

6 February 2012

BEKAERT

Rightsizing sawing wire operations

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE €27.64
TARGET PRICE €27.00

HOLD
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	1%	-15%	-62%
Rel. BEL20	-6%	-22%	-55%
12m Hi/Lo	€ 84.49/23.95		
Bloomberg	BEKB BB		
Reuters	BEKB.BR		
Market Cap	€ 1,655m		
Next corporate event			
Results FY11: 24 February 2012			
www.bekaert.com			

FY/e 31.12	2010	2011E	2012E	2013E
Sales (€m)	3,262.5	3,277.5	3,324.8	3,450.8
REBITDA (€m)	724.7	511.1	363.3	444.8
Net earnings (€m)	367.6	171.5	29.3	97.2
Diluted adj. EPS (€)	6.52	3.16	1.69	1.97
Dividend (€)	1.67	1.17	0.75	1.00
P/E	8.41	8.75	16.34	13.99
EV/REBITDA	5.34	4.88	6.74	5.03
Free cash flow yield	0.0%	-9.0%	5.2%	15.7%
Dividend yield	3.0%	4.2%	2.7%	3.6%

Source: KBC Securities

We have revised our scenario for Bekaert, leading to a cut in our EPS estimates for 2012 and 2013 of respectively 33.7% and 29.4%. Our new target price is €27, down from €35, and we keep our rating unchanged at Hold as we still believe it is too early to enter the stock.

RESTRUCTURING TO RESTORE LONG-TERM PROFITABILITY

- Rightsizing sawing wire operations.** Bekaert announced a major restructuring of its sawing wire operations in China and Belgium as well as an additional overhaul of the stainless steel wire activities in Belgium. The restructuring will lead to 1,250 job losses in China and 600 in Belgium. Non-recurring charges have not been disclosed but are estimated in the region of €100m, of which €35m non-cash.
- Defending long-term profitability guidance.** On top of the announced restructuring of the sawing wire business, Bekaert will identify measures to reduce its global cost structure by €100m annually in the coming years. The aim is to restore profitability towards the long-term profitability guidance.
- Estimates trimmed.** We have revised our scenario, resulting in 33.7% and 29.4% cuts in our EPS estimates for 2012 and 2013. Our expectations for the solar business have been fully reset, while we have lowered our margin assumptions for tire cord in Asia Pacific as well. Recurring EBIT for the Group is forecast to decline from 9.8% last year to 6.4% this year and 6.8% next.
- Market focus to shift.** Given the revised expectations for the sawing wire business, the market will shift its focus towards Bekaert's global presence and broad product portfolio. Given the significant build-up of market capacity in recent years, investors might also look more closely at the sustainability of tire cord margins.
- Dividend at risk?** Bekaert's dividend policy is for stable to growing dividends with a target payout on the long-term of around 40%. Given the lower profitability, we believe the dividend (€1.67 over 2010) is at risk. From a PR point of view too, it would be hard to cut one in four jobs in Belgium and keep the dividend unchanged.

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6 February 2012

RIGHTSIZING SAWING WIRE OPERATIONS

Faced with significant excess capacity in the market and a drop in sawing wire prices, Bekaert announced plans to rightsize its global sawing wire operations, including production, technology and engineering. In addition, Bekaert intends to shift production of bead wire and half products at the Aalter plant to other entities in the Group as well as restrict the production of stainless steel wires at the Zwevegem plant to products with high added value. The restructuring will lead to 1,250 job losses in China and 600 in Belgium out of a total global workforce of about 28,000.

In the conference call, Bekaert was unable to provide much more financial details regarding the announced restructuring in Belgium and China. However, Bekaert said that it has started implementation in China during December with significant progress made before the Chinese new year. While no precise guidance was given on the level of non-recurring charges or on potential cost savings, Bekaert said that 2012 will be a transition year with “one of the highest non-recurring charges in the history of the company”. In 2008, Bekaert booked a €83.7m restructuring charge, of which €42.5m was linked to the restructuring of Hemiksem (264 jobs) and Lanklaar (136 jobs). The bulk of the restructuring charges are expected for 2012 and about two thirds would be cash.

TARGETING ADDITIONAL COST SAVINGS

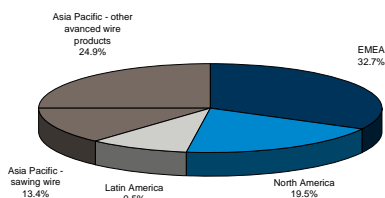
Bekaert also announced it will start looking at possible measures to reduce global costs by €100m annually in the coming years. The aim is to restore profitability towards the long-term profit guidance (EBIT between 7 and 9%, EBITDA of 15%). Note that these targeted cost savings can be added to (or they only overlap marginally) the restructuring announced in Belgium and China.

