KBC Securities

28 February 2013

BEKAERT

Impressive debt reduction

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 20.74
TARGET PRICE € 22.00

HOLD
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	-8%	14%	-16%
Rel. BEL20	-7%	8%	-26%
12m Hi/Lo			€ 28.84/17.51
Bloomberg			BEKB BB
Reuters			BEKB.BR
Market Cap			€ 1,242m
Next corporate event			
Trading update 1Q13: 8 May 2013			
www.bekaert.com			

FY/e 31.12	2012	2013E	2014E	2015E
Sales (€ m)	3,460.6	3,401.6	3,494.6	3,590.9
REBITDA (€ m)	274.8	327.5	375.8	387.2
Net earnings (€ m)	-194.9	10.9	69.2	91.1
Diluted adj. EPS (€)	-1.17	0.59	1.28	1.67
Dividend (€)	0.85	0.85	1.00	1.00
P/E		35.43	16.16	12.40
EV/REBITDA	8.30	6.41	5.39	5.01
Free cash flow yield	8.6%	9.8%	9.9%	11.6%
Dividend yield	3.8%	4.1%	4.8%	4.8%

Source: KBC Securities

Bekaert reported weaker-than-anticipated FY12 numbers. More importantly, management was bearish on the 2013 outlook and did not formally reiterate its at-least-7% EBIT margin target for 2014 in the press release. On the positive side, we note good progress in the cost savings program and significant debt reduction. We consider it too early however to become positive on the stock.

PRUDENT OUTLOOK STATEMENT

- **Weak underlying profitability.** REBIT declined by 58% y/y to € 117.8m as Bekaert was hit hard by the collapse of its sawing wire business. Results were further impacted by non-recurring items worth € -167m resulting in a group loss of € 194.9m.

- **Good progress in cost savings program.** Bekaert already realised € 20m in cost savings as part of the objective to cut an additional € 100m p.a. It aims to realise about € 70m in the current year and the balance in 2014. Wage cost inflation estimated in the region of € 15m p.a. will partially offset the cost savings.

- **Significant debt reduction surprises positively.** Bekaert managed to reduce its debt from € 856.2m at year-start to € 700.2m on lower capital expenditure but in particular good working capital control.

- **Prudent outlook statement.** Bekaert expects the continued weak economic environment, the lack of consistent indictors of a global recovery, overcapacity in most markets and the corresponding overall price pressure will weigh on profitability in 2013.

- **What about the 2014 target?** In the press release, Bekaert did not formally reiterate its 2014 EBIT margin target of at least 7% (the low end of its LT profitability target for a 7-9% EBIT margin). At the analysts meeting, management did not formally dismiss the target but indicated that it is dependent on the economic environment. Our 2013 and 2014 EPS have been revised down from € 0.73 and € 2.04 to € 0.59 and € 1.28. Our scenario now takes into account a REBIT margin of 5.5% by 2014.

ANALYSTS
Wouter Vanderhaeghen Financial Analyst - Brussels +32 2 429 37 30 wouter.vanderhaeghen@kbcsecurities.be

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A YEAR DOMINATED BY ONE-OFFS

Bekaert reported consolidated sales of € 3,460.6m, up 3.6% y/y and ahead of expectations (KBC: € 3,429.1m). Organic sales declined by 10.8%, of which about 80% (€ 294m) was related to the collapse of the sawing wire business. Both the net impact of acquisitions and divestments (+9.6%) and currency movements (+4.9%) made a positive contribution to sales growth. Combined sales, including sales of joint ventures and associates, declined 4.6% y/y to € 4,387m with an organic sales decline of 7.0% and a net effect of acquisitions and divestments (-0.9%) partially tempered by favourable exchange movements (+3.4%).

