

Lack of visibility on cost cutting ambition

Investment case

- After the collapse of the sawing wire boom, Bekaert is now also facing a deterioration of its traditional business. In Europe, the lacklustre economic climate is not supportive. In Asia, the steel cord market is confronted by slowing demand and increased competitive pressure. Fortunately, a good geographical diversification mitigates part of this. In North America, the trend is satisfactory while in Latin America it is still growing.
- Margins have consequently been under continued pressure. From an operational point of view we do not expect 2013 to be materially different than 2012.
- In this context, Bekaert has affirmed its willingness to return to 7% EBIT margin in 2014 by reducing costs with EUR 100m p.a. At this stage it is still unclear what the measures will be and how they will be implemented. They are however crucial to reach the group's EBIT ambition, especially if no growth is expected.
- Given this, an investor needs to take a view on at least 2014, when Bekaert believes it will have restored profitability to a more acceptable level.
- The stock currently lacks triggers and already discounts a flawless execution of the cost cutting program. Any hick ups will likely be sanctioned. On the other hand, a faster than expected top line growth driven by an economic recovery and high emerging market exposure could certainly support the stock.

Sustainability of FCF's in difficult times

- Bekaert is a highly cyclical company. In recent years, with margins under pressure, cash flow generation has also suffered. As such, stricter working capital management has become a priority.
- Furthermore, capital expenditure has been tuned to the essential to preserve cash. With the cost cutting program, FCF generation should remain satisfactory despite the troubled environment.

Business description

Bekaert 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.

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 large market shares. Competition can be severe in the lower added value segments. Emerging markets represent more than 60% of combined sales.

Hold

Price: EUR 22.02
(18/01/13)

Target price: 25.00
Risk: High

Reuters: BERTt.BR
Bloomberg: BEKB BB

Shares number (m): 59.88
Market cap. (m): 1,319
Net debt 12/12e (m): 856
Net debt/EBITDA 12/12e: 2.62

H/L 1 year: 33.27 - 17.51
1 year price perf.: -29.8%
Diff. with Euro Stoxx : -44.6%
Volume (sh./day): 275,736

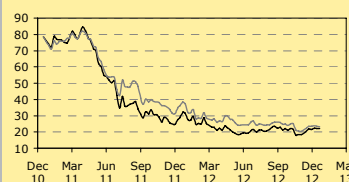
Free Float 62%
Family shareholders 38%

	12e	13e	14e
P/E	nm	17.8	9.3
EV/EBITDA	7.0	6.0	4.7
EV/EBIT	52.6	14.0	8.8
Div. yield	4.5%	4.5%	4.5%

Company Calendar

27/02/13 FY 2012 results
08/05/13 Q1 2013 trading update
26/07/13 HY 2013 results
14/11/13 Q3 2013 trading update

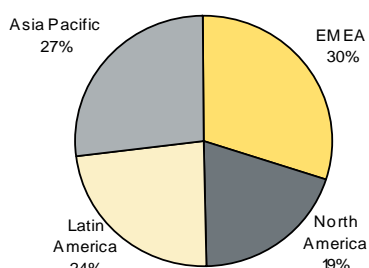
Bekaert + relative to Euro Stoxx (grey)



Analyst:

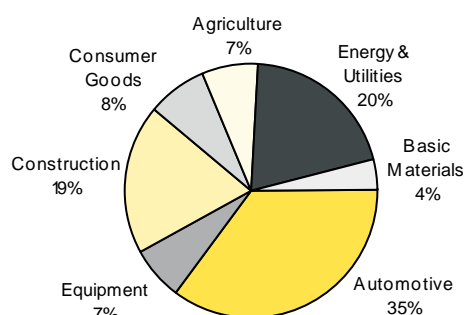
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Exhibit 1 Geographic sales breakdown 12e



