

Solar market earnings squeeze in short term?

Difficult period for PhotoVoltaic (PV) market

- On May 11, Bekaert reported strong Q1 results and indicated to remain confident of sustained strong performance in the first half of 2011 but also became somewhat more prudent on H2.
- While initially the positive comments on H1 were a positive take-away, the deteriorating PV market has become the dominant issue since. Indeed, in our previous reports this year we highlighted the importance of sawing wire for Bekaert, estimating its contribution to EBIT to around 50% thanks to EBIT margins around 65%.
- With the expected entrance of Xingda, and others, in the sawing wire market, there is now a clear fear that the price reductions might be more severe than expected, coinciding with an excess solar cell supply.
- Bekaert will defend its market share by reducing prices, to keep new entrants out of the market. While more competition from players such as Xingda is inevitable, the larger number of smaller players that try to enter the market have to be kept out.
- In our model, so far, we assume an average price decline this year of 11% in 2011. As Bekaert only started reducing prices towards the end of the quarter, this implies underlying price reductions of 15% to 20%.
- So far, we also had anticipated a solar cell market growth from 16.6GW to 21.1GW installations. Installations can differ from production due to the excess capacity that has been produced and due to the sudden market slowdown at the end of Q2 in Germany and other European countries. Nevertheless, Trina Solar CEO, and others, still expect that the market could reach 20GW but, of course, it will be back-end loaded.

More negative newsflow – Shougang profit warning

- On top of that, last Thursday, Shougang, issued a profit warning citing declining steel cord prices with rising raw material costs as well as start-up costs, amongst others linked to sawing wire.
- We believe the direct link to Bekaert is limited as Bekaert operates in a higher added value segment and is better able to pass-on rising raw material costs. The declining steelcord prices do not indicate a trend reversal according to Bekaert.
- The profit warning also indicates that starting-up sawing wire with related R&D and production ramp up is not obvious in a market where future price levels are uncertain.

More negative assumptions

- On the back of the negative newsflow from the solar market (solar cell prices as low as USD 0.80/Watt) investors fear the entire value chain will be hurt and have shorted not only solar cell companies but also Bekaert.
- Given that Bekaert wants to defend its market share and the short term uncertainties, we put ourselves on the prudent side and reduce our market expectation to 16.6GW (stable) with price reductions in 2011 of 17% on average (so closer to 25%-30% in H2). This reduces our 2011 sawing wire REBIT estimate from EUR 274m to EUR 186m, or our group REBIT from EUR 631m to EUR 543m.

Structurally lower valuation ratio's going forward

- The solar market can pick-up rapidly and several market forecasters still expect the market to grow this year. Several non-European markets should takeover growth in the coming years (especially China) and Germany has not reduced subsidies for H2. The low solar prices, as a result of short term over-supply, are positive for long term demand.
- Combining the higher risk profile with lower multiples on lower estimates, we reduce our target price to EUR 74. At EUR 74 the shares trade at 8.5x EV/EBIT 2012 or 7x for sawing wire and 9x for the other businesses.

Buy

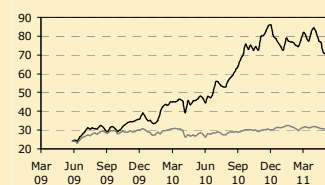
Price:	EUR 52.50
	(30/06/11)
Target price:	74.00
Risk:	High
Reuters:	BERTt.BR
Bloomberg:	BEKB BB
Shares number (m):	59.88
Market cap. (m):	3,144
Net debt 12/10 (m):	578
Net debt/equity 12/10:	34%
H/L 1 year:	87.43 - 44.42
1 year price perf.:	14.7%
Diff. with Euro Stoxx :	1.2%
Volume (sh./day):	193,925
Free Float	62%
Family shareholders	38%

	10	11e	12e
P/E	14.0	9.3	9.1
EV/EBITDA	7.7	5.0	4.6
EV/EBITA	9.9	6.4	6.0
Div. yield	2.0%	3.6%	3.8%

