

2 February 2012

Bekaert (EUR 33.27 - Hold) - Reacting to deteriorating markets

Facts: Bekaert realigns business with new business environment

- In response to fast but structural changes in the global solar energy market, to growing uncertainty in other markets and to longer term overall instability, Bekaert has announced today a major realignment program, consisting of two lines of action:
 1. actions directly related to the changed market environment include the measures and plans to rightsize Bekaert's global sawing wire operations including production, technology and engineering, and having an impact on operations in several countries, including Belgium stainless steel plant.
 2. these changed market circumstances also drive a second line of action aiming at substantially improving the structure that supports Bekaert's global presence and diversified product portfolio. By optimizing the efficiency and synergy potential within the organization, the group targets substantial cost savings.
- Both plans are necessary to restore Bekaert's long-term profitability and the unprecedented changes in market conditions of the solar business force immediate action.
- The reorganisation implies 1,250 lay-offs in China and 600 jobs are involved in Belgium. Bekaert aims for cost savings of EUR 100m in the forthcoming years.

Our View: Rapid action but highlighting current very difficult market circumstances, not only in sawing wire

The restructuring charge is not mentioned but we estimate it could be well in excess of EUR 60m in terms of cash costs (hope to get more info in cc) and it will also imply significant impairment charges.

The unprecedented changes in market circumstances have forced Bekaert to act rapidly. The sawing wire market is dead and the other markets also seem to be having a very difficult time. The measures are necessary to restore Bekaert's long term profitability, indicating that currently profitability is highly pressured.

Conclusion: Hold maintained

Over 2010, Bekaert increased its dividend from EUR 0.98 to EUR 1.68, at that point in time because it also reviewed its long term profitability targets. These targets will not be reached anymore and so one can wonder whether the dividend will be maintained at EUR 1.68 or fall back to EUR 0.98. (Bekaert never reduced dividend historically).

At 10x EV/EBIT 2012, with downside on estimates, we keep our Hold rating. Even if the solar market would recover, excess capacity is huge and as such we will not see an immediate recovery of the sawing wire market, if we will see ever really. We expect sawing wire to be at an EBIT loss in 2012 and we also believe Bekaert will have a very difficult year in its other businesses.

Details

A cc will take place at 10am, which should provide more details