KEY FINANCIALS (IN € M)

	1H11	2H11	FY11	1H12	2H12	FY12E	FY12A	FY13E	FY14E
Consolidated sales	1,780	1,560	3,340	1,783	1,677	3,429	3,461	3,402	3,495
- EMEA	614	555	1,169	557	487	1,040	1,044	1,054	1,076
- North America	354	311	665	351	308	655	659	652	659
- Latin America	173	199	372	397	415	802	812	731	767
- Asia Pacific	639	495	1,134	478	467	931	945	964	993
EBITDA	342.4	133.3	475.7	160.8	114.0	286.2	274.8	327.5	375.8
margin	19.2%	8.5%	14.2%	9.0%	6.8%	8.3%	7.9%	9.6%	10.8%
- EMEA	74.0	43.0	117.0	34.0	34.0	60.3	68.0	79.1	91.4
- North America	34.0	12.0	46.0	26.0	13.0	45.2	39.0	35.9	46.1
- Latin America	22.0	26.0	48.0	57.0	43.0	100.3	100.0	80.4	92.1
- Asia Pacific	256.0	90.0	346.0	101.0	71.0	172.9	172.0	183.1	198.6
- Other	-43.6	-37.7	-81.3	-57.2	-47.0	-92.6	-104.2	-51.0	-52.4
REBIT	242.3	38.5	280.9	85.1	32.8	141.2	117.8	160.5	190.8
margin	13.6%	2.5%	8.4%	4.8%	2.0%	4.1%	3.4%	4.7%	5.5%
Result from operations	231.8	36.6	268.4	4.2	-53.4	-38.8	-49.3	120.5	178.8
Financial result	-34.7	16.2	-18.5	-52.8	-29.1	-93.5	-82.0	-69.0	-65.0
Income taxes	-53.5	-14.6	-68.1	-27.5	-40.2	-50.0	-67.7	-40.6	-45.5
Joint ventures and associates	14.1	11.3	25.4	6.0	4.4	12.5	10.4	10.0	11.5
Result for the period	157.7	49.5	207.2	-70.2	-118.4	-169.8	-188.6	20.9	79.7
Minority interest	13.4	1.2	14.6	8.4	-2.0	17.5	6.4	10.0	10.5
Net result, group share	144.3	48.3	192.6	-78.6	-116.4	-187.3	-194.9	10.9	69.2

Source: company data, KBC Securities

Recurring EBIT declined by 58.1% to € 117.8m and remained below our expectations (€ 141.2m). Recurring EBIT margin declined from 8.4% in FY11 to 3.4% (4.8% in 1H12 and 2.0% in 2H12). Bekaert indicated that the collapse of the sawing wire business had a negative REBIT impact of about € 184m. Sawing wire prices declined by a further 30% in FY12 and average prices in 2012 were about 60% below the 2011 average. EBITDA is reported at € 274.8m (7.9% margin) vs. our € 286.2m forecast. EBITDA was € 160.8m in 1H (9.0% margin) and € 114.0m in 2H (6.8% margin).

Results were impacted by non-recurring items for a total of € -167m, consisting of € 202m non-recurring costs and € 35m non-recurring gains. Of the non-recurring costs, € 117m was directly related to the restructuring and impairments of the sawing wire activities and € 85m to other realignment measures. Approximately € 84m are cash-out (of which € 50m was disbursed in 2012) and € 118m non-cash. The restructuring of the global sawing wire activities has reduced the cost base by approximately € 40m p.a. Implementation has been completed and Bekaert has fully recognised the impact in its FY12 results.

Result from operations and the net result, group share, amounted to € -49.3m and € -194.9m vs. our forecasts of € -38.8m and € -187.3m. Income taxes amounted to a very high € 67.7m (unchanged vs. previous year) due to taxes paid by profit-generating entities and the fact that no deferred tax asset can be set up in loss-making entities for the non-recurring costs related to the restructuring.

With regards to the cost savings program aiming at an additional € 100m p.a., Bekaert indicated to be "on track". Last year, Bekaert has started implementation of about 60% of the initiatives with the balance expected to be initiated in the current year. On the analysts meeting, Bekaert has guided for non-recurring charges this year of about € 30m. Bekaert already realised € 20m in cost savings last year, targeting to realise € 70m in the current year with the balance in 2014. About 40% of the targeted cost savings are in cost of sales. Wage cost inflation will partially offset the cost savings and are estimated at about € 15m p.a.

Consolidated sales in **EMEA** declined by 10.7% y/y to € 1,044m. Recurring EBIT declined slightly from € 66m to € 63m last year (6.1% margin). REBIT was € 36m (6.4% margin) in 1H12 and € 27m (5.5% margin) in 2H12. The sales decline reflects the elimination of the sawing wire business and lower volumes in automotive, partially offset by strong sales in lower value-added products. The REBIT margin improved slightly thanks to the cost savings program.

