

31 July 2009

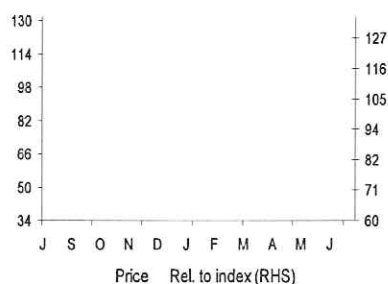
BEKAERT

China saves the day

ENGINEERING & MACHINERY
BELGIUM

CURRENT PRICE € 84.46
TARGET PRICE € 80.00

ACCUMULATE
RATING UNCHANGED



Source: Thomson Financial Datastream

Bloomberg	BEKB.BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 1,670.9m
Shares outst.	19.8m
Volume (daily)	€ 7,373,046
Free float	61.4%

Next corporate event

Trading update 3Q09: 13 November 2009

(€ m)	2008	2009E	2010E
Sales	2,662.4	2,506.8	2,627.9
REBITDA	495.9	362.3	372.2
Net earnings	174.1	108.6	126.6
Adj. EPS (€)	12.02	6.51	6.88
P/E (x)	7.3	13.0	12.3
EV/REBITDA	5.0	6.3	5.9
FCF Yield	-1.0%	10.7%	8.3%
Dividend yield	3.2%	3.3%	3.3%

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Bekaert this morning reported its 1H09 results. Consolidated sales declined by 7.9% y/y to € 1,200m (KBCS: € 1,288m, CSS: € 1,254m). The organic sales decline of 20.6% y/y was partially offset by the integration of Prodac (Peru) and Ideal Alambrec (Ecuador), adding 5.8%, and positive effect of currency movements, contributing 6.9%. Combined sales declined by 18.1% y/y. This was a result of lower market demand, reflected in an organic decline of 20.7%, which was slightly tempered by favourable exchange differences of 2.6%. Combined sales in EMEA, North America and Latin America declined respectively by 33%, 10% and 23% while sales in Asia Pacific increased by 13%.

Recurring EBIT declined from € 162.9m in the same period last year to € 85.8m (7.2% margin). This is in-line with consensus estimates of € 85m and below our number of € 102.6m. EBIT was € 78.7m (KBCS: € 87.6m, CSS: € 77m). Bekaert estimates the margin impact of decreasing steel prices at approximately € 40m.

The big surprise of today's announcement was not in the headline numbers but rather in the regional split. EBITDA declined from € 225m in the same period last year to € 145m. EMEA made no contribution to EBITDA (€ 0) while North America contributed only € 4m (1.5% margin). Contribution of Latin America was € 12m (margin of 7.8%) but especially Asia Pacific surprised, contributing a massive € 157m (42.9% margin). Especially in EMEA, but to a lesser extent also in North America, Bekaert entered from the second quarter onwards the market with additional volumes of some basic products to drive up capacity utilisation. In China, Bekaert achieved record volumes and sales from April onwards, operating at very high utilisation levels.

The share of joint ventures and associates declined from € 35.7m in the same period last year to € 17.4m (KBCS: € 20.9m, CSS: € 19m). The net result group share declined from € 126.0m in the 1H08 to € 44.2m (KBCS: € 55.6m, CSS: € 51m). Bekaert did not cut back on R&D expenditure, which increased from € 32.9m to € 35.1m.

CAPEX, which was guided in a range of € 150m to € 175m for the full year, was € 86.2m in the first half. Net financial debt of € 621.8m was little changed from the level at year start (€ 627m).

Conclusion:

As expected, Bekaert closed on an extremely challenging first half, in which the regional split came as main surprise. The aggressive expansion of especially steel cord China over the last six years is clearly paying off. More info following today's analyst meeting at 14:00 CET.