

25 February 2013

BEKAERT

A year dominated by one-off items

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE €20.69
TARGET PRICE €22.00

HOLD
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	-7%	11%	-27%
Rel. BEL20	-7%	5%	-35%
12m Hi/Lo	€ 28.84/17.51		
Bloomberg	BEKB.BB		
Reuters	BEKB.BR		
Market Cap	€ 1,239m		
Next corporate event			
Results FY12: 27 February 2013			
www.bekaert.com			

FY/e 31.12	2011	2012E	2013E	2014E
Sales (€ m)	3,340.0	3,429.1	3,532.0	3,638.1
REBITDA (€ m)	475.7	286.2	339.5	419.4
Net earnings (€ m)	192.6	-187.3	26.4	107.4
Diluted adj. EPS (€)	2.81	-0.58	0.73	2.04
Dividend (€)	1.17	0.50	0.75	1.00
P/E	19.50		28.29	10.14
EV/REBITDA	8.54	7.33	6.12	4.75
Free cash flow yield	-2.1%	-3.7%	3.9%	10.4%
Dividend yield	2.1%	2.4%	3.6%	4.8%

Source: KBC Securities

Bekaert is expected to release its FY12 results on Wednesday, before market, with an analysts meeting scheduled later that day at 14:00 CET. We expect the company to report consolidated sales of €3,429.1m (+2.7% y/y), recurring EBIT of €141.2m (-49.7%) and a net loss of €187.3m. FY results will be impacted by significant non-recurring items estimated at €180m, including €110m of impairment charges.

As 2013 is likely to become a transition year as well, investors need to take a view on at least 2014 when the company targets to restore its profitability towards the low end of its LT profitability targets (i.e. 7 to 9% EBIT margin). We therefore consider it too early to take a positive stance on the stock.

EXPECTED TO PROVIDE MORE DETAILS ON COST SAVINGS PLAN

- **Bekaert will release its FY12 results on 27 February** before market, followed by an analyst meeting at 14:00 CET.
- **Challenging market environment.** At its latest trading update, Bekaert issued a cautious outlook statement referring to persistent monetary and financial uncertainty on a global level, declining business activity in most industries and highly competitive market conditions in all regions. In addition to the usual year-end seasonal squeeze on volumes in all regions, the company expected sustained price pressure in Asia and a persistently unfavourable product mix in EMEA. In Venezuela, Bekaert suffered from currency-related uncertainties and unsecure raw material supplies.
- **Significant additional non-recurring charges in 2H12.** In its 9M12 trading update, Bekaert indicated it expects up to € 100m of additional non-recurring charges in 2H12 linked to bad debt provisions and additional impairments in the sawing wire activities after EBITDA margins turned negative.
- **More details expected on cost savings program.** Bekaert has yet to provide full details of the study to reduce global costs by an additional € 100m a year. Implementation has already begun, with the full benefit expected as from 2014. The related non-recurring expenses are guided by Bekaert at a relatively low € 50m.

ANALYSTS

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KEY FIGURES (IN €M)

	1H11	2H11	FY11	1H12	2H12E	FY12E	FY13E	FY14E
Consolidated sales	1,780	1,560	3,340	1,783	1,646	3,429	3,532	3,638
- EMEA	614	555	1,169	557	483	1,040	1,061	1,082
- North America	354	311	665	351	304	655	662	668
- Latin America	173	199	372	397	405	802	843	885
- Asia Pacific	639	495	1,134	478	453	931	967	1,003
EBITDA	342.4	133.3	475.7	160.8	125.4	286.2	339.5	419.4
margin	19.2%	8.5%	14.2%	9.0%	7.6%	8.3%	9.6%	11.5%
- EMEA	74.0	43.0	117.0	34.0	26.3	60.3	74.3	129.9
- North America	34.0	12.0	46.0	26.0	19.2	45.2	43.0	46.8
- Latin America	22.0	26.0	48.0	57.0	43.3	100.3	105.3	110.6
- Asia Pacific	256.0	90.0	346.0	101.0	71.9	172.9	191.1	208.5
- Other	-43.6	-37.7	-81.3	-57.2	-35.4	-92.6	-74.2	-76.4
REBIT	242.3	38.5	280.9	85.1	56.1	141.2	189.5	249.4
margin	13.6%	2.5%	8.4%	4.8%	3.4%	4.1%	5.4%	6.9%
Result from operations	231.8	36.6	268.4	4.2	-43.0	-38.8	149.5	229.8
Financial result	-34.7	16.2	-18.5	-52.8	-40.7	-93.5	-76.1	-73.3
Income taxes	-53.5	-14.6	-68.1	-27.5	-22.5	-50.0	-42.0	-43.8
Joint ventures and associates	14.1	11.3	25.4	6.0	6.5	12.5	15.0	15.8
Result for the period	157.7	49.5	207.2	-70.2	-99.7	-169.8	46.4	128.4
Minority interest	13.4	1.2	14.6	8.4	9.1	17.5	20.0	21.0
Net result, group share	144.3	48.3	192.6	-78.6	-108.8	-187.3	26.4	107.4

