

No improvement to be expected

Sawing wire remains in the doldrums

- After the H1 results, Bekaert indicated that there were some signs of a bottoming out in the sawing wire market.
- However, recent newsflow from the solar cell market has turned more negative again and does not seem to indicate any major improvement. Especially demand from industrial investments remains weak on the back of uncertainties on future pay-offs due to unclear government policies.
- While the price drops should stimulate demand in the medium and long term, in the short term, uncertainties are dominating. Also the potential subsidy cut by the German government next year provides uncertainty, while other governments might not have sufficient budgetary means to keep on subsidising.
- According to industry sources, some small- and medium-size solar cell makers reportedly have further lowered capacity utilization rates or are on the verge of suspending production after prices dropped faster than expected to reach USD 0.68-0.70/watt.
- It's clear that solar cell demand remains weak with still quite some excess inventory in the channel. At the same time, we fear that Chinese sawing wire producers continue to expand capacity in the short term as these companies are traditionally thinking in a growth mode only model.
- While, over time, other solar cell markets such as the US and China will take over from the European countries, it is clear that short term excess capacity in solar cells creates excess capacity in sawing wire, resulting in continued heavy price pressure. We fear that prices and volumes will drop more heavily for Bekaert compared to our current model.

Chinese tire cord also facing over capacity

- At the same time, also the tire cord market starts to suffer. Europe is still doing relatively well, probably supported by the new labelling rules, but we would not be surprised if China is running at excess capacity.
- This will also put pressure on Chinese tire cord margin in H2. We understood that in H1, Bekaert's Chinese tire cord margin still resisted quite well, certainly compared to Xingda which witnessed a gross margin decline from 32.1% to 27.0%. We fear that Bekaert might face the same impact but with some delay in H2 of this year.
- Chinese companies, such as Xingda, continue to expand capacity at a time of slowing demand, which will create excess capacity. Indeed, let's not forget that Michelin has indicated a significant slowdown in china. In the truck tires OEM segment the Chinese market contracted by 12% in H1. There was still growth in the replacement segment but with a considerable slowdown in Q2.
- While the long term outlook remains positive, the short term excess capacity risks to hurt margins.

Still earnings downside

- Bekaert has already suffered heavily this year and is down 62%. However, this was from a peak level and historical stock prices do not tell us anything about current valuation.
- Given the Bekaert specific headwinds for sawing wire and tire cord in China in the short term and given the often cyclical nature of some of its other businesses, we are reducing our 2011 EBIT estimate from EUR 418m to EUR 343m.
- These estimates position us at the bottom of the consensus and on these new estimates, the shares trade at 7.5x EV/EBIT and 8.2x 2012. With consensus still having to come down and lower 2012 earnings expected, we see little upside for the shares. At 8.2x 2012 EV/EBIT we downgrade the shares to Hold.

Hold

Price: EUR 34.19
(23/09/11)

Target price: 38.00
Risk: High

Reuters: BERTt.BR
Bloomberg: BEKB BB

Shares number (m): 59.88
Market cap. (m): 2,047
Net debt 12/10 (m): 578
Net debt/equity 12/10: 34%

H/L 1 year: 87.43 - 33.74
1 year price perf.: -43.5%
Diff. with Euro Stoxx : -20.6%
Volume (sh./day): 244,581

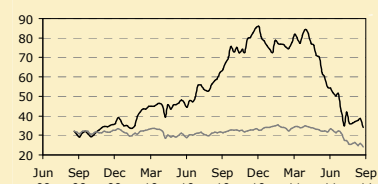
Free Float 62%
Family shareholders 38%

	10	11e	12e
P/E	14.0	9.8	11.6
EV/EBITDA	7.7	4.7	5.0
EV/EBITA	9.9	7.1	7.5
Div. yield	2.0%	4.9%	5.5%

Company Calendar

10/11/2011 Q3 2011 Results
24/02/2012 Q4 and FY 11 results
09/05/2012 Q1 12 update – AGM
11/05/2012 ex-coupon
27/07/2012 H1 results

Bekaert + relative to Euro Stoxx
(grey)



Analyst:

