

4 August 2009

BEKAERT

Focus on emerging markets pays off

ENGINEERING & MACHINERY
BELGIUM

CURRENT PRICE €87.66
TARGET PRICE €90.00

HOLD
RATING DOWNGRADED

Performance over	1M	3M	12M
Absolute	19%	24%	-21%
Rel. BEL20	11%	11%	8%
12m Hi/Lo	€ 120.32/37.88		
Bloomberg	BEKB.BB		
Reuters	BEKB.BR		
Market Cap	€ 1,734m		
Next corporate event			
Trading update 3Q09: 13 November 2009			
www.bekaert.com			

FY/e 31.12	2008	2009E	2010E	2011E
Sales (€ m)	2,662.4	2,506.8	2,627.9	2,752.3
REBITDA (€ m)	495.9	342.9	372.2	394.6
Net earnings (€ m)	174.1	102.7	124.9	141.2
Diluted adj. EPS (€)	12.02	5.70	6.81	7.61
Dividend (€)	2.80	2.80	2.80	2.80
P/E	7.34	15.38	12.88	11.52
EV/REBITDA	4.99	6.81	6.06	5.46
Free cash flow yield	-1.0%	10.8%	7.7%	9.0%
Dividend yield	3.2%	3.2%	3.2%	3.2%

Source: KBC Securities

The 1H09 results were in-line with consensus estimates, but the geographic breakdown of earnings came as a surprise. While EMEA and North America had an extremely weak first half, Bekaert was saved by its activities in emerging markets and China in particular. While a revision of our scenario has not led to major changes for FY10 and FY11, we have cut our adjusted EPS estimate for 2009 by 12.4%.

As we believe most of the short to medium-term upside potential has now materialised, we are downgrading our rating from Accumulate to Hold while increasing our target price to €90 per share, in line with our DCF valuation.

ASIA PACIFIC SAVES THE DAY

- Bekaert reported 1H09 consolidated sales of € 1.2bn, down 7.9% y/y. Weak market demand, especially in the mature markets, drove an organic sales decline of 20.6%. This was partially offset by the integration of Prodac (Peru) and Ideal Alambrec (Ecuador), adding 5.8%, and the positive effect of currency movements, which contributed 6.9%.
- Revenues and profit were impacted by the sharp and rapid price declines recorded in steel-based raw materials. Bekaert estimates the margin impact in the first half at approximately €40m. Raw material prices are currently stabilising, meaning that no further negative margin effect is expected for the second half. Obviously, sales will reflect the substantial y/y decline in raw material prices.
- While EMEA, North America and Latin America contributed only €0m, €4m and €12m to EBITDA, Asia Pacific saved the day with an EBITDA contribution of €157m.
- In the last couple of years, Bekaert's strategic focus was on the growth markets, whose share has increased from 35% of combined sales in 2002 to over 70% currently. The first half results clearly show this strategy has delivered.

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ORGANIC SALES DOWN 20.6% IN 1H09

Bekaert reported 1H09 consolidated sales of € 1,200m, down by 7.9% y/y. Weak market demand, especially in the mature markets, drove an organic sales decline of 20.6%. This was partially offset by the integration of Prodac (Peru) and Ideal Alambrec (Ecuador), adding 5.8%, and the positive effect of currency movements, which contributed 6.9%. As a reminder, Bekaert reported an organic sales decline of 14.3% in Q1. Particularly surprising in Q2 was the drop in North American sales.

Combined sales, including joint ventures and associates, fell 18.1% y/y. The organic sales decline of 20.7% was partially offset by favourable exchange movements, adding 2.6%.

CONSOLIDATED AND COMBINED SALES BY SEGMENT

€ m	Consolidated sales			Combined sales		
	1H08	1H09	y/y	1H08	1H09	y/y
EMEA	612	410	-33.0%	608	407	-33.1%
North America	289	263	-9.0%	287	259	-9.8%
Latin America	84	160	90.5%	751	579	-22.9%
Asia Pacific	318	367	15.4%	325	369	13.5%
TOTAL	1,303	1,200	-7.9%	1,971	1,615	-18.1%

Source : Company data

CHINA SAVES THE DAY

Bekaert reported 1H09 results in-line with consensus estimates. Recurring EBIT was down 47.3% to € 85.8m. This corresponds to a margin of 7.2%, down from the record-high 12.5% recorded in the same period last year. Revenues and profit were impacted by the sharp and rapid price declines recorded in steel-based raw materials. Bekaert estimates the margin impact in the first half at approximately € 40m. Raw material prices are currently stabilising, meaning that no further negative margin effect is expected for the second half. Obviously, sales will reflect the substantial y/y decline in raw material prices.

