

Company update
27 June 2011

Buy (maintained)

Price (24/06/11)
€54.75

Target price (12-mth)
€78.00 (previously €97.00)

Forecast total return
45.8%

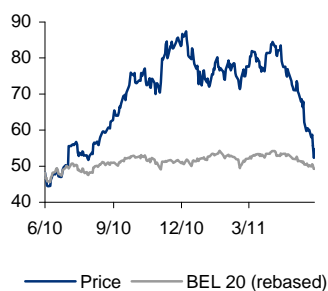
Industrial Goods & Services
Belgium
Bloomberg: BEKB BB
Reuters: BEKB.BR

Share data

Avg daily volume (3-mth)	252,080
Free float (%)	60.9
Market cap (€m)	3,278.7
Net debt (1F, €m)	432
Enterprise value (1F, €m)	3,948
Dividend yield (1F, %)	3.3

Source: Company data, ING estimates

Share price performance



Source: ING

Bekaert

Solarcoaster ride

Bekaert shares are down c.35% YTD, mainly on concerns over sawing wire margins (c.40% of 2010 REBIT). We acknowledge that the temporary over-capacity/wait-and-see attitude in the downstream business could impact sawing wire margins more than we anticipated and cut (out of caution) our 2011-12F EPS by 9-13%. We have reduced our TP from €97.0 to €78.0. Bekaert now trades at a 2011F PER of 8.6x, which seems attractive for a company with a 2011-13F EPS CAGR of c.6.5%. BUY maintained with 46% upside potential.

We take a more cautious view on sawing wire, which accounted for c.40% of group REBIT in 2010 (INGF). Solar module (which is the solar market end-product) prices are down c.20% YTD, in our view driven by a temporary Chinese over-capacity. The latter has triggered a wait-and-see approach with clients, which could eventually impact volumes in the upstream businesses (eg, sawing wire). We previously anticipated a c.25% growth in 2011F in module/sawing wire volumes (already sharply down from the 129% growth in 2010) in line with EPIA estimates, but now pencil-in a more cautious 4% growth (to 17.2GW installed). We maintain our assumption of a 10% YoY price decline, as Bekaert earlier announced it would defend its market share against new entrants (such as Xingda) and most likely wants to squeeze smaller/marginal producers. In the medium term, we believe consensus agrees on the strong volume outlook for solar as the 2020 capacity ambitions of Germany and China alone are higher than the current cumulative globally installed capacity and the current price declines take away part of the risk of subsidy cuts on volumes. At the same time, we continue to pencil-in an annual 10% price decline (which suggest the upside risk is higher than the downside risk) and pencil-in a 5% total market share loss by 2013F.

Change in estimates/valuation: We cut our 2011F and 2012F EPS by 9% and 13% to €6.36 and €6.58, respectively. Bekaert now trades a 2011F PER of 8.6x, which seems attractive for a company with a 2011-13F EPS CAGR of c.6.5% (and a 2008-11F EPS CAGR of 13.4%), driven by a compelling geographical exposure (75% emerging markets), attractive product positioning (market leadership in tyre cord & sawing wire, both of which seem to be markets with high entry barriers), record capex of €250m in 2010F and 2011F, annual investment of €80m (or 3% of sales) in R&D and a solid balance sheet (net debt/EBITDA at 0.6x 2011F). BUY maintained with a new TP of €78 (46% upside potential), targeting 2012F EV/EBITDA of 7.0x (down from 7.5x, in line with multiple contraction in European capital goods). **Key Risk:** Limited short-term visibility on solar: in a bear-case scenario (13.3GW PV installed in 2011F (i.e.-20% YoY) vs 17.2GW INGF), we have another 10% EPS downside risk.

