FLASH NOTE

30 July 2013

BEKAERT

On-track with cost savings program

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 27.44
TARGET PRICE € 22.00

HOLD
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	12%	14%	28%
Rel. BEL20	8%	15%	11%
12m Hi/Lo			€ 27.44/17.82
Bloomberg			BEKB BB
Reuters			BEKB.BR
Market Cap			€ 1,643m
Next corporate event			
Trading update 3Q13: 14 November 2013			
www.bekaert.com			

FY/e 31.12	2012	2013E	2014E	2015E
Sales (€ m)	3,460.6	3,231.8	3,321.1	3,413.5
REBITDA (€ m)	274.8	314.7	353.9	372.8
Net earnings (€ m)	-194.9	26.9	62.8	87.4
Diluted adj. EPS (€)	-1.17	0.62	1.19	1.61
Dividend (€)	0.85	0.85	1.00	1.00
P/E		44.28	23.03	17.08
EV/REBITDA	8.30	7.82	6.80	6.28
Free cash flow yield	8.6%	9.8%	6.2%	7.7%
Dividend yield	3.8%	3.1%	3.6%	3.6%

Source: KBC Securities

Bekaert sprang a positive surprise in 1H thanks to higher profitability in EMEA driven by a successful implementation of cost reduction programs. The company remains however prudent on the outlook, referring to the usual seasonal pattern (weaker second half) and renewed price pressure in Asia Pacific. Despite the fact that the 1H estimates were beaten, we have made few changes to our overall scenario and continue to believe the share price already discounts a lot. Hold rating maintained.

SIGNIFICANT IMPROVEMENT IN PROFITABILITY IN EMEA

- **Good progress in cost savings.** Bekaert positively surprised, reporting recurring 1H EBIT of € 91.0m, up from € 84.7m in 1H12 and ahead of our high-end of consensus forecast for € 81.4m. The positive surprise was mainly driven by a significant improvement in profitability at EMEA as a result of the cost reduction programs.
- **Renewed price pressure.** During the second quarter, Bekaert made efforts to stabilise prices in Asia Pacific. However, these attempts have not been followed by its key rivals, resulting in a loss of market share. Bekaert indicated it is determined to defend/regain market share, which is expected to result in lower prices and margin erosion in the second half.
- **Low impact on our overall numbers.** A revision of our scenario has not triggered major changes to our EBITDA estimates for 2013 and 2014, with higher estimates for EMEA offset by lowered forecasts for Asia Pacific, given the higher risk of margin erosion. Bottom line our estimates for the current year have been upped on lower-than-previously-guided depreciations as well as higher contribution from joint ventures and associates, driven by Brazil.
- **Much has been discounted in.** We reiterate our case that although there are some reasons for optimism, a lot has been discounted in already. In addition, the increased risk of further margin erosion in Asia Pacific calls for prudence. Trading on our numbers at 6.8x and 6.3x EV/EBITDA 2014/15, we consider valuation as full and stick to our Hold recommendation.

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SIGNIFICANT IMPROVEMENT IN PROFITABILITY EMEA

The company reported a 7.5% y/y decline in consolidated sales to € 1,648.5m (KBC: € 1,653.0m). Sales declined by 5.7% organically on stable volumes while the net impact from acquisitions/divestments was 1.3% positive and negative impact from exchange rate movements was 3.1%, of which 2.7% related to the changes in consolidation accounting for the activities in Venezuela.

KEY FIGURES (IN € M)

