FLASH NOTE

30 July 2012

BEKAERT

Weaker 2H expected

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 21.50
TARGET PRICE € 25.00

ACCUMULATE
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	23%	-4%	-57%
Rel. BEL20	15%	-7%	-54%
12m Hi/Lo			€ 48.20/17.51
Bloomberg			BEKB BB
Reuters			BEKB.BR
Market Cap			€ 1,288m
Next corporate event			
Trading update 3Q12: 14 November 2012			
www.bekaert.com			

FY/e 31.12	2011	2012E	2013E	2014E
Sales (€ m)	3,340.0	3,447.6	3,576.6	3,717.6
REBITDA (€ m)	475.7	313.9	384.1	443.3
Net earnings (€ m)	192.6	-87.6	66.5	114.4
Diluted adj. EPS (€)	2.81	0.10	1.54	2.16
Dividend (€)	1.17	0.50	0.75	1.00
P/E	19.50	216.33	13.96	9.95
EV/REBITDA	8.54	6.73	5.36	4.43
Free cash flow yield	-2.1%	-1.0%	6.5%	10.8%
Dividend yield	2.1%	2.3%	3.5%	4.7%

Source: KBC Securities

Bekaert reported 1H12 results, which were dominated by significant non-recurring items. A first look shows that REBIT of € 85.1m was slightly ahead of expectations, with a firmer contribution from mature markets offsetting weaker-than-expected contribution from emerging markets. However, the analyst meeting revealed that the benefits from the sawing wire restructuring have already been fully discounted into 1H REBIT, explaining why the contribution from EMEA was relatively firm, and also limiting further costs cutting potential to the € 100m p.a. targeted by the additional cost savings program.

BENEFITS OF SAWING WIRE RIGHTSIZING ALREADY DISCOUNTED IN 1H12 REBIT

- **Significant impact of non-recurring items.** First half results were impacted by significant non-recurring items totalling € 80.9m and composed of € 114m non-recurring costs partially offset by € 33m non-recurring gains. The non-recurring costs were mainly related to the sawing wire restructuring.
- **Targeting additional cost savings.** With the aim to restore profitability towards the long-term profit guidance, Bekaert is looking at possible measures to reduce global costs by € 100m p.a. in the coming years. The one-off costs related to the program are currently guided at around € 50m, spread over 2H12 and 2013. The company targets an EBIT margin by 2014 of about 7%.
- **Cautious outlook statement.** Bekaert remained extremely prudent in its outlook statement referring to a total lack of visibility as well as downward trends “imposing a cautious outlook for the coming months”. With the cost benefits related to the sawing wire restructuring already largely discounted into the recurring EBIT for the first half, the second half is expected to reflect the challenging market environment as well as seasonal patterns.
- **Estimates revised down.** We have downgraded our numbers, resulting in a significant EPS cut for the current year, although the impact on our 2013 and 2014 numbers remains small. While we were previously banking on recurring 2H EBIT to improve on 1H on the gradual kicking in of sawing wire cost savings, these benefits have already been fully discounted in the recurring 1H EBIT.

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FIRST HALF DOMINATED BY REALIGNMENT MEASURES

Bekaert reported consolidated sales of € 1,782.5m, up 0.2% y/y and ahead of expectations (KBC: € 1,760.0m). Sales declined by 12.4% organically but were helped by a 7.9% positive net impact from acquisitions and divestments and a 4.7% positive currency effect. Combined sales declined by 6.5% y/y to € 2,255m. Favourable exchange movements (3.1%) were unable to offset the organic sales decline of 8.0% and negative net effect of acquisitions and divestments of 1.6%. Despite lower domestic demand in most regions and a slowdown of business activity with export-driven Asian customers, Bekaert achieved stable volumes in the first half of 2012.