Forecasts and ratios

Year end Dec (€m)	2009	2010	2011F	2012F	2013F
Revenues	2,438	3,262	3,527	3,685	3,905
Normalised EBITDA	410	753	745	750	789
Normalised net profit	176	396	377	390	428
Normalised EPS (€)	2.98	6.68	6.36	6.58	7.22
Normalised PER (x)	18.4	8.2	8.6	8.3	7.6
EV/normalised EBITDA (x)	9.7	5.4	5.3	5.0	4.4
FCF yield (%)	8.3	3.4	6.4	8.8	9.7
Dividend yield (%)	1.8	3.0	3.3	3.5	3.7
Price/book (x)	2.5	2.0	1.7	1.5	1.3
Normalised ROE (%)	14.6	27.3	21.5	19.1	18.3

Source: Company data, ING estimates

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Key sawing wire assumptions

Fig 1 Bekaert: key sawing wire assumptions

	2010	2011F	2012F	2013F
Global installed PV capacity on EPIA moderate estimates (GW)	16.6	13.3	15.3	18.2
Global installed PV capacity on EPIA policy-driven estimates (GW)	16.6	21.1	23.2	31.4
Global installed PV capacity on EPIA avg estimates (GW)	16.6	17.2	19.2	24.8
% change		4	12	29
Estimated sawing wire usage per 1GW installed PV capacity (ton)	4,500	4,500	4,500	4,500
% change		0	0	0
Estimated global sawing wire market (ton)	74,831	77,569	86,603	111,600
% change		4	12	29
Estimated weight of China in global sawing wire market (%)	80	80	80	80
Estimated Chinese sawing wire market (ton)	59,864	62,055	69,282	89,280
% change		4	12	29
Sales Asia Pac Energy (€m)	449	409	401	446
% change		-9%	-2%	11%
Estimated sales of sawing wire Asia Pac (€m)	404	361	349	389
Estimated sales of 'other' Energy Asia Pac (€m)	45	49	52	57
Estimated sawing wire price (RMB/ton)	110,000	99,000	89,100	80,190
% change		-10.0	-10.0	-10.0
Estimated sawing wire price (€/ton)	12,249	10,761	9,685	8,716
% change		-12	-10	-10
RMB exchange rate	8.98	9.20	9.20	9.20
Estimated Bekaert sawing wire Asia Pac production (ton)	33,010	33,510	36,027	44,640
% change		2	8	24
Estimated Bekaert sawing wire Asia Pac market share (%)	55.1%	54.0%	52.0%	50.0%
Estimated Opex sawing wire (€m)	-133	-136	-144	-172
Estimated fixed opex (€m)	-33	-34	-35	-36
Estimated variable opex (€m)	-100	-101	-109	-135
% of volume	-0.30%	-0.30%	-0.30%	-0.30%
Estimated REBIT (€m)	278	232	212	226
REBIT margin (%)	61.8	56.7	52.9	50.7
% change		-16	-9	6
Estimated REBIT sawing wire Asia Pac (€m)	271	225	204	218
Margin (%)	67	62	59	56
Estimated REBIT Other Energy Asia Pac (€m)	7	7	8	8
Margin (%)	15	15	15	15

Source: Company data, ING estimates

Change in key estimates

Fig 2 Bekaert: change in key estimates (€m)

	2010	2011F old	2011F new	Chg (%)	YoY (%)	2012F old	2012F new	Chg (%)	YoY (%)	2013F new	Yoy (%)
EMEA	1,066	1,206	1,179	-2	11	1,238	1,226	-1	4	1,275	4
North America	637	667	679	2	7	691	703	2	4	728	4
Latin America	311	336	336	0	8	352	356	1	6	377	6
Asia Pacific	1,248	1,456	1,334	-8	7	1,631	1,400	-14	5	1,525	9
Consolidated sales	3,262	3,665	3,527	-4	8	3,912	3,685	-6	4	3,905	6
EMEA	95	109	101	-7	6	111	104	-6	4	108	4
REBIT margin (%)	8.9	9.0	8.5			9.0	8.5			8.5	
North America	34	40	41	2	21	48	49	2	20	58	18
REBIT margin (%)	5.3	6.0	6.0			7.0	7.0			8.0	
Latin America	26	30	30	0	16	35	36	1	18	38	6
REBIT margin (%)	8.3	9.0	9.0			10.0	10.0			10.0	
Asia Pacific	470	497	448	-10	-5	525	438	-17	-2	461	5
REBIT margin (%)	37.7	34.1	33.6			32.2	31.2			30.2	
Other	-63	-65	-65	0		-67	-67	0		-66	
REBIT	562	611	555	-9	-1	653	560	-14	1	599	7
REBIT margin (%)	17.2	16.7	15.7			16.7	15.2			15.3	
Non-recurring	-28	-25	-25	0		-25	-25	0		-25	
EBIT	534	586	530	-10	-1	628	535	-15	1	574	7
EBIT margin (%)	16.4	16.0	15.0			16.1	14.5			14.7	
Net financing charges	-32	-50	-50	0		-33	-33	0		-19	
Taxes	-140	-155	-139	-11		-179	-150	-16		-166	
Share in the JVs	36	40	40	0		44	44	1		47	
Minorities	-31	-32	-29	-10		-35	-30	-14		-34	
Net profit	368	389	352	-10	-4	425	365	-14	4	403	10
Normalised net profit	396	414	377	-9		450	390	-13		427	
EPS (€)	6.20	6.56	5.93	-10		7.17	6.16	-14		6.80	
Normalised EPS (€)	6.68	6.98	6.36	-9	-5	7.60	6.58	-13	4	7.21	9