HIT BY COLLAPSE IN PV MARKET

In 2010, Asia Pacific accounted for 38.3% of consolidated sales and 70.8% of EBITDA before other elements and eliminations. Energy and Utilities accounted for 36% of combined sales in Asia Pacific, mostly sawing wire. The EBITDA margin in Asia Pacific was 44.9%, well above the group margin of 22.2%.

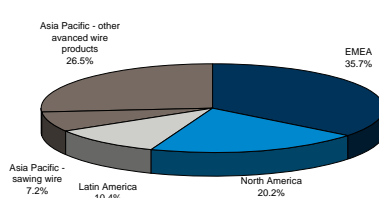
While Bekaert does not disclose financial information on a product basis, we estimate that in 2010, sawing wire accounted for over one third of Group EBITDA. This estimate was based on the assumption of a 60% global market share with an EBITDA margin of 65%.

CONSOLIDATED SALES 2010



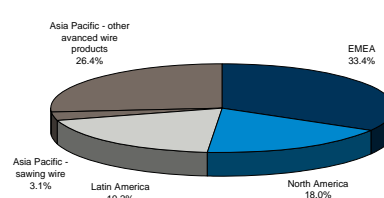
Source: Company data, KBC Securities

CONSOLIDATED SALES 2011E



Source: KBC Securities

CONSOLIDATED SALES 2012E



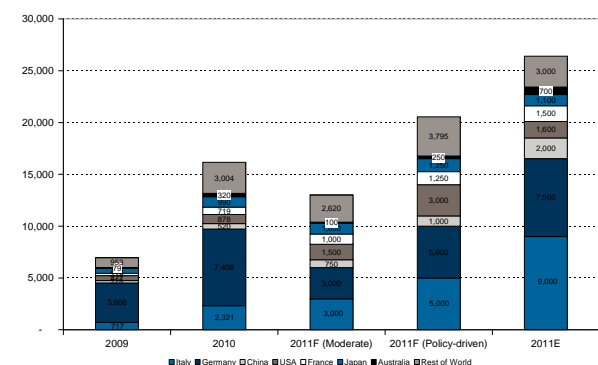
Source: KBC Securities

Last year, Bekaert was hit hard by the collapse of the global solar energy market. The company found itself in a perfect storm of increased competitive capacity and declining market demand. While Bekaert remains market leader, its share last year is estimated to have dropped to between 30 and 35%. Production capacity at start-2011 was around 50kt with capacity use dropping from 100% at year-start to around 50% by year-end. In-line with similar price declines throughout the PV chain, average 2011 sawing wire prices declined by over 60%.

6 February 2012

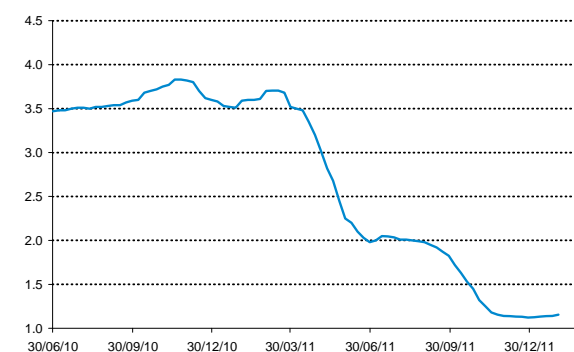
According to EPIA (European Photovoltaic Industry Association), global newly-connected capacity in 2011 increased from about 16.6 GW in 2010 to 27.7 GW, driven especially by Italy (9.0 GW) and Germany (7.5 GW). In May last year, EPIA was estimating a market decline of 20% in its moderate scenario and a 27% increase in its policy-driven scenario. These numbers are for capacity connected to the grid and lag on what Bekaert has been seeing. In addition, Bekaert made reference to significant inventories in the market (8-10 GW).

NEWLY CONNECTED CAPACITY (MW)



Source: EPIA (January 2012)

SOLAR WAFER WEEKLY SPOT PRICE (\$)



Source: PV Insights

Our scenario assumes Bekaert's sawing wire volumes will drop to 27kt in 2012 from an estimated 37.3kt in 2011. EBITDA (after restructuring) is seen at €-5m in 2012, down from our 2010 and 2011 estimates of € 283.9m and € 70.8m. The 2013 EBITDA contribution is predicted at € 12.9m (10% margin).