KEY FIGURES

	1H08	2H08	FY08	1Q09	2Q09	1H09E	1H09	2H09E	FY09E
EMEA	612.1	555.7	1,167.8	210.3	199.7	457.2	410.0	413.3	823.3
North America	289.0	316.1	605.1	141.9	121.1	299.1	263.0	290.7	553.7
Latin America	84.0	92.6	176.6	80.6	79.4	174.2	160.0	173.8	333.8
Asia Pacific	318.0	394.9	712.9	159.3	207.7	358.1	367.0	429.1	796.1
Consolidated sales	1,303.1	1,359.3	2,662.4	592.1	607.9	1,288.6	1,200.0	1,306.8	2,506.8
REBIT	162.9	131.4	294.2			102.6	85.8	92.0	177.9
REBIT margin %	12.5%	9.7%	11.1%			8.0%	7.2%	7.0%	7.1%
Result from operations	145.3	65.2	210.5			87.6	78.8	84.0	162.9
Interest income & expenses	-22.4	-26.9	-49.3			-25.9	-30.5	-26.0	-56.5
Income taxes	-25.5	0.0	-25.5			-15.4	-13.3	-8.0	-21.2
Result after taxes	97.4	38.2	135.7			46.2	35.1	50.1	85.2
Joint ventures and associates	35.7	20.4	56.1			20.9	17.4	17.6	35.0
Minority interests	-7.1	-10.6	-17.7			-11.6	-8.2	-9.3	-17.5
Consolidated net group result	126.0	48.0	174.1			55.6	44.3	58.3	102.7

Source: Company data, KBC Securities estimates

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Although the results were in-line to slightly below expectations, the geographic distribution of earnings came as a surprise. While EMEA, North America and Latin America contributed only €0m, €4m and €12m to EBITDA, the Asia Pacific saved the day with EBITDA of €157m.

Weak volumes in mature markets ...

EMEA saw a sharp volume decline (-30%) across most of the activity platforms due to overall low economic activity and destocking in the total value chain. EBITDA and recurring EBIT surprised negatively at a poor €0m and €-21m respectively. The low activity levels had a major impact on profitability and from the second quarter Bekaert entered the market with additional volumes of some basic products in a bid to secure and drive up capacity utilisation.

In North America, sales declined by 9%, driven by 20% lower volumes partially offset by favourable currency movements. Obviously, most of the impact was felt at the activity platforms that serve the automotive and construction sectors. While sales in North America still increased by 5.8% y/y in the first quarter, second quarter sales disappointed. Initiatives similar to those implemented in EMEA were taken from the second quarter to boost capacity utilisation.

KEY FIGURES

€ m	EMEA			North America		
	1H08	1H09	y/y	1H08	1H09	y/y
Consolidated sales	612	410	-33.0%	289	263	-9.0%
Recurring EBIT	53	-21	-139.6%	21	-5	-123.8%
Margin	8.7%	-5.1%		7.3%	-1.9%	
EBIT	36	-27	-175.0%	22	-5	-122.7%
Margin	5.9%	-6.6%		7.6%	-1.9%	
EBITDA	75	0	-100.0%	30	4	-86.7%
Margin	12.3%	0.0%		10.4%	1.5%	

Source: Company data

... while performance in emerging markets remains firm

Sales in Latin America increased from €84m to €160m due to the consolidation of Ideal Alambrec (Ecuador) and Prodac (Peru), adding approximately €76m in sales. Here too, volume declines and wire rod price fluctuations affected margins. The contribution from joint ventures and associates dropped from €36m to €17m due to a weak start in Brazil and Chile and a negative currency impact from the Brazilian real. In addition, Peru and Ecuador are no longer booked as joint ventures. From the second quarter, the Brazilian joint ventures began to see a gradual recovery in demand.