Company Calendar

29/07/2011 HY 2011 Results
10/11/2011 Q3 2011 Results

Bekaert + relative to Euro Stoxx (grey)



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Exhibit 1 New sawing wire pricing, volume and margin evolution scenario				
Sawing Wire China	2010	2011	2012	2013
EPIA PV ann. market est. (GW)	16.629	16.6	21.145	23.155
impl. ton saw wire (4,000t/1GW)	66,516	66,400	84,580	92,620
Bekaert avg saw wire ton	34,615	33,000	41,000	46,000
yoy		-4.7%	24.2%	12.2%
Bekaert market share (4,000t rule)	52.0%	49.7%	48.5%	49.7%
Bekaert YE sawing wire ton	40,000	30,000	54,000	72,000
saw wire price RMB	106,000.0	88,000.0	75,000.0	70,000.0
yoy		-17.0%	-14.8%	-6.7%
saw wire price EUR	11,900.5	9,879.6	8,420.2	7,858.8
Saw wire sales	411.9	326.0	345.2	361.5
yoy		-20.9%	5.9%	4.7%
COGS	-37.1	-35.3	-43.9	-50.6
% of tonnage	0.11%	0.11%	0.11%	0.11%
GP	374.9	290.7	301.3	310.9
GM	91%	89%	87%	86%
Opex	-107.1	-104.8	-126.0	-141.0
% of sales	26.0%	32.2%	36.5%	39.0%
% of avg tonnage	0.309%	0.318%	0.307%	0.307%
fix costs in sawing wire (20%)	-21.4	-21.4	-21.4	-21.4
var costs in sawing wire (80%)	-85.7	-83.4	-104.6	-119.6
% of tonnage	0.2475%	0.2528%	0.2550%	0.2600%
EBIT	267.8	185.8	175.3	169.9
EBIT margin	65.0%	57.0%	50.8%	47.0%
yoy		-30.59%	-5.65%	-3.11%

Source: Petercam estimates

Exhibit 2 New ratio's at current stock price				
At EUR 54.40	2010	2011e	2012e	2013e
EV/EBITDA	5.1	5.2	4.8	4.5
EV/EBIT	6.9	7.0	6.5	6.2
PER	8.9	9.7	9.4	9.1
DPS	1.68	1.90	2.00	2.10
gross yield	3.1%	3.5%	3.7%	3.9%

Source: Petercam estimates

Exhibit 3 Old sawing wire pricing, volume and margin evolution scenario				
Sawing Wire China	2010	2011	2012	2013
EPIA PV ann. market est. (GW)	16.629	21.145	23.155	31.360
impl. ton saw wire (4,000t/1GW)	66,516	84,580	92,620	125,440
Bekaert avg saw wire ton	34,615	42,500	49,500	63,000
yoy		22.8%	16.5%	27.3%
Bekaert market share (4,000t rule)	52.0%	50.2%	53.4%	50.2%
Bekaert YE sawing wire ton	40,000	45,000	54,000	72,000
saw wire price RMB	106,000.0	94,000.0	86,000.0	76,000.0
yoy		-11.3%	-8.5%	-11.6%
saw wire price EUR	11,900.5	10,553.3	9,655.1	8,532.4
Saw wire sales	411.9	448.5	477.9	537.5
yoy		8.9%	6.6%	12.5%
COGS	-37.1	-45.5	-53.0	-69.3
% of tonnage	0.11%	0.11%	0.11%	0.11%
GP	374.9	403.0	424.9	468.2
GM	91%	90%	89%	87%
Opex	-107.1	-128.9	-147.6	-185.2
% of sales	26.0%	28.7%	30.9%	34.5%
% of avg tonnage	0.309%	0.303%	0.298%	0.294%
fix costs in sawing wire (20%)	-21.4	-21.4	-21.4	-21.4
var costs in sawing wire (80%)	-85.7	-107.4	-126.2	-163.8
% of tonnage	0.2475%	0.2528%	0.2550%	0.2600%
EBIT	267.8	274.1	277.3	283.0
EBIT margin	65.0%	61.1%	58.0%	52.7%
yoy		2.38%	1.14%	2.08%

