

28 February 2012

BEKAERT

Margin pressure in mature markets

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE €24.73
TARGET PRICE €25.00

HOLD
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	-21%	-6%	-68%
Rel. BEL20	-22%	-19%	-61%
12m Hi/Lo	€ 84.49/23.95		
Bloomberg	BEKB BB		
Reuters	BEKB.BR		
Market Cap	€ 1,481m		
Next corporate event	General Assembly 11: 9 May 2012		
www.bekaert.com			

FY/e 31.12	2011	2012E	2013E	2014E
Sales (€ m)	3,340.0	3,337.8	3,466.2	3,604.9
REBITDA (€ m)	475.7	329.8	401.7	442.9
Net earnings (€ m)	192.6	13.3	78.9	106.5
Diluted adj. EPS (€)	2.81	1.44	1.67	2.02
Dividend (€)	1.17	0.75	1.00	1.00
P/E	19.50	17.18	14.77	12.24
EV/REBITDA	8.54	6.75	5.40	4.71
Free cash flow yield	-2.1%	4.4%	6.8%	9.6%
Dividend yield	2.1%	3.0%	4.0%	4.0%

Source: KBC Securities

Bekaert was hit hard last year by the total implosion of the sawing wire market. The FY11 results fell short of expectations due to heavy margin pressure in the mature markets, while Asia Pacific was in-line (with reset expectations) and Latin America was strong. While we see few short-term share triggers, the announced rightsizing of the sawing wire operations will immediately reduce losses in the second half. Looking beyond the short-term, the aim is to restore profitability to long-term targets, while the growth prospects look more subdued.

OVERALL PICTURE IS FOR REDUCED GROWTH PROSPECTS

- **Strategy confirmed.** Bekaert will continue to invest in emerging markets, guiding for 2012 capital expenditure in the € 150-200m range. The focus will be outside China. The company believes it will be a challenge to keep 2012 net debt in-line with the € 860m level at end-2011.
- **Sawing wire.** Given the high excess capacity in sawing wire (> 200%), prices have collapsed and are unlikely to return to previous levels. The same is true of margins and profitability.
- **Dividend cut.** Bekaert proposes a closing dividend of € 0.50 per share, thereby cutting the full-year dividend from € 1.67 to € 1.17. Management has announced that it will not pay an interim dividend this year.
- **Lower growth.** In China, Bekaert is faced with lower growth and a margin squeeze due to rising operating costs, combined with price pressure. The truck tire market is maturing after strong growth recorded in the previous year.
- **Challenging outlook.** Bekaert expects the mature markets to remain weak while the picture in the emerging markets is mixed. While management expects slower growth in China, it sees more favourable prospects in Latin America and South-East Asia.

ANALYSTS

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MARGIN PRESSURE IN MATURE MARKETS

Bekaert reported consolidated sales of €3,340m, up 2.4% y/y and ahead of the €3,278m guidance. Organic growth was 5.1%, while the net impact of acquisitions and divestments (-1.1%) and exchange rate fluctuations (-1.6%) was adverse. Looking at sales per region, Latin America surprised positively.

KEY FIGURES (€m)

