

Company results
 1 August 2011

Buy (maintained)

 Price (01/08/11)
 €39.90

 Target price (12-mth)
 €52.00 (previously €78.00)

 Forecast total return
 34.8%

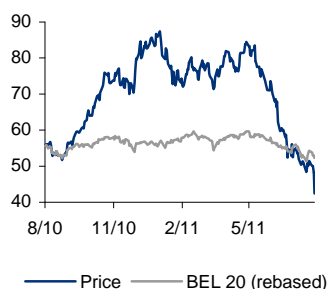
Industrial Goods & Services
Belgium
Bloomberg: BEKB BB
Reuters: BEKB.BR

Share data

Avg daily volume (3-mth)	345,429
Free float (%)	60.9
Market cap (€m)	2,389.4
Net debt (1F, €m)	769
Enterprise value (1F, €m)	3,379
Dividend yield (1F, %)	4.5

Source: Company data, ING estimates

Share price performance



Source: ING

Bekaert

Another large cut in estimates

1H results came in below expectations, mainly due to weaker volumes/pricing in sawing wire. With very low visibility on 2H11, we cut our 2011-12F EPS by c.30%. The shares should be dead money until we get confirmation that demand in the solar space recovers, in our view. In the medium term, we still believe the current product/geographical positioning and growth initiatives should generate GDP+ growth. We cut our 12-mth TP by 30% to €52.0, targeting 2012F EV/EBITDA of 6.5x, and maintain our BUY rating on valuation.

1H11 sales increased 16% to €1.78bn, yet REBIT declined 8% YoY to €242m, c.17% below consensus estimates (€292m). The number implied a 13.6% REBIT margin, down 350bp YoY. Looking at the regions, the shortfall vs consensus estimates was entirely due to Asia Pac (China), while performances in the other regions were solid. Asia Pac REBIT fell 10% YoY to €185m, which implied a 840bp margin decline to 29%, as Chinese results were impacted by the government measures to control growth and by the drop in demand/prices for sawing wire mid-way during 2Q, which in turn were caused by lower demand in European end-market as fiscal stimuli were phased out. As well, competitive pressures urged Bekaert to cut prices in order to defend its market shares in China. We estimate sawing wire prices currently at c.70,000 RMB/t, which implies a c.35% drop YoY (INGF). Bottom line, reported EPS was 20% to €2.45 (c.23% below consensus estimates). Finally, net debt was up sharply, from €522m to €816m end 1H11, mainly due to working capital requirements.

Outlook: Negatives: the global economic picture warrants cautiousness in the short term; management concedes that short-term visibility on a solar recovery is minimal (industry analysts see 2011 volumes between -20% and +15%). In addition, Bekaert guides for further measures to defend market share. Finally, tyre cord volumes seem flatish currently. Positives: management sees very early signs of solar demand bottoming out (via the bottoming out of wafer prices in the last two weeks). Management reiterated that industrial scale production of qualitative sawing wire should be quite a challenge for new entrants and believes that at current pricing new entrants might temper expansion plans.

Change in estimates: we cut our 2011-12F REBIT by c.24% to €422m-€427m, which implies margins of 12.4-12.0% (REBIT margins in Asia Pac are cut from 33.6-31.2% to 27.8-25.9%). This translates into 2011-12F normalised EPS cuts of c.30% to €4.42-4.54. We revise upwards our net debt 2011F to €769m, in line with management's guidance for net debt to remain relatively stable until year-end, although this seems very conservative.

Forecasts and ratios

Year end Dec (€m)	2009	2010	2011F	2012F	2013F
Revenues	2,438	3,262	3,400	3,552	3,758
Normalised EBITDA	410	753	622	627	654
Normalised net profit	176	396	265	272	301
Normalised EPS (€)	2.98	6.68	4.47	4.59	5.07
Normalised PER (x)	13.4	6.0	8.9	8.7	7.9
EV/normalised EBITDA (x)	7.5	4.3	5.4	5.2	4.8
FCF yield (%)	10.7	4.3	n/a	7.9	9.2
Dividend yield (%)	2.5	4.2	4.5	4.8	5.0
Price/book (x)	1.8	1.5	1.3	1.2	1.1
Normalised ROE (%)	14.6	27.3	15.6	14.5	14.6

Source: Company data, ING estimates

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1H11 results

Fig 1 Bekaert: key 1H11 numbers (€m)