KEY FIGURES (IN € m)

	1H11	2H11	FY11	1H12E	1H12A	2H12E	FY12E	FY13E	FY14E
Consolidated sales	1,780	1,560	3,340	1,760	1,783	1,665	3,448	3,577	3,718
- EMEA	614	555	1,169	584	557	530	1,087	1,109	1,131
- North America	354	311	665	335	351	321	672	678	685
- Latin America	173	199	372	362	397	353	750	803	859
- Asia Pacific	639	495	1,134	479	478	460	938	986	1,042
EBITDA	342.4	133.3	475.7	128.6	160.8	153.1	313.9	384.1	443.3
margin	19.2%	8.5%	14.2%	7.3%	9.0%	9.2%	9.1%	10.7%	11.9%
- EMEA	74.0	43.0	117.0	5.8	34.0	31.2	65.2	88.7	130.1
- North America	34.0	12.0	46.0	20.1	26.0	21.0	47.0	44.1	44.5
- Latin America	22.0	26.0	48.0	47.1	57.0	36.8	93.8	100.4	107.4
- Asia Pacific	256.0	90.0	346.0	100.5	101.0	93.1	194.1	226.0	239.4
- Other	-43.6	-37.7	-81.3	-45.0	-57.2	-29.0	-86.2	-75.1	-78.1
REBIT	242.3	38.5	280.9	83.1	85.1	73.8	158.9	229.1	258.3
margin	13.6%	2.5%	8.4%	4.7%	4.8%	4.4%	4.6%	6.4%	6.9%
Result from operations	231.8	36.6	268.4	8.1	4.2	44.8	48.9	189.1	238.4
Financial result	-34.7	16.2	-18.5	-42.3	-52.8	-40.8	-93.6	-75.9	-73.0
Income taxes	-53.5	-14.6	-68.1	-10.0	-27.5	-10.5	-38.0	-42.0	-46.3
Joint ventures and associates	14.1	11.3	25.4	10.0	6.0	6.5	12.5	15.0	16.1
Result for the period	157.7	49.5	207.2	-34.3	-70.2	0.0	-70.2	86.2	135.2
Minority interest	13.4	1.2	14.6	12.0	8.4	9.1	17.5	20.0	21.0
Net result, group share	144.3	48.3	192.6	-46.3	-78.6	-9.1	-87.7	66.2	114.2

Source: Company data, KBC Securities

Bekaert reported recurring EBIT of € 85.1m (4.7% margin), in-line with expectations (€ 83.1m). Recurring EBIT is down sharply from the same period last year (€ 242.3m) but up on the second half (€ 38.5m). Non recurring items amounted to € 80.9m (we had € 75m) and consisted of € 114m non-recurring costs and € 33m non-recurring gains. Including non-recurring items, the result from operations amounted to € 4.2m. EBITDA amounted to € 160.8m, corresponding to a 9.0% margin.

The non-recurring costs of € 114m consisted of € 73m restructuring costs, provisions and asset impairments in the Belgian manufacturing, R&D and engineering activities, € 18m of restructuring costs, provisions and asset impairments for the sawing wire activities outside of Belgium and € 23m other non-recurring costs. The non-recurring costs included € 42.3m impairment losses. The analysts meeting revealed that the recurring EBIT already discounts the full benefits of the sawing wire restructuring (FTE reduction). This means that future margin improvement will only be driven by progress of the € 100m additional cost savings program. The benefits of the sawing wire restructuring in Belgium are estimated at € 35 to € 40m p.a.

The non-recurring gains of € 33m included an € 18m gain on the consolidation of former joint ventures in Chile and Peru, a gain of € 12m on the sale of the industrial coatings platform (Belgium, China and USA) and € 3m sale of property in Belgium and the USA.

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 coming 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 early 2013. The related non-recurring expenses to be expected are guided by Bekaert at a relatively low € 50m, split between 2H12 and 2013.

