

29 June 2011

BEKAERT

Hit by sawing wire uncertainty

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE €52.83
TARGET PRICE €68.00

BUY
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	-26%	-32%	9%
Rel. BEL20	-21%	-27%	8%
12m Hi/Lo	€ 87.43/44.42		
Bloomberg	BEKB.BB		
Reuters	BEKB.BR		
Market Cap	€ 3,164m		
Next corporate event			
Results 1H11: 29 July 2011			
www.bekaert.com			

FY/e 31.12	2010	2011E	2012E	2013E
Sales (€ m)	3,262.5	3,665.7	3,879.3	4,044.1
REBITDA (€ m)	724.7	694.3	719.5	734.9
Net earnings (€ m)	367.6	322.9	334.5	342.6
Diluted adj. EPS (€)	6.52	5.76	5.97	6.11
Dividend (€)	1.67	1.80	1.85	1.90
P/E	8.11	9.17	8.85	8.64
EV/REBITDA	5.18	5.29	4.85	4.42
Free cash flow yield	0.0%	5.8%	9.3%	11.2%
Dividend yield	3.2%	3.4%	3.5%	3.6%

Source: KBC Securities

June has seen the Bekaert share take a battering from a perfect storm combining generally bearish markets and in particular, solar market concerns. While we have slashed our estimates and target price, we believe the current share price level provides an interesting entry point. We therefore rate the shares a BUY with a €68 price target. The company continues to offer a well diversified product portfolio and strong emerging market exposure.

SHARE PRICE COLLAPSE PROVIDES ATTRACTIVE ENTRY OPPORTUNITY

- **Solar wire uncertainty.** As global market leader, Bekaert's 2010 results were boosted by sawing wire. However, competition in sawing wire is heating up, with multiple players (Xingda, Henan Hengxing, etc.) entering the market and undercutting Bekaert's prices.
- **Continuing to capture emerging market growth.** Bekaert will continue to invest heavily this year, guiding for capital expenditure exceeding last year's level of € 250m. Compared to previous years, Bekaert might direct a higher portion of capital expenditure outside China (e.g. India).
- **Results publication on 29 July.** Bekaert reported solid sales growth in the first quarter and is confident on the short-term outlook, saying that it "remains confident on a sustained strong performance in the first half of 2011". Quite obviously, all attention will focus on Bekaert's outlook statement and particularly on additional comments regarding the sawing wire market.
- **Attractively valued.** On our revised number, Bekaert is currently trading at 5.3x and 4.9x EV/EBITDA for 2011 and 2012 respectively. We consider the share price collapse over the last month as excessive and hence regard current share price levels as attractive entry points.

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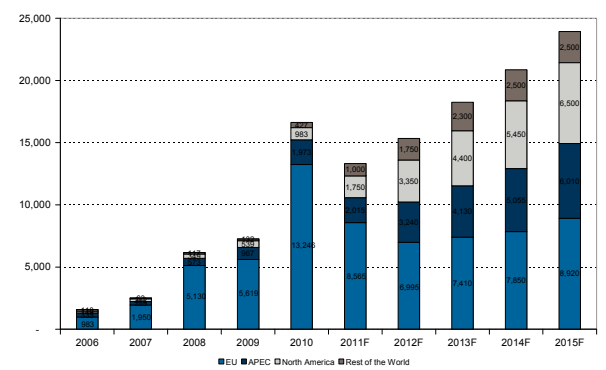
ADJUSTING SCENARIO FOR SAWING WIRE UNCERTAINTY

Bekaert's share price has had a rough ride over the last month, hit by a perfect storm of generally bearish markets and in particular China and solar market concerns.

Last year, the photovoltaic market increased by a whopping 129.1% y/y to 16,629 MW. The European Union is by far the most important market, recording an increase from 5,619 MW in 2009 to 13,246 MW last year. This growth was mostly driven by Germany (from 3,806 MW to 7,408 MW), Italy (from 717 MW to 2,321 MW) and the Czech Republic (from 398 MW to 1,490 MW). Outside of Europe, Asia Pacific accounted for 1,973 MW last year (up from 967 MW) and North America 983 MW (up from 539 MW). The rest of the world accounts for 427 MW.