	1H10	1H11 INGF	1H11 Actual	% YoY
EMEA	526	612	614	17
North America	313	354	354	13
Latin America	144	161	173	20
Asia Pacific	552	683	639	16
Consolidated sales	1,535	1,810	1,780	16
EMEA	54	58	54	1
<i>REBIT margin (%)</i>	10.2	9.5	8.9	
North America	21	25	28	32
<i>REBIT margin (%)</i>	6.7	7.0	7.8	
Latin America	14	16	16	18
<i>REBIT margin (%)</i>	9.5	10.0	9.3	
Asia Pacific	206	238	185	-10
<i>REBIT margin (%)</i>	37.4	34.9	29.0	
Other	-33	-33	-41	26
REBIT	262	305	242	-8
<i>REBIT margin (%)</i>	17.1	16.8	13.6	
Non-recurring	-19	-13	-11	-43
EBIT	243	292	232	-5
EBIT margin (%)	15.9	16.1	13.0	
Net financing charges	-16	-25	-35	123
Taxes	-51	-78	-54	4
Share in the JV's	19	17	14	-25
Minorities	-14	-15	-13	-7
Net profit	181	195	144	-20
Normalised net profit	200	207	155	-23
Reported EPS (€)	3.05	3.25	2.45	-20
Normalised EPS (€)	3.37	3.46	2.62	-22

Source: Company data, ING estimates

1H11 sales increased 16% to €1.78bn. Organic growth was 18%, while divestments (-0.4%) and currencies (-2%) had a slightly negative effect.

REBIT declined 8% YoY to €242m, c.17% below consensus estimates (€292m). The number implied a 13.6% REBIT margin, down 350bp YoY. REBIT was impacted by €18m in bad debt provisions in China (although Bekaert never incurred a credit loss in China in the past) but helped by c.€15-20m positive inventory effects.

Looking at the regions, the shortfall vs consensus estimates was entirely due to Asia Pac (China), while performances in the other regions were solid.

Asia Pac REBIT declined 10% YoY to €185m, which implied an 840bp margin decline to 29%, as Chinese results were impacted by the government measures to control growth and by the drop in demand/prices for sawing wire mid-way during 2Q, which in turn were caused by lower demand in European end-market as fiscal stimuli were phased out. In addition, competitive pressures urged Bekaert to cut prices in order to defend its market shares in China. We estimate sawing wire prices currently at c.70,000 RMB/t, which implies a c.35% drop YoY (INGF).

EMEA numbers were ok, with a 17% increase in sales driven by automotive, while ongoing initiatives for upscaling industrial technologies, usual start-up cost and provisions for environmental liabilities tempered REBIT margins. The Americas posted strong results, with REBIT up 32-18%, driven by most wire and cord products and in spite of negative currency effects.

Bottom line, reported EPS was 20% to €2.45 (c.23% below consensus estimates). Finally, net debt went up sharply, from €522m to €816m end 1H11, mainly due to working capital requirements.

Change in key estimates

Outlook: Negatives: the global economic picture warrants cautiousness in the short term; management concedes that short-term visibility on a solar recovery is minimal (industry analysts see 2011 volumes between -20% and +15%). As well, Bekaert guides for further measures to defend market share. Finally, tyre cord volumes seem flattish currently. Positives: management sees very early signs of solar demand bottoming out (via the bottoming out of wafer prices in the last two weeks). Management reiterated that industrial scale production of qualitative sawing wire should be quite a challenge for new entrants and believes that at current pricing new entrants might temper expansion plans.

