

30 July 2010

Bekaert (EUR 150.5 - BUY) - Excellent results ... of course

We reiterate our BUY rating and raise our target price to EUR 201 - On this new target price the shares would trade at 8.5x EV/EBIT 2010, on our preliminary new estimates which are up more than 30%

Facts: H1 REBIT EUR 262m vs. EUR 186m expected

- Bekaert released an extremely strong set of H1 results on all levels.
- Sales reached EUR 1,535m vs. EUR 1,425m expected.
- The 28% sales growth was thanks to volume growth of 29%, acquisitions 1.3%, negative forex of 2.6% and pricing was flattish.
- EBITDA came in at EUR 349m vs. EUR 259m expected and REBIT amounted to EUR 262m vs. EUR 186m anticipated and consensus of EUR 185m, or a REBIT margin of 17.1%
- Net profit reached EUR 181m against EUR 114.9m anticipated. Net profit was supported by positive Other Financial Income of EUR 7.9m related to a one-time forex gain in Venezuela. Earnings also benefited from positive FIFO impacts for some EUR 20m of which EUR 10m in Europe, EUR 3m in North America, EUR 3m in Latam and EUR 5m Asia.
- In Europe, H1 sales reached EUR 526m (+28%) vs. EUR 485m expected and REBIT came in at EUR 54m against 25m anticipated. In Europe, in particular Eastern Europe is very strong and the restructuring efforts carried out clearly have a positive impact. FIFO adjustments had a EUR 10m beneficial impact.
- North American sales reached EUR 313m in H1 (+19%) vs. EUR 290m anticipated with a REBIT of EUR 21m against EUR 5m expected. In NA, the automotive sector performed very strongly.
- Latam (excl. Brazil) sales came in at EUR 144m vs. EUR 137m expected and REBIT reached EUR 14m vs. EUR 10m expected. Bekaert booked an impairment of EUR 12m below REBIT level.
- China continues to do very well with Asian sales up 51% in H1 and 28% in Q2 (EUR 310m vs. EUR 271me) and REBIT reaching 206m vs. EUR 176m expected. Capacity already reached 400kton, which was the end-year target. April was the strongest month.
- Equity results (Brazil mainly) remained slightly below our expected EUR 20.5m, at EUR 18.8m.
- The company raises its guidance and now expects an EBIT margin above 10% for the next 3 years, an interim dividend of EUR 2 will be paid and there will be a 3/1 stock split. We expect this interim dividend to be structural.

Our View: The story continues

An excellent performance by Bekaert, supported by all regions. In Q3 we expect prices to increase slightly, mainly for high Carbon products. Automotive will continue to do well, although Bekaert is more prudent on the construction sector.

The +10% margin guidance for the coming 3 years is implied in most analyst models, but indicates the structural change the company has witnessed.

China remains very important. April was the strongest month, which coincides with the Chinese economic indicators. In its latest message, China clearly shows that it does not want to hit the brakes too aggressively, on the contrary.

Conclusion: BUY reiterated - earnings estimates

We preliminary increase our 2010 REBIT estimate by 33% to EUR 498m and our FY net profit by almost 40% to EUR 325m. On our new preliminary numbers, the shares trade at 7.1x EV/EBIT 2010 and on our new target price of EUR 201, this implies an EV/EBIT ratio of 8.5.

Details

in EUR	H1 09	H1 10e	Actual	% change
Combined sales (m)	1,615	1,981	2113	6.7%
Sales group (m)	1,201	1,425	1,535	7.7%
EMEA	410	485	526	8.5%
North America	264	290	313	8.1%
Latin America	160	137	144	5.0%
Asia Pacific	367	513	552	7.5%
EBITDA (m)	145.2	259.0	349.0	34.7%
EMEA	0.5	47.0	81.0	72.3%
North America	4.3	15.0	29.0	93.3%
Latin America	11.5	16.0	20.0	25.0%
Asia Pacific	156.9	211.0	252.0	19.4%
Other	-28.5	-30.0	-33.0	10.0%
REBIT (m)	86.0	186.0	262	40.9%
EMEA	-21.0	25.0	54.0	116.0%
North America	-5.0	5.0	21.0	320.0%
Latin America	9.0	10.0	14.0	40.0%
Asia Pacific	128.0	176.0	206.0	17.0%
Other	-25.0	-30.0	-33.0	10.0%
Fin result (m)	-27.1	-32.8	-15.6	-52.4%
Associates	17.4	20.5	18.8	-8.3%
Net profit (m)	44.4	114.9	181.0	57.5%
EPS	2.29	5.92	9.20	55.4%