	FY11	1H12	2H12	FY12	1H13E	1H13A	2H13E	FY13E	FY14E
Consolidated sales	3,340	1,783	1,677	3,461	1,653	1,649	1,583	3,232	3,321
- EMEA	1,169	557	487	1,044	530	532	475	1,007	1,028
- North America	665	351	308	659	306	295	298	593	599
- Latin America	372	397	415	812	361	352	363	715	750
- Asia Pacific	1,134	478	467	945	456	470	447	917	944
EBITDA	475.7	160.8	114.0	274.8	164.9	172.0	142.7	314.7	353.9
margin	14.2%	9.0%	6.8%	7.9%	10.0%	10.4%	9.0%	9.7%	10.7%
- EMEA	117.0	34.0	34.0	68.0	42.4	68.0	47.9	115.9	123.3
- North America	46.0	26.0	13.0	39.0	18.4	18.0	14.6	32.6	41.9
- Latin America	48.0	57.0	43.0	100.0	46.9	39.0	36.0	75.0	86.3
- Asia Pacific	346.0	101.0	71.0	172.0	86.6	84.0	71.8	155.8	160.5
- Other	-81.3	-57.2	-47.0	-104.2	-29.5	-37.0	-27.6	-64.6	-58.1
REBIT	280.9	85.1	32.8	117.8	81.4	91.0	73.7	164.7	188.9
margin	8.4%	4.8%	2.0%	3.4%	4.9%	5.5%	4.7%	5.1%	5.7%
Result from operations	268.4	4.2	-53.4	-49.3	61.4	88.7	53.0	141.7	177.3
Financial result	-18.5	-52.8	-29.1	-82.0	-33.2	-41.2	-33.5	-74.7	-56.1
Income taxes	-68.1	-27.5	-40.2	-67.7	-21.0	-29.7	-20.4	-50.1	-61.4
Joint ventures and associates	25.4	6.0	4.4	10.4	6.0	17.1	7.9	25.0	18.8
Result for the period	207.2	-70.2	-118.4	-188.6	13.2	34.9	7.0	41.9	78.6
Minority interest	14.6	8.4	-2.0	6.4	6.0	8.8	6.2	15.0	15.8
Net result, group share	192.6	-78.6	-116.4	-194.9	7.2	26.2	0.7	26.9	62.8

Source: company data, KBC Securities estimates

Bekaert reported EBITDA of € 172.0m (10.4% margin), up from € 160.5m (9.0% margin) in the same period last year and ahead of expectations (€ 164.9m). Part of the gap with our estimates is explained by a reversion of bad debt reserves (€ 2.7m impact in Asia Pacific). The better-than-expected result is driven solely by a much-better-than-expected performance at EMEA with the cost savings and restructuring measures resulting in a considerable improvement of the segment's profitability. Recurring EBIT increased from € 84.7m in the same period last year and € 32.4 in 2H12 to € 91.0m (5.5% margin), ahead of our (high-end of consensus) estimate of € 81.4m.

EBIT was much higher than expected at € 88.7m (KBC: € 61.4m) as non-recurring items came in much lower than expected (€ 2.3m vs. € 20m exp.). Note however that for the full year, Bekaert is still guiding for non-recurring items of about € 30m. The contribution from joint ventures and associates jumped from € 6.0m in the same period last year to € 17.1m, outpacing expectations (€ 6.0m). These numbers are driven by a strong performance of the Brazilian activities and some one-off items (positive impact of about € 6m). Bottom-line, Bekaert reversed a net loss for the group of € 79.5m in the same period last year to a net result, group share, of € 26.2m. The difference with our forecast (€ 7.2m) is mainly explained by higher REBIT, lower non-recurring items and a higher contribution from joint ventures and associates.

Consolidated sales in **EMEA** were down by 4.5% y/y to € 532m, in-line with expectations (€ 530m). A very weak first quarter was partially offset by a much stronger second quarter with better volumes at stable prices. EBITDA was up significantly from € 34m in the same period last year to € 68m (12.8% margin), also well above our expectations (€ 42.4m). Profitability improved considerably as a result of significant cost savings and the 2012 restructuring measures.

Consolidated sales in **North America** were down 16% y/y to € 295m, short of expectations (€ 306m). The decline resulted from lower volumes reflecting weak demand in most industrial segments, competitive entry in bead wire and lower trading due to Asian imports. Lower capacity utilisation squeezed margins with EBITDA declining by 30.8% y/y to € 18m (6.2% margin), in-line with our expectations (€ 18.4m).

Consolidated sales in **Latin America** declined by 11.3% y/y to € 352m (€ 361m expected). EBITDA dropped 31.6% to € 39m (11.1% margin) and hence remained below expectations (€ 46.9m). Changes in consolidation accounting in Venezuela had a negative impact on sales and EBIT of € 48m and € 6m, in-line with company guidance. Excluding Venezuela, sales were stable, reflecting a 7% volume increase being offset by lower prices due to lower wire rod prices and a weaker product mix. The Brazilian joint ventures achieved robust sales and higher profitability, which is reflected in the contribution from joint-ventures and associated as discussed above.

Sales in **Asia Pacific** declined by 1.7% y/y to € 470m (€ 456m expected), reflecting the integration of the acquired Malaysian activities (impact of 7%) and an organic volume increase of 4% that was more than offset by lower selling prices due to cheaper wire rod (-3%) and a negative price/mix impact (-9%). EBITDA was down 16.8% y/y to € 84m (17.8% margin), in-line with expectations (€ 86.6m).

