

3Q update preview
3 November 2011

Hold (previously Buy)

Price (02/11/11)
€30.00

Target price (12-mth)
€29.00 (previously €52.00)

Forecast total return
2.7%

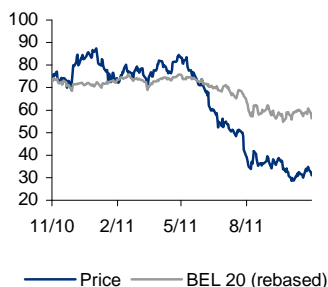
Industrial Goods & Services
Belgium
Bloomberg: BEKB BB
Reuters: BEKB.BR

Share data

Avg daily volume (3-mth)	352,572
Free float (%)	60.9
Market cap (€m)	1,796.5
Net debt (1F, €m)	780
Enterprise value (1F, €m)	2,490
Dividend yield (1F, %)	6.0

Source: Company data, ING estimates

Share price performance



Source: ING

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Bekaert

Downgrade to HOLD ahead of 3Q update

We cut our 2H11F and FY12F group REBIT margins to 7.0% and 7.7%, respectively (from 11.1% and 12.0%), chiefly driven by the (permanent) collapse in sawing wire margins and more challenging conditions for tyre cord in Asia Pac. Consequently, we cut our EPS forecasts by 17% in 2011F and 42% in 2012F to €3.69 and €2.64, respectively. On these below-consensus estimates, we downgrade from Buy to HOLD, and cut the target price to €29.0. In the case of a global recession, we see further downside.

Sawing wire and tyre cord concerns. We understand from management that sawing wire prices are down 50% YTD, impacted by weak (European) end-market demand and overcapacity in the sector. Sawing wire capacity increased to c.200,000t per annum, while the industry needs only 90,000t at best this year (optimistically assuming 20GW of PV capacity installed in 2011F and a requirement of c.4,500t of sawing per GW). Consequently, margins should be at or below 15% in 2H11F (from 58% in 2010, ING), with little chance of a recovery in 2012F. We also understand that margins in tyre cord in 2H11 are down to 15-20% (from 27% in 2010, ING), due to lower prices (-2% to -3%) and higher costs on wages/electricity.

Change in estimate/3Q update. We cut our and group REBIT margins to 7.0% in 2H11F and 7.7% in FY12F (from 11.1% and 12.0%, respectively), chiefly driven by the collapse in sawing wire margins and more challenging conditions for tyre cord in Asia Pac. In addition, we lower our growth assumptions for the rest of the world to flat/low single-digit growth. Consequently, we cut our EPS forecasts by 17% in 2011F and 42% in 2012F to €3.69 and €2.64, respectively (6% and 27% below Bloomberg consensus). At the 3Q update on 10 November, we expect the company to report group sales down 9.4% YoY to €785m.

Investment case. We downgrade to HOLD, as: (1) in our view, Bekaert's valuation appears fair at best (11.4x PER vs the historical average of c.11x). The dividend yield (6%) and price/book multiple (1.0x) should be supportive; (2) we expect consensus to be revised down materially post the 3Q update; and (3) the risk to our earnings (although visibility is low) seems on the downside. A global recession would have a material negative impact on our assumptions for Bekaert's activities outside Asia Pac (we estimate REBIT for EMEA, North America and Latin America combined at €225m in 2012F, vs €24m reported in 2009).

Forecasts and ratios

Year end Dec (€m)	2009	2010	2011F	2012F	2013F
Revenues	2,438	3,262	3,324	3,340	3,474
Normalised EBITDA	410	753	551	456	462
Normalised net profit	176	396	221	158	168
Normalised EPS (€)	2.98	6.68	3.69	2.64	2.81
Normalised PER (x)	10.1	4.5	8.1	11.4	10.7
EV/normalised EBITDA (x)	6.1	3.5	4.5	5.4	5.2
FCF yield (%)	13.3	5.3	n/a	8.8	8.8
Dividend yield (%)	3.3	5.6	6.0	6.3	6.7
Price/book (x)	1.4	1.1	1.0	1.0	0.98
Normalised ROE (%)	14.6	27.3	13.2	9.0	9.3

Source: Company data, ING estimates

Sawing wire estimates

The table below provides an overview of our current sawing wire estimates.