Source: company data, KBC Securities estimates

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FINANCIAL DATA

Income statement (€m)	2010	2011	2012E	2013E	2014E	2015E
Sales	3,262.5	3,340.0	3,429.1	3,532.0	3,638.1	3,747.8
Gross profit	904.3	651.4	521.6	581.4	653.0	683.5
EBIT	534.3	268.4	-38.8	149.5	229.8	247.7
Pre-tax earnings	501.9	249.9	-132.3	73.4	156.5	177.4
Net earnings	367.6	192.6	-187.3	26.4	107.4	121.3
EBITDA	724.7	475.7	286.2	339.5	419.4	437.7
REBITDA	724.7	475.7	286.2	339.5	419.4	437.7
REBITA	562.5	280.9	141.2	189.5	249.4	267.7
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	1,258.6	1,218.6	1,179.0	1,139.1
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	1,255.1	1,292.8	1,331.6	1,371.8
Net debt	577.9	879.6	955.2	936.1	851.4	767.4
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	1,494.4	1,511.2	1,595.2	1,679.4
Capital employed	2,310.5	2,499.6	2,375.8	2,373.4	2,372.7	2,372.8
TOTAL ASSETS	3,673.1	4,169.1	3,927.4	3,903.2	3,946.4	3,990.1
Cash flow statement (€m)	2010	2011	2012E	2013E	2014E	2015E
Cash flow from operations	230.6	197.1	104.0	198.8	279.1	293.2
Net capital expenditure	-230.3	-266.6	-150.0	-150.0	-150.0	-150.0
Free cash-flow	0.2	-69.5	-46.0	48.8	129.1	143.2
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	-125.6	-30.8	34.7	34.0
Performance criteria	2010	2011	2012E	2013E	2014E	2015E
Sales growth	33.9%	2.4%	2.7%	3.0%	3.0%	3.0%
Gross margin	27.7%	19.5%	15.2%	16.5%	17.9%	18.2%
REBITDA margin	22.2%	14.2%	8.3%	9.6%	11.5%	11.7%
REBITA margin	17.2%	8.4%	4.1%	5.4%	6.9%	7.1%
EBIT margin	16.4%	8.0%	-1.1%	4.2%	6.3%	6.6%
Net debt / Equity + Minorities	32.4%	49.8%	61.0%	59.1%	51.0%	43.8%
Net debt / EBITDA	0.80	1.85	3.34	2.76	2.03	1.75
EBITDA / net interest	14.48	7.23	3.50	4.46	5.72	6.23
Pay-out ratio	27.2%	36.4%	-16.0%	169.9%	55.8%	49.4%
= Return on Equity (avg)	24.7%	11.4%	-11.8%	1.8%	6.9%	7.4%
Return on Capital Employed (avg)	19.3%	8.1%	-2.2%	2.7%	7.0%	7.5%
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	-3.16	0.45	1.81	2.05
Diluted EPS	6.17	3.23	-3.15	0.44	1.80	2.04
Diluted, adjusted EPS	6.52	2.81	-0.58	0.73	2.04	2.28
Net book value / share	28.33	28.29	24.96	25.24	26.64	28.04
Free cash flow / share	0.00	-1.17	-0.78	0.82	2.18	2.42
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	20.69	20.69	20.69	20.69
Reference market capitalisation (€ m)	3,280.7	3,280.7	1,239.0	1,239.0	1,239.0	1,239.0
Enterprise value (€ m)	3,870.6	4,062.4	2,096.3	2,077.1	1,992.5	1,908.5
P/E	8.4	19.5	-	28.3	10.1	9.1
EV/sales	1.2	1.2	0.6	0.6	0.5	0.5
EV/EBITDA	5.3	8.5	7.3	6.1	4.8	4.4
EV/Capital employed	1.7	1.6	0.9	0.9	0.8	0.8
P/ NBV	1.9	1.9	0.8	0.8	0.8	0.7
Free cash flow yield	0.0%	-2.1%	-3.7%	3.9%	10.4%	11.6%
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	26.30%	0.00%
ACCUMULATE	25.40%	0.00%
HOLD	47.40%	0.00%
REDUCE	0.00%	0.00%
SELL	0.90%	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
14-NOV-12	Hold	€ 22.00
09-MAY-12	Accumulate	€ 25.00

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