

1 July 2011

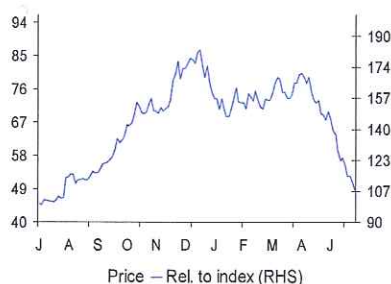
BEKAERT

Profit warning Shougang

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 52.50
TARGET PRICE € 68.00

BUY
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg BEKB.BB
Reuters BEKB.BR

www.bekaert.com

Market Cap € 3,144.0m
Shares outst. 59.9m
Volume (daily) € 12,053,531
Free float 62.0%

Next corporate event

Results 1H11: 29 July 2011

(€ m)	2010	2011E	2012E
Sales	3,262.5	3,665.7	3,879.3
REBITDA	724.7	694.3	719.5
Net earnings	367.6	322.9	334.5
Adj. EPS (€)	6.52	5.76	5.97
P/E (x)	8.1	9.1	8.8
EV/REBITDA	5.2	5.3	4.8
FCF Yield	0.0%	5.9%	9.4%
Dividend yield	3.2%	3.4%	3.5%

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Yesterday, after market, Shougang Concord Century Holdings issued a profit warning. Via Jiaxing Eastern Steel Cord (JEsc) and Tengzhou Eastern Steel Cord (TEsc), Shougang last year realised a steel cord production of 85,195 ton (70,069 ton at JEsc and 15,126 ton at TEsc). With respect to TEsc, the company had annual capacity of 30kt operational and additional machinery for 40kt installed. The company targets to increase TEsc's capacity this year to 100kt p.a. As a reminder, Bekaert holds a 13% stake in the company and supplies JEsc with half products.

Shougang yesterday warned to expect the profit for the 1H11 to show a significant decline vs. the same period last year.

This decline is due to:

- the decrease in the gross profit margin as a result of lower average selling price of steel cord and increased raw material prices;
- the increase in R&D expenses and operating costs incurred to expedite the development of new products, i.e. sawing wire and high-end steel cords, and new markets;
- no non-recurring items.

The last two items are company specific but the first one not. In addition, the second item is again illustrating increased competition in sawing wire coming up. Last year, Shougang realised a gross margin in steel cord of 21.5% (25.9% in H1 and 17.2% in H2).

Bekaert last year saw its gross profit margin increasing from 21.9% to 27.7%. This increase mainly explains by a change in the product mix (increased weight of sawing wire) while there already was a slight erosion in margins in tire cord.

Earlier this week, we have cut our estimates on more prudent assumptions for sawing wire. However, note that also in advanced wire products, excluding sawing wire, we do take into account margin erosion (EBITDA margin of advanced wire products Asia Pacific, excluding sawing wire, declines from an estimated 34.1% last year to 30.0% this year).

Conclusion:

While some of the elements behind the press release are company specific, the margin erosion and increased competition in sawing wire is not. However, one should not overdramatize as Shougang has a higher exposure to the more commoditised segment of the market (more difficult to price through increased raw material prices) as well is currently impacted by start-up costs for TEsc (new 100kt plant). While we regard current share price levels as attractive, the news is further hurting momentum for the stock. Bekaert will release its 1H11 results on Friday 29 July, before market.