PICK-UP IN CAPEX EXPECTED FOR H2

Net financial debt increased from € 700.2m at year-start to € 770.1m by end-June. Cash flow from operations before working capital movements was up 9% compared to last year thanks to stronger earnings and lower cash taxes. Due to a significant – seasonal – working capital outflow (€ 82m), CAPEX of € 32m and interest charges of € 38m, free cash flow was negative. Net debt to REBITDA remains fairly stable at 2.2x vs. 2.1x at end-2012 and 2.3x in 1H12. Gearing saw a rebound to 49.3% from 43.7%, but this is due to a seasonal debt increase. Bekaert confirmed that FY13 CAPEX will be relatively stable compared to last year, implying around € 90m investment in 2H. Even if there is some release in working capital, we expect net debt to move sideways on higher CAPEX.

ATTEMPTS TO STABILISE PRICES IN AP NOT FOLLOWED BY COMPETITION

Bekaert remained prudent in its outlook statement, stating that “the lack of consistent indicators of a global economic recovery and the usual seasonal effects in the second half of the year are expected to weigh on profitability”. The company further warned that “the volatile and increasingly competitive environment in Asia may lead to renewed price pressure”.

At the analysts meeting, Bekaert further clarified that the volatile and increasingly competitive environment came from both competition, i.e. Xingda, gaining market share, and more capacity coming on stream, e.g. Baosteel entering the market with a new steelcord plant. In its 1Q13 trading update, Bekaert was still mentioning that it noted “a prudent trend towards price stabilization”. Bekaert has made attempts to stabilise prices or even introduce small price increases, as it did in early 2Q13. However, at the same time that Bekaert made these announcements on pricing, raw material prices started to slide slightly and Bekaert’s efforts have not been followed by some of its key rivals, allowing them to gain market share. Bekaert now says that it is committed to fighting back, which will have an impact on prices and margins in Asia Pacific for 2H13.

ON-TRACK WITH IMPLEMENTATION COST SAVINGS PROGRAM

First half results showed that Bekaert is on track to implement its cost reduction programs. Recall that Bekaert targets cost savings of € 100m p.a. to be fully realised by FY14. The impact on this year's costs is estimated at € 70m, a marginal increase of € 50m on top of the € 20m realised in 2012, with the 2013 impact being spread equally over H1/H2. About 40% of the cost reduction is in cost of sales. Wage cost inflation, estimated at € 15m p.a., is estimated to partially offset cost savings efforts. Bekaert stated that a pick-up in the overall economic environment is required in order to achieve its long-term profitability target (7% EBIT margin).

We have revised our scenario to reflect the published 1H13 results. For the current year, we have only made marginal changes to our EBITDA estimates while REBIT and net result are revised up on lower-than-previously-guided depreciations and higher contribution from joint-ventures and associates. Overall changes to EBITDA and net result for next year are insignificant, with a higher contribution from EMEA fully offset by a more prudent assumption for Asia Pacific in light of renewed price pressure.

FINANCIAL DATA

Income statement (€ m)	2010	2011	2012	2013E	2014E	2015E
Sales	3,262.5	3,340.0	3,460.6	3,231.8	3,321.1	3,413.5
Gross profit	904.3	651.4	478.8	501.8	535.4	563.9
EBIT	534.3	268.4	-49.3	141.7	177.3	196.0
Pre-tax earnings	501.9	249.9	-131.2	67.0	121.2	149.0
Net earnings	367.6	192.6	-194.9	26.9	62.8	87.4
EBITDA	724.7	475.7	274.8	314.7	353.9	372.8
REBITDA	724.7	475.7	274.8	314.7	353.9	372.8
REBITA	562.5	280.9	117.8	164.7	188.9	207.8

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	1,329.5	1,277.9	1,226.1
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	1,010.5	1,038.4	1,067.3
Net debt	577.9	879.6	735.5	624.4	572.5	504.8
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	1,413.6	1,441.8	1,486.6
Capital employed	2,310.5	2,499.6	2,373.9	2,254.3	2,230.6	2,207.6
TOTAL ASSETS	3,673.1	4,169.1	3,667.7	3,495.5	3,312.7	3,256.4