Fig 1 Sawing wire estimates (€m)

	2010	2011F	2012F	2013F
Global installed PV capacity on EPIA moderate estimates (GW)	16.6	13.3	15.3	18.2
% change		-20	15	19
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	59,985	69,008	82,080
% change		-20	15	19
Estimated weight of China in global sawing wire market (%)	80	80	80	80
Estimated Chinese sawing wire market (ton)	59,864	47,988	55,206	65,664
% change		-20	15	19
Sales Asia Pac Energy (€m)	449	231	196	212
% change		-49	-15	9
Estimated sales of sawing wire Asia Pac (€m)	427	207	169	184
Estimated sales of 'other' Energy Asia Pac (€m)	22	24	26	28
Estimated sawing wire price (RMB/ton)	110,000	72,600	51,909	49,314
% change		-34.0	-28.5	-5.0
Estimated sawing wire price (€/ton)	12,249	7,978	5,899	5,604
% change		-35	-26	-5
RMB exchange rate	8.98	9.10	8.80	8.80
Estimated Bekaert sawing wire Asia Pac production (ton)	34,844	25,914	28,707	32,832
% change		-26	11	14
Estimated Bekaert sawing wire Asia Pac market share (%)	58.2	54.0	52.0	50.0
Estimated Opex sawing wire (€m)	(168)	(137)	(148)	(165)
Estimated fixed opex (€m)	(42)	(43)	(45)	(46)
Estimated variable opex (€m)	(126)	(94)	(104)	(119)
% of volume	-0.36	-0.36	-0.36	-0.36
Estimated REBIT (€m)	264	75	26	24
REBIT margin (%)	58.7	32.3	13.1	11.2
% change		-72	-66	-7
Estimated REBIT sawing wire Asia Pac (€m)	259	70	21	19
Margin (%)	61	34	12	10
Estimated REBIT Other Energy Asia Pac (€m)	5	5	5	5
Margin (%)	23	20	18	16

Source: ING estimates (including 2010)

Change in estimates

Fig 2 Change in key estimates (€m)

	2009	2010	2011F old	2011F new	%ch	%YoY	2012F old	2012F new	%ch	%YoY	2013F old	2013F new	%ch	%YoY
EMEA	828	1,066	1,181	1,176	0	10	1,228	1,176	-4	0	1,277	1,199	-6	2
North America	473	637	668	671	0	5	692	673	-3	0	717	687	-4	2
Latin America	327	311	342	352	3	13	363	360	-1	2	385	374	-3	4
Asia Pacific	810	1,248	1,209	1,125	-7	-10	1,269	1,132	-11	1	1,379	1,214	-12	7
Consolidated sales	2,438	3,262	3,400	3,324	-2	2	3,552	3,340	-6	0	3,758	3,474	-8	4
EMEA	1	95	97	97	0	1	104	94	-10	-3	109	96	-12	2
North America	(5)	34	43	42	-3	23	48	40	-17	-4	57	45	-22	11
Latin America	28	26	29	30	3	14	31	30	-2	2	35	32	-8	5
Asia Pacific	288	470	336	265	-21	-44	328	174	-47	-34	339	174	-49	0
Other	(55)	(63)	(83)	(83)	0		(84)	(83)	-2		(86)	(84)	-2	
REBIT	257	562	422	351	-17	-38	427	256	-40	-27	454	262	-42	2
EMEA margin (%)	0.1	8.9	8.2	8.2			8.5	8.0			8.5	8.0		
North America margin (%)	-1.1	5.3	6.5	6.3			7.0	6.0			8.0	6.5		
Latin America margin (%)	8.6	8.3	8.4	8.4			8.5	8.4			9.0	8.5		
Asia Pacific margin (%)	35.6	37.7	27.8	23.6			25.9	15.4			24.6	14.3		
REBIT margin (%)	10.5	17.2	12.4	10.5			12.0	7.7			12.1	7.5		
Non-recurring	(25)	(28)	(15)	(15)	0		(15)	(15)	0		(15)	(15)	0	
EBIT	232	534	407	336	-18	-37	412	241	-42	-28	439	247	-44	2
EBIT margin (%)	9.5	16.4	12.0	10.1			11.6	7.2			11.7	7.1		
Net financing charges	(66)	(32)	(66)	(66)	0		(55)	(60)	9		(43)	(53)	23	
Taxes	(34)	(140)	(95)	(75)	-22		(107)	(54)	-49		(118)	(57)	-51	
Share in the JV's	38	36	29	30	3		32	31	-5		36	32	-11	
Minorities	(19)	(31)	(25)	(19)	-23		(25)	(14)	-44		(28)	(15)	-46	
Net profit	152	368	250	206	-18	-44	257	143	-44	-30	286	153	-46	7
Normalised net profit	176	396	265	221	-17		272	158	-42		300	167	-44	
Reported EPS (€)	2.56	6.20	4.17	3.43	-18		4.29	2.39	-44		4.77	2.56	-46	
Normalised EPS (€)	2.98	6.68	4.42	3.69	-17	-45	4.54	2.64	-42	-28	5.00	2.80	-44	6