Source: Petercam estimates

Exhibit 4 Old valuation ratio's at current stock price				
At EUR 54.37	2010	2011e	2012e	2013e
EV/EBITDA	5.1	4.5	4.0	3.7
EV/EBIT	6.9	5.9	5.2	4.8
PER	8.9	8.1	7.7	7.4
DPS	1.68	1.90	2.00	2.10
gross yield	3.1%	3.5%	3.7%	3.9%

Source: Petercam estimates

Exhibit 5 New estimates

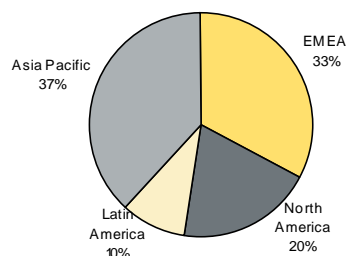
in EUR m	2009	2010	2011 Q1	2011Q2e	2011 H1e	2011 Q3e	2011 Q4e	2011 H2e	2011e	2012e	2013e
Combined Revenues	3,340.8	4,464.5	1,233.1	1,299.9	2,532.9	1,262.9	1,239.4	2,502.3	5,035.2	5,360.8	5,714.5
y/y	-16.7%	33.6%	29.4%	12.0%	19.8%	6.4%	6.4%	6.4%	12.8%	6.5%	6.6%
Associates	903.0	1,202.3	315.0	345.0	660.0	323.9	324.2	648.2	1,308.2	1,381.8	1,460.9
Revenues	2,437.8	3,262.2	918.0	954.9	1,872.9	939.0	915.2	1,854.1	3,727.0	3,979.0	4,253.6
EMEA	827.9	1,065.7	307.0	321.5	628.5	300.5	285.1	585.6	1,214.1	1,274.8	1,338.5
North America	473.4	637.3	176.0	180.7	356.7	178.4	160.3	338.8	695.5	726.3	762.7
Latin America	326.6	310.9	82.0	89.1	171.1	94.4	80.3	174.8	345.9	370.1	396.0
Asia Pacific	809.8	1,248.3	353.0	363.6	716.6	365.6	389.4	755.0	1,471.6	1,607.8	1,756.4
EBITDA	384.7	728.0			358.0			337.8	695.8	715.6	732.9
margin	15.8%	22.3%			19.1%			18.2%	18.7%	18.0%	17.2%
EMEA	46.5	143.1			80.0			79.0	159.0	157.0	149.0
North America	13.3	49.8			33.0			31.0	64.0	58.0	55.0
Latin America	36.5	39.0			20.0			22.0	42.0	46.0	50.0
Asia Pacific	349.9	560.5			255.0			235.9	490.9	514.6	538.9
Other	-61.5	-63.0			-30.0			-30.1	-60.1	-60.0	-60.0
REBIT	256.5	562.2			283.0			259.8	542.8	553.6	560.9
margin	10.5%	17.2%			15.1%			14.0%	14.6%	13.9%	13.2%
non-recurring	-25.1	-28.2			-13.0			-13.0	-26.0	-24.0	-24.0
EBIT	231.4	534.0			270.0			246.8	516.8	529.6	536.9
margin	9.5%	16.4%			14.4%			13.3%	13.9%	13.3%	12.6%
EMEA	-19.5	86.1			48.0			47.0	95.0	92.0	84.0
margin	-2.4%	8.1%			7.6%			8.0%	7.8%	7.2%	6.3%
North America	-7.7	31.8			20.0			18.0	38.0	32.0	29.0
margin	-1.6%	5.0%			5.6%			5.3%	5.5%	4.4%	3.8%
Latin America	26.5	14.0			14.0			15.0	29.0	33.0	37.0
margin	8.1%	4.5%			8.2%			8.6%	8.4%	8.9%	9.3%
Asia Pacific	287.9	466.5			218.0			196.9	414.9	432.6	446.9
margin	35.6%	37.4%			30.4%			26.1%	28.2%	26.9%	25.4%
Other	-55.5	-63.0			-30.0			-30.1	-60.1	-60.0	-60.0
Net financial charges	-65.5	-32.4			-32.8			-27.9	-60.7	-56.7	-54.9
PBT	165.9	501.6			237.2			218.9	456.1	472.9	482.0
taxes	-33.9	-139.9			-66.4			-61.3	-127.7	-132.4	-135.0
tax rate	20.4%	27.9%			28.0%			28.0%	28.0%	28.0%	28.0%
Associates	37.8	36.0			17.0			18.7	35.7	35.2	37.2
Minoritiess	-18.6	-30.9			-15.0			-16.0	-31.0	-32.0	-30.0
Net profit	151.3	366.8			172.8			160.3	333.1	343.7	354.2
EPS	2.53	6.13							5.62	5.80	5.98
y/y	-27.7%	142.4%							-8.3%	3.2%	3.1%