Cash flow statement (€ m)	2010	2011	2012	2013E	2014E	2015E
Cash flow from operations	230.6	197.1	240.0	286.5	227.3	251.9
Net capital expenditure	-230.3	-266.6	-123.4	-125.0	-125.0	-125.0
Free cash-flow	0.2	-69.5	116.7	161.5	102.3	126.9
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	-142.5	-219.3	-109.6
Other	106.5	-142.5	40.1	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	167.1	233.5	-219.4	-31.4	-167.3	-42.0

Performance criteria	2010	2011	2012	2013E	2014E	2015E
Sales growth	33.9%	2.4%	3.6%	-6.6%	2.8%	2.8%
Gross margin	27.7%	19.5%	13.8%	15.5%	16.1%	16.5%
REBITDA margin	22.2%	14.2%	7.9%	9.7%	10.7%	10.9%
REBITA margin	17.2%	8.4%	3.4%	5.1%	5.7%	6.1%
EBIT margin	16.4%	8.0%	-1.4%	4.4%	5.3%	5.7%
Net debt / Equity + Minorities	32.4%	49.8%	45.9%	39.1%	35.3%	30.3%
Net debt / EBITDA	0.80	1.85	2.68	1.98	1.62	1.35
EBITDA / net interest	14.48	7.23	3.48	4.75	6.31	7.92
Pay-out ratio	27.2%	36.4%	-26.1%	189.2%	95.3%	68.5%
= Return on Equity (avg)	24.7%	11.4%	-12.5%	1.9%	4.4%	6.0%
Return on Capital Employed (avg)	19.3%	8.1%	-3.1%	4.3%	5.5%	6.2%

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	0.45	1.06	1.48
Diluted EPS	6.17	3.23	-3.27	0.45	1.05	1.47
Diluted, adjusted EPS	6.52	2.81	-1.17	0.62	1.19	1.61
Net book value / share	28.33	28.29	23.75	23.61	24.08	24.82
Free cash flow / share	0.00	-1.17	1.97	2.73	1.73	2.14
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	27.44	27.44	27.44
Reference market capitalisation (€ m)	3,280.7	3,280.7	1,353.0	1,643.2	1,643.2	1,643.2
Enterprise value (€ m)	3,870.6	4,062.4	2,280.7	2,459.9	2,407.9	2,340.3
P/E	8.4	19.5	-	44.3	23.0	17.1
EV/sales	1.2	1.2	0.7	0.8	0.7	0.7
EV/EBITDA	5.3	8.5	8.3	7.8	6.8	6.3
EV/Capital employed	1.7	1.6	1.0	1.1	1.1	1.1
P/ NBV	1.9	1.9	1.0	1.2	1.1	1.1
Free cash flow yield	0.0%	-2.1%	8.6%	9.8%	6.2%	7.7%
Dividend yield	3.0%	2.1%	3.8%	3.1%	3.6%	3.6%

Source: KBC Securities *Historic valuation data are based on historic prices

DISCLOSURE & DISCLAIMER SECTION

The company disclosures can also be consulted on our website http://www.kbcsecurities.be/disclosures.

KBC Securities uses an absolute rating system including terms such as Buy, Accumulate, Hold, Reduce and Sell (see definitions below).

	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

Due to external factors and in exceptional cases, KBC Securities allows the use of ratings such as Accept the Offer, Black Out, No Recommendation or Suspended.
Our analysts assign one of those ratings based on their investment outlook and valuation for the concerned stock. The valuation can be based on different methodologies such as DCF (discounted cash flow), absolute multiples, peer group multiples, sum-of-parts or NAV (Net Asset Value). The valuation is reflected in a 6-month target price. Occasionally, the expected total return may fall outside of these ranges because of price movement and/or volatility. Such deviations will be permitted but will be closely monitored. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the report contains more complete information concerning the analyst's view, investors should carefully read the entire report and not infer its contents from the rating alone. KBC Securities may disclose the drafts of its reports to the issuers before their dissemination for the purpose of verifying the accuracy of factual statements, except when the draft includes a rating or a target price. In case the draft has been amended following this disclosure, such amendments will be indicated in the concerned report.

Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	18.80%	0.00%
ACCUMULATE	26.50%	0.00%
HOLD	51.30%	0.00%
REDUCE	1.70%	0.00%
SELL	1.70%	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

KBC Securities will provide periodic updates on companies/industries based on company-specific developments or announcements, market conditions or any other publicly available information.

FLASH NOTE

30 July 2013

The company disclosures can be consulted on our website http://www.kbcsecurities.com/disclosures.

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