

20 July 2012

BEKAERT

First half dominated by restructuring

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE €20.76
TARGET PRICE €25.00

ACCUMULATE
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	11%	2%	-58%
Rel. BEL20	4%	0%	-56%
12m Hi/Lo	€51.40/17.51		
Bloomberg	BEKB BB		
Reuters	BEKB.BR		
Market Cap	€1,243m		
Next corporate event			
Results 1H12: 27 July 2012			
www.bekaert.com			

FY/e 31.12	2011	2012E	2013E	2014E
Sales (€m)	3,340.0	3,416.3	3,543.0	3,681.5
REBITDA (€m)	475.7	308.5	400.2	440.8
Net earnings (€m)	192.6	-16.2	76.7	104.0
Diluted adj. EPS (€)	2.81	0.95	1.64	1.98
Dividend (€)	1.17	0.50	0.75	1.00
P/E	19.50	21.95	12.65	10.47
EV/REBITDA	8.54	6.64	4.94	4.27
Free cash flow yield	-2.1%	0.6%	8.0%	11.2%
Dividend yield	2.1%	2.4%	3.6%	4.8%

Source: KBC Securities

Bekaert will release its 1H12 results on Friday 27 July, before market. First half results will not only face tough comparables but will also be impacted by significant non-recurring charges linked to the right-sizing of the sawing wire operations. Visibility is extremely low on both the underlying operations and the exact level of restructuring costs and the future savings they should generate. Results will improve from mid-2012 when the positive impact of the right-sizing of the sawing wire operations starts to kick-in.

FIRST HALF TO FACE TOUGH COMPARABLES AND HIGH RESTRUCTURING

- Right-sizing of sawing wire operations.** Early 2012, Bekaert announced plans to right-size its global sawing wire operations. So far, it has not offered guidance on the exact level of restructuring expenses or the cost savings to be expected. As the company finalised negotiations with the Belgian unions in May, we have assumed a significant portion of the restructuring charges will be booked in the first half.
- Targeting additional cost savings.** On top of the right-sizing in sawing wire, Bekaert is looking at possible measures to reduce global costs by €100m p.a. in the coming years. The aim is to restore profitability towards the long-term profit guidance. The company targets an EBIT margin of 7% by 2014. We hope management will provide more details including timing, expected restructuring costs and savings.
- Challenging outlook.** At the trading update, Bekaert spoke of weak visibility in most of its markets. While management expects slower growth in China, it saw better prospects in Latin America and South-East Asia.
- Facing tough comparables.** Bekaert was hit hard last year by the total implosion of the sawing wire market. However, as the sawing wire market only started to collapse during 2Q11, Bekaert will still face tough comparables. Our scenario assumes €75m of restructuring charges for the first half, of which €28m non-cash. We expect the company to report recurring EBIT of €83.1m (4.7% margin) and net loss, group share, of €46.3m. No reliable consensus is available at this stage.

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RIGHT-SIZING THE SAWING WIRE OPERATIONS

Early 2012, Bekaert announced plans to right-size its global sawing wire operations, including production, technology and engineering. Bekaert also intended 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 approximately 1,250 job losses in China and 600 in Belgium out of a total global workforce of about 28,000.

Bekaert has so far refrained from offering further guidance on non-recurring charges and potential cost savings. Our scenario assumes € 100m in restructuring charges for the current year, of which € 35m non-cash.

On top of the right-sizing of sawing wire, Bekaert 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. Note that these targeted cost savings can be added to (or they only overlap marginally) the restructuring announced in Belgium and China.

FIRST HALF TO BE DOMINATED BY REALIGNMENT MEASURES

At the trading update, Bekaert indicated it has poor visibility in most markets. The company expects the realignment of the sawing wire operations to bear fruit from mid-2012. Management targets an EBIT margin of at least 7% by 2014 (long-term profitability targets aim for EBITDA margin of 15% and EBIT between 7 to 9%).

Note that this year's results will be helped by the full consolidation of former equity-consolidated joint ventures in Chile and Peru. Given the lower contribution from associates and increased minorities, the impact on EPS from the full consolidation of former joint ventures should be relatively neutral.

At publication of the 1Q12 trading update, Bekaert surprised positively, reporting a 2.5% drop in consolidated sales to €895m. Sales declined by 13.7% organically, with the net effect of acquisitions/divestments adding 8.3% and positive currency movements adding 2.9%.

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 due solely to sawing wire, as the other activities recorded a strong 12% sales increase. This was mainly thanks to good volumes in steel cord, a trend that eased slightly during the second quarter. Sales in North America were up sharply on 4Q11. 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.

We expect Bekaert to report consolidated 1H12 sales of €1,760.0m, down 1.1% y/y. Sales in Latin America are seen at €362m, up 110% y/y, driven by the full consolidation of former joint-ventures in Chile and Peru. Sales in EMEA, North America and Asia Pacific are seen at €584m, €335m and €479m, down by respectively 5.0%, 5.2% and 25.1%.

