

Bekaert

Belgium/General Industrials

Analyser



Hold

Recommendation unchanged

Share price: EUR 24.72

closing price as of 24/02/2012

Target price: EUR 25.00

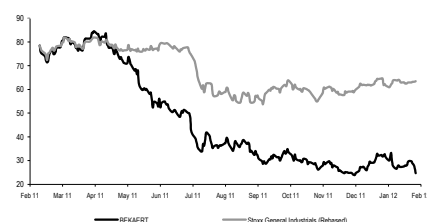
 from Target Price: EUR **28.00**

Reuters/Bloomberg

BEKB.BR/BEKB.BB

Market capitalisation (EURm)	1,483
Current N° of shares (m)	60
Free float	61%
Daily avg. no. trad. sh. 12 mth	284,989
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	-22.07%
Abs. perf. 3 mth	-7.15%
Abs. perf. 12 mth	-66.56%

Key financials (EUR)	12/11	12/12e	12/13e
Sales (m)	3,340	3,367	3,527
EBITDA (m)	477	248	402
EBITDA margin	14.3%	7.4%	11.4%
EBIT (m)	268	53	211
EBIT margin	8.0%	1.6%	6.0%
Net Profit (adj.)(m)	202	97	124
ROCE	7.1%	5.0%	5.5%
Net debt/(cash) (m)	860	933	959
Net Debt/Equity	0.5	0.6	0.6
Debt/EBITDA	1.8	3.8	2.4
Int. cover(EBITDA/Fin. int)	7.2	3.1	5.0
EV/Sales	0.7	0.7	0.7
EV/EBITDA	4.9	9.8	6.1
EV/EBITDA (adj.)	4.9	6.3	6.1
EV/EBIT	8.8	46.1	11.6
P/E (adj.)	7.4	15.3	11.9
P/BV	0.9	0.9	0.9
OpFCF yield	10.5%	7.5%	10.9%
Dividend yield	4.7%	4.7%	4.9%
EPS (adj.)	3.36	1.62	2.08
BVPS	28.24	26.89	27.44
DPS	1.17	1.17	1.20



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Earnings and TP revisions post FY11 results

The facts: We have further trimmed down our earnings for the coming years after the weaker than expected 2H11 results and comments from management at the analyst meeting of last Friday. Adjusted EPS for the years 2012-2014 were cut by 25.3%, 20.5% and 19.5%, respectively while the DCF fair value now stands at EUR 25.13 from EUR 28.37 prior earnings adjustments.

Our analysis: The biggest negative surprises of the 2H11/FY11 reporting was the very poor performance recorded by the “matures” regions, starting with ENEA, which saw a 2H11 Rebit at EUR 12m against EUR 44m expected. EUR 9m of the shortfall are due negative FIFO impact, but the bulk is due to the losses made by the sawing wire and the stainless steel wire operations in Belgium. On top of that there were start up costs in Slovakia and Russia. In North America the performance was affected by a very weak 4Q11 (de-stocking at customers levels) and negative FIFO impacts. The cash flow generation was also worse than expected resulting into a net financial debt (NFD) at EUR 860m vs. EUR 815m expected.

Bekaert: estimates review (in EUR m)	2011		2012e		2013e		2014e	
	old	Actual	old	new	old	new	old	new
Sales	3,313	3,340	3,379	3,367	3,555	3,527	3,742	3,712
% change		0.8%		-0.4%		-0.8%		-0.8%
Rebit	308.5	280.9	216.2	187.5	254.9	233.2	297.5	269.2
margin (%)	9.3%	8.4%	6.4%	5.6%	7.2%	6.6%	8.0%	7.3%
% change		-9.0%		-13.3%		-8.5%		-9.5%
-EMEA ¹	98.1	66.0	80.3	55.5	84.9	72.6	88.2	80.7
% change		-32.7%		-30.9%		-14.5%		-8.5%
-North America	43.7	32.0	36.7	35.6	40.8	39.6	42.8	41.6
% change		-26.7%		-2.9%		-2.8%		-2.9%
-Latin America	29.6	35.0	56.4	61.6	60.0	64.7	63.3	66.7
% change		18.4%		9.2%		7.9%		5.4%
-Asia Pacific	209.2	224.0	102.9	94.9	119.3	106.3	148.2	130.2
% change		7.1%		-7.8%		-10.9%		-12.1%
-Corporate	-72.0	-76.1	-60.0	-60.0	-50.0	-50.0	-45.0	-50.0
% change		5.7%		0.0%		0.0%		11.1%
EBIT	288	268	141	53	233	211	276	247
margin (%)	8.7%	8.0%	4.2%	1.6%	6.6%	6.0%	7.4%	6.7%
Financial results	-64	-19	-64	-87	-60	-86	-58	-86
Associates	0	25	25	23	30	28	36	33
Net result (group)	175	193	74	-1	140	108	172	136
% change		10.3%		-102.0%		-22.6%		-21.1%
Net current result (group)	190	202	130	97	157	124	189	152
% change		6.4%		-25.3%		-20.5%		-19.5%
Adj. EPS (in EUR)	3.16	3.36	2.17	1.62	2.61	2.08	3.15	2.53
% change		6.4%		-25.3%		-20.5%		-19.5%

Sources : Bekaert / Bank Degroof estimates

¹ EMEA= Europe, the Middle East and Africa

Management does not see rapid improvement of the economic situation in its main markets and it is committed to implement as soon as possible the rightsizing of some of its activities to the new reality (more normal growth in China and tremendous over-capacities in sawing wire. We expect one-off costs of EUR 135m in FY12 in relation of the restructuring. Management also admitted that it will be challenging to stabilise the NFD this year. We now assume a NFD at EUR 933m at the end of FY12 (NFD/Rebitda of 2.45x).

Conclusion & Action: *The rightsizing of production capacities may take some time, particularly in Belgium. We do not anticipate to see real improvement in margin before next year. We still believe it is too early to turn positive on this share. HOLD.*