Source: Company data, ING estimates

Valuation

Fig 3 Bekaert: multiple based valuation (€m)

	Normalised EBITDA 2012F	Valuation metric	Target multiple (x)	Fair value
Group EV	750	EV/EBITDA	7.0 x	5,247
- Net debt 2010				-578
- Minority interest (market value)				-401
- LT pension liabilities				-151
+ Associates (market value)				525
= Equity value				4,642
No. of shares (m)				59.2
Equity value/share (€)				78

Source: Company data, ING estimates

Financials

Year end Dec (€m)	2006	2007	2008	2009	2010	2011F	2012F	2013F
Income statement								
Revenues	2,010	2,174	2,663	2,438	3,262	3,527	3,685	3,905
Cost of goods sold	(1,615)	(1,740)	(2,061)	(1,904)	(2,358)	(2,624)	(2,770)	(2,943)
Gross profit	395	434	602	534	904	903	915	962
Operating costs	(133)	(135)	(190)	(149)	(179)	(183)	(190)	(198)
EBITDA	262	299	412	385	725	720	725	764
Depreciation & amortisation	(116)	(124)	(202)	(153)	(191)	(190)	(190)	(190)
Impairments	0	0	0	0	0	0	0	0
EBIT	146	175	210	232	534	530	535	574
Net interest	(31)	(41)	(49)	(66)	(32)	(50)	(33)	(19)
Associates	51	47	56	38	36	40	44	47
Other pre-tax items	0	0	0	0	0	0	0	0
Pre-tax profit	166	181	217	204	538	520	546	602
Tax	(18)	(19)	(26)	(34)	(140)	(139)	(150)	(166)
Minorities	(5)	(9)	(18)	(19)	(31)	(29)	(30)	(34)
Other post-tax items	0	0	0	0	0	0	0	0
Net profit	143	153	174	152	368	352	365	403
Normalised EBITDA	279	310	496	410	753	745	750	789
Normalised EBIT	163	186	294	257	562	555	560	599
Normalised net profit	160	165	258	176	396	377	390	428
Balance sheet								
Tangible fixed assets	1,062	1,133	1,271	1,346	1,539	1,599	1,609	1,619
Intangible fixed assets	134	122	111	105	131	131	131	131
Other non-current assets	110	80	27	84	96	96	96	96
Cash & equivalents	81	73	118	276	443	289	322	372
Other current assets	833	904	1,140	1,018	1,464	1,568	1,630	1,717
Total assets	2,220	2,313	2,667	2,830	3,673	3,683	3,788	3,935
Short-term debt	218	253	503	151	320	320	320	320
Other current liabilities	377	388	478	484	719	747	764	787
Long-term debt	274	322	288	598	700	400	200	(0.5)
Other long-term liabilities	242	203	226	223	236	236	236	236
Total liabilities	1,111	1,166	1,495	1,456	1,977	1,704	1,521	1,343
Total equity	1,109	1,147	1,172	1,374	1,697	1,979	2,267	2,591
Total liabilities & equity	2,220	2,313	2,667	2,830	3,673	3,683	3,788	3,934
Capital employed	1,601	1,722	1,964	2,123	2,717	2,700	2,788	2,911
Net working capital	593	644	793	640	1,004	1,081	1,126	1,190
Net debt (cash)	411	502	673	474	578	432	199	(53)
Cash flow								
Cash flow EBITDA	301	333	425	401	779	760	769	811
Change in working capital	(32)	(42)	(162)	196	(277)	(76)	(46)	(63)
Other non-cash items	(59)	(45)	(13)	(68)	(3)	(40)	(44)	(47)
Operating cash flow	209	246	250	529	499	643	679	701
Cash interest paid	(22)	(31)	(32)	(39)	(43)	(50)	(33)	(19)
Cash taxes paid	(17)	(25)	(28)	(31)	(113)	(139)	(150)	(166)
Net cash from operating activities	171	191	191	458	342	454	496	516
Capex	(161)	(200)	(251)	(167)	(248)	(250)	(200)	(200)
Net acquisitions	(43)	(11)	(44)	(4)	(17)	0	0	0
Other net investing cash flows	47	58	51	43	54	40	44	47
Cash from investing activities	(157)	(152)	(243)	(127)	(211)	(210)	(156)	(153)
Increase (decrease) in equity	0	0	0	0	0	0	0	0
Increase (decrease) in debt	0	0	165	(46)	210	300	200	201
Dividends & minority distribution	(74)	(57)	(62)	(51)	(119)	(99)	(107)	(113)
Other financing cash flow	(17)	25	(4)	(204)	32	0	0	1
Cash from financing activities	(91)	(32)	98	(301)	124	201	93	89
Forex & discontinued operations	(2)	(1)	0.8	(13)	5			
Net change in cash & equivalents	(80)	6	47	16	261	446	433	453
FCF	31	22	(29)	331	138	254	329	335

