

Friday 3 May 2012

**Bekaert****Price (€): 22.11 (2/05/12)****Results date: 9/5/12****Target price (€): 20****Sell**

€m	1Q11	1Q12F	% Change	Consensus
Consolidated sales	918.0	898.0	-2.2%	N/A
EMEA	307.0	303.0	-1.3%	N/A
North America	176.0	160.0	-9.1%	N/A
Latin America	82.00	169.00	106.1%	N/A
Asia Pacific	353.00	266.00	-24.6%	N/A
Combined sales	1239	1171.0	-5.5%	N/A

We estimate Bekaert's 1Q12 consolidated sales to decrease by 2% YoY to €898m. Combined sales (including JV) are estimated to drop by 5% YoY to €1171m. Note that the consolidated sales will be influenced by three changes in the consolidation scope: (1) the consolidation of the LATAM activities will add €75m sales per quarter; (2) the sale of Bekaert's Specialty Film activities should lower sales by c.€25m per quarter; (3) the sale of the Industrial Coatings activities should lower sales by some €11m per quarter. Excluding consolidation changes, we estimate 1Q12 sales to drop by 6% YoY. Since we estimate a 4% positive currency impact, we expect underlying organic sales to decrease by 10% YoY, mainly due to (1) dramatic developments in the PV solar business; (2) economic uncertainty; and (3) increased competition in most markets.

Bekaert targets to improve its REBIT margin gradually from 2.5% in 2H11 to 7.0% by 2014 via (1) rightsizing Bekaert's global sawing wire operations to the changed market environment; (2) improving the cost structure. To rightsize the sawing wire activity, Bekaert needs to cut 1,250 jobs in China and some 600 in Belgium. Although these negotiations could take slightly longer than expected and could be more expensive, the overall execution risk is limited. The execution risk on lowering the cost structure by €100m seems much more challenging as Bekaert always claimed to be a lean and mean company and as SG&A expenses amount to c. €400m. Since we believe valuation is demanding on our 2012F and 2013F P/E (17.0 and 12.3x, respectively), we reiterate our Sell recommendation.

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