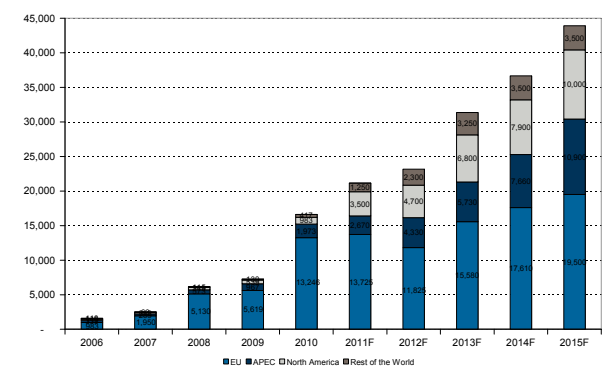
The European Photovoltaic Industry Association (EPIA) is currently undecided on the outlook. EPIA's moderate scenario sees a decline to 13,330 MW this year on especially a significant drop in Germany (to 3,000 MW). In its policy-driven scenario (bull case assuming continuation or introduction of support mechanisms), EPIA banks on an increase to 21,145 MW this year. Going forward, the Chinese market has potential for significant growth with EPIA estimating the market at 3 to 5 GW by 2015 (from 520 MW last year).

PV MARKET, MODERATE (MW)



Source: EPIA (May 2011)

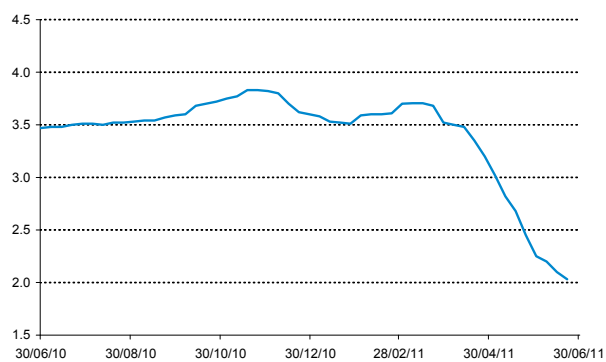
PV MARKET, POLICY-DRIVEN (MW)



Source: EPIA (May 2011)

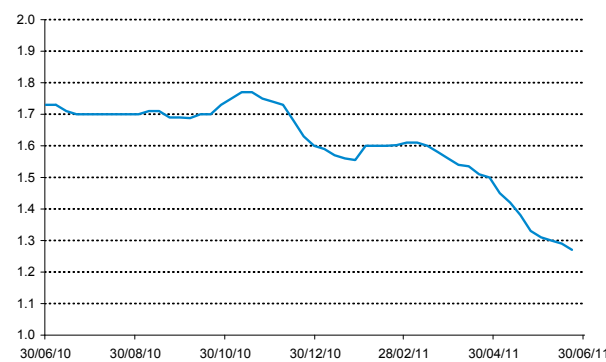
Global production capacities exceeding demand has resulted in a build-up of inventories across the value chain. Spot prices gathered by PV Insights suggest a drop in solar wafer prices of over 40% since early March and a drop in prices of modules by over 20% during the first half of 2011.

SOLAR WAFER WEEKLY SPOT PRICE (\$)



Source: PV Insights

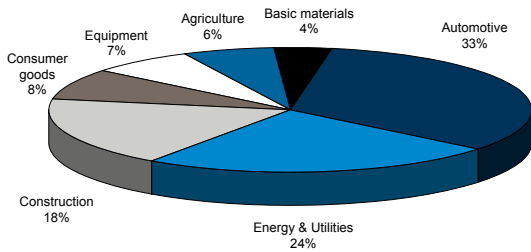
SOLAR MODULE WEEKLY SPOT PRICE (\$/W)



Source: PV Insights

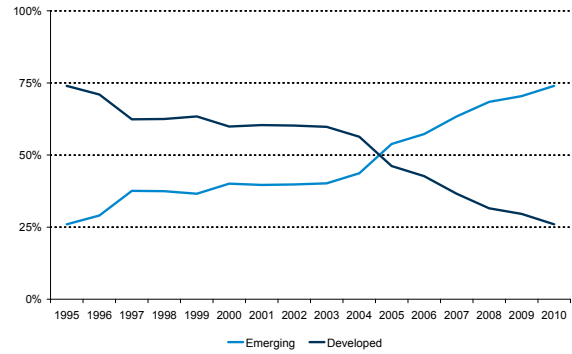
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COMBINED SALES 2010 BY MARKET



