

**Change in recommendation**  
2 February 2012

**Sell** (previously Hold)

Price (02/02/12)  
€29.40

Target price (12-mth)  
€23.00 (previously €29.00)

Forecast total return  
-18.4%

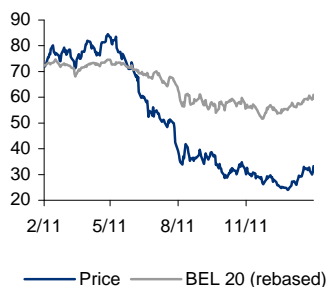
**Industrial Goods & Services**  
**Belgium**  
**Bloomberg: BEKB BB**  
**Reuters: BEKB.BR**

Share data

Avg daily volume (3-mth)	203,879
Free float (%)	60.9
Market cap (€m)	1,760.6
Net debt (1F, €m)	812
Enterprise value (1F, €m)	2,511
Dividend yield (1F, %)	3.4

Source: Company data, ING estimates

Share price performance



Source: ING

**Filip De Pauw**

Brussels +32 2 547 6097  
filip.de.pauw@ing.be

**Emmanuel Carlier**

Brussels +32 2 547 75 34  
emmanuel.carlier@ing.be

## Bekaert

### Realignment effort reveals underlying weakness

**We estimate Bekaert is aiming at €150m cost savings pa (or c.4.5% of sales) by end-2013F to get group REBIT margins back in the 7.0-9.0% target range. This seems challenging (Bekaert is 'lean and mean'), suggests current margins hover around 3.5% (vs 6.5% 2012F consensus), entails c.€100m in one-off costs and suggests the dividend is at risk. We lower our 2012-13F EPS by 36% and 18%, respectively, cut our TP to €23.0 and lower our rating from Hold to SELL.**

In response to a structural change in the solar market (200% overcapacity in sawing wire), Bekaert is rightsizing its wire operations (production, technology & engineering) by cutting 1,250 jobs in China (already executed from December 2011 until the Chinese new year) and 600 jobs in Belgium (in 1H12F). We estimate the cost savings at €50m pa. In addition, due to growing uncertainty in other markets/longer-term overall instability, Bekaert aims to cut €100m in costs to 'improve the structure', we estimate by end-2013F. Bekaert stated that the cost savings (c.€150m of 4.5% of sales before consolidation of the Latam activities) are necessary to restore profitability (get REBIT margins back in the 7.0-9.0% target range).

We believe the additional €100m in cost savings seems challenging (SG&A amounts to c.€400m). Also, the underlying message seems that current REBIT margins hover around 3.5% (if you need to cut c.4.5% of sales in cost to get back at 8.0% margins), which seems way below Bloomberg 2012F consensus (c.6.5%). Further, we understood that one-off costs can be estimated at some €100m, of which two-thirds should be cash-cost.

We now assume that Bekaert's REBIT margin should gradually recover from 3.5% currently to 5.0% in 2012F, 6.5% in 2013F and 8.0% in 2014F. This translates into a 2012-13F EPS cut of 36%-18% to €1.67 and €2.28 and suggest the €1.67 dividend is at risk (100% payout seems too ambitious). We lower our 2011F dividend from €1.67 to €1.00. We finally understood that working capital remains stable at a high level for now. In combination with profitability evolution, we now estimate net debt at €812m at end-2011F.

Investment case: we lower our rating from Hold to SELL as (1) visibility on growth (if there is growth, as we see limited growth drivers) and margin recovery is low; (2) ROCE should come in below WACC in the short-term; (3) we believe the dividend could be lowered; (4) the balance sheet no longer seems very strong (net debt/EBITDA > 2.0x in 2012F); and (5) valuation seems stretched on our new estimates (17.6x and 12.9x PER 2012-13F). Our TP reflects a 10.0x 2013F PER.

Forecasts and ratios

Year end Dec (€m)	2009	2010	2011F	2012F	2013F
Revenues	2,438	3,262	3,331	3,285	3,418
Normalised EBITDA	410	753	531	369	422
Normalised net profit	176	396	188	100	137
Normalised EPS (€)	2.98	6.68	3.14	1.67	2.28
Normalised PER (x)	9.9	4.4	9.4	17.6	12.9
EV/normalised EBITDA (x)	6.0	3.4	4.7	6.6	5.7
FCF yield (%)	13.5	5.4	n/a	7.8	7.7
Dividend yield (%)	3.3	5.7	3.4	3.7	4.1
Price/book (x)	1.4	1.1	1.1	1.1	1.0
Normalised ROE (%)	14.6	27.3	11.8	6.2	8.3

