

**Change in recommendation**  
 14 November 2012

**Hold** (previously Sell)

 Price (14/11/12)  
 €18.56

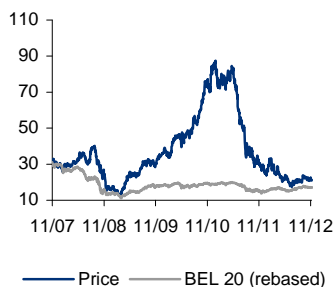
 Target price (12-mth)  
 €17.00 (previously €16.00)

 Forecast total return  
 -4.6%

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

Avg daily volume (3-mth)	96,721
Free float (%)	60.9
Market cap (€m)	1,112.9
Net debt (1F, €m)	839
Enterprise value (1F, €m)	2,021
Dividend yield (1F, %)	3.8

Source: Company data, ING estimates

**Share price performance**


Source: ING

# Bekaert

## Share price risk more balanced post 12% drop

**We lower our 2012-13F REBIT by c.6-7% following Bekaert's cautious outlook statement. Still, post the 12% share price drop yesterday, risks to the share price seem more balanced, in our view. We upgrade Bekaert from Sell to HOLD and remove the shares from our Benelux least preferred list. Our new TP of €17 (€16 previously) reflects 10x 2013F EV/EBIT, in line with peer Xingda.**

**Improvement in 3Q12 organic sales decline, but very cautious outlook.** 3Q12 consolidated sales increased 6% YoY, but more importantly organic sales declined 9% YoY in 3Q12 (with volumes up 1% YoY), an improvement from an 11% decline in 2Q12. Given that we anticipated 2Q12 trends to persist, this seems to be a small positive. The outlook statement, however, reads as very cautious. The company hinted at: (1) declining activities in most industries and highly competitive market conditions in all regions; (2) in addition to usual seasonality, sustained price pressure in Asia, negative mix effects in EMEA and increased risk in Venezuela, which accounts for c.30% of Latam REBIT; the latter risks seem currency-related and raw material delivery related, after the local wire rod supplier was nationalised and seems to prioritise deliveries to local construction companies; and (3) €100m in estimated bad debt provisions and non-recurring expenses in 1H12 related to solar (sawing wire).

**Change in estimates/key assumptions.** We lower our 2012F and 2013F REBIT by 7% and 6%, respectively, to €146m and €208m. This implies margins of 4.2% and 5.9%. Our key assumptions are: (1) caution on 2H12 REBIT (we assume 2H12F REBIT accounts for only 40% of 2012F REBIT); (2) 2013F top-line growth in line with GDP per region; and (3) a gradual recovery to the targeted 7-8% EBIT margin range by 2014F, predominantly driven by guidance for €100m in cost savings. More precisely, we anticipate a €60m REBIT improvement per annum in both 2013F and 2014F.

**We upgrade to HOLD (from Sell) with a revised TP of €17 (previously €16)** as: (1) our new estimates do not differ materially from company-collated consensus; (2) at our TP of €17, valuation seems to be in line with peer Xingda (HK\$3.22, Not Rated) at 10x 2013F EV/EBIT; this corresponds with a valuation of 0.55x 2013F EV/sales, which seems fair versus a 2013F EBIT margin of 5.4%; and (3) upside and downside risks to the share price now seem more balanced. Downside risks include: (1) severe weakening of 4Q12 trading conditions versus 3Q12, mainly in automotive and construction (unlikely, in our view); (2) increasing problems with raw material deliveries in Venezuela; and (3) cost savings competed away/delayed via increased competition. Upside risks include: (1) more-than-anticipated operating leverage from top-line growth; (2) more cost savings announcements/faster delivery on cost savings; and (3) higher CF generation, mainly via working capital reduction.