	2H10	FY10	1H11	2H11	FY11E	FY11A	FY12E	FY13E
Consolidated sales	1,727	3,262	1,780	1,560	3,278	3,340	3,338	3,466
- EMEA	540	1,066	614	555	1,170	1,169	1,111	1,133
- North America	325	638	354	311	663	665	565	571
- Latin America	167	311	173	199	341	372	671	718
- Asia Pacific	696	1,248	639	495	1,104	1,134	991	1,045
EBITDA	375.6	724.7	342.4	133.3	511.1	475.7	329.8	401.7
margin	21.8%	22.2%	19.2%	8.5%	15.6%	14.2%	9.9%	11.6%
- EMEA	63.0	144.0	74.0	43.0	148.6	117.0	66.6	113.3
- North America	21.0	50.0	34.0	12.0	66.3	46.0	28.3	34.3
- Latin America	18.0	38.0	22.0	26.0	42.6	48.0	83.8	89.7
- Asia Pacific	308.0	560.0	256.0	90.0	322.5	346.0	221.2	237.3
- Other	-34.4	-67.3	-43.6	-37.7	-68.8	-81.3	-70.1	-72.8
REBIT	300.5	562.5	242.3	38.5	321.0	280.9	209.8	231.7
margin	17.4%	17.2%	13.6%	2.5%	9.8%	8.4%	6.3%	6.7%
Result from operations	290.8	534.3	231.8	36.6	297.9	268.4	109.8	202.8
Financial result	-16.8	-32.4	-34.7	16.2	-63.8	-18.5	-84.7	-81.3
Income taxes	-88.1	-139.5	-53.5	-14.6	-65.5	-68.1	-6.9	-34.0
Joint ventures and associates	17.3	36.1	14.1	11.3	28.0	25.4	20.0	21.4
Result for the period	203.2	398.5	157.7	49.5	196.5	207.2	38.3	108.9
Minority interest	16.5	30.9	13.4	1.2	25.0	14.6	25.0	30.0
Net result, group share	186.6	367.6	144.3	48.3	171.5	192.6	13.3	78.9

Source: company data, KBC Securities

EBITDA is reported at €475.7m (14.2% margin), down from €724.7m (22.2% margin) the year before. We were looking for €511.1m. The breakdown was €342.4m in H1 (19.2% margin) and €133.3m in H2 (8.6% margin). Recurring EBIT was €280.9m (8.4% margin), missing our forecast for €321.0m. Recurring EBIT declined from €242.3m (19.2% margin) in H1 to €38.5m (2.5% margin) in H2.

If we take a closer look at the segments, the main surprise came from significant margin pressure in EMEA and North America in the second half, while performance in Asia Pacific was in-line with expectations and Latin America surprised positively.

Bekaert reported 2011 net result, group share, of €192.6m (€171.5m expected). However, the results were boosted by about €50m of other financial results in H2, linked to the sale of BSF (about 2/5) and favourable exchange rate differences on dividends from China (about 3/5).

As expected, Bekaert has cut its dividend from €1.667 per share over 2010 to €1.17 per share, consisting of a closing dividend of €0.50 per share (ex-date of 11 May) on top of the €0.67 interim dividend already paid. In addition, Bekaert indicated at the analysts meeting that it will not pay an interim dividend in 2012. Management clarified by saying that the interim dividends paid in 2010 and 2011 should be regarded as exceptional and the company is returning to a "normal dividend".

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KEY FIGURES PER SEGMENT (2011, €m)

	EMEA	N-AM	L-AM	APAC	OTHER	2011
Consolidated sales	1,169	665	372	1,134		3,340
EBITDA	117	46	48	346	-81	476
margin	10.0%	6.9%	12.9%	30.5%		14.3%
REBIT	66	32	35	224	-76	281
margin	5.6%	4.8%	9.4%	19.8%		8.4%
Operating result	63	31	35	217	-78	268

Source: company data

EMEA

Consolidated sales in EMEA increased by about 10%, reflecting volume growth of about 5% and a 5% price hike to compensate for increased wire rod costs. Recurring EBIT amounted to €66m (€88m expected), declining from €54m in H1 (8.9% margin) to €12m (2.2% margin) in H2. Note there was a negative impact from declining raw material prices (FIFO) of about €9m in H2. The H2 results were also dented by start-up costs in Slovakia and Russia as well as very weak capacity utilisation and high costs incurred in the Belgian sawing wire and stainless steel wire activities.

North America

Sales in North America increased by about 4%, reflecting strong organic growth of 15% partially offset by exchange rate movements (-5%) and the BSF divestment (-6%). Recurring EBIT was €32m, well short of the €47m expectation. REBIT was down from €28m (7.8% margin) in H1 to only €4m (1.3% margin) in H2, which was depressed due to low demand in most sectors and the divestment of BSF.