We expect Bekaert to report 1H12 recurring EBIT of €83.1m (4.7% margin), up from €38.5m (2.5% margin) in 2H11 but significantly down from the €242.4m (13.6% margin) recorded in 1H11. As negotiations with Belgian unions were finalised during the month of May, the positive impact of the right-sizing will only start to be felt from the second half. As a result, recurring EBIT in EMEA is seen at a very low €13.8m (2.4% margin). In Asia Pacific, implementation of the right-sizing began in December and significant progress had been made by the Chinese new year. We therefore expect to see some improvements on 2H11 and see recurring EBIT at €52.5m (11.0%). Recurring EBIT contribution from North America and Latin America is seen at €14.6m (4.4% margin) and €42.1m (11.6%) respectively.

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KEY FIGURES (€m)

	FY10	1H11	2H11	FY11	1H12E	2H12E	FY12E	FY13E	FY14E
Consolidated sales	3,262	1,780	1,560	3,340	1,760	1,656	3,416	3,543	3,681
- EMEA	1,066	614	555	1,169	584	539	1,122	1,145	1,168
- North America	638	354	311	665	335	310	645	652	658
- Latin America	311	173	199	372	362	348	711	760	814
- Asia Pacific	1,248	639	495	1,134	479	460	938	986	1,042
EBITDA	724.7	342.4	133.3	475.7	128.6	179.9	308.5	400.2	440.8
margin	22.2%	19.2%	8.5%	14.2%	7.3%	10.9%	9.0%	11.3%	12.0%
- EMEA	144.0	74.0	43.0	117.0	5.8	50.3	56.1	114.5	134.3
- North America	50.0	34.0	12.0	46.0	20.1	12.1	32.3	39.1	42.8
- Latin America	38.0	22.0	26.0	48.0	47.1	41.7	88.8	95.0	101.7
- Asia Pacific	560.0	256.0	90.0	346.0	100.5	102.5	203.0	226.0	239.4
- Other	-67.3	-43.6	-37.7	-81.3	-45.0	-26.7	-71.7	-74.4	-77.3
REBIT	562.5	242.3	38.5	280.9	83.1	105.4	188.5	230.2	255.8
margin	17.2%	13.6%	2.5%	8.4%	4.7%	6.4%	5.5%	6.5%	6.9%
Result from operations	534.3	231.8	36.6	268.4	8.1	80.4	88.5	201.1	236.1
Financial result	-32.4	-34.7	16.2	-18.5	-42.3	-42.3	-84.7	-82.6	-78.6
Income taxes	-139.5	-53.5	-14.6	-68.1	-10.0	-5.0	-15.0	-33.2	-44.9
Joint ventures and associates	36.1	14.1	11.3	25.4	10.0	10.0	20.0	21.4	22.9
Result for the period	398.5	157.7	49.5	207.2	-34.3	43.1	8.8	106.7	135.5
Minority interest	30.9	13.4	1.2	14.6	12.0	13.0	25.0	30.0	31.5
Net result, group share	367.6	144.3	48.3	192.6	-46.3	30.1	-16.2	76.7	104.0

Source: Company data, KBC Securities

We have assumed €75m of restructuring charges for the first half, of which €28m non-cash (i.e. impairment on Belgian sawing wire activities). A further €25m of restructuring charges, of which €7m non-cash, is expected for the second half.

This leads to an operating result of €8.1m and pre-tax loss of €34.3m. Due to the full consolidation of former equity-consolidated joint ventures in Chile and Peru, the contribution of joint ventures and associates (€10.0m) will be lower while minorities (€12.0m) will be up. Despite the loss before taxes, we assumed €10.0m in taxes for the first half. The net loss, group share, is expected to come in at €46.3m.

For the second half, we see the results improving as the benefits from the right-sizing of the sawing wire operations start to kick in. Recurring EBIT for the second half is seen at €105.4m (6.4% margin), with the company reporting a net result of €30.1m. For the full year, this leads to recurring EBIT of €188.5m (5.5% margin) with a net loss, group share, of €16.2m.