**Forecasts and ratios**

Year end Dec (€m)	2010	2011	2012F	2013F	2014F
Revenues	3,262	3,340	3,433	3,559	3,691
Normalised EBITDA	753	489	362	425	456
Normalised net profit	381	190	31	76	120
Normalised EPS (€)	6.42	3.23	0.51	1.27	2.00
Normalised PER (x)	2.9	5.8	36.2	14.6	9.3
EV/normalised EBITDA (x)	2.2	4.1	5.6	4.6	4.1
FCF yield (%)	5.8	n/a	7.0	9.4	10.7
Dividend yield (%)	9.0	6.3	3.8	3.8	3.8
Price/book (x)	0.69	0.66	0.76	0.73	0.69
Normalised ROE (%)	26.3	11.5	1.9	5.1	7.6

Source: Company data, ING estimates

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## 3Q12 sales

Fig 1 Bekaert: 3Q12 consolidated sales (€m)

	3Q11	2Q12	3Q12F	3Q12	% YoY
Sales EMEA	293	267	255	253	-13.7
Sales North America	172	176	168	166	-3.5
Sales Latam	97	200	187	212	118.6
Sales Asia Pac	254	246	233	234	-7.9
<b>Sales</b>	<b>816</b>	<b>889</b>	<b>843</b>	<b>865</b>	<b>6.0</b>
Net debt (Bekaert def.)	763	866		790	3.5

Source: Company data, ING estimates

## Change in estimates

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

	2012F			2013F		
	Old	New	Diff. (%)	Old	New	Diff. (%)
Sales	3,429	3,433	0.1	3,548	3,559	0.3
<b>REBIT</b>	<b>157</b>	<b>146</b>	<b>-6.9</b>	<b>221</b>	<b>208</b>	<b>-5.9</b>
<b>EBIT</b>	<b>56</b>	<b>-25</b>	<b>n/a</b>	<b>205</b>	<b>193</b>	<b>-5.7</b>
Reported EPS (€)	-1.44	-2.79	n/a	1.46	1.27	-13.1
Normalised EPS (€)	0.64	0.51	-20.3	1.46	1.52	3.9
<b>Net debt</b>	<b>815</b>	<b>839</b>	<b>3.0</b>	<b>718</b>	<b>776</b>	<b>8.1</b>

Source: ING estimates

## Valuation

Fig 3 Bekaert: Multiple-based valuation (€m)

2013F	Sales	EBITDA	EBIT	EBIT margin (%)	EV/sales	EV/EBITDA	EV/EBIT	Fair value
<b>Enterprise value</b>	<b>3,559</b>	<b>410</b>	<b>193</b>	<b>5.4</b>	<b>0.55</b>	<b>4.8</b>	<b>10.1</b>	<b>1,957</b>
- Net debt								(776)
- Minorities								(174)
- LT pension liabilities								(161)
+ Associates								178
= Equity value								1,023
No. of shares (m)								60.0
<b>Equity value/share (€)</b>								<b>17.1</b>

Source: ING estimates

## P&L

Fig 4 Bekaert: P&amp;L (€m)