Source: Company data

STRONG EMERGING MARKET EXPOSURE



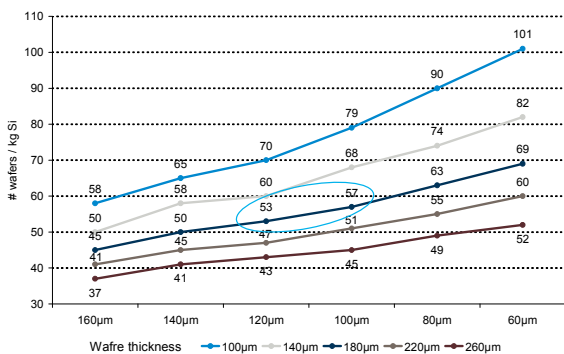
Source: Company data

The energy and utilities sector has been Bekaert's fastest-growing end market, increasing from roughly 5% of combined sales (including joint ventures and associates) in 2002 to 24% last year. Sawing wire, used to cut silicon ingots to wafers, has been the main driver behind this growth. Last year, Energy and Utilities accounted for 36% of combined sales in Asia Pacific, mostly sawing wire.

The most widely-used sawing process at present uses slurry, a mixture of oil and silicon carbide grains. The trend over the last couple of years has been towards thinner diameters, allowing the reduction of kerf losses (more wafers per kg of si) and that of slurry consumption.

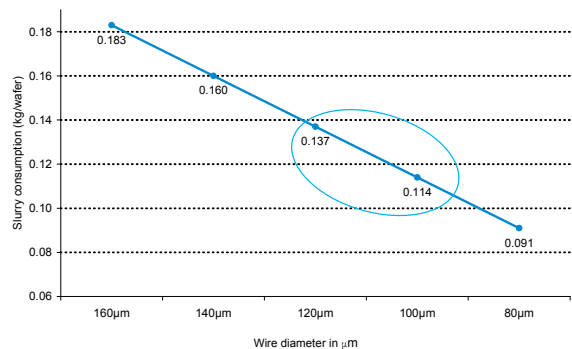
Bekaert is currently positioning itself for diamond wire, the challenging technology expected to break through in 2012/13. The advantages of diamond wire are faster speed rates (twice as fast as slurry) and lower total cost as the wires can be re-used and no more slurry mixing and recovery systems are required. However, technical and cost issues remain at this stage.

NUMBER OF WAFERS PER KG SI



Source: Power & Energy Solutions

SLURRY CONSUMPTION PER 156 X 156 WAFER

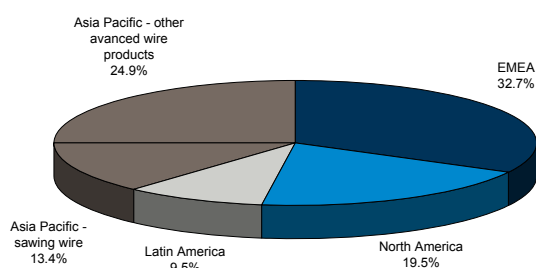


Source: Power & Energy Solutions

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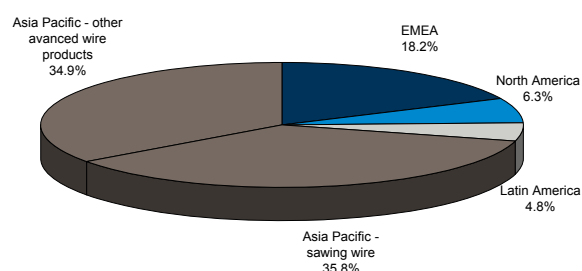
As the global market leader in sawing wire (market share >50%), Bekaert is challenged by several players (including Xingda and Henan Hengxing) entering the market. Xingda commenced production of sawing wire in December 2010 with a capacity estimated at around 5kt, expanding to 15kt p.a. by the end of this year. Xingda is said to have positioned itself at prices that are 20% to 25% below those of Bekaert, partially to offset greater production losses. In the 1Q11 trading update, Bekaert stated that “in the solar energy sector, increased competitive capacities are coming on stream” and the company is implementing “timely and appropriate measures, including adequate price adjustments, to maintain its strong market position in China”.