Consolidated sales in **North America** were down by 0.9% y/y to € 659m. An organic sales decline of 4% and the negative effect of M&A were offset by positive exchange movements (+7%). REBIT declined from € 32m (4.8% margin) to € 30m (4.5% margin) last year. Profitability in the second half (REBIT of € 8m, 2.6% margin) was negatively impacted by a weaker product mix due to lower automotive volumes.

Consolidated sales in **Latin America** were up by 118% due to the consolidation of the Chilean joint-ventures. Organic sales growth amounted to 11%, driven by strong volume growth in Peru and higher prices in Venezuela. REBIT margin declined from 9.5% in FY11 to 7.8% as the Chilean business includes lower-margin trading business.

Sales and results were substantially lower in **Asia Pacific** as a result of the sawing wire activities. Price decreases in tire cord however were largely offset by cost savings. Sales declined by 16.7% y/y to € 945m. Recurring EBIT collapsed from € 224m to € 37m last year (3.9% margin). REBIT in the second half was a very low € 2m. However, this number was impacted by a bad debt reserve for sawing wire customers (+/- € 14m) and startup losses in newly-acquired business (+/- € 9m).

Balance sheet: significant debt reduction

Net financial debt (Bekaert definition) declined from € 856.2m at year-start to € 700.2m, as a result of effective actions to lower the working capital level. Capital expenditure declined from € 266.6m in FY11 to € 123.4m. At the analysts meeting, Bekaert said it expects capital expenditure to remain around this level (+/- € 125m) for the foreseeable future. Bekaert also surprised by announcing a dividend of € 0.85 per share, significantly above expectations (KBC: € 0.5) and a sign of confidence in the long-term potential of its business.

Outlook: persistently weak economic environment to weigh on mid-term margin evolution

Bekaert will apply hyper-inflation accounting for its activities in Venezuela, beginning 2013. The impact on sales is estimated at about € 100m while the impact on REBIT is expected to be € 12m. The group is on track with the implementation of its cost reduction programs. However, the persistently weak economic environment, the lack of consistent indicators of a global recovery, overcapacity in most markets and the corresponding overall price pressure will weigh on profitability. In the press release, Bekaert did not reiterate its 2014 EBIT margin target of at least 7% (the low end of its LT profitability target for a 7-9% EBIT margin). At the analysts meeting, management did not formally dismiss the 2014 target ("it is still a target") or the LT profitability target. However, reference was made several times to the uncertain economic environment, making the 2014 target much more challenging than expected compared to when the target was set.

FINANCIAL DATA

Income statement (€ m)	2010	2011	2012	2013E	2014E	2015E
Sales	3,262.5	3,340.0	3,460.6	3,401.6	3,494.6	3,590.9
Gross profit	904.3	651.4	478.8	515.3	555.3	576.8
EBIT	534.3	268.4	-49.3	120.5	178.8	190.0
Pre-tax earnings	501.9	249.9	-131.2	51.4	113.8	128.6
Net earnings	367.6	192.6	-194.9	10.9	69.2	91.1
EBITDA	724.7	475.7	274.8	327.5	375.8	387.2
REBITDA	724.7	475.7	274.8	327.5	375.8	387.2
REBITA	562.5	280.9	117.8	160.5	190.8	202.2

Balance sheet (€ m)	2010	2011	2012	2013E	2014E	2015E
Intangible assets	131.1	103.5	99.2	99.2	99.2	99.2
Tangible assets	1,295.1	1,433.6	1,377.5	1,295.5	1,223.6	1,151.4
Financial assets	243.8	258.3	167.6	167.6	167.6	167.6
Net other assets & liabilities	94.3	-38.9	-22.5	-22.5	-22.5	-22.5
Net working capital	1,004.2	1,203.9	1,082.1	1,063.6	1,092.7	1,122.8
Net debt	577.9	879.6	735.5	664.5	592.3	507.3
Provisions	408.1	314.5	364.7	364.7	364.7	364.7
Minorities	86.0	72.5	181.6	181.6	181.6	181.6
Equity	1,696.6	1,693.9	1,422.1	1,392.6	1,422.0	1,464.8
Capital employed	2,310.5	2,499.6	2,373.9	2,273.4	2,230.5	2,188.4
TOTAL ASSETS	3,673.1	4,169.1	3,667.7	3,582.7	3,570.7	3,572.5