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

	2010	2011F old	2011F new	% ch	% YoY	2012F old	2012F new	% ch	% YoY	2013F old	2013F new	% ch	% YoY
EMEA	1,066	1,179	1,181	0%	11%	1,226	1,228	0%	4%	1,275	1,277	0%	4%
North America	637	679	668	-2%	5%	703	692	-2%	4%	728	717	-2%	4%
Latin America	311	336	342	2%	10%	356	363	2%	6%	377	385	2%	6%
Asia Pacific	1,248	1,334	1,209	-9%	-3%	1,400	1,269	-9%	5%	1,525	1,379	-10%	9%
Consolidated sales	3,262	3,527	3,400	-4%	4%	3,685	3,552	-4%	4%	3,905	3,758	-4%	6%
EMEA	95	101	97	-4%	2%	104	104	0%	8%	108	109	0%	4%
REBIT margin	8.9%	8.5%	8.2%			8.5%	8.5%			8.5%	8.5%		
North America	34	41	43	6%	28%	49	48	-2%	12%	58	57	-2%	18%
REBIT margin	5.3%	6.0%	6.5%			7.0%	7.0%			8.0%	8.0%		
Latin America	26	30	29	-4%	11%	36	31	-13%	7%	38	35	-8%	12%
REBIT margin	8.3%	9.0%	8.4%			10.0%	8.5%			10.0%	9.0%		
Asia Pacific	470	448	336	-25%	-29%	438	328	-25%	-2%	461	339	-26%	3%
REBIT margin	37.7%	33.6%	27.8%			31.2%	25.9%			30.2%	24.6%		
Other	-63	-65	-83	27%		-67	-84	26%		-66	-86	31%	
REBIT	562	555	422	-24%	-25%	560	427	-24%	1%	599	454	-24%	6%
REBIT margin	17.2%	15.7%	12.4%			15.2%	12.0%			15.3%	12.1%		
Non-recurring	-28	-25	-15	-40%		-25	-15	-40%		-25	-15	-40%	
EBIT	534	530	407	-23%	-24%	535	412	-23%	1%	574	439	-24%	6%
EBIT margin	16.4%	15.0%	12.0%			14.5%	11.6%			14.7%	11.7%		
Net financing charges	-32	-50	-66	32%		-33	-55	67%		-19	-43	126%	
Taxes	-140	-139	-95	-32%		-150	-107	-29%		-166	-118	-29%	
Share in the JV's	36	40	29	-28%		44	32	-27%		47	36	-24%	
Minorities	-31	-29	-25	-16%		-30	-25	-16%		-34	-28	-16%	
Net profit	368	352	250	-29%	-32%	365	257	-30%	3%	403	286	-29%	11%
Normalised net profit	396	377	265	-30%		390	272	-30%		427	300	-30%	
Reported EPS (€)	6.20	5.87	4.17	-29%		6.09	4.29	-30%		6.73	4.77	-29%	
Normalised EPS (€)	6.68	6.29	4.42	-30%	-34%	6.51	4.54	-30%	3%	7.13	5.00	-30%	10%

Source: Company data, ING estimates

Change in estimates: we cut our 2011-12F REBIT by c.24% to €422m-427m, which implies margins of 12.4-12.0% (REBIT margins in Asia Pac are cut from 33.6-31.2% to 27.8-25.9%). This translates into 2011-12F normalised EPS cuts of c.30% to €4.42-4.54. We revise upwards net debt 2011F to €769m, in line with management's guidance for net debt to remain relatively stable until year-end, although this seems very conservative. In Fig 3, we provide our underlying assumptions for sawing wire in Asia Pac.

Fig 3 Underlying assumptions for sawing wire in Asia Pac

	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 average 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	308	303	336
% change		-32	-1	11
Estimated sales of sawing wire Asia Pac (€m)	404	259	251	279
Estimated sales of 'other' Energy Asia Pac (€m)	45	49	52	57
Estimated sawing wire price (RMB/ton)	110,000	71,500	64,350	57,915
% change		-35.0	-10.0	-10.0
Estimated sawing wire price (€/ton)	12,249	7,730	6,957	6,261
% change		-37	-10	-10
RMB exchange rate	8.98	9.25	9.25	9.25
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	131	114	116
REBIT margin (%)	61.8	42.4	37.6	34.6
% change		-53	-13	2
Estimated REBIT sawing wire Asia Pac (€m)	271	123	106	108
Margin (%)	67	48	42	39
Estimated REBIT Other Energy Asia Pac (€m)	7	7	8	8
Margin (%)	15	15	15	15

Source: ING estimates

Valuation

In the medium term, we still believe the current product/geographical positioning (74% emerging markets) and growth initiatives (€46m in R&D investment and €130m in capex in 1H11) should generate GDP+ growth. We cut our 12-mth TP by 30% to €52.0, targeting 2012F EV/EBITDA of 6.5x, and maintain our BUY rating on valuation.

Fig 4 Bekaert multiple based valuation (€m)

	Normalised Valuation metric		Target multiple	Fair value
	EBITDA 2012F		(x)	
Group EV	627	EV/EBITDA	6.5 x	4,077
- Net debt 1H11				-816
- Minority interest (market value)				-370
- LT pension liabilities				-135
+ Associates (market value)				351
= Equity value				3,107
No. of shares (m)				59.9
Equity value/share (€)				52

Source: Company data, ING estimates

Risks: Bekaert's key end-market are automotive (33% of sales), energy (24% of sales) and construction (18% of sales). Due to its large exposure to various economic sectors, our estimates could have to be revised materially downwards in case of severe macro headwinds. The largest short-term risk is the limited visibility on sawing wire activities.