KEY FIGURES

€ m	Latin America			Asia Pacific		
	1H08	1H09	y/y	1H08	1H09	y/y
Consolidated sales	84	160	90.5%	318	367	15.4%
Recurring EBIT	11	9	-18.2%	107	128	19.6%
Margin	13.1%	5.6%		33.6%	34.9%	
EBIT	11	8	-27.3%	107	128	19.6%
Margin	13.1%	5.0%		33.6%	34.9%	
EBITDA	13	12	-7.7%	137	157	14.6%
Margin	15.5%	7.5%		43.1%	42.8%	

Source: Company data

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Bekaert's first half was saved by a rock solid performance by the Asia Pacific activities. While activities in China started off slowly in the first months of the year, Bekaert achieved record sales and volumes from April onwards, operating at very high capacity utilisation levels. Sales increased by 15% y/y, helped by a favourable product mix and positive exchange-rate movements. The EBITDA contribution from the region was a massive €157m (margin of 42.9%), effectively saving the group's first half results.

Bekaert implemented stringent cost savings measures, both at the level of its manufacturing organisation as well as in selling and administrative expenses. Selling expenses decreased in the mature markets while the increase due to the integration of Peru and Ecuador was offset by the release of some specific provisions for bad debt in China (approximately €3m). Administrative expenses rose due to the integration of Peru and Ecuador. Savings in the mature markets were offset by increased efforts in Asia. Bekaert did not cut back on research and development, spending on which increased from €32.9m to €35.1m.

Net interest charges increased due to higher average net debt and higher interest rates. The contribution from joint ventures and associates declined from €35.7m to €17.4m, partially reflecting the consolidation of the former joint ventures in Peru and Ecuador. The net consolidated result, group share, landed at €44.2m.

BALANCE SHEET REMAINS FIRM

Cash from operating activities amounted to a firm €226.3m, reflecting a major reduction in working capital. CAPEX came to €86.2m and is guided at around €160m for the full year. Net financial debt at the end of June stood at €621.8m, little changed from the €627.0m level at year-start.

OUTLOOK

Visibility remains limited, especially in the mature markets. However, raw material prices seem to stabilise at present, suggesting that we should not expect the same negative impact in the second half that we saw in the first. "Notwithstanding the economic circumstances, Bekaert is confident that its broad geographic spread with strong presence in emerging markets, as well as its growing portfolio of product innovations and strong balance sheet, will continue to be of strategic importance."

We have updated our scenario, following publication of the 1H09 results. While this has not resulted in any major changes for FY10 and FY11, we have cut our EPS estimates for the current year by 12.4% to €5.70. We now bank on revenues of €2,506.8m, recurring EBIT of €177.9m and net result, group share, of €102.7m.

