

Bekaert

Belgium/General Industrials

Analyser

**Hold**

Recommendation unchanged

Share price: EUR 29.40

closing price as of 02/02/2012

Target price: EUR 28.00from Target Price: EUR **30.00**

Reuters/Bloomberg

BEKB.BR/BEKB BB

Market capitalisation (EURm)	1,763
Current N° of shares (m)	60
Free float	61%
Daily avg. no. trad. sh. 12 mth	275,755
Daily avg. trad. vol. 12 mth (m)	14
Price high 12 mth (EUR)	84.49
Price low 12 mth (EUR)	23.95
Abs. perf. 1 mth	14.17%
Abs. perf. 3 mth	-2.10%
Abs. perf. 12 mth	-59.43%

Key financials (EUR)	12/10	12/11e	12/12e
Sales (m)	3,263	3,313	3,379
EBITDA (m)	725	451	301
EBITDA margin	22.2%	13.6%	8.9%
EBIT (m)	534	288	141
EBIT margin	16.4%	8.7%	4.2%
Net Profit (adj.)(m)	389	190	130
ROCE	15.8%	7.5%	3.7%
Net debt/(cash) (m)	523	762	749
Net Debt/Equity	0.3	0.4	0.4
Debt/EBITDA	0.7	1.7	2.5
Int. cover(EBITDA/Fin. int)	14.5	8.5	5.4
EV/Sales	1.7	0.7	0.7
EV/EBITDA	7.8	5.0	8.4
EV/EBITDA (adj.)	7.8	5.0	8.4
EV/EBIT	10.6	7.8	17.9
P/E (adj.)	13.2	7.8	13.6
P/BV	3.2	0.9	1.0
OpFCF yield	4.9%	-1.0%	10.0%
Dividend yield	5.6%	3.7%	3.7%
EPS (adj.)	6.48	3.17	2.17
BVPS	26.86	28.02	28.06
DPS	1.66	1.10	1.10

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Major costs cuttings to cope with challenging markets

The facts: Bekaert announced a significant restructuring plan to restore its profitability in difficult market environments in sawing wire and in tire cord.

Our analysis: The restructuring is the result of the rapid deterioration of solar cell market leading to significant overcapacity in sawing wire (100% -150%) that implied strong pressure on prices (-70% vs. end 2010) and volume (-50%). The significant cut in headcount in China (-1,250) and in Belgium (387 at the sawing wire plant in Aalter in Belgium) is a clear signal that management does not anticipate any improvement in the coming quarters. On top of that the Chinese tire cord market currently faces over-capacities of about 10-15%, due to the slowdown in the Chinese truck market.

Beyond the closing of some plants in China and Belgium (a cut of 1,850 headcounts), the company wants to realign and to optimise its organisational and cost structure on a global scale. Detailed studies will be made in 1H12. The goal is to achieve a structural saving of about EUR 100m. Regarding the costs associated to these measures, we should bank on at least EUR 100m (first guidance related to the closing of sites and a small part of the measures that will be taken to improve the overall costs structure). It was also indicated that about 2/3 of this amount will be cash costs. More details will be disclosed later this year.

These measures confirm the very weak economic environment for Bekaert and the poor prospects for the coming quarters. It was our understanding that market conditions further worsened in 4Q11 and that FY12 will be another bumpy year for the group. This led us to further cut our estimates for FY11-14 (see detail below). We also included some identified costs in our model and cut our dividend forecasts for the coming years.

Bekaert: estimates review (in EUR m)	2011		2012		2013		2014	
	old	new	old	new	old	new	old	new
Rebit	337.7	308.5	248.7	216.2	286.2	254.9	317.5	297.5
margin (%)	10.2%	9.3%	7.4%	6.4%	8.0%	7.2%	8.4%	8.0%
% change		-8.7%		-13.0%		-10.9%		-6.3%
-EMEA ¹	98.1	98.1	80.3	80.3	84.9	84.9	88.2	88.2
% change		0.0%		0.0%		0.0%		0.0%
-North America	43.7	43.7	36.7	36.7	40.8	40.8	42.8	42.8
% change		0.0%		0.0%		0.0%		0.0%
-Latin America	29.6	29.6	56.4	56.4	60.0	60.0	63.3	63.3
% change		0.0%		0.0%		0.0%		0.0%
-Asia Pacific	238.4	209.2	135.3	102.9	165.6	119.3	189.5	148.2
% change		-12.3%		-24.0%		-28.0%		-21.8%
- Corporate	-72.0	-72.0	-60.0	-60.0	-65.0	-50.0	-66.3	-45.0
% change		0.0%		0.0%		-23.1%		-32.1%
EBIT	331	288	227	141	264	233	296	276
margin (%)	10.0%	8.7%	6.7%	4.2%	7.3%	6.6%	7.8%	7.4%
Financial results	-63	-63	-63	-64	-61	-60	-60	-57
Associates	29	29	25	25	30	30	36	36
Net result (group)	205	175	131	74	161	140	185	173
% change		-14.5%		-43.8%		-13.1%		-6.7%
Net current result (group)	210	190	148	130	178	157	202	189
% change		-9.5%		-12.1%		-11.9%		-6.1%
Adj. EPS (in EUR)	3.50	3.17	2.47	2.17	2.96	2.61	3.36	3.16
% change		-9.5%		-12.1%		-11.9%		-6.1%

Sources : Bekaert / Bank Degroof estimates

Conclusion & Action: Based on our adjusted scenario, we fix our new TP at EUR 28. There is too much uncertainty to turn positive on this share.