FY11 RESULTS ON 24 FEBRUARY

Bekaert will report its FY11 results on Friday 24 February, before market. We expect the company to report recurring EBIT of €321.0m (-42.9% y/y, 9.8% margin) on consolidated sales of €3,277.5m. The net result is seen down 53.3% y/y to €171.5m.

While Bekaert made a relatively strong start to 2011, the business deteriorated sharply from April/May, a trend that accelerated in 2H11. Revenues are seen at €1,497.9m, down 15.8% sequentially. Recurring 2H EBIT is seen at €78.7m (5.3% margin), down from €242.4m (13.6% margin) in 1H. The net result group share is expected at 'only' €27.2m in 2H11, down from €144.3m in 1H11 and €186.6m in 2H10.

ESTIMATES TRIMMED

We have revised our scenario, resulting in 33.7% and 29.4% cuts in our EPS estimates for 2012 and 2013.

Sales in 2012 are seen at €3,324.8m (+1.4%), helped by the full consolidation of former joint ventures (52%) in Chile and Peru. We estimate an increase of consolidated sales of approximately €300m p.a. and an increase in EBIT in-line with Bekaert's long-term profitability guidance (7-9%). The full consolidation of the former joint ventures should be EPS neutral.

Recurring EBIT is expected to decline to €213.2m (6.4% margin) in 2012 and increase slightly to €233.9m (6.8% margin) in 2013. We have assumed €100m of non-recurring charges in 2012, of which €35m non-cash. EBITDA (after restructuring) is seen at €363.3m, of which €205.3m (-36.4% y/y) from Asia Pacific. This assumes no contribution from sawing wire while the margin of the non-sawing wire business (mainly steel cord) is seen falling from an estimated (as not separately disclosed) 34.1% in 2010 and 29.0% in 2011 to 24.0% in 2012.

6 February 2012

DIVIDEND AT RISK?

Bekaert's dividend policy aims at stable-to-growing dividends, with a long-term payout ratio target of about 40%. Given expectations for structurally lower profitability in the near future compared to 2009-11, we believe the dividend is at risk. Bekaert distributed €1.667 per share in dividends over 2010 and already paid out an interim dividend of €0.67 per share over 2011. Our scenario now assumes dividends over 2011, 2012 and 2013 of respectively €1.17 (€0.50 closing dividend), €0.75 and €1.00. In the conference call, Bekaert did not elaborate on the dividend, stating that "it is up to the board to decide".

KEY FIGURES (€m)

	2H10	FY10	1H11	2H11E	FY11E	FY12E	FY13E
Consolidated sales	1,727	3,262	1,780	1,498	3,278	3,325	3,451
- EMEA	540	1,066	614	556	1,170	1,111	1,134
- North America	325	638	354	309	663	597	603
- Latin America	167	311	173	168	341	638	682
- Asia Pacific	696	1,248	639	465	1,104	979	1,032
EBITDA	375.6	724.7	342.4	168.7	511.1	363.3	444.8
margin	21.8%	22.2%	19.2%	11.3%	15.6%	10.9%	12.9%
- EMEA	63.0	144.0	74.0	74.6	148.6	94.5	136.0
- North America	21.0	50.0	34.0	32.3	66.3	53.7	57.3
- Latin America	18.0	38.0	22.0	20.6	42.6	79.7	85.3
- Asia Pacific	308.0	560.0	256.0	66.5	322.5	205.3	238.7
- Other	-34.4	-67.3	-43.6	-25.3	-68.8	-69.8	-72.5
REBIT	300.5	562.5	242.3	78.7	321.0	213.2	233.9
margin	17.4%	17.2%	13.6%	5.3%	9.8%	6.4%	6.8%
Result from operations	290.8	534.3	231.8	66.1	297.9	113.2	205.1
Financial result	-16.8	-32.4	-34.7	-29.1	-63.8	-58.3	-53.3
Income taxes	-88.1	-139.5	-53.5	-12.0	-65.5	-15.6	-44.0
JV and associates	17.3	36.1	14.1	13.9	28.0	20.0	21.4
Result for the period	203.2	398.5	157.7	38.8	196.5	59.3	129.2
Minority interest	16.5	30.9	13.4	11.6	25.0	30.0	32.0
Net result, group share	186.6	367.6	144.3	27.2	171.5	29.3	97.2