CONSOLIDATED SALES 2010 BY SEGMENT



Source: Company data (split AP: KBCS est.)

EBITDA 2010 BY SEGMENT



Source: Company data (split AP: KBCS est.)

Asia Pacific last year accounted for 38.3% of consolidated sales and 70.8% of EBITDA before other elements and eliminations. The EBITDA margin generated in Asia Pacific amounted to 44.9%, significantly exceeding the group margin of 22.2%.

BEKAERT SAWING WIRE, APPLIED SCENARIO

	2010	2011	2012	2013	2014	2015
PV market, scenario applied (MW)	16,629	17,500	20,000	22,500	25,000	27,500
% change	129.1%	5.2%	14.3%	12.5%	11.1%	10.0%
EPIA, moderate (MW)		13,330	15,335	18,240	20,855	23,930
EPIA, policy driven (MW)		21,145	23,155	31,360	36,670	43,900
Sawing wire (ton/MW)	4.5	4.5	4.5	4.5	4.5	4.5
Sawing wire market (ton)	74,831	78,750	90,000	101,250	112,500	123,750
Bekaert market share	60%	56%	55%	54%	53%	52%
Bekaert sawing wire sales (ton)	44,898	44,100	49,500	54,675	59,625	64,350
Volume (% change)	111.5%	-1.8%	12.2%	10.5%	9.1%	7.9%
ASP (% change)	2.1%	-12.0%	-8.0%	-5.0%	-3.0%	-1.0%
Revenues	436.8	377.5	389.9	409.1	432.8	462.4
EBITDA	283.9	207.6	194.9	192.3	194.7	203.4
margin	65%	55%	50%	47%	45%	44%

Source: EPIA, KBC Securities

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EPIA last year estimated the global photovoltaic market at 16,629 MW. Assuming that each MW produced requires about 4.5 tons of sawing wire, we estimate last year's sawing market at approximately 75kt. We assumed Bekaert had a market share of 60%, corresponding to sales of 45kt or € 436.8m in revenues (13.4% of consolidated sales). We estimated Bekaert's 2010 EBITDA margin in sawing wire at 65% or € 283.9m, equivalent to 35.9% of the total (excluding other and eliminations). This leaves € 276.5m in EBITDA for advanced wire products, excluding sawing wire, in Asia Pacific. The corresponding EBITDA margin of 34.1% reassures us that our assumptions are reasonable.

Our scenario for Bekaert includes the following assumptions for sawing wire. For the photovoltaic market, we have applied a scenario which lies in between EPIA's moderate and policy-driven scenario, assuming the market will grow to 32.5 GW by 2017. Over the same period, we expect Bekaert to increase its sawing wire volumes from an estimated 45kt last year to 73kt by 2017 while we included a 25% drop in prices (mainly front loaded). Most of the impact on our scenario is in 2011, when we see sawing wire EBITDA dropping 26.9% y/y.

KEY FIGURES (€m)

	2011 OLD	2011 NEW	2012 OLD	2012 NEW	2013 OLD	2013 NEW
Consolidated sales	3,568.7	3,665.7	3,806.5	3,879.3	4,005.2	4,044.1
- EMEA	1,140.6	1,247.1	1,197.7	1,309.5	1,221.6	1,335.7
- North America	650.8	723.7	657.3	731.0	663.8	738.3
- Latin America	342.1	356.0	372.9	391.7	399.0	419.1
- Asia Pacific	1,435.2	1,338.8	1,578.7	1,447.3	1,720.8	1,551.1
EBITDA	778.3	694.3	799.4	719.5	821.9	734.9
margin	21.8%	18.9%	21.0%	18.5%	20.5%	18.2%
- EMEA	148.3	174.6	143.7	183.3	146.6	187.0
- North America	52.1	57.9	49.3	58.5	46.5	59.1
- Latin America	39.3	42.7	42.9	47.0	45.9	50.3
- Asia Pacific	617.1	496.0	647.3	512.2	671.1	523.5
- Other	-78.5	-77.0	-83.7	-81.5	-88.1	-84.9
REBIT	608.1	512.8	624.3	523.7	641.9	528.8
margin	17.0%	14.0%	16.4%	13.5%	16.0%	13.1%
Result from operations	583.1	484.5	599.3	494.3	616.9	498.6
Financial result	-29.8	-54.4	-13.3	-49.4	7.5	-42.4
Income taxes	-161.9	-120.4	-174.1	-126.8	-188.3	-132.3
Joint ventures and associates	36.8	40.4	37.5	44.4	38.3	47.5
Result for the period	428.2	350.0	449.4	362.5	474.3	371.4
Minority interest	33.2	27.1	34.8	28.1	36.7	28.8
Net result, group share	395.0	322.9	414.6	334.5	437.6	342.6

