

27 February 2013

BEKAERT

Targets for 2014 not reiterated

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 20.77
TARGET PRICE € 22.00

HOLD
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg BEKB.BB
Reuters BEKB.BR
www.bekaert.com
Market Cap € 1,243.8m
Shares outst. 59.9m
Volume (daily) € 3,823,841
Free float 62.0%

Next corporate event

Trading update 1Q13: 8 May 2013

| (€ m) | 2012E | 2013E | 2014E |
|----------------|---------|---------|---------|
| Sales | 3,429.1 | 3,532.0 | 3,638.1 |
| REBITDA | 286.2 | 339.5 | 419.4 |
| Net earnings | -187.3 | 26.4 | 107.4 |
| Adj. EPS (€) | -0.58 | 0.73 | 2.04 |
| P/E (x) | | 28.4 | 10.2 |
| EV/REBITDA | 7.3 | 6.1 | 4.8 |
| FCF Yield | -3.7% | 3.9% | 10.4% |
| Dividend yield | 2.4% | 3.6% | 4.8% |

Wouter Vanderhaeghen

+32 2 429 37 30

wouter.vanderhaeghen@kbcsecurities.be

Bekaert this morning released its FY12 results. Consolidated sales are up 3.6% to € 3,460.6m (KBC: € 3,429.1m). Organic sales decreased by 10.8% (of which about 80% related to the sawing wire decline) while the net impact of acquisitions and divestments (+9.6%) and currency movements (4.9%) were positive. Consolidated sales for EMEA, NA, LA and AP are reported at € 1,044m, € 659m, € 812m and € 945m vs. our forecast for € 1,040m, € 655m, € 802m and € 931m.

EBITDA is reported at € 274.8m (7.9% margin) vs. our forecast for € 286.2m. EBITDA was € 160.8m in H1 (9.0% margin) and € 114.0m in H2 (6.8% margin). EBITDA contribution from EMEA, NA, LA and AP was € 68m, € 39m, € 100m and € 172m vs. our forecast for € 60.3m, € 45.2m, € 100.3m and € 172.9m.

REBIT amounted to € 117.8m (3.4% margin) vs. our forecast for € 141.2m. REBIT amounted to € 85.1m in H1 (4.8% margin) and € 32.8m in H2 (2.0% margin). REBIT in AP in H2 was a very low € 2m (0.4% margin). Sawing wire prices declined by a further 30% in FY12 and average prices in 2012 were about 60% below the average of 2011. From discussions with the company, we understand REBIT margin in tire cord is slightly up y/y thanks to good cost control.

Non-recurring elements amounted to € -167.1m (KBC: € -180m), consisting of € 202m non-recurring costs and € 35m non-recurring gains. The non-recurring costs are split into € 117m related directly to the restructuring and impairments in sawing wire and € 85m other realignment measures. Result from operations and the net result group share landed at € -49.3m and € -194.9m vs. our forecast for € -38.8m and € -187.3m.

Net financial debt dropped from € 856.2m at year-start to € 700.2m at year-end as a result of effective actions to lower the working capital level. Most actions came into effect in the last quarter of 2012. Bekaert proposes a gross dividend of € 0.85 per share, which is higher than expected (KBC: € 0.50).

With regards to the cost savings program aiming at an additional € 100m p.a., Bekaert indicated to be "on track". The company will provide more details at the analysts meeting at 2pm but we understand Bekaert already realised € 20m in cost savings last year, targeting to realise € 70m in the current year with the balance in 2014.

The negative impact from the devaluation in Venezuela in 2013 is estimated at € 100m on sales and € 12m on REBIT. The continued weak economic environment, lack of consistent indicators of a global recovery, overcapacity in most markets and corresponding overall price pressure will however weigh on profitability. Given the above, Bekaert has not reiterated its 2014 EBIT margin target of at least 7% (the low end of its LT profitability target, i.e. 7-9% EBIT margin).

Conclusion: Bekaert reported FY12 numbers which are even weaker than anticipated. However, most important the company gave a bearish outlook statement for 2013 and did not reiterate the target for 2014 (i.e. EBIT margin of at least 7%). We expect a negative share price reaction to this as the improvement of underlying profitability by 2014 was the main share price catalyst. On the positive, we note good progress in the cost savings program and significant debt reduction. Scenario will be revised down.