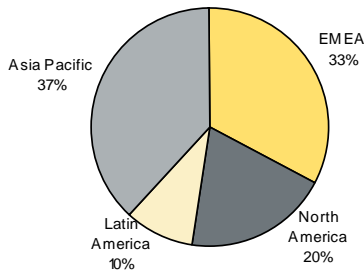
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Exhibit 1 New estimates

in EUR m	2009	2010	2011 Q1	2011Q2	2011 H1	2011 Q3e	2011 Q4e	2011 H2e	2011e	2012e
Combined Revenues	3,340.8	4,464.5	1,233.1	1,179.0	2,412.0	1,149.5	1,074.9	2,224.4	4,636.4	4,702.6
y/y	-16.7%	33.6%	29.4%	1.6%	14.1%	-3.1%	-7.7%	-5.4%	3.9%	1.4%
Associates Revenues	903.0	1,202.3	315.0	317.0	632.1	323.9	324.2	648.2	1,280.2	1,356.1
	2,437.8	3,262.2	918.0	862.0	1,780.0	825.5	750.7	1,576.2	3,356.2	3,346.5
EMEA	827.9	1,065.7	307.0	308.0	614.9	300.5	260.9	561.4	1,176.3	1,198.2
North America	473.4	637.3	176.0	178.0	354.0	174.1	140.8	314.9	668.9	672.5
Latin America	326.6	310.9	82.0	90.0	172.1	94.4	80.3	174.8	346.8	371.1
Asia Pacific	809.8	1,248.3	353.0	286.0	639.0	256.5	268.7	525.2	1,164.2	1,104.7
EBITDA	384.7	728.0			343.5			203.5	547.0	484.8
margin	15.8%	22.3%			19.3%			12.9%	16.3%	14.5%
EMEA	46.5	143.1			73.0			73.0	146.0	147.0
North America	13.3	49.8			34.5			35.0	69.5	58.0
Latin America	36.5	39.0			22.0			22.0	44.0	46.0
Asia Pacific	349.9	560.5			255.5			108.5	364.0	293.8
Other	-61.5	-63.0			-41.0			-35.0	-76.0	-60.0
REBIT	256.5	562.2			242.0			124.5	366.5	322.8
margin	10.5%	17.2%			13.6%			7.9%	10.9%	9.6%
non-recurring	-25.1	-28.2			-10.5			-13.0	-23.5	-24.0
EBIT	231.4	534.0			231.5			111.5	343.0	298.8
margin	9.5%	16.4%			13.0%			7.1%	10.2%	8.9%
EMEA	-19.5	86.1			45.0			41.0	86.0	82.0
margin	-2.4%	8.1%			7.3%			7.3%	7.3%	6.8%
North America	-7.7	31.8			27.5			22.0	49.5	32.0
margin	-1.6%	5.0%			7.8%			7.0%	7.4%	4.8%
Latin America	26.5	14.0			16.0			15.0	31.0	33.0
margin	8.1%	4.5%			9.3%			8.6%	8.9%	8.9%
Asia Pacific	287.9	466.5			184.5			68.5	253.0	211.8
margin	35.6%	37.4%			28.9%			13.0%	21.7%	19.2%
Other	-55.5	-63.0			-41.0			-35.0	-76.0	-60.0
Net financial charges	-65.5	-32.4			-34.7			-27.9	-62.6	-56.7
PBT	165.9	501.6			196.8			83.6	280.4	242.1
taxes	-33.9	-139.9			-53.5			-23.4	-76.9	-67.8
tax rate	20.4%	27.9%			28.0%			28.0%	27.4%	28.0%
Associates	37.8	36.0			14.1			18.7	32.8	32.3
Minoritiess	-18.6	-30.9			-13.4			-16.0	-29.4	-32.0
Net profit	151.3	366.8			143.9			62.9	206.8	174.6
EPS	2.53	6.13							3.49	2.95
y/y	-27.7%	142.4%							-43.1%	-15.6%

