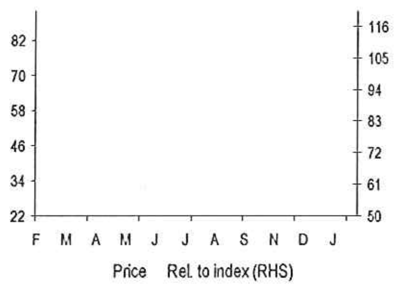
KBC Securities

6 February 2012

BEKAERT

Too early to get into the stock

GENERAL INDUSTRIES	CURRENT PRICE	€ 27.64	**HOLD**
BELGIUM	TARGET PRICE	€ 27.00	RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg	BEKB BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 1,654.9m
Shares outst.	59.9m
Volume (daily)	€ 7,744,542
Free float	62.0%

Next corporate event

Results FY11: 24 February 2012

(€ m)	2011E	2012E	2013E
Sales	3,277.5	3,324.8	3,450.8
REBITDA	511.1	363.3	444.8
Net earnings	171.5	29.3	97.2
Adj. EPS (€)	3.16	1.69	1.97
P/E (x)	8.7	16.3	14.0
EV/REBITDA	4.9	6.7	5.0
FCF Yield	-9.0%	5.2%	15.7%
Dividend yield	4.2%	2.7%	3.6%

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At the end of last week, Bekaert announced a major restructuring of its sawing wire activities in China and Belgium as well as an additional restructuring of the stainless steel wire activities in Belgium. The restructuring is going to lead to a reduction of 1,250 jobs in China and 600 jobs in Belgium.

Next to that, Bekaert announced it will start a study to identify measures to reduce its overall global cost structure by € 100m annually in the coming years. The aim is to restore profitability towards the long-term profitability guidance (EBIT between 7 and 9%, EBITDA of 15%). Important to note is that these € 100m targeted cost savings are on top (or with only a little overlap) of the announced restructuring in Belgium and China.

Bekaert is already in an advanced stage in China (started implementing during month of December). Although unable to provide precise guidance on non-recurring charges, Bekaert hinted 2012 to become "a transition year" with "one of the highest non-recurring charges ever in the history of the company". The bulk of the restructuring charges are expected for 2012 and about two thirds would be cash.

In sawing wire, Bekaert's capacity utilisation (capacity of about 50kt) dropped from full utilisation early 2011 to about 50% by the end of the year. We estimate Bekaert's market share has dropped from over 60% in 2010 to 30 to 35% in 2011. While the end market in 2011 is estimated to have grown from 16.6 GW to 27.7 GW (EPIA estimates), it is important to know that these numbers are for capacity connected to the grid (hence, lagging on Bekaert's business).

Estimates trimmed:

We expect Bekaert to report a recurring EBIT over 2011 of € 321.0m, corresponding to a margin of 9.8%. However, recurring EBIT in the second half is seen at "only" € 78.7m (5.3% margin).

For the current year, we now expect a recurring EBIT of € 231.2m (6.4% margin) with a negative contribution from sawing wire. We have assumed € 100m on non-recurring charges in 2012, of which € 35m non-cash.

Bekaert's dividend policy is for a stable to growing dividend with a target payout ratio on the long-term of about 40%. We expect Bekaert to cut its dividend from € 1.667 over 2010 to € 1.17 over 2011 (closing dividend of € 0.50) and € 0.75 over 2012.

Conclusion:

We have revised our scenario, resulting in a cut in our EPS estimates for 2012 and 2013 by respectively 33.7% and 29.4%. Our new target price has been set at € 27 (from € 35) and we keep our rating unchanged at Hold as we continue to believe it is still too early to get into the stock.