Source: Petercam estimates

Bekaert

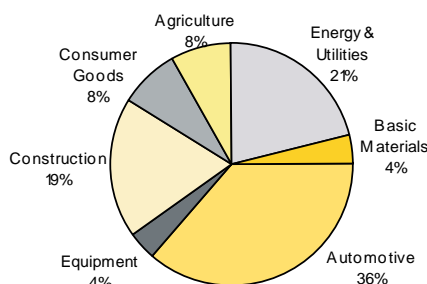
Updated Estimates: **YES**

Exhibit 1 Geographical sales breakdown 10



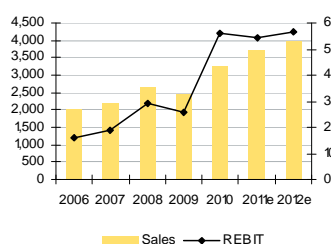
Source: Bekaert

Exhibit 2 End-market sales breakdown



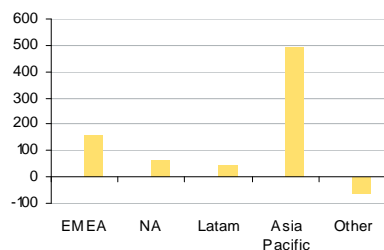
Source: Bekaert

Exhibit 3 Sales and REBIT evolution



Source: Petercam

Exhibit 4 EBITDA breakdown 2011e



Source: Petercam

Profit & Loss (EUR m)	12/09	12/10	12/11e	12/12e	12/13e
Revenues	2,437.8	3,262.2	3,727.0	3,979.0	4,253.6
Gross profit	534.5	903.9	997.1	1,044.7	1,116.8
EBITDA	384.7	728.0	695.8	715.6	732.9
EBITA	256.5	562.2	542.8	553.6	560.9
EBIT	231.4	534.0	516.8	529.6	536.9
Depreciation	-153.3	-194.0	-179.0	-186.0	-196.0
Net financial result	-56.6	-50.1	-60.7	-56.7	-54.9
Exceptionals (gross)	-	-	-	-	-
Taxes	-33.9	-139.9	-127.7	-132.4	-135.0
Except./discontinued operations	0.0	0.0	0.0	0.0	0.0
Net declared earnings	151.3	366.8	333.1	343.7	354.2
Net adjusted earnings	151.3	366.8	333.1	343.7	354.2
Cash Flow (EUR m)	12/09	12/10	12/11e	12/12e	12/13e
Changes in working capital	152.7	-274.0	-144.2	-0.8	-74.9
Operational cash flow	508.5	476.1	591.6	716.4	658.7
CF from operating activities	479.3	359.7	432.8	556.5	499.7
CF from investing activities	-171.0	-250.6	-250.0	-260.0	-270.0
CF from financing activities	-50.6	-176.2	-100.7	-113.4	-119.4
CAPEX	-167.7	-247.6	-250.0	-260.0	-270.0
Dividend payment	-50.6	-118.5	-100.7	-113.4	-119.4
Balance Sheet (EUR m)	12/09	12/10	12/11e	12/12e	12/13e
Tangible fixed assets	1,127.7	1,295.1	1,134.6	1,113.4	1,087.4
Goodwill	54.3	58.1	58.1	58.1	58.1
Total fixed assets	1,535.5	1,765.9	1,616.6	1,601.3	1,581.6
Working capital	590.9	940.3	1,084.5	1,085.3	1,160.2
Total equity	1,373.6	1,696.6	1,929.0	2,159.3	2,394.1
Provisions & deferred taxes	217.7	226.9	226.9	226.9	226.9
Net financial debt	405.6	577.9	485.1	302.0	191.8
Total assets	2,829.5	3,673.1	3,802.2	4,076.2	4,356.6
Shares - per share data (EUR)	12/09	12/10	12/11e	12/12e	12/13e
Adjusted EPS	2.53	6.13	5.62	5.80	5.98
Dividend	0.98	1.68	1.90	2.00	2.10
No shares - average (m)	59.81	59.81	59.25	59.25	59.25
Ratios	12/09	12/10	12/11e	12/12e	12/13e
Adjusted P/E	14.3	14.0	9.3	9.1	8.8
P/BV	1.7	3.2	1.7	1.5	1.3
EV/EBITDA	6.2	7.7	5.0	4.6	4.4
EV/EBIT	10.3	10.5	6.8	6.3	6.0
EV/FCF (1)	-	-	-	-	-
FCF yield (2)	14.3%	-0.3%	5.8%	9.4%	7.3%
Div. yield	2.7%	2.0%	3.6%	3.8%	4.0%
Net Debt/EBITDA	1.1	0.8	0.7	0.4	0.3
