

9 May 2012

BEKAERT

Strong start to the year

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 21.54
TARGET PRICE € 25.00

ACCUMULATE
RATING UPGRADED



Source: Thomson Reuters Datastream

Bloomberg BEKB.BB
Reuters BEKB.BR

www.bekaert.com

Market Cap € 1,289.6m
Shares outst. 59.9m
Volume (daily) € 6,919,465
Free float 62.0%

Next corporate event

Payment dividend FY11: 15 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	15.0	12.9
EV/REBITDA	8.5	6.2	4.9
FCF Yield	-2.1%	5.1%	7.8%
Dividend yield	2.1%	3.5%	4.6%

Wouter Vanderhaeghen

+32 2 429 37 30

wouter.vanderhaeghen@kbcsecurities.be

Setting up partnership for steel wire and ropes activities in S-E Asia:

Bekaert this morning announced intentions for a joint venture with Southern Steel Berhard (Malaysia), combining their steel wire and rope activities in South-East Asia. SSB will inject its interests in Southern Wire Industries Malaysia and Southern Specialty Wire. The operations encompass two production plants with a product portfolio consisting of a wide range of galvanized and specialty steel wires and ropes. Bekaert will bring in the galvanized wire activity platform, which is today part of Bekaert Indonesia.

The deal is expected to be completed during the third quarter. The joint venture will be 55% owned by Bekaert and 45% by SBB. The activities will be fully consolidated by Bekaert. The transaction has an enterprise value of about € 47m (100%) and would, based upon 2011 numbers, add about € 60m in revenues p.a.

Q1 trading update: strong start to the year

Bekaert this morning released its 1Q12 trading update. Consolidated sales are down 2.6% to € 895m (KBC: € 837m; CSS: € 821m). Sales are down 13.7% organically with the net effect of acquisitions/divestments adding 8.3% and positive currency movements adding 2.9%. Combined sales declined 7.9% to € 1,135m with the net effect of acquisition/divestments slightly negative (-1.1%) while currency movements added 2.0%.

Consolidated sales in EMEA, North America, Latin America and Asia Pacific are reported at € 290m (-5%; KBC: € 283m), € 176m (=; KBC: € 144m), € 197m (+139%; KBC: € 168m) and € 232m (-34%; KBC: € 243m). Sales in Latin America were boosted by the full consolidation of the former equity consolidated joint ventures in Chile and Peru (net impact of € 90m in Q1). The sales decline in EMEA was fully on the account of sawing wire as the other activities recorded a strong 12% sales increase. This was in particular on the account of good volumes in steel cord, a trend that slowed a bit though during the second quarter. Sales in North America were up significantly from the last quarter of last year; excluding the consolidation effect, sales in Latin America were at a record-high. Sales in Asia Pacific were in-line with the final quarter of last year.

Net financial debt remained about stable vs. year-end. Bekaert was not yet able to provide extra guidance with regards to one-off expenses and potential cost savings linked to the announced restructuring.

Conclusion:

While an interesting transaction, the new JV is relatively limited in the total scope of Bekaert and won't have a material impact on the bottom line. Bekaert announced solid sales numbers for the first quarter, although visibility on profitability trends remains low. Nevertheless, the announced rightsizing measures are expected to produce positive effects as from the second half. We keep our target price unchanged at € 25 per share but increase our rating from hold to accumulate.