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	3,400	3,552	3,758
Cost of goods sold	(1,615)	(1,740)	(2,061)	(1,904)	(2,358)	(2,630)	(2,769)	(2,942)
Gross profit	395	434	602	534	904	770	783	816
Operating costs	(133)	(135)	(190)	(149)	(179)	(163)	(170)	(178)
EBITDA	262	299	412	385	725	607	612	639
Depreciation & amortisation	(116)	(124)	(202)	(153)	(191)	(200)	(200)	(200)
Impairments	0	0	0	0	0	0	0	0
EBIT	146	175	210	232	534	407	412	439
Net interest	(31)	(41)	(49)	(66)	(32)	(66)	(55)	(43)
Associates	51	47	56	38	36	29	32	36
Other pre-tax items	0	0	0	0	0	0	0	0
Pre-tax profit	166	181	217	204	538	370	390	432
Tax	(18)	(19)	(26)	(34)	(140)	(95)	(107)	(118)
Minorities	(5)	(9)	(18)	(19)	(31)	(25)	(25)	(28)
Other post-tax items	0	0	0	0	0	0	0	0
Net profit	143	153	174	152	368	250	257	286
Normalised EBITDA	279	310	496	410	753	622	627	654
Normalised EBIT	163	186	294	257	562	422	427	454
Normalised net profit	160	165	258	176	396	265	272	301
Balance sheet								
Tangible fixed assets	1,062	1,133	1,271	1,346	1,539	1,599	1,629	1,629
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	52	48	83
Other current assets	833	904	1,140	1,018	1,464	1,693	1,724	1,775
Total assets	2,220	2,313	2,667	2,830	3,673	3,571	3,628	3,714
Short-term debt	218	253	503	151	320	320	320	320
Other current liabilities	377	388	478	484	719	670	685	706
Long-term debt	274	322	288	598	700	500	400	300
Other long-term liabilities	242	203	226	223	236	236	236	236
Total liabilities	1,111	1,166	1,495	1,456	1,977	1,727	1,643	1,563
Total equity	1,109	1,147	1,172	1,374	1,697	1,873	2,047	2,247
Total liabilities & equity	2,220	2,313	2,667	2,830	3,673	3,600	3,690	3,811
Capital employed	1,601	1,722	1,964	2,123	2,717	2,693	2,768	2,868
Net working capital	593	644	793	640	1,004	1,228	1,244	1,275
Net debt (cash)	411	502	673	474	578	769	673	538
Cash flow								
Cash flow EBITDA	301	333	425	401	779	633	645	675
Change in working capital	(32)	(42)	(162)	196	(277)	(278)	(16)	(30)
Other non-cash items	(59)	(45)	(13)	(68)	(3)	(29)	(32)	(36)
Operating cash flow	209	246	250	529	499	326	596	608
Cash interest paid	(22)	(31)	(32)	(39)	(43)	(63)	(55)	(43)
Cash taxes paid	(17)	(25)	(28)	(31)	(113)	(95)	(107)	(118)
Net cash from operating activities	171	191	191	458	342	168	434	448
Capex	(161)	(200)	(251)	(167)	(248)	(260)	(230)	(200)
Net acquisitions	(43)	(11)	(44)	(4)	(17)	0	0	0
Other net investing cash flows	47	58	51	43	54	0	0	0
Cash from investing activities	(157)	(152)	(243)	(127)	(211)	(260)	(230)	(200)
Increase (decrease) in equity	0	0	0	0	0	0	0	0
Increase (decrease) in debt	0	0	165	(46)	210	200	100	100
Dividends & minority distribution	(74)	(57)	(62)	(51)	(119)	(99)	(108)	(114)
Other financing cash flow	(17)	25	(4)	(204)	32	0	0	1
Cash from financing activities	(91)	(32)	98	(301)	124	101	(8)	(13)
Forex & discontinued operations	(2)	(1)	0.8	(13)	5			
Net change in cash & equivalents	(80)	6	47	16	261	9	196	235
FCF	31	22	(29)	331	138	(29)	259	291

