

27 July 2010

Bekaert (EUR 150.3 - BUY) - High capacity utilization to support margins

Preview

| | |
|----------------|--|
| Period | H1 10 |
| Date/Time | Friday, July 30, before market opening |
| Recommendation | BUY |
| Target price | 170.0 |

| in EUR | H1 09 | H1 10 | yoy | Consensus |
|---------------------------|--------------|--------------|---------------|--------------|
| Combined sales (m) | 1,615 | 1,981 | 22.7% | |
| Sales group (m) | 1,201 | 1,425 | 18.7% | 1,408 |
| EMEA | 410 | 485 | 18.3% | 487 |
| North America | 264 | 290 | 9.8% | 281 |
| Latin America | 160 | 137 | -14.4% | 138 |
| Asia Pacific | 367 | 513 | 40.0% | 502 |
| EBITDA (m) | 145.2 | 259.0 | 78.4% | |
| EMEA | 0.5 | 47.0 | | |
| North America | 4.3 | 15.0 | | |
| Latin America | 11.5 | 16.0 | 39.1% | |
| Asia Pacific | 156.9 | 211.0 | 34.5% | |
| Other | -28.5 | -30.0 | 5.3% | |
| REBIT (m) | 86.0 | 186.0 | | 185.0 |
| EMEA | -21.0 | 25.0 | | |
| North America | -5.0 | 5.0 | | |
| Latin America | 9.0 | 10.0 | 11.1% | |
| Asia Pacific | 128.0 | 176.0 | 37.5% | |
| Other | -25.0 | -30.0 | 20.0% | |
| Fin result (m) | -27.1 | -32.8 | 21.0% | -31.0 |
| Associates | 17.4 | 17.4 | 0.0% | 20.0 |
| Net profit (m) | 44.4 | 111.8 | 152.0% | 115.0 |
| EPS | 2.29 | 5.77 | 152.0% | 5.77 |

Analyst Meeting 2pm in Brussels

Key items

1. With Q1 volumes growing over 30%, all be it on a favorable comparison base, and Bekaert indicating that also Q2 would remain a strong quarter, we are set for a strong set of numbers on Friday.
2. H1 benefits from high capacity utilization in Asia and Europe, prices will have had a small positive yoy impact as from Q2 and as from Q2 Bekaert will also have consolidated the 2 Bridgestone factories (EUR 15m) in Sardinia and China. In 2009, China already had a strong Q2 but capacity has been increased since, and in particular the other regions will have seen further capacity utilization improvements yoy.

3. As a result, we expect combined sales to have increased by 23% in H1 and group sales by 19%. On group level, we expect H1 volume growth of 19% vs. 28% in Q1, a neutral price effect (neg Q1/pos Q2) and we expect a small negative forex impact.
4. Our REBIT estimate includes a sharp improvement in Europe and the US, after still sub-par numbers in H1 2009 and, apart from Latam where we expect a negative impact from the Venezuelan Peso, it also assumes an improvement versus H2. For China, we expect H1 2010 Rebit of EUR 176m, which compares to EUR 160m in H2 2009, but actually implies a margin drop of 2% vs. H2 2009.

Conclusion

All in all we expect a strong H1 for Bekaert, with high capacity utilization supporting margins. China's explosive growth from recent quarters is expected to slow, but should remain positive. We believe there is still surprise potential to our numbers and at 9.2x EV/EBIT 2010 and 8.2x 2011, valuation remains undemanding. Hence, we maintain our BUY rating.