Normalised earnings (eg, EBITDA, EBIT, net income and other sector-specific line items) are in the opinion of the analyst the best representation of a company's underlying and sustainable earnings derived from its regular operating activities.

Source: Company data, ING estimates

Valuation, ratios and metrics

Year end Dec	2006	2007	2008	2009	2010	2011F	2012F	2013F
Performance & returns								
Revenue growth (%)	5.0	8.2	22.5	-8.5	33.8	8.1	4.5	6.0
Normalised EBITDA growth (%)	-3.5	11.2	59.8	-17.4	83.8	-1.1	0.67	5.3
Normalised EBIT growth (%)	-3.0	14.3	57.9	-12.7	118.9	-1.4	0.90	7.1
Normalised EPS growth (%)	-4.1	10.4	59.2	-31.6	124.0	-4.8	3.5	9.8
Gross margin (%)	19.7	20.0	22.6	21.9	27.7	25.6	24.8	24.6
Normalised EBITDA margin (%)	13.9	14.3	18.6	16.8	23.1	21.1	20.3	20.2
Normalised EBIT margin (%)	8.1	8.6	11.0	10.5	17.2	15.7	15.2	15.3
Reported net margin (%)	7.1	7.0	6.5	6.2	11.3	10.0	9.9	10.3
Reported ROE (%)	13.5	14.2	15.6	12.6	25.4	20.1	17.9	17.2
Normalised ROA (%)	7.3	8.2	11.8	9.3	17.3	15.1	15.0	15.5
ROAIC (%)	6.9	7.9	8.9	8.9	15.9	13.3	12.9	13.2
ROACE (%)	10.0	11.2	16.0	12.6	23.2	20.5	20.4	21.0
ROACE - WACC (%)	2.0	2.9	7.3	4.0	14.7	12.0	11.9	12.5
Leverage & solvency								
Working capital as % of sales	29.5	29.6	29.8	26.3	30.8	30.6	30.6	30.5
Net debt (cash)/EBITDA (x)	1.6	1.7	1.6	1.2	0.80	0.60	0.27	(0.07)
Net debt (cash)/equity (%)	37.1	43.8	57.4	34.5	34.1	21.8	8.8	-2.0
EBITDA net interest coverage (x)	8.5	7.3	8.4	5.9	22.4	14.4	22.0	40.2
Current ratio (x)	1.5	1.5	1.3	2.0	1.8	1.7	1.8	1.9
Dividend cover (cash flow) (x)	1.1	0.84	0.03	6.8	1.8	3.1	3.8	3.8
Valuation								
EV/revenue (x)	1.9	1.8	1.6	1.6	1.3	1.1	1.0	0.89
EV/normalised EBITDA (x)	13.9	12.7	8.3	9.7	5.4	5.3	5.0	4.4
EV/normalised EBIT (x)	23.9	21.2	14.1	15.5	7.3	7.1	6.6	5.8
EV/capital employed (x)	2.4	2.3	2.1	1.9	1.5	1.5	1.3	1.2
EV/invested capital (x)	2.1	2.1	1.9	1.7	1.4	1.3	1.2	1.1
Normalised PER (x)	22.1	20.0	12.6	18.4	8.2	8.6	8.3	7.6
Price/book (x)	3.2	3.0	2.9	2.5	2.0	1.7	1.5	1.3
Dividend yield (%)	1.5	1.7	1.7	1.8	3.0	3.3	3.5	3.7
FCF yield (%)	0.81	0.55	n/a	8.3	3.4	6.4	8.8	9.7
Per share data								
Reported EPS (€)	2.22	2.54	2.94	2.56	6.20	5.93	6.16	6.80
Normalised EPS (€)	2.48	2.74	4.36	2.98	6.68	6.36	6.58	7.22
Dividend per share (€)	0.83	0.92	0.93	0.98	1.67	1.80	1.90	2.00
Equity FCFPS (€)	0.14	(0.15)	(1.02)	4.93	1.60	3.45	4.99	5.34
BV/share (€)	16.87	18.46	19.05	21.59	26.90	31.61	36.43	41.84