	2010	1H11	2H11	2011	1H12	2H12F	2012F	2013F	2014F
EMEA	1,066	614	555	1,169	557	483	1,040	1,061	1,082
North America	637	354	311	665	352	316	668	681	695
Latin America	311	173	199	372	397	392	789	821	857
Asia Pacific	1,248	639	495	1,134	478	459	936	996	1,056
<b>Consolidated sales</b>	<b>3,262</b>	<b>1,780</b>	<b>1,560</b>	<b>3,340</b>	<b>1,784</b>	<b>1,649</b>	<b>3,433</b>	<b>3,559</b>	<b>3,691</b>
EMEA	28.7	16.7	2.8	9.7	-9.3	-13.0	-11.0	2.0	2.0
North America	34.6	13.1	-4.0	4.4	-0.6	1.6	0.5	2.0	2.0
Latin America	-4.9	20.1	19.2	19.6	129.5	97.0	112.1	4.0	4.5
Asia Pacific	54.2	15.8	-28.9	-9.1	-25.2	-7.3	-17.5	6.4	6.1
<b>Consolidated sales (%YoY)</b>	<b>33.8</b>	<b>16.0</b>	<b>-9.7</b>	<b>2.4</b>	<b>0.2</b>	<b>5.7</b>	<b>2.8</b>	<b>3.7</b>	<b>3.7</b>
EMEA	95.1	54.4	12.0	66.4	36.0	24.2	60.2	70.0	80.1
North America	34.0	27.7	4.0	31.7	21.0	14.2	35.2	45.0	50.0
Latin America	25.9	16.1	19.0	35.1	29.0	27.4	56.4	59.1	65.2
Asia Pacific	470.4	185.0	39.0	224.0	35.1	28.9	64.1	94.3	128.7
Other	(63.0)	(41.3)	(35.0)	(76.3)	(36.0)	(34.0)	(70.0)	(60.0)	(55.0)
<b>REBIT</b>	<b>562.2</b>	<b>241.9</b>	<b>39.0</b>	<b>280.9</b>	<b>85.1</b>	<b>60.7</b>	<b>145.9</b>	<b>208.3</b>	<b>269.0</b>
EMEA	8.9	8.9	2.2	5.7	6.5	5.0	5.8	6.6	7.4
North America	5.3	7.8	1.3	4.8	6.0	4.5	5.3	6.6	7.2
Latin America	8.3	9.3	9.5	9.4	7.3	7.0	7.2	7.2	7.6
Asia Pacific	37.7	29.0	7.9	19.8	7.3	6.3	6.8	9.5	12.2
<b>REBIT margin (%)</b>	<b>17.2</b>	<b>13.6</b>	<b>2.5</b>	<b>8.4</b>	<b>4.8</b>	<b>3.7</b>	<b>4.2</b>	<b>5.9</b>	<b>7.3</b>
Non-recurring	(28.0)	(10.5)	(2.0)	(12.5)	(81.0)	(90.0)	(171.0)	(15.0)	(15.0)
<b>EBIT</b>	<b>534.3</b>	<b>231.4</b>	<b>37.0</b>	<b>268.4</b>	<b>4.1</b>	<b>(29.3)</b>	<b>(25.1)</b>	<b>193.3</b>	<b>254.0</b>
EBIT margin (%)	16.4	13.0	2.4	8.0	0.2	-1.8	-0.7	5.4	6.9
Net financing charges	(32.4)	(34.7)	16.2	(18.5)	(52.8)	(29.3)	(82.1)	(79.3)	(76.3)
Taxes	(139.5)	(53.5)	(14.6)	(68.1)	(27.5)	(27.5)	(55.0)	(33.1)	(53.3)
Share in the JVs	36.1	14.1	11.3	25.4	6.0	6.0	12.0	12.0	12.6
Minorities	(30.9)	(13.4)	(1.2)	(14.6)	(8.4)	(8.4)	(16.8)	(16.8)	(16.8)
Net profit	368	144	49	193	(79)	(88)	(167)	76	120
<b>Normalised net profit</b>	<b>381</b>	<b>154</b>	<b>51</b>	<b>190</b>	<b>21</b>	<b>10</b>	<b>31</b>	<b>91</b>	<b>135</b>