Source: KBC Securities

We have revised our scenario to take account of the above assumptions. As a result, our adjusted EPS assumptions for 2011, 2012 and 2013 are down by respectively 15.8%, 16.6% and 19.2% to € 5.76, € 5.97 and € 6.11. More details on the main changes in our scenario can be found in the table above.

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1H11 EARNINGS PREVIEW

Bekaert will publish its 1H11 results on Friday 29 July, before market. The company reported strong sales growth in the first quarter and appears bullish on the short-term outlook, saying that it “remains confident of a sustained strong performance in the first half of 2011”.

Our detailed forecasts for the first half results can be found in the table below. We expect excellent 1H11 figures, in-line with the 2H10 performance. However, all attention will go towards Bekaert’s outlook statement and in particular any additional comments on the sawing wire markets (price cuts, competitive landscape, etc.).

EARNINGS PREVIEW (€m)

	1Q10	2Q10	1H10	2H10	FY10	1Q11	2Q11E	1H11E	2H11E	FY11E
Consolidated sales	694	841	1,535	1,727	3,262	918	929	1,847	1,819	3,666
- EMEA	244	282	526	540	1,066	307	318	625	622	1,247
- North America	141	172	313	325	638	176	189	365	359	724
- Latin America	67	77	144	167	311	82	93	175	181	356
- Asia Pacific	242	310	552	696	1,248	353	329	682	657	1,339
EBITDA			349.1	375.6	724.7			377.8	316.4	694.3
margin			22.7%	21.7%	22.2%			20.5%	17.4%	18.9%
- EMEA			81.0	63.0	144.0			90.6	84.0	174.6
- North America			29.0	21.0	50.0			31.0	26.9	57.9
- Latin America			20.0	18.0	38.0			21.9	20.9	42.7
- Asia Pacific			252.0	308.0	560.0			272.8	223.2	496.0
- Other			-32.9	-34.4	-67.3			-38.5	-38.5	-77.0
REBIT			262.0	300.5	562.5			287.1	225.7	512.8
margin			17.1%	17.4%	17.2%			15.5%	12.4%	14.0%
Result from operations			243.5	290.8	534.3			273.0	211.6	484.5
Financial result			-15.6	-16.8	-32.4			-27.2	-27.2	-54.4
Income taxes			-51.3	-88.1	-139.5			-66.3	-54.1	-120.4
Joint ventures and associates			18.8	17.3	36.1			20.2	20.2	40.4
Result for the period			195.3	203.2	398.5			199.6	150.4	350.0
Minority interest			14.3	16.5	30.9			13.6	13.6	27.1
Net result, group share			181.0	186.6	367.6			186.0	136.9	322.9

Source: company data, KBC Securities

VALUATION

A DCF valuation of our new scenario suggests a value per share of € 65.2, which we have used as a basis for our 6-month price target of € 68 per share. The applied WACC and growth rate stand at respectively 9.3% and 2%.

At our new € 68 share price target and new numbers, Bekaert would be trading at respectively 6.6x and 6.1x EV/EBITDA 2011 and 2012. As such, we believe that the recent share price collapse provides an interesting entry point.