Source: Company data, ING estimates

## Changes in estimates

Fig 1 Bekaert: Changes in key estimates

	2009	2010	2011F old	2011F new	%ch	%YoY	2012F old	2012F new	%ch	%YoY	2013F old	2013F new	%ch	%YoY
EMEA	828	1,066	1,184	1,184	0%	11%	1,184	1,184	0%	0%	1,208	1,208	0%	2%
North America	473	637	655	655	0%	3%	574	598	4%	-9%	586	609	4%	2%
Latin America	327	311	355	355	0%	14%	362	362	0%	2%	376	376	0%	4%
Asia Pacific	810	1,248	1,137	1,137	0%	-9%	1,141	1,141	0%	0%	1,224	1,224	0%	7%
<b>Consolidated sales</b>	<b>2,438</b>	<b>3,262</b>	<b>3,331</b>	<b>3,331</b>	<b>0%</b>	<b>2%</b>	<b>3,262</b>	<b>3,285</b>	<b>1%</b>	<b>-1%</b>	<b>3,394</b>	<b>3,418</b>	<b>1%</b>	<b>4%</b>
EMEA	1	95	97	94	-3%	-1%	95	95	0%	0%	97	109	13%	15%
North America	-5	34	41	40	-4%	17%	34	36	4%	-10%	38	43	12%	19%
Latin America	28	26	30	29	-3%	11%	30	29	-5%	0%	32	34	6%	17%
Asia Pacific	288	470	267	217	-19%	-54%	176	93	-47%	-57%	175	111	-37%	20%
Other	-55	-63	-83	-83	1%		-83	-83	1%		-84	-75	-11%	
<b>REBIT</b>	<b>257</b>	<b>562</b>	<b>353</b>	<b>296</b>	<b>-16%</b>	<b>-47%</b>	<b>252</b>	<b>169</b>	<b>-33%</b>	<b>-43%</b>	<b>258</b>	<b>222</b>	<b>-14%</b>	<b>31%</b>
EMEA	0.1%	8.9%	8.2%	8.0%			8.0%	8.0%			8.0%	9.0%		
North America	-1.1%	5.3%	6.3%	6.1%			6.0%	6.0%			6.5%	7.0%		
Latin America	8.6%	8.3%	8.4%	8.1%			8.4%	8.0%			8.5%	9.0%		
Asia Pacific	35.6%	37.7%	23.5%	19.1%			15.4%	8.1%			14.3%	9.1%		
<b>REBIT margin (%)</b>	<b>10.5%</b>	<b>17.2%</b>	<b>10.6%</b>	<b>8.9%</b>			<b>7.7%</b>	<b>5.1%</b>			<b>7.6%</b>	<b>6.5%</b>		
Non-recurring	-25	-28	-15	-111	637%		-15	-15	0%		-15	-15	0%	
<b>EBIT</b>	<b>232</b>	<b>534</b>	<b>338</b>	<b>186</b>	<b>-45%</b>	<b>-65%</b>	<b>237</b>	<b>154</b>	<b>-35%</b>	<b>-17%</b>	<b>243</b>	<b>207</b>	<b>-15%</b>	<b>34%</b>
EBIT margin	9.5%	16.4%	10.1%	5.6%			7.3%	4.7%			7.2%	6.0%		
Net financing charges	-66	-32	-66	-66	0%		-60	-65	8%		-53	-65	23%	
Taxes	-34	-140	-76	-54	-30%		-53	-27	-50%		-56	-41	-26%	
Share in the JV's	38	36	30	27	-10%		31	28	-9%		32	29	-9%	
Minorities	-19	-31	-19	-15	-20%		-14	-5	-64%		-15	-8	-48%	
Net profit	152	368	207	78	-62%	-79%	141	85	-40%	10%	151	122	-19%	43%
<b>Normalised net profit</b>	<b>176</b>	<b>396</b>	<b>222</b>	<b>188</b>	<b>-15%</b>		<b>156</b>	<b>100</b>	<b>-36%</b>		<b>165</b>	<b>136</b>	<b>-18%</b>	
Reported EPS (€)	2.56	6.20	3.45	1.30	-62%		2.36	1.42	-40%		2.52	2.03	-19%	
<b>Normalised EPS (€)</b>	<b>2.98</b>	<b>6.68</b>	<b>3.70</b>	<b>3.14</b>	<b>-15%</b>	<b>-53%</b>	<b>2.61</b>	<b>1.67</b>	<b>-36%</b>	<b>-47%</b>	<b>2.76</b>	<b>2.27</b>	<b>-18%</b>	<b>35%</b>

Source: Company data, ING estimates

## Risks

Key upside risks are (1) stronger-than-expected growth in the automotive, construction and solar markets; (2) an unexpected fall in labour, energy and transportation costs; and (3) a faster-than-anticipated execution of the cost savings plan.