Source: Company data, ING estimates

## Financials

Year end Dec (€m)	2007	2008	2009	2010	2011	2012F	2013F	2014F
<b>Income statement</b>								
Revenues	2,174	2,663	2,438	3,262	3,340	3,433	3,559	3,691
Cost of goods sold	(1,740)	(2,061)	(1,904)	(2,358)	(2,689)	(2,906)	(2,962)	(3,025)
<b>Gross profit</b>	<b>434</b>	<b>602</b>	<b>534</b>	<b>904</b>	<b>651</b>	<b>527</b>	<b>597</b>	<b>665</b>
Operating costs	(136)	(189)	(149)	(179)	(175)	(294)	(187)	(225)
<b>EBITDA</b>	<b>298</b>	<b>412</b>	<b>385</b>	<b>725</b>	<b>476</b>	<b>233</b>	<b>410</b>	<b>441</b>
Depreciation & amortisation	(124)	(202)	(153)	(191)	(208)	(259)	(217)	(187)
Impairments	0	0	0	0	0	0	0	0
<b>EBIT</b>	<b>175</b>	<b>210</b>	<b>232</b>	<b>534</b>	<b>268</b>	<b>(25)</b>	<b>193</b>	<b>254</b>
Net interest	(41)	(49)	(66)	(32)	(19)	(82)	(79)	(76)
Associates	47	56	38	36	25	12	12	13
Other pre-tax items	0	0	0	0	0	0	0	0
<b>Pre-tax profit</b>	<b>181</b>	<b>217</b>	<b>204</b>	<b>538</b>	<b>275</b>	<b>(95)</b>	<b>126</b>	<b>190</b>
Tax	(19)	(26)	(34)	(140)	(68)	(55)	(33)	(53)
Minorities	(9)	(18)	(19)	(31)	(15)	(17)	(17)	(17)
Other post-tax items	0	0	0	0	0	0	0	0
<b>Net profit</b>	<b>153</b>	<b>174</b>	<b>152</b>	<b>368</b>	<b>193</b>	<b>(167)</b>	<b>76</b>	<b>120</b>
<b>Normalised EBITDA</b>	<b>306</b>	<b>419</b>	<b>396</b>	<b>753</b>	<b>489</b>	<b>362</b>	<b>425</b>	<b>456</b>
<b>Normalised EBIT</b>	<b>186</b>	<b>294</b>	<b>257</b>	<b>562</b>	<b>281</b>	<b>146</b>	<b>208</b>	<b>269</b>
<b>Normalised net profit</b>	<b>150</b>	<b>243</b>	<b>161</b>	<b>381</b>	<b>190</b>	<b>31</b>	<b>76</b>	<b>120</b>
<b>Balance sheet</b>								
Tangible fixed assets	1,133	1,271	1,346	1,539	1,692	1,540	1,473	1,446
Intangible fixed assets	122	111	105	131	104	104	104	104
Other non-current assets	80	27	84	96	105	105	105	105
Cash & equivalents	78	135	282	443	699	717	780	862
Other current assets	904	1,140	1,018	1,464	1,593	1,490	1,521	1,572
<b>Total assets</b>	<b>2,317</b>	<b>2,684</b>	<b>2,836</b>	<b>3,673</b>	<b>4,192</b>	<b>3,954</b>	<b>3,982</b>	<b>4,089</b>
Short-term debt	253	503	151	320	648	648	648	648
Other current liabilities	388	478	484	719	616	622	633	645
Long-term debt	322	288	598	700	908	908	908	908
Other long-term liabilities	203	226	223	236	230	230	230	230
<b>Total liabilities</b>	<b>1,166</b>	<b>1,495</b>	<b>1,456</b>	<b>1,977</b>	<b>2,403</b>	<b>2,408</b>	<b>2,420</b>	<b>2,432</b>
Total equity	1,147	1,172	1,374	1,697	1,766	1,546	1,597	1,692
<b>Total liabilities &amp; equity</b>	<b>2,313</b>	<b>2,667</b>	<b>2,830</b>	<b>3,673</b>	<b>4,169</b>	<b>3,954</b>	<b>4,017</b>	<b>4,124</b>
Capital employed	1,722	1,964	2,123	2,717	3,322	3,102	3,153	3,248
Net working capital	644	793	640	1,004	1,204	1,118	1,138	1,177
Net debt (cash)	498	656	467	578	857	839	776	694
<b>Cash flow</b>								
Cash flow EBITDA	333	425	401	779	549	245	422	453
Change in working capital	(42)	(162)	196	(277)	(200)	86	(20)	(39)
Other non-cash items	(45)	(13)	(68)	(46)	(114)	0	(35)	0
<b>Operating cash flow</b>	<b>246</b>	<b>250</b>	<b>529</b>	<b>456</b>	<b>235</b>	<b>331</b>	<b>367</b>	<b>414</b>
Cash interest paid	(31)	(32)	(39)	(43)	(59)	(82)	(79)	(76)
Cash taxes paid	(25)	(28)	(31)	(113)	(129)	(55)	(33)	(53)
<b>Net cash from operating activities</b>	<b>191</b>	<b>191</b>	<b>458</b>	<b>299</b>	<b>47</b>	<b>194</b>	<b>255</b>	<b>285</b>
Capex	(200)	(251)	(167)	(248)	(278)	(135)	(150)	(160)
Net acquisitions	(11)	(44)	(4)	(17)	83	29	0	0
Other net investing cash flows	58	51	43	54	9	0	0	0
<b>Cash from investing activities</b>	<b>(152)</b>	<b>(243)</b>	<b>(127)</b>	<b>(211)</b>	<b>(185)</b>	<b>(106)</b>	<b>(150)</b>	<b>(160)</b>
Increase (decrease) in equity	0	0	0	0	0	0	0	0
Increase (decrease) in debt	0	0	0	0	0	0	0	0
Dividends & minority distribution	(57)	(62)	(51)	(119)	(163)	(70)	(42)	(42)
Other financing cash flow	25	(4)	(204)	32	(238)	0	0	0
<b>Cash from financing activities</b>	<b>(32)</b>	<b>(66)</b>	<b>(255)</b>	<b>(86)</b>	<b>(401)</b>	<b>(70)</b>	<b>(42)</b>	<b>(42)</b>
Forex & discontinued operations	(1)	0.8	(13)	5				
<b>Net change in cash &amp; equivalents</b>	<b>6</b>	<b>(118)</b>	<b>63</b>	<b>7</b>	<b>(539)</b>	<b>18</b>	<b>63</b>	<b>83</b>
FCF	22	(29)	331	95	(172)	141	184	201

