KBC Securities

14 November 2012

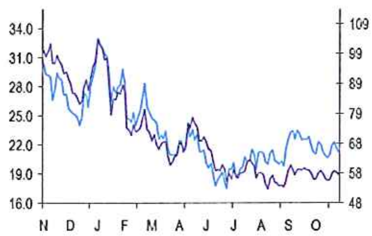
BEKAERT

Additional sawing wire impairment

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 20.96
TARGET PRICE € 22.00

HOLD
RATING DOWNGRADED



Source: Thomson Reuters Datastream

Bloomberg	BEKB BB
Reuters	BEKB.BR
www.bekaert.com	
Market Cap	€ 1,254.9m
Shares outst.	59.9m
Volume (daily)	€ 4,502,038
Free float	62.0%

Next corporate event

Payment dividend FY12: 15 May 2013

(€ m)	2011	2012E	2013E
Sales	3,340.0	3,447.6	3,576.6
REBITDA	475.7	313.9	384.1
Net earnings	192.6	-87.6	66.5
Adj. EPS (€)	2.81	0.10	1.54
P/E (x)	19.5	210.8	13.6
EV/REBITDA	8.5	6.6	5.3
FCF Yield	-2.1%	-1.0%	6.7%
Dividend yield	2.1%	2.4%	3.6%

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Bekaert this morning reported its 9M12 trading update. Consolidated sales for the quarter are reported at € 864m, below expectations (€ 883m). Sales in EMEA, NA, LA and AP for the quarter were € 253m, € 166m, € 212m and € 234m (€ 270m, € 173m, € 191m and € 248m expected). Despite the highly competitive Chinese tire cord market, Bekaert indicated it is able to sustain its margins offsetting price pressure by cost savings.

The 6% y/y increase in consolidated sales for the quarter splits into a 9% organic sales decline (1.2% increase in volumes, -3.4% from pricing through lower wire rod prices and -7% price mix effect), 6.9% favourable exchange movements and 8.2% net effect from acquisitions/divestments. Organic sales for the quarter were up by 12.8% y/y in LA while declining by respectively 10.1%, 5.7% and 18.8% in EMEA, NA and AP.

Net financial debt decreased from € 865.8m at the end of June to € 790m at the end of September on lower working capital requirements. However, we understand net debt will go up by year-end taking into account the cash-out related to the sawing wire restructuring.

With regards to the study to reduce the global cost structure by an additional € 100m p.a., Bekaert did not provide further details beyond indicating that implementation already has started. Bekaert continues to expect the full impact by 2014.

With regards to the outlook, "persistent monetary and financial uncertainty on a global level, declining business activity in most industries and highly competitive market conditions in all regions impose a cautious outlook for the months to come".

In addition to the usual year-end seasonal effects on volumes in all regions, Bekaert expects sustained price pressure in Asia and a continued unfavourable product mix in EMEA. In Latin America, Bekaert anticipates volume growth in line with GDP growth. However, currency-related uncertainties and unsecure raw material supplies in Venezuela warrants some caution.

Bekaert further indicated it expects up to a € 100m additional non-recurring charges in 2H12 linked to bad debt provisions in the solar industry and additional impairments of the sawing wire activities as margins now turned EBITDA negative. The current estimate for bad debt provisions and additional impairments is about € 15m and € 75m respectively.

Conclusion:
With the exception of Latin America sales in all regions came in below expectations. As 2H12 and 2013 will prove extremely challenging to the company, investors need to take a view on at least 2014 when the company targets to restore its profitability towards its LT targets. As such, we have decided to revise our rating from Accumulate to Hold with a target price of € 22 per share (from € 25).