## Financials

Year end Dec (€m)	2006	2007	2008	2009	2010	2011F	2012F	2013F
<b>Income statement</b>								
Revenues	2,010	2,174	2,663	2,438	3,262	3,331	3,285	3,418
Cost of goods sold	(1,615)	(1,740)	(2,061)	(1,904)	(2,358)	(2,686)	(2,761)	(2,833)
<b>Gross profit</b>	<b>395</b>	<b>434</b>	<b>602</b>	<b>534</b>	<b>904</b>	<b>645</b>	<b>524</b>	<b>584</b>
Operating costs	(133)	(135)	(190)	(149)	(179)	(224)	(170)	(178)
<b>EBITDA</b>	<b>262</b>	<b>299</b>	<b>412</b>	<b>385</b>	<b>725</b>	<b>420</b>	<b>354</b>	<b>407</b>
Depreciation & amortisation	(116)	(124)	(202)	(153)	(191)	(235)	(200)	(200)
Impairments	0	0	0	0	0	0	0	0
<b>EBIT</b>	<b>146</b>	<b>175</b>	<b>210</b>	<b>232</b>	<b>534</b>	<b>186</b>	<b>154</b>	<b>207</b>
Net interest	(31)	(41)	(49)	(66)	(32)	(66)	(65)	(65)
Associates	51	47	56	38	36	27	28	29
Other pre-tax items	0	0	0	0	0	0	0	0
<b>Pre-tax profit</b>	<b>166</b>	<b>181</b>	<b>217</b>	<b>204</b>	<b>538</b>	<b>147</b>	<b>117</b>	<b>171</b>
Tax	(18)	(19)	(26)	(34)	(140)	(54)	(27)	(41)
Minorities	(5)	(9)	(18)	(19)	(31)	(15)	(5)	(8)
Other post-tax items	0	0	0	0	0	0	0	0
<b>Net profit</b>	<b>143</b>	<b>153</b>	<b>174</b>	<b>152</b>	<b>368</b>	<b>78</b>	<b>85</b>	<b>122</b>
<b>Normalised EBITDA</b>	<b>279</b>	<b>310</b>	<b>496</b>	<b>410</b>	<b>753</b>	<b>531</b>	<b>369</b>	<b>422</b>
<b>Normalised EBIT</b>	<b>163</b>	<b>186</b>	<b>294</b>	<b>257</b>	<b>562</b>	<b>296</b>	<b>169</b>	<b>222</b>
<b>Normalised net profit</b>	<b>160</b>	<b>165</b>	<b>258</b>	<b>176</b>	<b>396</b>	<b>188</b>	<b>100</b>	<b>137</b>
<b>Balance sheet</b>								
Tangible fixed assets	1,062	1,133	1,271	1,346	1,539	1,499	1,529	1,529
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	59	125	178
Other current assets	833	904	1,140	1,018	1,464	1,696	1,642	1,667
<b>Total assets</b>	<b>2,220</b>	<b>2,313</b>	<b>2,667</b>	<b>2,830</b>	<b>3,673</b>	<b>3,481</b>	<b>3,524</b>	<b>3,601</b>
Short-term debt	218	253	503	151	320	320	320	320
Other current liabilities	377	388	478	484	719	663	675	689
Long-term debt	274	322	288	598	700	550	550	550
Other long-term liabilities	242	203	226	223	236	236	236	236
<b>Total liabilities</b>	<b>1,111</b>	<b>1,166</b>	<b>1,495</b>	<b>1,456</b>	<b>1,977</b>	<b>1,770</b>	<b>1,782</b>	<b>1,796</b>
Total equity	1,109	1,147	1,172	1,374	1,697	1,676	1,706	1,770
<b>Total liabilities &amp; equity</b>	<b>2,220</b>	<b>2,313</b>	<b>2,667</b>	<b>2,830</b>	<b>3,673</b>	<b>3,446</b>	<b>3,489</b>	<b>3,566</b>
Capital employed	1,601	1,722	1,964	2,123	2,717	2,547	2,577	2,641
Net working capital	593	644	793	640	1,004	1,238	1,172	1,183
Net debt (cash)	411	502	673	474	578	812	746	693
<b>Cash flow</b>								
Cash flow EBITDA	301	333	425	401	779	444	382	436
Change in working capital	(32)	(42)	(162)	196	(277)	(288)	65	(10)
Other non-cash items	(59)	(45)	(13)	(68)	(3)	(15)	0	0
<b>Operating cash flow</b>	<b>209</b>	<b>246</b>	<b>250</b>	<b>529</b>	<b>499</b>	<b>142</b>	<b>447</b>	<b>426</b>
Cash interest paid	(22)	(31)	(32)	(39)	(43)	(63)	(65)	(65)
Cash taxes paid	(17)	(25)	(28)	(31)	(113)	(54)	(27)	(41)
<b>Net cash from operating activities</b>	<b>171</b>	<b>191</b>	<b>191</b>	<b>458</b>	<b>342</b>	<b>25</b>	<b>356</b>	<b>319</b>
Capex	(161)	(200)	(251)	(167)	(248)	(240)	(230)	(200)
Net acquisitions	(43)	(11)	(44)	(4)	(17)	80	0	0
Other net investing cash flows	47	58	51	43	54	0	0	0
<b>Cash from investing activities</b>	<b>(157)</b>	<b>(152)</b>	<b>(243)</b>	<b>(127)</b>	<b>(211)</b>	<b>(160)</b>	<b>(230)</b>	<b>(200)</b>
Increase (decrease) in equity	0	0	0	0	0	0	0	0
Increase (decrease) in debt	0	0	165	(46)	210	150	0	0
Dividends & minority distribution	(74)	(57)	(62)	(51)	(119)	(99)	(60)	(66)
Other financing cash flow	(17)	25	(4)	(204)	32	0	0	0
<b>Cash from financing activities</b>	<b>(91)</b>	<b>(32)</b>	<b>98</b>	<b>(301)</b>	<b>124</b>	<b>51</b>	<b>(60)</b>	<b>(66)</b>
Forex & discontinued operations	(2)	(1)	0.8	(13)	5			
<b>Net change in cash &amp; equivalents</b>	<b>(80)</b>	<b>6</b>	<b>47</b>	<b>16</b>	<b>261</b>	<b>(84)</b>	<b>66</b>	<b>53</b>
FCF	31	22	(29)	331	138	(152)	191	184