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	2007	2008	2009	2010	2011	2012F	2013F	2014F
<b>Performance &amp; returns</b>								
Revenue growth (%)	8.2	22.5	-8.5	33.8	2.4	2.8	3.7	3.7
Normalised EBITDA growth (%)	11.8	37.0	-5.6	90.3	-35.1	-25.8	17.2	7.2
Normalised EBIT growth (%)	14.3	57.9	-12.7	118.9	-50.0	-48.1	42.8	29.1
Normalised EPS growth (%)	10.7	64.9	-33.6	135.6	-49.8	-84.1	147.5	57.8
Gross margin (%)	20.0	22.6	21.9	27.7	19.5	15.3	16.8	18.0
Normalised EBITDA margin (%)	14.1	15.7	16.2	23.1	14.6	10.6	11.9	12.3
Normalised EBIT margin (%)	8.6	11.0	10.5	17.2	8.4	4.2	5.9	7.3
Reported net margin (%)	7.0	6.5	6.2	11.3	5.8	-4.9	2.1	3.3
Reported ROE (%)	14.2	15.6	12.6	25.4	11.7	-10.5	5.1	7.6
Normalised ROA (%)	8.2	11.8	9.3	17.3	7.1	3.6	5.3	6.7
ROAIC (%)	7.9	8.8	8.8	15.9	4.3	-2.3	4.8	5.9
ROACE (%)	11.2	16.0	12.6	23.2	9.3	4.5	6.7	8.4
ROACE - WACC (%)	2.9	7.3	4.0	14.7	0.80	-4.0	-1.8	-0.10
<b>Leverage &amp; solvency</b>								
Working capital as % of sales	29.6	29.8	26.3	30.8	36.0	32.6	32.0	31.9
Net debt (cash)/EBITDA (x)	1.7	1.6	1.2	0.80	1.8	3.6	1.9	1.6
Net debt (cash)/equity (%)	43.4	56.0	34.0	34.1	48.5	54.3	48.6	41.0
EBITDA net interest coverage (x)	7.3	8.4	5.9	22.4	25.7	2.8	5.2	5.8
Current ratio (x)	1.5	1.3	2.0	1.8	1.8	1.7	1.8	1.9
Dividend cover (cash flow) (x)	0.84	0.03	6.8	1.4	n/a	1.8	3.5	4.0
<b>Valuation</b>								
EV/revenue (x)	0.65	0.57	0.62	0.50	0.60	0.59	0.55	0.51
EV/normalised EBITDA (x)	4.6	3.6	3.8	2.2	4.1	5.6	4.6	4.1
EV/normalised EBIT (x)	7.5	5.1	5.8	2.9	7.1	13.9	9.4	7.0
EV/capital employed (x)	0.81	0.77	0.71	0.60	0.60	0.65	0.62	0.58
EV/invested capital (x)	0.73	0.68	0.64	0.55	0.56	0.61	0.58	0.54
Normalised PER (x)	7.5	4.5	6.8	2.9	5.8	36.2	14.6	9.3
Price/book (x)	1.0	0.97	0.86	0.69	0.66	0.76	0.73	0.69
Dividend yield (%)	5.0	5.0	5.3	9.0	6.3	3.8	3.8	3.8
FCF yield (%)	1.5	n/a	22.0	5.8	n/a	7.0	9.4	10.7
<b>Per share data</b>								
Reported EPS (€)	2.54	2.94	2.56	6.20	3.27	(2.79)	1.27	2.00
Normalised EPS (€)	2.49	4.11	2.73	6.42	3.23	0.51	1.27	2.00
Dividend per share (€)	0.92	0.93	0.98	1.67	1.17	0.70	0.70	0.70
Equity FCFPS (€)	(0.15)	(1.02)	4.93	0.87	(3.92)	0.99	1.75	2.08
BV/share (€)	18.46	19.05	21.59	26.90	28.24	24.57	25.42	27.00