Latin America

Consolidated sales increased by 20%, with volume growth of 8% and price increases of 16% partially offset by 4% adverse currency movements. The recurring EBIT contribution from Latin America surprised positively at €35m (€30.5m expected), corresponding to a 9.5% margin.

Asia Pacific

Despite strong growth in India and Indonesia, consolidated sales in Asia Pacific were down by 9% y/y. Volume growth of about 3% was more than offset by a negative price/mix of 12%. Sales and profits were driven down by the dramatic collapse of the sawing wire market. In addition, the Chinese truck tire market is maturing, resulting in weaker growth in a fiercely competitive environment. Recurring EBIT from Asia Pacific amounted to €224m (19.8% margin), in-line with expectations (€221m).

CHALLENGE TO KEEP NET DEBT IN-LINE WITH END-2011 LEVEL

Net financial debt increased from €521.9m at year-start to €860.5m (KBC: €824.9m). Capital expenditure reached a high €287m, of which €267m in property, plant and equipment, mainly in Asia Pacific and EMEA. Bekaert indicated at the analysts meeting that it will not be easy to keep 2012 net debt in-line with the-2011 level.

Bekaert is sticking to its strategy and will continue to invest in emerging markets. Capital expenditure for the current year is guided in the €150-200m range. The focus will be on emerging markets outside China, i.e. Latin America, South-East Asia and India. Given the installed production base, China will remain of extreme importance for Bekaert. Indonesia was given a special mention as an interesting platform for exports.

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THE OVERALL PICTURE IS FOR REDUCED GROWTH

In the mature markets, Bekaert is confronted with competitive pressure due to overcapacity. Due to lower demand for high-end products, the company has shifted to low-added-value products in order to secure capacity utilisation.

With regards to China, Bekaert made it very clear that the double-digit growth is a thing of the past (quote: “China has become an almost mature market for Bekaert products”). The market for truck tire is maturing after strong growth in previous years. Demand for building products is also down. Overall, Bekaert is faced with lower growth and a margin squeeze due to rising operating costs, combined with price pressure.

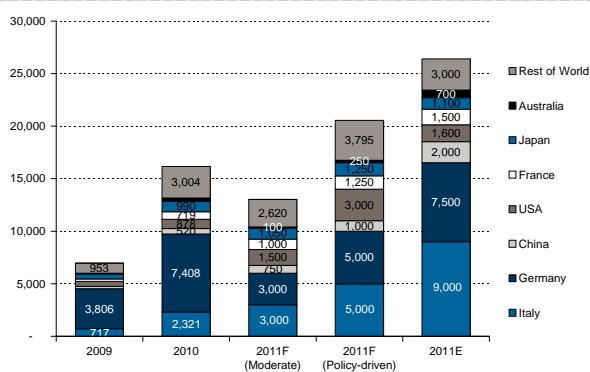
SAWING WIRE: PRICES UNLIKELY TO RETURN TO PREVIOUS HIGHS

Bekaert estimates that global installed sawing wire capacity doubled from about 160kt in 2010 to 320kt in 2012. In China, capacity (excluding Bekaert) is forecast to triple from about 40kt in 2010 to 120kt in 2012. Bekaert itself had about 70kt installed capacity in 2010, which increased to about 80/85kt in 2011. Market capacity utilisation dropped from about 59% in 2010 to about 38% in 2011 and is estimated to drop further to only 31% in 2012.

Volumes and prices started to drop sharply as from April 2011, a trend that accelerated during the second half of the year. Bekaert indicated that its volumes were down by about 70% by year-end and by even more in Europe. Prices were down by about 60% on average by the end of the year.