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
<b>Performance &amp; returns</b>								
Revenue growth (%)	5.0	8.2	22.5	-8.5	33.8	2.1	-1.4	4.0
Normalised EBITDA growth (%)	-3.5	11.2	59.8	-17.4	83.8	-29.5	-30.5	14.3
Normalised EBIT growth (%)	-3.0	14.3	57.9	-12.7	118.9	-47.3	-43.0	31.3
Normalised EPS growth (%)	-4.1	10.4	59.2	-31.6	124.0	-52.9	-46.7	36.3
Gross margin (%)	19.7	20.0	22.6	21.9	27.7	19.4	16.0	17.1
Normalised EBITDA margin (%)	13.9	14.3	18.6	16.8	23.1	15.9	11.2	12.3
Normalised EBIT margin (%)	8.1	8.6	11.0	10.5	17.2	8.9	5.1	6.5
Reported net margin (%)	7.1	7.0	6.5	6.2	11.3	2.3	2.6	3.6
Reported ROE (%)	13.5	14.2	15.6	12.6	25.4	4.9	5.3	7.4
Normalised ROA (%)	7.3	8.2	11.8	9.3	17.3	8.3	4.8	6.2
ROAIC (%)	6.9	7.9	8.9	8.9	15.9	4.6	4.5	5.7
ROACE (%)	10.0	11.2	16.0	12.6	23.2	11.3	6.6	8.5
ROACE - WACC (%)	2.0	2.9	7.3	4.0	14.7	2.8	-1.9	-0
<b>Leverage &amp; solvency</b>								
Working capital as % of sales	29.5	29.6	29.8	26.3	30.8	37.2	35.7	34.6
Net debt (cash)/EBITDA (x)	1.6	1.7	1.6	1.2	0.80	1.9	2.1	1.7
Net debt (cash)/equity (%)	37.1	43.8	57.4	34.5	34.1	48.4	43.7	39.1
EBITDA net interest coverage (x)	8.5	7.3	8.4	5.9	22.4	6.3	5.4	6.3
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	n/a	3.1	2.8
<b>Valuation</b>								
EV/revenue (x)	1.2	1.1	0.98	1.0	0.79	0.75	0.74	0.70
EV/normalised EBITDA (x)	8.5	7.8	5.3	6.0	3.4	4.7	6.6	5.7
EV/normalised EBIT (x)	14.5	13.1	8.9	9.6	4.6	8.5	14.5	10.8
EV/capital employed (x)	1.5	1.4	1.3	1.2	0.95	0.99	0.95	0.91
EV/invested capital (x)	1.3	1.3	1.2	1.0	0.87	0.89	0.86	0.82
Normalised PER (x)	11.8	10.7	6.7	9.9	4.4	9.4	17.6	12.9
Price/book (x)	1.7	1.6	1.5	1.4	1.1	1.1	1.1	1.0
Dividend yield (%)	2.8	3.1	3.2	3.3	5.7	3.4	3.7	4.1
FCF yield (%)	1.3	0.89	n/a	13.5	5.4	n/a	7.8	7.7
<b>Per share data</b>								
Reported EPS (€)	2.22	2.54	2.94	2.56	6.20	1.30	1.42	2.03
Normalised EPS (€)	2.48	2.74	4.36	2.98	6.68	3.14	1.67	2.28
Dividend per share (€)	0.83	0.92	0.93	0.98	1.67	1.00	1.10	1.20
Equity FCFPS (€)	0.14	(0.15)	(1.02)	4.93	1.60	(3.59)	2.10	1.99
BV/share (€)	16.87	18.46	19.05	21.59	26.90	26.55	27.06	28.12