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	4.2	4.5	5.8
Normalised EBITDA growth (%)	-3.5	11.2	59.8	-17.4	83.8	-17.4	0.86	4.2
Normalised EBIT growth (%)	-3.0	14.3	57.9	-12.7	118.9	-25.0	1.3	6.2
Normalised EPS growth (%)	-4.1	10.4	59.2	-31.6	124.0	-33.0	2.7	10.5
Gross margin (%)	19.7	20.0	22.6	21.9	27.7	22.7	22.0	21.7
Normalised EBITDA margin (%)	13.9	14.3	18.6	16.8	23.1	18.3	17.7	17.4
Normalised EBIT margin (%)	8.1	8.6	11.0	10.5	17.2	12.4	12.0	12.1
Reported net margin (%)	7.1	7.0	6.5	6.2	11.3	7.4	7.2	7.6
Reported ROE (%)	13.5	14.2	15.6	12.6	25.4	14.7	13.7	13.9
Normalised ROA (%)	7.3	8.2	11.8	9.3	17.3	11.6	11.9	12.4
ROAIC (%)	6.9	7.9	8.9	8.9	15.9	10.6	10.4	10.8
ROACE (%)	10.0	11.2	16.0	12.6	23.2	15.6	15.6	16.1
ROACE - WACC (%)	2.0	2.9	7.3	4.0	14.7	7.1	7.1	7.6
Leverage & solvency								
Working capital as % of sales	29.5	29.6	29.8	26.3	30.8	36.1	35.0	33.9
Net debt (cash)/EBITDA (x)	1.6	1.7	1.6	1.2	0.80	1.3	1.1	0.84
Net debt (cash)/equity (%)	37.1	43.8	57.4	34.5	34.1	41.1	32.9	23.9
EBITDA net interest coverage (x)	8.5	7.3	8.4	5.9	22.4	9.2	11.1	14.9
Current ratio (x)	1.5	1.5	1.3	2.0	1.8	1.8	1.8	1.8
Dividend cover (cash flow) (x)	1.1	0.84	0.03	6.8	1.8	0.06	2.9	3.2
Valuation								
EV/revenue (x)	1.5	1.4	1.2	1.3	0.98	0.99	0.92	0.84
EV/normalised EBITDA (x)	10.8	9.9	6.5	7.5	4.3	5.4	5.2	4.8
EV/normalised EBIT (x)	18.4	16.4	11.0	12.0	5.7	8.0	7.7	6.9
EV/capital employed (x)	1.9	1.8	1.7	1.5	1.2	1.3	1.2	1.1
EV/invested capital (x)	1.6	1.6	1.5	1.3	1.1	1.2	1.1	1.0
Normalised PER (x)	16.1	14.6	9.2	13.4	6.0	8.9	8.7	7.9
Price/book (x)	2.4	2.2	2.1	1.8	1.5	1.3	1.2	1.1
Dividend yield (%)	2.1	2.3	2.3	2.5	4.2	4.5	4.8	5.0
FCF yield (%)	1.0	0.71	n/a	10.7	4.3	n/a	7.9	9.2
Per share data								
Reported EPS (€)	2.22	2.54	2.94	2.56	6.20	4.22	4.34	4.82
Normalised EPS (€)	2.48	2.74	4.36	2.98	6.68	4.47	4.59	5.07
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	(1.56)	3.44	4.18
BV/share (€)	16.87	18.46	19.05	21.59	26.90	29.83	32.75	36.09

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

ANALYST CERTIFICATION

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	100%	

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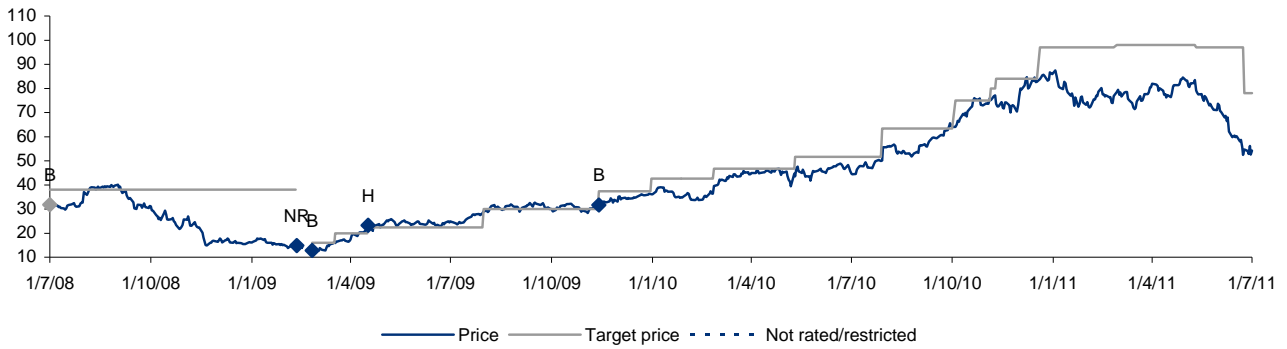
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