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FINANCIAL DATA

Income statement (€m)	2008	2009E	2010E	2011E	2012E
Sales	2,662.4	2,506.8	2,627.9	2,752.3	2,882.7
Gross profit	601.8	452.4	489.1	522.5	553.0
EBIT	210.5	162.9	185.6	204.5	220.1
Pre-tax earnings	161.2	106.4	141.9	170.6	196.8
Net earnings	174.1	102.7	124.9	141.2	154.6
EBITDA	412.2	327.9	357.2	379.6	398.6
REBITDA	495.9	342.9	372.2	394.6	413.6
REBITA	294.2	177.9	200.6	219.5	235.1
Balance sheet (€m)	2008	2009E	2010E	2011E	2012E
Intangible assets	111.5	111.5	111.5	111.5	111.5
Tangible assets	1,070.7	1,065.7	1,044.1	1,019.0	990.5
Financial assets	199.9	199.9	199.9	199.9	199.9
Net other assets & liabilities	-6.2	-6.2	-6.2	-6.2	-6.2
Net working capital	792.9	671.4	703.8	737.1	772.1
Net debt	672.9	541.6	463.1	363.0	245.4
Provisions	323.4	323.4	323.4	323.4	323.4
Minorities	41.8	41.8	41.8	41.8	41.8
Equity	1,130.6	1,135.9	1,228.4	1,339.9	1,467.4
Capital employed	1,848.7	1,722.2	1,733.0	1,741.3	1,747.7
TOTAL ASSETS	2,667.2	2,706.9	2,762.6	2,837.8	2,929.5
Cash flow statement (€m)	2008	2009E	2010E	2011E	2012E
Cash flow from operations	221.1	346.7	283.9	305.4	323.0
Net capital expenditure	-238.6	-160.0	-150.0	-150.0	-150.0
Free cash-flow	-17.5	186.7	133.9	155.4	173.0
Acquisitions / disposals	-55.9	0.0	0.0	0.0	0.0
Dividend payments	-62.2	-55.4	-55.4	-55.4	-55.4
Shares issues	-19.7	0.0	0.0	0.0	0.0
New borrowings / reimbursements	215.8	-50.0	-50.0	-50.0	-50.0
Other	-15.3	0.0	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	45.1	81.3	28.5	50.1	67.6
Performance criteria	2008	2009E	2010E	2011E	2012E
Sales growth	22.5%	-5.8%	4.8%	4.7%	4.7%
Gross margin	22.6%	18.0%	18.6%	19.0%	19.2%
REBITDA margin	18.6%	13.7%	14.2%	14.3%	14.3%
REBITA margin	11.1%	7.1%	7.6%	8.0%	8.2%
EBIT margin	7.9%	6.5%	7.1%	7.4%	7.6%
Net debt / Equity + Minorities	57.4%	46.0%	36.5%	26.3%	16.3%
Net debt / EBITDA	1.63	1.65	1.30	0.96	0.62
EBITDA / net interest	8.37	5.81	8.18	11.17	17.12
Pay-out ratio	31.8%	54.0%	44.3%	39.2%	38.4%
= Return on Equity (avg)	15.6%	9.1%	10.6%	11.0%	11.0%
Return on Capital Employed (avg)	10.4%	7.5%	8.6%	9.1%	9.5%
Per share data (€)	2008	2009E	2010E	2011E	2012E
weighted average # shares, diluted	19,796,210	19,861,194	19,861,194	19,861,194	19,861,194
Basic EPS	8.83	5.19	6.31	7.14	7.82
Diluted EPS	8.79	5.17	6.29	7.11	7.78
Diluted, adjusted EPS	12.02	5.70	6.81	7.61	8.27
Net book value / share	57.15	57.42	62.09	67.73	74.17
Free cash flow / share	-0.89	9.44	6.77	7.86	8.75
Dividend (€)	2.80	2.80	2.80	2.80	3.00
Valuation data	2008	2009E	2010E	2011E	2012E
Reference share price (€)	88.25	87.66	87.66	87.66	87.66
Reference market capitalisation (€)	1,745.9	1,734.2	1,734.2	1,734.2	1,734.2
Enterprise value (€m)	2,476.7	2,333.6	2,255.1	2,155.0	2,037.4
P/E	7.3	15.4	12.9	11.5	10.6
EV/sales	0.9	0.9	0.9	0.8	0.7
EV/EBITDA	6.0	7.1	6.3	5.7	5.1
EV/Capital employed	1.3	1.4	1.3	1.2	1.2
P/ NBV	1.5	1.5	1.4	1.3	1.2
Free cash flow yield	-1.0%	10.8%	7.7%	9.0%	10.0%
Dividend yield	3.2%	3.2%	3.2%	3.2%	3.4%

Source: KBC Securities

*Historic valuation data are based on historic prices

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	Definition
BUY	Expected total return (including dividends) of 10% or more over a 6-month period
ACCUMULATE	Expected total return (including dividends) between 0% and 15% over a 6-month period
HOLD	Expected total return (including dividends) between -5% and 5% over a 6-month period
REDUCE	Expected total return (including dividends) between -15% and 0% over a 6-month period
SELL	Expected total return (including dividends) of -10% or worse over a 6-month period

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Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	29.60%	0.00%
ACCUMULATE	44.40%	0.00%
HOLD	23.10%	0.00%
REDUCE	2.80%	0.00%
SELL	0.00%	0.00%

Bekaert is an international group with core expertise in metal transformation and coating technologies.

The price target for Bekaert is based on following parameters: Discounted Cash Flow (DCF), Absolute Multiples, Peer Group Multiples

The risks which may impede the achievement of our price target are: Evolution on the raw materials markets, currencies, global economic outlook, capacity additions

Any reference made to a DCF valuation for Bekaert is based on the following parameters: a forecast period from 2007 until 2016, a perpetual growth rate of 1.5% and a calculated WACC of 8.5%.

Below is an overview of the stock ratings and target price history in the last 12 months for the stock described in this report.

Date	Rating	Target price
04-AUG-09	Hold	€ 90.00
11-MAY-09	Accumulate	€ 80.00
11-FEB-09	Buy	€ 70.00
05-NOV-08	Buy	€ 105.00

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