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FINANCIAL DATA

Income statement (€m)	2010	2011	2012E	2013E	2014E	2015E
Sales	3,262.5	3,340.0	3,416.3	3,543.0	3,681.5	3,810.4
Gross profit	904.3	651.4	567.5	623.3	664.3	692.1
EBIT	534.3	268.4	88.5	201.1	236.1	249.1
Pre-tax earnings	501.9	249.9	3.8	118.5	157.5	175.0
Net earnings	367.6	192.6	-16.2	76.7	104.0	115.2
EBITDA	724.7	475.7	308.5	400.2	440.8	454.4
REBITDA	724.7	475.7	308.5	400.2	440.8	454.4
REBITA	562.5	280.9	188.5	230.2	255.8	269.4
Balance sheet (€m)	2010	2011	2012E	2013E	2014E	2015E
Intangible assets	131.1	103.5	103.5	103.5	103.5	103.5
Tangible assets	1,295.1	1,433.6	1,388.6	1,349.4	1,294.7	1,239.5
Financial assets	243.8	258.3	258.3	258.3	258.3	258.3
Net other assets & liabilities	94.3	-38.9	-38.9	-38.9	-38.9	-38.9
Net working capital	1,004.2	1,203.9	1,250.4	1,296.8	1,347.5	1,394.7
Net debt	577.9	879.6	901.9	832.0	736.9	639.8
Provisions	408.1	314.5	314.5	314.5	314.5	314.5
Minorities	86.0	72.5	72.5	72.5	72.5	72.5
Equity	1,696.6	1,693.9	1,673.1	1,750.2	1,841.2	1,930.3
Capital employed	2,310.5	2,499.6	2,501.1	2,508.3	2,504.2	2,496.2
TOTAL ASSETS	3,673.1	4,169.1	4,104.9	4,143.1	4,196.2	4,246.5
Cash flow statement (€m)	2010	2011	2012E	2013E	2014E	2015E
Cash flow from operations	230.6	197.1	182.3	259.5	289.5	306.4
Net capital expenditure	-230.3	-266.6	-175.0	-160.0	-150.0	-150.0
Free cash-flow	0.2	-69.5	7.3	99.5	139.5	156.4
Acquisitions / disposals	-34.6	72.4	0.0	0.0	0.0	0.0
Dividend payments	-118.5	-163.1	-29.6	-29.6	-44.4	-59.2
Shares issues	-57.7	1.0	0.0	0.0	0.0	0.0
New borrowings / reimbursements	271.3	535.3	-50.0	-50.0	-50.0	-50.0
Other	106.5	-142.5	0.0	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	167.1	233.5	-72.3	19.9	45.1	47.1
Performance criteria	2010	2011	2012E	2013E	2014E	2015E
Sales growth	33.9%	2.4%	2.3%	3.7%	3.9%	3.5%
Gross margin	27.7%	19.5%	16.6%	17.6%	18.0%	18.2%
REBITDA margin	22.2%	14.2%	9.0%	11.3%	12.0%	11.9%
REBITA margin	17.2%	8.4%	5.5%	6.5%	6.9%	7.1%
EBIT margin	16.4%	8.0%	2.6%	5.7%	6.4%	6.5%
Net debt / Equity + Minorities	32.4%	49.8%	51.7%	45.6%	38.5%	31.9%
Net debt / EBITDA	0.80	1.85	2.92	2.08	1.67	1.41
EBITDA / net interest	14.48	7.23	3.64	4.85	5.61	6.13
Pay-out ratio	27.2%	36.4%	-184.9%	58.5%	57.6%	52.0%
= Return on Equity (avg)	24.7%	11.4%	-1.0%	4.5%	5.8%	6.1%
Return on Capital Employed (avg)	19.3%	8.1%	-10.4%	5.8%	6.7%	7.1%
Per share data (€)	2010	2011	2012E	2013E	2014E	2015E
weighted average # shares, diluted	59,558,664	59,558,664	59,558,664	59,558,664	59,558,664	59,558,664
Basic EPS	6.21	3.25	-0.27	1.29	1.76	1.94
Diluted EPS	6.17	3.23	-0.27	1.29	1.75	1.93
Diluted, adjusted EPS	6.52	2.81	0.95	1.64	1.98	2.18
Net book value / share	28.33	28.29	27.94	29.23	30.75	32.23
Free cash flow / share	0.00	-1.17	0.12	1.68	2.36	2.64
Dividend (€)	1.67	1.17	0.50	0.75	1.00	1.00
Valuation data	2010	2011	2012E	2013E	2014E	2015E
Reference share price (€)	54.78	54.78	20.76	20.76	20.76	20.76
Reference market capitalisation (€m)	3,280.7	3,280.7	1,242.9	1,242.9	1,242.9	1,242.9
Enterprise value (€m)	3,870.6	4,062.4	2,046.9	1,977.0	1,881.9	1,784.7
P/E	8.4	19.5	22.0	12.6	10.5	9.5
EV/sales	1.2	1.2	0.6	0.6	0.5	0.5
EV/EBITDA	5.3	8.5	6.6	4.9	4.3	3.9
EV/Capital employed	1.7	1.6	0.8	0.8	0.8	0.7
P/ NBV	1.9	1.9	0.7	0.7	0.7	0.6
Free cash flow yield	0.0%	-2.1%	0.6%	8.0%	11.2%	12.6%
Dividend yield	3.0%	2.1%	2.4%	3.6%	4.8%	4.8%

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

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Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	26.80%	33.33%
ACCUMULATE	42.50%	66.67%
HOLD	27.60%	0.00%
REDUCE	1.60%	0.00%
SELL	1.60%	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
09-MAY-12	Accumulate	€ 25.00
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

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