div.	3.05	3.15	Div. yield	2.3%	2.4%	EV/EBIT	8.1	7.2
FCF	4.47	13.53	FCF yield	3.4%	10.1%	ND/EBITDA	0.7	0.3

FCF yields versus emerging market exposure

- At first sight Bekaert’s estimated FCF yield of 3.4% seems limited. However, this includes the investment linked to the acquisition of the Bridgestone factories in China and Italy. If we exclude this amount of EUR 70m, the 2010 FCF yield is closer to 7%.
- Although this is not an exceptionally high yield for 2010, it is obtained in a year where we expect a WC increase of EUR 95m on the back of higher raw material prices and strong volume growth in most regions.
- For 2011, when we expect a lower volume growth and a less pronounced yoy raw material price evolution, FCF should be higher, implying a yield of 10%.
- Although volumes are also doing well in mature markets, the main growth drivers for Bekaert remain China and Brazil.
- China represents about 1/3 of consolidated sales, but thanks to its very high margins, represents the largest part of consolidated profits. These high margins are of course very supportive for FCF generation, which Bekaert can return to the home base via Hong Kong.
- Thanks to the high margins, Bekaert is able to combine its high growth with attractive FCF generation to support the dividend.
- The Brazilian business is equity accounted but represents almost 30% of combined sales. The annual dividend stream from Brazil is an estimated EUR 35m on average, which also contributes to FCF.

Valuation beyond FCF yields

- Although we expect Bekaert to gradually increase its pay-out in the coming years, Bekaert is not a dividend story. Its dividend yield of slightly more than 2% is largely covered by its FCF generation.
- Despite the stock trading close to all time highs, the shares only trade at 8.1x and 7.2x 2010 and 2011 EV/EBIT.
- Hence, we reiterate our BUY rating with a price target of EUR 170.