Source: Company data, ING estimates

## Company profile

Bekaert is a global technological and market leader in advanced solutions based on metal transformation and coatings, and the world's largest independent manufacturer of drawn steel wire products. Bekaert is a global company with headquarters in Belgium, employing 27,000 people worldwide. Serving customers in 120 countries, Bekaert pursues sustainable profitable growth in all its activities and generated €4.6bn combined sales in 2011.

# Disclosures Appendix

## ANALYST CERTIFICATION

The analyst(s) who prepared this report hereby certifies that the views expressed in this report accurately reflect his/her personal views about the subject securities or issuers and no part of his/her compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this report.

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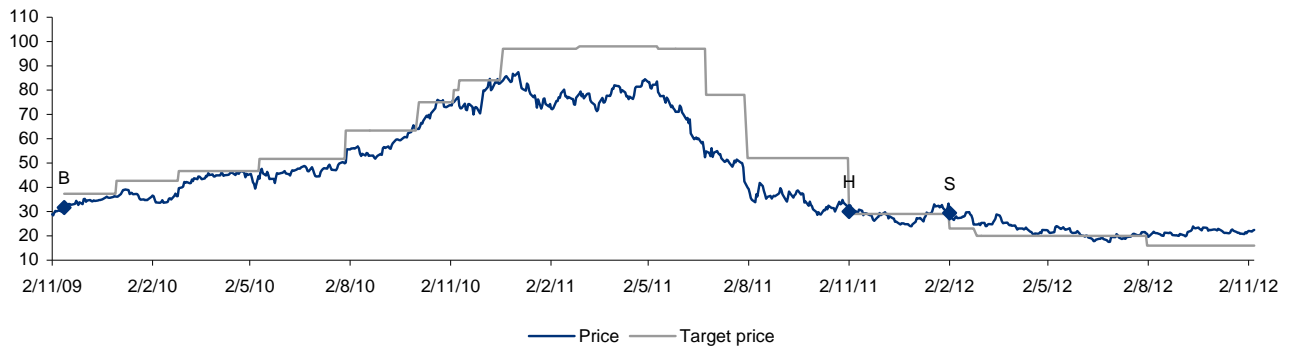
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Total return: forecast share price appreciation to target price plus forecast annual dividend. Price volatility and our preference for not changing recommendations too frequently means forecast returns may fall outside of the above ranges at times.

PRICE & RATINGS HISTORY TO 07/11/12: BEKAERT (BEKB.BR)



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Source: ING

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