Source: Company data, ING estimates

3Q trading update

Fig 3 3Q trading update (€m)

	3Q10	2Q11	3Q11 INGF	%ch YoY
EMEA	271	307	285	5.2
North America	170	178	163	-4.1
Latin America	89	91	95	6.7
Asia Pac	336	286	242	-28.0
Consolidated sales	866	862	785	-9.4

Source: Company data, ING estimates

Risks to our recommendation

The key downside risk to our recommendation is a 2009-type recession, which would have a material negative effect, mainly on our estimates outside Asia Pac. The key upside risk to our recommendation is a swift recovery in demand for solar panels and tyre cord.

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	3,324	3,340	3,474
Cost of goods sold	(1,615)	(1,740)	(2,061)	(1,904)	(2,358)	(2,625)	(2,729)	(2,849)
Gross profit	395	434	602	534	904	699	611	624
Operating costs	(133)	(135)	(190)	(149)	(179)	(163)	(170)	(178)
EBITDA	262	299	412	385	725	536	441	447
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	336	241	247
Net interest	(31)	(41)	(49)	(66)	(32)	(66)	(60)	(53)
Associates	51	47	56	38	36	30	31	32
Other pre-tax items	0	0	0	0	0	0	0	0
Pre-tax profit	166	181	217	204	538	299	212	226
Tax	(18)	(19)	(26)	(34)	(140)	(75)	(54)	(57)
Minorities	(5)	(9)	(18)	(19)	(31)	(19)	(14)	(15)
Other post-tax items	0	0	0	0	0	0	0	0
Net profit	143	153	174	152	368	206	143	153
Normalised EBITDA	279	310	496	410	753	551	456	462
Normalised EBIT	163	186	294	257	562	351	256	262
Normalised net profit	160	165	258	176	396	221	158	168
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	40	88	134
Other current assets	833	904	1,140	1,018	1,464	1,676	1,650	1,673
Total assets	2,220	2,313	2,667	2,830	3,673	3,542	3,594	3,663
Short-term debt	218	253	503	151	320	320	320	320
Other current liabilities	377	388	478	484	719	663	664	678
Long-term debt	274	322	288	598	700	500	500	500
Other long-term liabilities	242	203	226	223	236	236	236	236
Total liabilities	1,111	1,166	1,495	1,456	1,977	1,720	1,721	1,735
Total equity	1,109	1,147	1,172	1,374	1,697	1,823	1,872	1,927
Total liabilities & equity	2,220	2,313	2,667	2,830	3,673	3,542	3,594	3,662
Capital employed	1,601	1,722	1,964	2,123	2,717	2,643	2,693	2,748
Net working capital	593	644	793	640	1,004	1,219	1,191	1,201
Net debt (cash)	411	502	673	474	578	780	733	687
Cash flow								
Cash flow EBITDA	301	333	425	401	779	562	472	479
Change in working capital	(32)	(42)	(162)	196	(277)	(268)	28	(10)
Other non-cash items	(59)	(45)	(13)	(68)	(3)	0	0	0
Operating cash flow	209	246	250	529	499	294	499	469
Cash interest paid	(22)	(31)	(32)	(39)	(43)	(63)	(60)	(53)
Cash taxes paid	(17)	(25)	(28)	(31)	(113)	(75)	(54)	(57)
Net cash from operating activities	171	191	191	458	342	156	385	359
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	0	0
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	(108)	(113)
Forex & discontinued operations	(2)	(1)	0.8	(13)	5			
Net change in cash & equivalents	(80)	6	47	16	261	(2)	47	46
FCF	31	22	(29)	331	138	(41)	215	212

