

27 July 2012

BEKAERT

Continued margin pressure in Asia Pacific

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 20.49
TARGET PRICE € 25.00

ACCUMULATE
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg	BEKB.BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 1,226.7m
Shares outst.	59.9m
Volume (daily)	€ 6,053,470
Free float	62.0%

Next corporate event

Trading update 3Q12: 14 November 2012

(€ m)	2011	2012E	2013E
Sales	3,340.0	3,416.3	3,543.0
REBITDA	475.7	308.5	400.2
Net earnings	192.6	-16.2	76.7
Adj. EPS (€)	2.81	0.95	1.64
P/E (x)	19.5	21.7	12.5
EV/REBITDA	8.5	6.6	4.9
FCF Yield	-2.1%	0.6%	8.1%
Dividend yield	2.1%	2.4%	3.7%

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Bekaert this morning reported 1H12 results.

The company reported a 0.2% increase in consolidated sales to € 1,782.5m, ahead of expectations (€ 1,760.0m). Sales declined by 12.4% organically but were helped by a 7.9% positive net impact from acquisitions and divestments and 4.7% positive currency effect. Combined sales declined by 6.5% y/y to € 2,255m. Sales in EMEA, North America, Latin America and Asia Pacific came at € 557m, € 351m, € 397m and € 478m vs. € 584m, € 335m, € 362m and € 479m expected.

The company reported recurring EBIT of € 85.1m (4.8% margin), in-line with expectations (€ 83.1m). Non-recurring items amounted to € -80.9m (we included € -75m) and include non-recurring costs of € 114m and non-recurring gains of € 33m. The non-recurring costs include restructuring costs, provisions and impairments of € 73m related to the Belgian operations and € 18m related to operations outside of Belgium as well as other non-recurring costs of € 23m. After non-recurring items, the operating result amounted to € 4.2m. Bekaert reported a net loss, group share, of € 78.6m (we were banking upon a loss of € 46.3m). Income taxes of € 27.5m exceeded the € 10m we had pencilled-in.

Looking to the segments, we note weaker Q2 sales in EMEA. At the other hand, recurring EBIT for the first half of € 36m (6.4% margin) came stronger than expected. Recurring EBIT contribution from North America, Latin America and Asia Pacific amounted to € 21m (6.1% margin), € 29m (7.2% margin) and € 35m (7.4% margin). Margin in Asia Pacific declined further sequentially (7.9% in 2H11) while we were expecting an increase. Contribution from North America came strong, partially helped by the addition of the Canadian rope activities as well as favourable exchange rate. The recurring EBIT margin at Latin America (7.4%) came soft.

In addition to the rightsizing of the sawing wire operations in Belgium and China, Bekaert is currently conducting a study to reduce its global cost structure by € 100m p.a. in the forthcoming years. Implementation has started in China and the full impact on the results is expected as from 2014. The related non-recurring costs will be booked as soon as defined in 2012 or in 1H13.

Net financial debt increased from € 860.5m at year-start (old definition) to € 865.8m at the end of June. Bekaert has changed its net financial debt definition as it now includes non current financial receivables.

Conclusion:

Recurring EBIT came in-line with expectations with a contribution from EMEA and NA above expectations and LatAm and Asia Pacific below. The net loss is higher than expected, partially explained by still relatively high Group taxes. No indication on costs savings to be expected from the rightsizing of the sawing wire operations yet. Bekaert issued a cautious outlook for the coming months citing a downwards trend.