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DCF VALUATION

	OCF	CAPEX	WCR	FOCF	Disc. FOCF
2011	557.5	-250.0	-124.1	183.4	175.3
2012	577.4	-225.0	-65.8	286.7	250.5
2013	589.0	-200.0	-50.7	338.3	270.5
2014	599.7	-175.0	-47.9	376.8	275.5
2015	620.2	-160.0	-45.3	414.8	277.5
2016	639.5	-160.0	-45.2	434.3	265.6
2017				393.1	219.9
Residual value (LT growth = 2%)	3,063.5				
Enterprise value	4,798.3				
Net debt	-577.9				
Provisions & minorities	-716.8				
Associates	360.6				
Value of Equity	3,864.3				
Value per share	65.2				

Source: KBC Securities

DCF SENSITIVITY (VALUE PER SHARE)

Growth/WACC	8.00%	8.50%	9.00%	9.50%	10.00%
0.0%	65.1	60.2	55.9	52.0	48.5
0.5%	68.7	63.3	58.6	54.4	50.6
1.0%	72.8	66.8	61.6	57.0	52.9
1.5%	77.6	70.9	65.0	59.9	55.4
2.0%	83.2	75.5	69.0	63.3	58.3
2.5%	89.7	80.9	73.5	67.1	61.6
3.0%	97.6	87.4	78.8	71.5	65.3

Source: KBC Securities

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FINANCIAL DATA

Income statement (€m)	2009	2010	2011E	2012E	2013E	2014E
Sales	2,437.3	3,262.5	3,665.7	3,879.3	4,044.1	4,199.7
Gross profit	534.2	904.3	896.9	930.1	952.5	974.9
EBIT	232.2	534.3	484.5	494.3	498.6	504.0
Pre-tax earnings	166.6	501.9	430.1	445.0	456.2	469.7
Net earnings	151.8	367.6	322.9	334.5	342.6	352.4
EBITDA	385.5	724.7	694.3	719.5	734.9	749.7
REBITDA	385.5	724.7	694.3	719.5	734.9	749.7
REBITA	256.8	562.5	512.8	523.7	528.8	535.0
Balance sheet (€m)	2009	2010	2011E	2012E	2013E	2014E
Intangible assets	105.0	131.1	131.1	131.1	131.1	131.1
Tangible assets	1,127.7	1,295.1	1,336.5	1,337.5	1,302.4	1,233.0
Financial assets	218.6	243.8	243.8	243.8	243.8	243.8
Net other assets & liabilities	27.9	94.3	94.3	94.3	94.3	94.3
Net working capital	640.2	1,004.2	1,128.3	1,194.1	1,244.8	1,292.7
Net debt	473.7	577.9	500.0	313.8	70.7	-217.3
Provisions	272.1	408.1	408.1	408.1	408.1	408.1
Minorities	88.8	86.0	86.0	86.0	86.0	86.0
Equity	1,284.8	1,696.6	1,940.0	2,192.9	2,451.7	2,718.1
Capital employed	1,685.7	2,310.5	2,476.0	2,542.8	2,558.4	2,536.9
TOTAL ASSETS	2,829.5	3,673.1	3,908.7	4,134.0	4,360.1	4,592.7
Cash flow statement (€m)	2009	2010	2011E	2012E	2013E	2014E
Cash flow from operations	468.2	230.6	434.5	520.8	555.7	578.5
Net capital expenditure	-158.4	-230.3	-250.0	-225.0	-200.0	-175.0
Free cash-flow	309.8	0.2	184.5	295.8	355.7	403.5
Acquisitions / disposals	-12.0	-34.6	0.0	0.0	0.0	0.0
Dividend payments	-50.6	-118.5	-106.6	-109.6	-112.6	-115.5
Shares issues	1.8	-57.7	0.0	0.0	0.0	0.0
New borrowings / reimbursements	-41.7	271.3	-50.0	-50.0	-50.0	-50.0
Other	-49.7	106.5	0.0	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	157.5	167.1	27.9	136.2	193.2	237.9
Performance criteria	2009	2010	2011E	2012E	2013E	2014E
Sales growth	-8.5%	33.9%	12.4%	5.8%	4.2%	3.8%
Gross margin	21.9%	27.7%	24.5%	24.0%	23.6%	23.2%
REBITDA margin	15.8%	22.2%	18.9%	18.5%	18.2%	17.9%
REBITA margin	10.5%	17.2%	14.0%	13.5%	13.1%	12.7%
EBIT margin	9.5%	16.4%	13.2%	12.7%	12.3%	12.0%
Net debt / Equity + Minorities	34.5%	32.4%	24.7%	13.8%	2.8%	-7.7%
Net debt / EBITDA	1.23	0.80	0.72	0.44	0.10	-0.29
EBITDA / net interest	6.80	14.48	12.75	14.58	17.33	21.86
Pay-out ratio	38.4%	27.2%	33.4%	33.1%	33.2%	33.1%
= Return on Equity (avg)	12.6%	24.7%	17.8%	16.2%	14.8%	13.6%
Return on Capital Employed (avg)	10.5%	19.3%	14.6%	14.1%	13.9%	13.9%
Per share data (€)	2009	2010	2011E	2012E	2013E	2014E
weighted average # shares, diluted	59,355,930	59,558,664	59,558,664	59,558,664	59,558,664	59,558,664
Basic EPS	2.56	6.21	5.45	5.64	5.78	5.95
Diluted EPS	2.56	6.17	5.42	5.62	5.75	5.92
Diluted, adjusted EPS	2.89	6.52	5.76	5.97	6.11	6.28
Net book value / share	21.59	28.33	32.40	36.62	40.94	45.39
Free cash flow / share	5.23	0.00	3.11	4.99	6.00	6.81
Dividend (€)	0.98	1.67	1.80	1.85	1.90	1.95
Valuation data	2009	2010	2011E	2012E	2013E	2014E
Reference share price (€)	53.68	52.83	52.83	52.83	52.83	52.83
Reference market capitalisation (€ m)	3,194.3	3,163.7	3,163.7	3,163.7	3,163.7	3,163.7
Enterprise value (€ m)	3,569.0	3,753.6	3,675.7	3,489.5	3,246.4	2,958.5
P/E	18.6	8.1	9.2	8.9	8.6	8.4
EV/sales	1.5	1.2	1.0	0.9	0.8	0.7
EV/EBITDA	9.3	5.2	5.3	4.9	4.4	3.9
EV/Capital employed	2.1	1.6	1.5	1.4	1.3	1.2
P/ NBV	2.5	1.9	1.6	1.4	1.3	1.2
Free cash flow yield	9.7%	0.0%	5.8%	9.3%	11.2%	12.8%
Dividend yield	1.8%	3.2%	3.4%	3.5%	3.6%	3.7%

