KBC Securities

8 May 2012

BEKAERT

Preview 1Q12 sales

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 21.44
TARGET PRICE € 25.00

HOLD
RATING UNCHANGED

Source: Thomson Reuters Datastream

Bloomberg	BEKB BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 1,283.9m
Shares outst.	59.9m
Volume (daily)	€ 6,872,085
Free float	62.0%

Next corporate event

General Assembly 11: 9 May 2012

(€ m)	2011	2012E	2013E
Sales	3,340.0	3,337.8	3,466.2
REBITDA	475.7	329.8	401.7
Net earnings	192.6	13.3	78.9
Adj. EPS (€)	2.81	1.44	1.67
P/E (x)	19.5	14.9	12.8
EV/REBITDA	8.5	6.2	4.9
FCF Yield	-2.1%	5.1%	7.9%
Dividend yield	2.1%	3.5%	4.7%

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Wednesday, before market, Bekaert will release its 1Q12 trading update.

At the publication of FY11 results, Bekaert stated to anticipate a continued uncertainty and price pressure in most markets. The company perceived persistent competitive pressure in mature markets and China but was 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.

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%). Given lower contribution from associates and increased minorities, the impact on EPS from the full consolidation of former joint ventures should be relatively neutral.

We expect Bekaert to report consolidated sales of € 837.3m, down 8.8% y/y, but up on 4Q11 (€ 744m). Consolidated sales at EMEA, North America, Latin America and Asia Pacific are seen at respectively € 283m (-7.8% y/y), € 144m (-18.2% y/y), € 168m (x2, thanks to consolidation of former equity-consolidated joint ventures in Chile and Peru) and € 243m (-31.2% y/y).

Bekaert will continue to invest in emerging markets, guiding for 2012 capital expenditure in the € 150-200m range. The focus will be outside China. It will be a challenge to keep 2012 net debt in line with the € 860m level at end-2011.

Early 2012, Bekaert announced plans to rightsize its global sawing wire operations, including production, technology and engineering. As Bekaert has ended the consultation period with the Belgian unions, the company might provide guidance on non-recurring charges and potential cost savings. 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". Our scenario assumes € 100m in restructuring charges this year, of which € 35m non-cash.

Conclusion:
Bekaert will still face tough comparables as sawing wire volumes and prices started to drop sharply as from April 2011, a trend that accelerated during the second half of the year. On the other hand, consolidated sales will be helped by the consolidation of former equity-consolidated joint venture in Chile and Peru. Besides an update on the business in the first months of the year, we look out for some more guidance on non-recurring charges and potential costs savings linked to the announced restructuring. While we see few short-term share triggers, the announced rightsizing of the sawing wire operations will positively impact results in the second half.