Cash flow statement (€ m)	2010	2011	2012	2013E	2014E	2015E
Cash flow from operations	230.6	197.1	240.0	246.3	247.6	269.2
Net capital expenditure	-230.3	-266.6	-123.4	-125.0	-125.0	-125.0
Free cash-flow	0.2	-69.5	116.7	121.3	122.6	144.2
Acquisitions / disposals	-34.6	72.4	33.4	0.0	0.0	0.0
Dividend payments	-118.5	-163.1	-46.1	-50.4	-50.4	-59.2
Shares issues	-57.7	1.0	0.0	0.0	0.0	0.0
New borrowings / reimbursements	271.3	535.3	-363.5	-50.0	-50.0	-50.0
Other	106.5	-142.5	40.1	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	167.1	233.5	-219.4	21.0	22.3	34.9

Performance criteria	2010	2011	2012	2013E	2014E	2015E
Sales growth	33.9%	2.4%	3.6%	-1.7%	2.7%	2.8%
Gross margin	27.7%	19.5%	13.8%	15.2%	15.9%	16.1%
REBITDA margin	22.2%	14.2%	7.9%	9.6%	10.8%	10.8%
REBITA margin	17.2%	8.4%	3.4%	4.7%	5.5%	5.6%
EBIT margin	16.4%	8.0%	-1.4%	3.5%	5.1%	5.3%
Net debt / Equity + Minorities	32.4%	49.8%	45.9%	42.2%	36.9%	30.8%
Net debt / EBITDA	0.80	1.85	2.68	2.03	1.58	1.31
EBITDA / net interest	14.48	7.23	3.48	4.74	5.78	6.31
Pay-out ratio	27.2%	36.4%	-26.1%	468.7%	86.5%	65.8%
= Return on Equity (avg)	24.7%	11.4%	-12.5%	0.8%	4.9%	6.3%
Return on Capital Employed (avg)	19.3%	8.1%	-3.1%	3.1%	4.8%	6.0%

Per share data (€)	2010	2011	2012	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	-3.29	0.18	1.17	1.54
Diluted EPS	6.17	3.23	-3.27	0.18	1.16	1.53
Diluted, adjusted EPS	6.52	2.81	-1.17	0.59	1.28	1.67
Net book value / share	28.33	28.29	23.75	23.25	23.74	24.46
Free cash flow / share	0.00	-1.17	1.97	2.05	2.07	2.43
Dividend (€)	1.67	1.17	0.85	0.85	1.00	1.00

Valuation data	2010	2011	2012	2013E	2014E	2015E
Reference share price (€)	54.78	54.78	22.59	20.74	20.74	20.74
Reference market capitalisation (€ m)	3,280.7	3,280.7	1,353.0	1,241.7	1,241.7	1,241.7
Enterprise value (€ m)	3,870.6	4,062.4	2,280.7	2,098.5	2,026.2	1,941.3
P/E	8.4	19.5	-	35.4	16.2	12.4
EV/sales	1.2	1.2	0.7	0.6	0.6	0.5
EV/EBITDA	5.3	8.5	8.3	6.4	5.4	5.0
EV/Capital employed	1.7	1.6	1.0	0.9	0.9	0.9
P/ NBV	1.9	1.9	1.0	0.9	0.9	0.8
Free cash flow yield	0.0%	-2.1%	8.6%	9.8%	9.9%	11.6%
Dividend yield	3.0%	2.1%	3.8%	4.1%	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	27.20%	0.00%
ACCUMULATE	24.60%	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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KBC Securities NV
Havenlaan 12
Avenue du Port
1080 Brussels
Belgium
+32 2 417 44 04
Regulated by FSMA and NBB

KBC Securities USA, Inc.
1177 Avenue of the Americas
New York, NY 10036
US
+1 212 845 2200
Regulated by NASD

KBC Securities NV Polish Branch
ul. Chmielna 85/87
00-805 Warsaw
Poland
+48 22 581 08 00
Regulated by PFSA

KBC Securities Patria
Jungmannova 745/24
110 00 Prague 1
Czech Republic
+420 221 424 111
Regulated by CNB

KBC Securities NV Hungarian Branch
Lechner Ődőn fasor 10
1095 Budapest
Hungary
+361 483 4005
Regulated by PSZAF

KBC Securities NV Bulgarian Branch
22 Gotze Delchev Blvd, Entr. 2
1404 Sofia
Bulgaria
Tel: +359 2 858 33 11
Regulated by FSC

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