ROCE post-tax	14.6%	25.1%	22.9%	23.0%	22.2%
Gross margin	21.9%	27.7%	26.8%	26.3%	26.3%
EBIT margin	9.5%	16.4%	13.9%	13.3%	12.6%

Business description

Bekaert seeks sustainable profitable growth based on its two core competences: advanced metal transformation & advanced coatings.

The company transforms wire rod into different kinds of wires and cords. From 6.5mm steelcord, the company is able to draw very thin wires and even metal fibres with a thickness of merely 1 µm. These wires are used in a wide variety of markets such as the Energy & Utilities sector, Automotive, Construction, Agriculture, consumer goods, etc. Some examples are: wires for use in the manufacturing of industrial springs, the reinforcement of flexible pipes, profiled wires, textile machine wires, bookbinding wires, weaving wires, champagne cork wires, silicon-sawing wire, various types of lacquered and coated wires, steel fibers for concrete reinforcement (Dramix), etc.

High-tensile wires are woven into steel cord products like tire cord and bead wire, which are used in car and truck tires (75% replacement market). Steel cord is also used as reinforcement in other polymer applications, such as high-pressure hoses, polyurethane drive belts and conveyor belts.

The two key product drivers for Bekaert are silicon sawing wire for the Photovoltaic sector and tire cord for use in trucks and busses and to a lesser extent in passenger cars.

Competitive position

Bekaert is world leader in steel cord and has a leading position in Brazil and in China, the biggest growth markets for its products. In China it has a market share of close to 40%. Its nearest competitor is Xingda. In several other segments Bekaert is market leader as well, with often dominant positions, such as in the high margin sawing wire business. Competition can be severe in the lower added value segments. Emerging markets represent more than 60% of combined sales.

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	SELL	REDUCE	HOLD	ADD	BUY
High Beta > 1.3	RP < -15%	-15% ≤ RP < -6%	-6% ≤ RP < +6%	+6% ≤ RP < +15%	RP ≥ 15%
Medium 0.9 < Beta ≤ 1.3	RP < -10%	-10% ≤ RP < -4%	-4% ≤ RP < +4%	+4% ≤ RP < +10%	RP ≥ 10%
Low Beta ≤ 0.9	RP < -6%	-6% ≤ RP < -2%	-2% ≤ RP < +2%	+2% ≤ RP < +6%	RP ≥ 6%

RP : Relative Performance against Petercam coverage universe

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