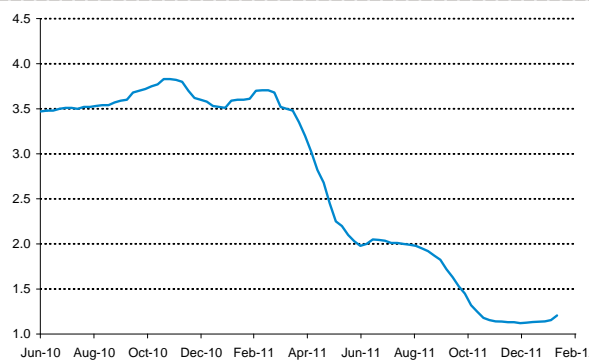
Given the significant excess capacity in sawing wire (> 200%), price levels have collapsed and are unlikely to return to previous highs. The same is therefore true of margins and profitability. In Europe, wafer manufacturers will struggle to remain competitive. In Asia, demand is still there but competition from low-cost producers remains fierce.

NEWLY CONNECTED CAPACITY (MW)



Source: EPIA (January 2012)

SOLAR WAFER WEEKLY SPOT PRICE (\$)



Source: PV Insights

OUTLOOK

Bekaert anticipates continued uncertainty and price pressure in most markets. The company perceives persistent competitive pressure in mature markets and China but is convinced that its strong position in Latin America and South-East Asia will continue to produce solid growth. The company expects the cost-cutting measures to bear fruit as from mid-2012. Management hopes to restore long-term profitability (EBITDA margin of 15%, EBIT between 7 to 9%) by 2014

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The rightsizing of the sawing wire operations will have a positive impact from 2H12 by directly cutting into losses. Bekaert refrained from offering further guidance on non-recurring charges and potential cost savings before the end of the consultation period (which will end soon). Our scenario assumes €100m in restructuring charges this year, of which €35m non-cash. Additional cost cutting measures (targeted at an extra €100m p.a.) should restore long-term profitability by 2014.

We have revised our numbers, resulting in a further cut in our adjusted EPS estimates for 2012 and 2013 from respectively €1.69 and €1.97 to €1.44 and €1.67. For the current year, we expect sales of €3,337.8m, EBITDA of €329.9m, recurring EBIT of €209.9m, operating result of €109.9m and €13.3m of net profit, group share.

Note that this year's results will be helped by the full consolidation of formerly equity-consolidated joint ventures 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.