Source: Company data, ING estimates

## Company profile

Bekaert is a global technological and market leader in advanced solutions based on metal transformation and coatings. It is also the world's largest independent manufacturer of drawn steel wire products. Bekaert is a global company with headquarters in Belgium, employing 28,000 people worldwide. Serving customers in 120 countries, Bekaert pursues sustainable profitable growth in all of its activities and generated combined sales of €4.5bn in 2010.

# Disclosures Appendix

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Hold	37%	50%
Sell	10%	44%
	<b>100%</b>	

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

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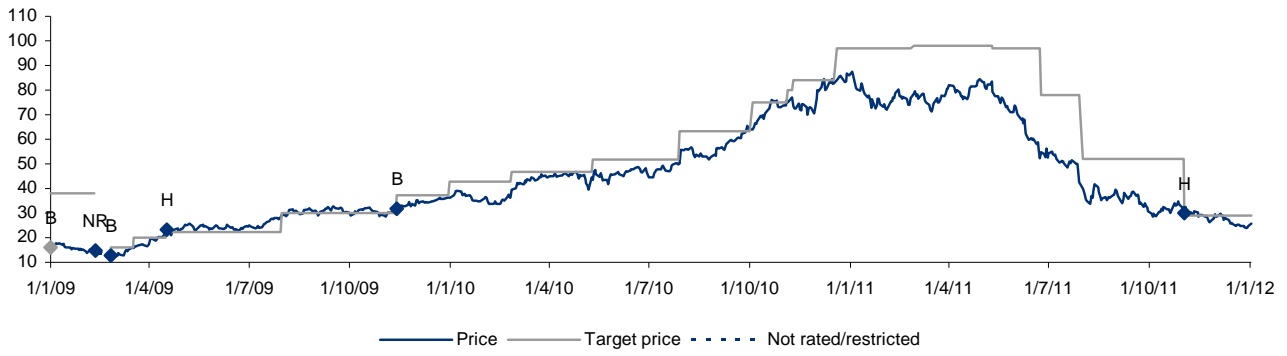
**Buy:** Forecast 12-mth absolute total return greater than +15%

**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 02/01/12: 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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<b>Bratislava</b>	ING Bank N.V., pobočka zahraničnej banky, Jesenskeho 4/C, 811 02 Bratislava, Slovak Republic. <i>National Bank of Slovakia</i>
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<b>Moscow</b>	ING BANK (EURASIA) ZAO, 36, Krasnoproletarskaya ulitsa, 127473 Moscow, Russia. <i>Federal Financial Markets Service</i>
<b>Mumbai</b>	ING Vysya Bank Limited, Plot C-12, Block-G, 7th Floor, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051, India. <i>Securities and Exchange Board of India</i>
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<b>Singapore</b>	ING Bank N.V. Singapore Branch, 19/F Republic Plaza, 9 Raffles Place, #19-02, Singapore, 048619. <i>Monetary Authority of Singapore</i>
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