Source: Company data, ING estimates

Company profile

Bekaert is a global market leader in drawn steel wire products, such a steel cord for tyre reinforcement and sawing wire that is used to cut polysilicon ingots into wafers, for the PV market. The company has customers in 120 countries, production assets in all continents and employs over 25,000 people. Bekaert generated combined sales of €3.3bn in 2009.

Disclosures Appendix

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	Equity coverage	Investment Banking clients*
Buy	48%	58%
Hold	45%	49%
Sell	7%	37%
	100%	

* Percentage of companies in each rating category that are Investment Banking clients of ING Financial Markets LLC or an affiliate.

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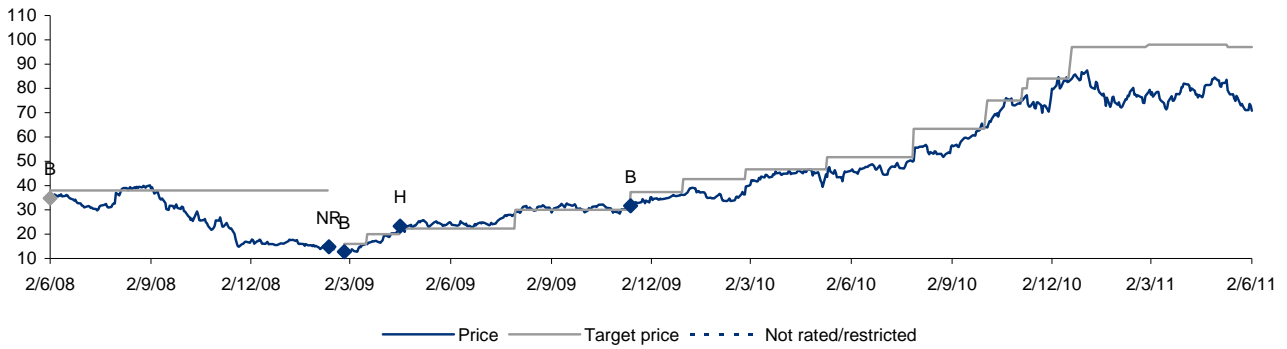
Buy: Forecast 12-mth absolute total return greater than +15%

Hold: Forecast 12-mth absolute total return of +15% to -5%

Sell: Forecast 12-mth absolute total return less than -5%

Total return: forecast share price appreciation to target price plus forecast annual dividend. Price volatility and our preference for not changing recommendations too frequently means forecast returns may fall outside of the above ranges at times.

PRICE & RATINGS HISTORY TO 02/06/11: BEKAERT (BEKB.BR)



B = Buy; H = Hold; S = Sell; NR = Not Rated; R = Restricted

Chart shows ING coverage: current analyst may or may not have covered the stock for the entire period shown
Where ING coverage is longer than three years, chart shows recommendation current at start of the share price history

Source: ING

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