Bekaert reported a net loss, group share, of € 78.6m (€ 46.3m expected). Taxes of € 27.5m were higher than expected as no deferred tax assets can be set up in loss-making entities for the non-recurring costs related to the restructuring. As previously discussed, the full consolidation of the former equity-consolidated joint ventures in Chile and Peru increased revenues and operating results, lowered the contribution from joint ventures and associates (€ 6.0m) while increasing the result attributable to non-controlled interests (€ 8.4m). The impact on the bottom line from the consolidation change is neutral.

Net financial debt at the end of June was € 865.8m, little changed from year-start (€ 860.5m), despite the consolidation of the former equity-consolidated joint ventures in Chile and Peru (impact estimated at about € 30m). Capital expenditure amounted to € 58.4m and is expected to land below the previously-guided range of € 150-200m for the current year.

KEY FIGURES BY SEGMENT (IN € m)

	EMEA		N-AM		L-AM		AP	
	1H11	1H12	1H11	1H12	1H11	1H12	1H11	1H12
Consolidated sales	614	557	354	351	173	397	639	478
EBITDA	74	34	34	26	22	57	256	101
margin	12.1%	6.1%	9.6%	7.4%	12.7%	14.4%	40.1%	21.1%
REBIT	54	36	28	21	16	29	185	35
margin	8.8%	6.5%	7.9%	6.0%	9.2%	7.3%	29.0%	7.3%
Operating result	46	-14	27	8	16	47	185	18

Source: Company data

Looking to the segments, we note weaker Q2 sales in EMEA. By contrast, recurring EBIT for the first half of € 36m (6.4% margin) was stronger than expected. However, we must here take into account that recurring EBIT already fully discounts the benefits from the rightsizing in sawing wire (estimated at € 35-40m p.a.). Recurring EBIT contribution from North America, Latin America and Asia Pacific amounted to respectively € 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 improvement. The contribution from North America was 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%) was soft, partially due to a changing business mix (consolidation of former equity-consolidated joint ventures).

2H12 EXPECTED TO REFLECT SEASONAL PATTERN

In its outlook statement, Bekaert remained extremely prudent. The company believes that “declining confidence and high uncertainty in a context of persistent turbulence in the global financial systems, tight financing of its customer base and a lack of consistent indicators of global economic recovery” created a “downward trend and impose a cautious outlook for the coming months. In his concluding remarks at the analysts meeting, the CEO referred to a total lack of visibility on the next couple of months. Nevertheless, the company reiterated that the second half is traditionally weaker due to the lower activity level. The cost-benefits related to the € 100m p.a. additional cost savings will start to filter through gradually, with the full benefit expected for 2014.

We have revised our numbers, resulting in a further cut of our EPS estimates for the current year. The impact on our 2013 and 2014 scenario remains small though. While we were previously banking on recurring 2H EBIT to improve on 1H on the cost benefits resulting from the rightsizing of the sawing wire operations, these benefits have already been fully discounted in the recurring 1H EBIT. As such, our new scenario reflects more the traditional seasonal pattern (slightly weaker second half) as we believe the impact from the additional € 100m p.a. in targeted cost savings in 2H will remain small. In addition, we have taken into account higher taxes and a lower contribution from associates. For the second half, we now bank on recurring EBIT, result from operations and net result, group share, of € 73.9m, € 44.8m and €-9.0m vs. previous expectations for € 105.4m, € 80.4m and € 30.1m. Our scenario now assumes € 29.1m in net non-recurring charges for the second half (€ 110m for the full year, vs. € 100m previously). For the full year, this translates into a recurring EBIT, result from operations and net Group loss of respectively € 158.9m (4.6% margin), € 48.9m and € 87.6m. Our adjusted EPS for 2012, 2013 and 2014 have been revised from € 0.95, € 1.64 and € 1.98 to € 0.10, € 1.54 and € 2.16.