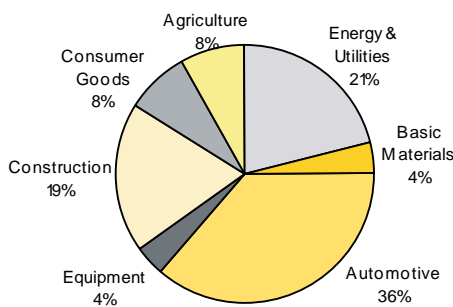
Source: Petercam estimates

Exhibit 1 Geographical sales breakdown 10



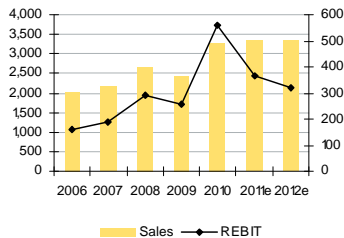
Source: Bekaert

Exhibit 2 End-market sales breakdown



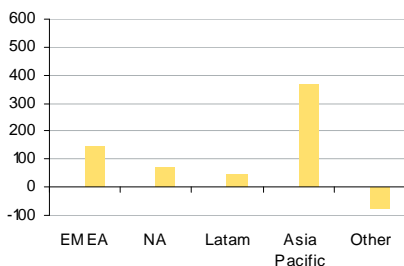
Source: Bekaert

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	3,356.2	3,346.5	3,530.6
Gross profit	534.5	903.9	771.9	734.6	812.7
EBITDA	384.7	728.0	547.0	484.8	556.7
EBITA	256.5	562.2	366.5	322.8	384.7
EBIT	231.4	534.0	343.0	298.8	360.7
Depreciation	-153.3	-194.0	-204.0	-186.0	-196.0
Net financial result	-56.6	-50.1	-59.4	-56.7	-54.9
Exceptionals (gross)	-	-	-	-	-
Taxes	-33.9	-139.9	-76.9	-67.8	-85.6
Except./discontinued operations	0.0	0.0	0.0	0.0	0.0
Net declared earnings	151.3	366.8	206.8	174.6	227.4
Net adjusted earnings	151.3	366.8	206.8	174.6	227.4
Cash Flow (EUR m)	12/09	12/10	12/11e	12/12e	12/13e
Changes in working capital	152.7	-274.0	-263.3	130.2	68.2
Operational cash flow	508.5	476.1	344.9	628.5	629.6
CF from operating activities	479.3	359.7	235.7	530.8	519.9
CF from investing activities	-171.0	-250.6	-250.0	-260.0	-270.0
CF from financing activities	-50.6	-176.2	-100.7	-100.3	-113.4
CAPEX	-167.7	-247.6	-250.0	-260.0	-270.0
Dividend payment	-50.6	-118.5	-100.7	-100.3	-113.4
Balance Sheet (EUR m)	12/09	12/10	12/11e	12/12e	12/13e
Tangible fixed assets	1,127.7	1,295.1	1,134.0	1,175.6	1,228.7
Goodwill	54.3	58.1	58.1	58.1	58.1
Total fixed assets	1,535.5	1,765.9	1,615.5	1,662.6	1,722.0
Working capital	590.9	940.3	1,203.6	1,073.4	1,005.2
Total equity	1,373.6	1,696.6	1,802.8	1,877.1	1,991.0
Provisions & deferred taxes	217.7	226.9	226.9	226.9	226.9
Net financial debt	405.6	577.9	682.2	511.7	375.2
Total assets	2,829.5	3,673.1	3,663.9	3,705.0	3,846.2
Shares - per share data (EUR)	12/09	12/10	12/11e	12/12e	12/13e
Adjusted EPS	2.53	6.13	3.49	2.95	3.84
Dividend	0.98	1.68	1.68	1.90	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	9.8	11.6	8.9
P/BV	1.7	3.2	1.2	1.1	1.1
EV/EBITDA	6.2	7.7	4.7	5.0	4.1
EV/EBIT	10.3	10.5	7.6	8.1	6.3
EV/FCF (1)	-	-	-	-	-
FCF yield (2)	14.3%	-0.3%	-0.7%	13.2%	12.2%
Div. yield	2.7%	2.0%	4.9%	5.5%	6.1%
Net Debt/EBITDA	1.1	0.8	1.2	1.1	0.7
ROCE post-tax	14.6%	25.1%	15.0%	13.8%	16.7%
Gross margin	21.9%	27.7%	23.0%	22.0%	23.0%
EBIT margin	9.5%	16.4%	10.2%	8.9%	10.2%

(1) Based on FCF to Enterprise - (2) Based on FCF to Equity

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%

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