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	1.9	0.49	4.0
Normalised EBITDA growth (%)	-3.5	11.2	59.8	-17.4	83.8	-26.9	-17.2	1.3
Normalised EBIT growth (%)	-3.0	14.3	57.9	-12.7	118.9	-37.7	-27.0	2.3
Normalised EPS growth (%)	-4.1	10.4	59.2	-31.6	124.0	-44.8	-28.3	6.5
Gross margin (%)	19.7	20.0	22.6	21.9	27.7	21.0	18.3	18.0
Normalised EBITDA margin (%)	13.9	14.3	18.6	16.8	23.1	16.6	13.7	13.3
Normalised EBIT margin (%)	8.1	8.6	11.0	10.5	17.2	10.5	7.7	7.5
Reported net margin (%)	7.1	7.0	6.5	6.2	11.3	6.2	4.3	4.4
Reported ROE (%)	13.5	14.2	15.6	12.6	25.4	12.3	8.1	8.5
Normalised ROA (%)	7.3	8.2	11.8	9.3	17.3	9.7	7.2	7.2
ROAIC (%)	6.9	7.9	8.9	8.9	15.9	8.9	6.4	6.4
ROACE (%)	10.0	11.2	16.0	12.6	23.2	13.1	9.6	9.6
ROACE - WACC (%)	2.0	2.9	7.3	4.0	14.7	4.6	1.1	1.1
Leverage & solvency								
Working capital as % of sales	29.5	29.6	29.8	26.3	30.8	36.7	35.7	34.6
Net debt (cash)/EBITDA (x)	1.6	1.7	1.6	1.2	0.80	1.5	1.7	1.5
Net debt (cash)/equity (%)	37.1	43.8	57.4	34.5	34.1	42.8	39.1	35.7
EBITDA net interest coverage (x)	8.5	7.3	8.4	5.9	22.4	8.1	7.3	8.4
Current ratio (x)	1.5	1.5	1.3	2.0	1.8	1.7	1.8	1.8
Dividend cover (cash flow) (x)	1.1	0.84	0.03	6.8	1.8	n/a	2.4	2.4
Valuation								
EV/revenue (x)	1.2	1.1	1.00	1.0	0.80	0.75	0.73	0.69
EV/normalised EBITDA (x)	8.6	8.0	5.4	6.1	3.5	4.5	5.4	5.2
EV/normalised EBIT (x)	14.8	13.2	9.0	9.7	4.6	7.1	9.5	9.2
EV/capital employed (x)	1.5	1.4	1.4	1.2	0.96	0.94	0.91	0.87
EV/invested capital (x)	1.3	1.3	1.2	1.1	0.88	0.86	0.83	0.80
Normalised PER (x)	12.1	11.0	6.9	10.1	4.5	8.1	11.4	10.7
Price/book (x)	1.8	1.6	1.6	1.4	1.1	1.0	1.0	0.98
Dividend yield (%)	2.8	3.1	3.1	3.3	5.6	6.0	6.3	6.7
FCF yield (%)	1.3	0.88	n/a	13.3	5.3	n/a	8.8	8.8
Per share data								
Reported EPS (€)	2.22	2.54	2.94	2.56	6.20	3.43	2.39	2.56
Normalised EPS (€)	2.48	2.74	4.36	2.98	6.68	3.69	2.64	2.81
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	(1.73)	2.59	2.65
BV/share (€)	16.87	18.46	19.05	21.59	26.90	29.00	29.83	30.75

Source: Company data, ING estimates

Company profile

Bekaert is a global market leader in drawn steel wire products, such as 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 €4.5bn in 2010.

Disclosures Appendix

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Buy	52%	57%
Hold	38%	51%
Sell	10%	39%
	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 03/10/11: 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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