ING

Bekaert				1H12F
Price (€): 20.71 (4/07/12)				Results date: 27/7/12
Target price (€): 20				Sell
€m	1H11	1H12F	% change	Consensus
Consolidated sales	1,780.0	1,842.0	3.5%	
Combined sales	2,412.0	2,301.0	-4.6%	
REBIT	241.9	82.3	-66.0%	
EBIT	231.40	-38.00	n/a	

- We estimate Bekaert's 1H12 consolidated sales to increase by 3.5% YoY to €1842m. Combined sales (including JV) are estimated to drop by 4.6% YoY to €2301m. Note that the consolidated sales will be influenced by three changes in the consolidation scope: (1) the consolidation of the LATAM activities adds €75m sales per quarter; (2) the sale of Bekaert's Specialty Film activities should lower sales by some €25m per quarter; (3) the sale of the Industrial Coatings activities should lower sales by some €11m per quarter. Excluding consolidation changes, we estimate 1H12 sales to drop by 1% YoY. Since we estimate a 4% positive currency impact, we expect underlying organic sales to decrease by 5% YoY (-14% 1Q12), mainly due to (1) dramatic developments in the PV solar business (2) economic uncertainty (3) increased competition in most markets. We estimate the underlying organic sales decline to improve substantially in 2Q12 as the comparison base eases and as we expect tire cord sales to improve.
- ING forecasts Bekaerts REBIT margin to improve from 2.5% in 2H11 to 4.5% in 1H12. The margin improvement should come from (1) a less negative impact from inventory revaluations (€5m vs €10m or 30bp); (2) the fact that margins should no longer be affected by start up costs in Russia & Slovakia (€5m or 30bp); (3) The positive impact from rightsizing the sawing wire business in China (€3m of 15bp); (4) seasonal effects, i.e. utilization rates and hence margins are much higher in 1H.
- Bekaert targets to improve its EBIT margin gradually from 2.5% in 2H11 to 7.0% by 2014 via (1) rightsizing Bekaert' global sawing wire operations to the changed market environment; (2) lowering the cost structure by €100m (on a base of €600m) by end 2013. We believe these savings should mainly come from China as the rapid growth over the last years has resulted in a less efficient organisation. To rightsize the sawing wire activity, Bekaert cut 1250 jobs in China and some 600 in Belgium. We estimate these restructurings to result in a €120m restructuring cost of which some 50% will have a cash impact while the remainder relates to impairments. Since Bekaert states that the restructurings will have a pay back of 2 years, we estimate the Belgian restructuring to improve earnings by €30m pa.
- The execution risk on lowering the cost structure by €100m seems challenging as Bekaert always claimed to be a lean and mean company. In addition, there is risk that earnings will be hit by (1) impact global recession; (2) overcapacity sawing wire; (3) maturity Chinese tire cord market. Since valuation in demanding on our 2012 and 2013 P/E (15.9 and 11.4x respectively), we reiterate our sell recommendation.

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