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FINANCIAL DATA

Income statement (€m)	2009	2010	2011	2012E	2013E	2014E
Sales	2,437.3	3,262.5	3,340.0	3,337.8	3,466.2	3,604.9
Gross profit	534.2	904.3	651.4	580.2	616.3	657.9
EBIT	232.2	534.3	268.4	109.8	202.8	238.5
Pre-tax earnings	166.6	501.9	249.9	25.2	121.6	160.9
Net earnings	151.8	367.6	192.6	13.3	78.9	106.5
EBITDA	385.5	724.7	475.7	329.8	401.7	442.9
REBITDA	385.5	724.7	475.7	329.8	401.7	442.9
REBITA	256.8	562.5	280.9	209.8	231.7	257.9
Balance sheet (€m)	2009	2010	2011	2012E	2013E	2014E
Intangible assets	105.0	131.1	103.5	103.5	103.5	103.5
Tangible assets	1,127.7	1,295.1	1,433.6	1,388.6	1,349.7	1,295.3
Financial assets	218.6	243.8	258.3	258.3	258.3	258.3
Net other assets & liabilities	27.9	94.3	-38.9	-38.9	-38.9	-38.9
Net working capital	640.2	1,004.2	1,203.9	1,221.7	1,268.7	1,319.5
Net debt	473.7	577.9	879.6	843.7	787.3	705.0
Provisions	272.1	408.1	314.5	314.5	314.5	314.5
Minorities	88.8	86.0	72.5	72.5	72.5	72.5
Equity	1,284.8	1,696.6	1,693.9	1,702.5	1,767.0	1,845.7
Capital employed	1,685.7	2,310.5	2,499.6	2,472.3	2,480.5	2,476.8
TOTAL ASSETS	2,829.5	3,673.1	4,169.1	4,127.5	4,153.2	4,194.0
Cash flow statement (€m)	2009	2010	2011	2012E	2013E	2014E
Cash flow from operations	468.2	230.6	197.1	240.5	260.8	291.6
Net capital expenditure	-158.4	-230.3	-266.6	-175.0	-160.0	-150.0
Free cash-flow	309.8	0.2	-69.5	65.5	100.8	141.6
Acquisitions / disposals	-12.0	-34.6	72.4	0.0	0.0	0.0
Dividend payments	-50.6	-118.5	-163.1	-29.6	-44.4	-59.2
Shares issues	1.8	-57.7	1.0	0.0	0.0	0.0
New borrowings / reimbursements	-41.7	271.3	535.3	-50.0	-50.0	-50.0
Other	-49.7	106.5	-142.5	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	157.5	167.1	233.5	-14.1	6.4	32.3
Performance criteria	2009	2010	2011	2012E	2013E	2014E
Sales growth	-8.5%	33.9%	2.4%	-0.1%	3.8%	4.0%
Gross margin	21.9%	27.7%	19.5%	17.4%	17.8%	18.2%
REBITDA margin	15.8%	22.2%	14.2%	9.9%	11.6%	12.3%
REBITA margin	10.5%	17.2%	8.4%	6.3%	6.7%	7.2%
EBIT margin	9.5%	16.4%	8.0%	3.3%	5.9%	6.6%
Net debt / Equity + Minorities	34.5%	32.4%	49.8%	47.5%	42.8%	36.8%
Net debt / EBITDA	1.23	0.80	1.85	2.56	1.96	1.59
EBITDA / net interest	6.80	14.48	7.23	3.90	4.94	5.71
Pay-out ratio	38.4%	27.2%	36.4%	338.9%	75.9%	56.3%
= Return on Equity (avg)	12.6%	24.7%	11.4%	0.8%	4.6%	5.9%
Return on Capital Employed (avg)	10.5%	19.3%	8.1%	3.2%	5.9%	6.9%
Per share data (€)	2009	2010	2011	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	3.25	0.22	1.33	1.80
Diluted EPS	2.56	6.17	3.23	0.22	1.33	1.79
Diluted, adjusted EPS	2.89	6.52	2.81	1.44	1.67	2.02
Net book value / share	21.59	28.33	28.29	28.43	29.51	30.82
Free cash flow / share	5.23	0.00	-1.17	1.11	1.70	2.39
Dividend (€)	0.98	1.67	1.17	0.75	1.00	1.00
Valuation data	2009	2010	2011	2012E	2013E	2014E
Reference share price (€)	53.68	54.78	54.78	24.73	24.73	24.73
Reference market capitalisation (€m)	3,194.3	3,280.7	3,280.7	1,481.0	1,481.0	1,481.0
Enterprise value (€m)	3,569.0	3,870.6	4,062.4	2,226.7	2,170.4	2,088.0
P/E	18.6	8.4	19.5	17.2	14.8	12.2
EV/sales	1.5	1.2	1.2	0.7	0.6	0.6
EV/EBITDA	9.3	5.3	8.5	6.8	5.4	4.7
EV/Capital employed	2.1	1.7	1.6	0.9	0.9	0.8
P/ NBV	2.5	1.9	1.9	0.9	0.8	0.8
Free cash flow yield	9.7%	0.0%	-2.1%	4.4%	6.8%	9.6%
Dividend yield	1.8%	3.0%	2.1%	3.0%	4.0%	4.0%

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

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	32.80%	37.50%
ACCUMULATE	39.30%	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
24-FEB-12	Hold	€ 25.00
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.

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