Source: KBC Securities

*Historic valuation data are based on historic prices

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DISCLOSURE & DISCLAIMER SECTION

The company disclosures can also be consulted on our website <http://www.kbcsecurities.be/disclosures>.

KBC Securities uses an absolute rating system including terms such as Buy, Accumulate, Hold, Reduce and Sell (see definitions below).

	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

Due to external factors and in exceptional cases, KBC Securities allows the use of ratings such as Accept the Offer, Black Out, No Recommendation or Suspended.

Our analysts assign one of those ratings based on their investment outlook and valuation for the concerned stock. The valuation can be based on different methodologies such as DCF (discounted cash flow), absolute multiples, peer group multiples, sum-of-parts or NAV (Net Asset Value). The valuation is reflected in a 6-month target price. Occasionally, the expected total return may fall outside of these ranges because of price movement and/or volatility. Such deviations will be permitted but will be closely monitored. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the report contains more complete information concerning the analyst's view, investors should carefully read the entire report and not infer its contents from the rating alone. KBC Securities discloses the recommendations of its reports to the issuers before their dissemination. In case the recommendation has been amended following this disclosure, such amendments will be indicated in the concerned report.

Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	31.00%	37.50%
ACCUMULATE	42.60%	50.00%
HOLD	22.50%	12.50%
REDUCE	3.90%	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
29-JUN-11	Buy	€ 68.00
02-MAR-11	Buy	€ 90.00
10-NOV-10	Buy	€ 85.00
14-OCT-10	Buy	€ 76.67
30-JUL-10	Buy	€ 60.00
20-JUL-10	Buy	€ 53.33

KBC Securities will provide periodic updates on companies/industries based on company-specific developments or announcements, market conditions or any other publicly available information.

Within the last 12 months, KBC Securities has been lead manager or co-lead manager of any publicly disclosed offer of financial instruments of Bekaert.

29 June 2011

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