FINANCIAL DATA

Income statement (€ m)	2010	2011	2012E	2013E	2014E	2015E
Sales	3,262.5	3,340.0	3,447.6	3,576.6	3,717.6	3,848.4
Gross profit	904.3	651.4	541.4	625.9	670.8	699.0
EBIT	534.3	268.4	48.9	189.1	238.4	251.6
Pre-tax earnings	501.9	249.9	-44.6	113.5	165.8	182.2
Net earnings	367.6	192.6	-87.6	66.5	114.4	125.1
EBITDA	724.7	475.7	313.9	384.1	443.3	457.0
REBITDA	724.7	475.7	313.9	384.1	443.3	457.0
REBITA	562.5	280.9	158.9	229.1	258.3	272.0

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	1,318.6	1,273.6	1,218.7	1,163.3
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	1,261.9	1,309.1	1,360.7	1,408.6
Net debt	577.9	879.6	922.2	867.6	773.3	677.9
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	1,594.2	1,651.1	1,742.1	1,830.0
Capital employed	2,310.5	2,499.6	2,442.5	2,444.7	2,441.5	2,433.9
TOTAL ASSETS	3,673.1	4,169.1	4,028.8	4,046.9	4,100.2	4,149.4

Cash flow statement (€ m)	2010	2011	2012E	2013E	2014E	2015E
Cash flow from operations	230.6	197.1	137.0	234.3	288.7	304.7
Net capital expenditure	-230.3	-266.6	-150.0	-150.0	-150.0	-150.0
Free cash-flow	0.2	-69.5	-13.0	84.3	138.7	154.7
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	-92.6	4.7	44.3	45.4

Performance criteria	2010	2011	2012E	2013E	2014E	2015E
Sales growth	33.9%	2.4%	3.2%	3.7%	3.9%	3.5%
Gross margin	27.7%	19.5%	15.7%	17.5%	18.0%	18.2%
REBITDA margin	22.2%	14.2%	9.1%	10.7%	11.9%	11.9%
REBITA margin	17.2%	8.4%	4.6%	6.4%	6.9%	7.1%
EBIT margin	16.4%	8.0%	1.4%	5.3%	6.4%	6.5%
Net debt / Equity + Minorities	32.4%	49.8%	55.3%	50.3%	42.6%	35.6%
Net debt / EBITDA	0.80	1.85	2.94	2.26	1.74	1.48
EBITDA / net interest	14.48	7.23	3.84	5.08	6.11	6.59
Pay-out ratio	27.2%	36.4%	-34.2%	67.5%	52.3%	47.9%
= Return on Equity (avg)	24.7%	11.4%	-5.3%	4.1%	6.7%	7.0%
Return on Capital Employed (avg)	19.3%	8.1%	3.7%	4.9%	7.0%	7.4%

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	-1.48	1.12	1.93	2.11
Diluted EPS	6.17	3.23	-1.47	1.12	1.92	2.10
Diluted, adjusted EPS	6.52	2.81	0.10	1.54	2.16	2.35
Net book value / share	28.33	28.29	26.62	27.57	29.09	30.56
Free cash flow / share	0.00	-1.17	-0.22	1.42	2.34	2.61
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	21.50	21.50	21.50	21.50
Reference market capitalisation (€ m)	3,280.7	3,280.7	1,287.5	1,287.5	1,287.5	1,287.5
Enterprise value (€ m)	3,870.6	4,062.4	2,111.8	2,057.1	1,962.9	1,867.5
P/E	8.4	19.5	216.3	14.0	9.9	9.2
EV/sales	1.2	1.2	0.6	0.6	0.5	0.5
EV/EBITDA	5.3	8.5	6.7	5.4	4.4	4.1
EV/Capital employed	1.7	1.6	0.9	0.8	0.8	0.8
P/ NBV	1.9	1.9	0.8	0.8	0.7	0.7
Free cash flow yield	0.0%	-2.1%	-1.0%	6.5%	10.8%	12.0%
Dividend yield	3.0%	2.1%	2.3%	3.5%	4.7%	4.7%

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	27.60%	33.33%
ACCUMULATE	40.90%	66.67%
HOLD	28.30%	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

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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.

30 July 2012

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