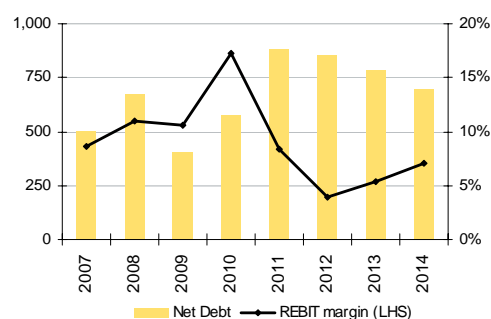
Source: Petercam

Exhibit 2 End-market sales breakdown



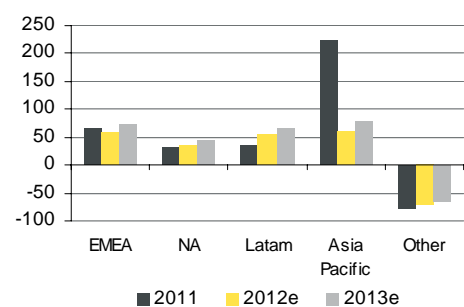
Source: Bekaert

Exhibit 3 Net debt and REBIT evolution



Source: Petercam, Bekaert

Exhibit 4 EBITA breakdown



Source: Petercam, Bekaert

Profit & Loss (EUR m)	12/10	12/11	12/12e	12/13e	12/14e
Revenues	3,262.2	3,339.9	3,491.2	3,590.2	3,713.8
Gross profit	903.9	651.4	513.2	545.7	605.3
EBITDA	728.0	480.0	326.4	373.0	452.0
EBITA	562.2	281.0	154.3	194.0	259.0
EBIT	534.0	269.0	43.4	159.0	244.0
Net Financial Result	-50.1	-65.8	-103.7	-61.9	-56.9
Exceptionals (gross)	-	-	-	-	-
Taxes	-139.9	-68.1	-24.3	-27.2	-52.4
Except./discontinued operations	0.0	0.0	0.0	0.0	0.0
Net declared earnings	366.8	193.1	-87.0	73.4	140.2
Net adjusted earnings	366.8	193.1	-36.4	73.4	140.2

Cash Flow (EUR m)	12/10	12/11	12/12e	12/13e	12/14e
EBIT	534.0	269.0	43.4	159.0	244.0
Depreciation	194.0	211.0	283.0	214.0	208.0
Amortization	0.0	0.0	0.0	0.0	0.0
Impairment charges	16.2	10.5	0.0	10.0	10.0
Changes in provision	0.0	0.0	0.0	0.0	0.0
Changes in working capital	-274.0	-199.7	-10.3	-33.5	-24.4
Others	6.0	-4.7	-9.1	12.0	-6.8
Operational Cash Flow	476.1	286.1	307.0	361.5	430.8
Tax expenses	-113.3	-129.3	-24.3	-27.2	-52.4
Dividends from associates	40.4	7.5	9.1	12.0	14.5
Net interest charges	-43.5	-59.0	-103.7	-61.9	-56.9
Others	0.0	0.0	0.0	0.0	0.0
CF from operating activities	359.7	105.4	188.2	284.5	336.1
CAPEX	-247.6	-277.6	-150.0	-150.0	-150.0
Acquisitions	-29.7	-17.9	0.0	0.0	0.0
Divestments	26.7	101.3	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
CF from investing activities	-250.6	-194.3	-150.0	-150.0	-150.0
Dividend payment	-118.5	-163.1	-58.6	-58.6	-58.6
Minor. & pref. dividends	-	-	-	-	-
Equity financing	-57.7	0.0	0.0	0.0	0.0
Others	-	-	-	-	-
CF from financing activities	-	-	-	-	-
Net debt/cash change	-	-	-	-	-

Balance Sheet (EUR m)	12/10	12/11	12/12e	12/13e	12/14e
Tangible fixed assets	1,295.1	1,433.6	1,436.6	1,362.1	1,337.1
Goodwill	58.1	20.9	16.4	16.4	16.4
Other intang. assets	73.1	82.6	78.4	78.4	78.4
Financial fixed assets	339.6	362.9	0.0	313.3	316.3
Total Fixed assets	1,765.9	1,900.0	1,842.3	1,770.2	1,748.3
Working capital	940.3	1,115.6	1,125.9	1,159.4	1,183.8
Total Equity	1,696.6	1,766.4	1,722.7	1,737.5	1,819.1
Provisions & deferred taxes	226.9	220.0	286.5	286.5	286.5
Net financial debt	577.9	879.6	855.6	786.6	700.6
Total assets	3,673.1	4,169.1	4,271.9	4,306.4	4,407.6

Shares - per share data (EUR)	12/10	12/11	12/12e	12/13e	12/14e
Adjusted EPS	6.13	3.26	-0.61	1.24	2.37
Dividend	1.68	0.98	0.98	0.98	0.98
No shares - average (m)	59.81	59.25	59.25	59.25	59.25

Ratios	12/10	12/11	12/12e	12/13e	12/14e
Valuation analysis					
Adjusted P/E	14.0	7.6	nm	17.8	9.3
P/BV	3.2	0.9	0.8	0.8	0.8
EV/EBITDA	8.0	5.1	7.0	6.0	4.7
EV/EBIT	10.8	9.0	52.6	14.0	8.8
EV/FCF (1)	-	-	-	-	-
FCF yield (2)	-0.3%	-7.7%	2.9%	10.2%	14.1%
Dividend yield	2.0%	4.0%	4.5%	4.5%	4.5%
Financial ratios					
Net Debt/EBITDA	0.8	1.8	2.6	2.1	1.5
Net Debt/Equity	34.1%	49.8%	49.7%	45.3%	38.5%
ROCE post-tax	25.1%	10.8%	5.8%	7.4%	9.9%
ROCE post-tax (grossed gdwll)	18.1%	7.8%	4.2%	5.3%	7.2%
Margin analysis and tax rate					
Gross margin	27.7%	19.5%	14.7%	15.2%	16.3%
EBIT margin	16.4%	8.1%	1.2%	4.4%	6.6%
Tax rate	27.9%	27.2%	-40.2%	28.0%	28.0%
Growth analysis					
Sales	34%	2%	5%	3%	3%
Adjusted EPS	142%	-47%	-chg	+chg	91%

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