Source: company data, KBC Securities

6 February 2012

FINANCIAL DATA

Income statement (€m)	2009	2010	2011E	2012E	2013E	2014E
Sales	2,437.3	3,262.5	3,277.5	3,324.8	3,450.8	3,586.8
Gross profit	534.2	904.3	664.4	561.5	595.4	622.7
EBIT	232.2	534.3	297.9	113.2	205.1	227.6
Pre-tax earnings	166.6	501.9	234.1	54.9	151.8	180.8
Net earnings	151.8	367.6	171.5	29.3	97.2	116.8
EBITDA	385.5	724.7	511.1	363.3	444.8	476.9
REBITDA	385.5	724.7	511.1	363.3	444.8	476.9
REBITA	256.8	562.5	321.0	213.2	233.9	246.9
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	1,333.0	1,254.1	1,175.7	1,077.8
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	1,311.0	1,363.2	1,311.3	1,327.1
Net debt	473.7	577.9	824.9	783.4	568.4	395.2
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	1,823.8	1,838.7	1,908.6	1,999.7
Capital employed	1,685.7	2,310.5	2,655.2	2,628.5	2,498.2	2,416.1
TOTAL ASSETS	2,829.5	3,673.1	3,706.8	3,676.4	3,723.7	3,778.4
Cash flow statement (€m)	2009	2010	2011E	2012E	2013E	2014E
Cash flow from operations	468.2	230.6	101.9	256.0	419.4	382.5
Net capital expenditure	-158.4	-230.3	-250.0	-170.0	-160.0	-150.0
Free cash-flow	309.8	0.2	-148.1	86.0	259.4	232.5
Acquisitions / disposals	-12.0	-34.6	0.0	0.0	0.0	0.0
Dividend payments	-50.6	-118.5	-98.9	-44.4	-44.4	-59.2
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	-297.1	-8.4	165.0	123.2
Performance criteria	2009	2010	2011E	2012E	2013E	2014E
Sales growth	-8.5%	33.9%	0.5%	1.4%	3.8%	3.9%
Gross margin	21.9%	27.7%	20.3%	16.9%	17.3%	17.4%
REBITDA margin	15.8%	22.2%	15.6%	10.9%	12.9%	13.3%
REBITA margin	10.5%	17.2%	9.8%	6.4%	6.8%	6.9%
EBIT margin	9.5%	16.4%	9.1%	3.4%	5.9%	6.3%
Net debt / Equity + Minorities	34.5%	32.4%	43.2%	40.7%	28.5%	18.9%
Net debt / EBITDA	1.23	0.80	1.61	2.16	1.28	0.83
EBITDA / net interest	6.80	14.48	8.01	6.23	8.35	10.19
Pay-out ratio	38.4%	27.2%	40.8%	153.5%	61.6%	51.3%
= Return on Equity (avg)	12.6%	24.7%	9.7%	1.6%	5.2%	6.0%
Return on Capital Employed (avg)	10.5%	19.3%	8.6%	3.1%	5.7%	6.5%
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	2.90	0.49	1.64	1.97
Diluted EPS	2.56	6.17	2.88	0.49	1.63	1.96
Diluted, adjusted EPS	2.89	6.52	3.16	1.69	1.97	2.19
Net book value / share	21.59	28.33	30.46	30.70	31.87	33.39
Free cash flow / share	5.23	0.00	-2.50	1.45	4.38	3.92
Dividend (€)	0.98	1.67	1.17	0.75	1.00	1.00
Valuation data	2009	2010	2011E	2012E	2013E	2014E
Reference share price (€)	53.68	54.78	27.64	27.64	27.64	27.64
Reference market capitalisation (€m)	3,194.3	3,280.7	1,654.9	1,654.9	1,654.9	1,654.9
Enterprise value (€m)	3,569.0	3,870.6	2,491.9	2,450.3	2,235.3	2,062.1
P/E	18.6	8.4	8.7	16.3	14.0	12.6
EV/sales	1.5	1.2	0.8	0.7	0.6	0.6
EV/EBITDA	9.3	5.3	4.9	6.7	5.0	4.3
EV/Capital employed	2.1	1.7	0.9	0.9	0.9	0.9
P/ NBV	2.5	1.9	0.9	0.9	0.9	0.8
Free cash flow yield	9.7%	0.0%	-9.0%	5.2%	15.7%	14.0%
Dividend yield	1.8%	3.0%	4.2%	2.7%	3.6%	3.6%

Source: KBC Securities

*Historic valuation data are based on historic prices

6 February 2012

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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

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.

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Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	33.60%	37.50%
ACCUMULATE	38.50%	50.00%
HOLD	26.20%	12.50%
REDUCE	1.60%	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
06-FEB-12	Hold	€ 27.00
04-NOV-11	Hold	€ 35.00
01-AUG-11	Accumulate	€ 54.00
29-JUL-11	Accumulate	€ 60.00
29-JUN-11	Buy	€ 68.00
02-MAR-11	Buy	€ 90.00

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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.

6 February 2012

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