

1 August 2011

BEKAERT

First-half results fall short of expectations

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE €42.44
TARGET PRICE €54.00

ACCUMULATE
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	-24%	-50%	-15%
Rel. BEL20	-21%	-43%	-11%
12m Hi/Lo	€ 87.43/42.44		
Bloomberg	BEKB BB		
Reuters	BEKB.BR		
Market Cap	€ 2,541m		
Next corporate event			
Trading update 3Q11: 10 November 2011			
www.bekaert.com			

FY/e 31.12	2010	2011E	2012E	2013E
Sales (€ m)	3,262.5	3,472.4	3,655.7	3,813.9
REBITDA (€ m)	724.7	612.8	614.6	635.7
Net earnings (€ m)	367.6	245.8	241.4	251.2
Diluted adj. EPS (€)	6.52	4.42	4.35	4.52
Dividend (€)	1.67	1.67	1.85	1.90
P/E	6.51	9.61	9.76	9.39
EV/REBITDA	4.32	5.39	5.23	4.83
Free cash flow yield	0.0%	-3.0%	7.9%	10.1%
Dividend yield	3.9%	3.9%	4.4%	4.5%

Source: KBC Securities

Bekaert's 1H11 results disappointed, reflecting a sharp downturn during the second quarter in Asia Pacific and in the sawing wire market in particular. In addition, net financial debt was up sharply as working capital exploded. While we feel that a lot has already been priced in, we are also struggling to see any short-term triggers. We therefore prefer to go no further than our Accumulate rating with a €54 price target. At this price, Bekaert would be trading at 6.5x EV/EBITDA and 12.1x P/E 2011.

SECOND QUARTER SALES IN ASIA PACIFIC DISAPPOINT

- **Earnings miss.** While second quarter sales were below expectations in all regions, this was especially the case in Asia Pacific, which showed a 19% sequential decline. While the market was still looking for an increase y/y, recurring EBIT for the first half was down from €262.0m to €242.3m, falling short of expectations with a margin.
- **Sawing wire market collapsed in Q2.** While the sawing wire market was still strong in the first quarter, it collapsed during the second. In response to increasing competition, Bekaert implemented significant price cuts from mid-April. Management sees early signs of a demand pick-up in increasing orders (from very low levels) and stabilising wafer prices.
- **Steady tire cord market.** Compared to the sawing wire market, Bekaert only saw limited price erosion in tire cord with no significant decline in volumes. Overcapacity in the transport markets and reduced stimuli packages in China resulted in lower demand for truck tire cord in Q2 as well as longer periods for collecting receivables.
- **Net debt up sharply.** Net financial debt increased sharply on high capital expenditure and in particular, exploding working capital requirements. The company sought to reassure investors that the increased inventories are in (high-end) wire rod rather than finished products (such as sawing wire).
- **Estimates trimmed (again).** We have cut our EPS estimates for 2011-13 by about 25%. For the second half, we now bank on recurring EBIT of €180.3m, down 40% y/y and 25% sequentially.

ANALYSTS

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RESULTS FALL SHORT OF EXPECTATIONS

Bekaert reported consolidated sales of €1,779.6m, up 15.9% y/y. This was far below our and consensus expectations of respectively €1,847m and €1,851m on a much weaker-than-expected second quarter. Organic growth amounted to 18.4%, while the net impact of acquisitions and divestments (-0.4%) and exchange rate fluctuations (-2.1%) had an adverse impact on sales growth. Combined sales, including sales of joint ventures and associated, increased by 14.2% to €2.41bn.

Consolidated sales for the second quarter amounted to €862m, down 6.1% sequentially. We and the consensus were looking for respectively €929m and €933m. While second quarter sales were below expectations in all regions, they were particularly disappointing in Asia Pacific at €286m, down 19% on the first quarter and compared to our and consensus expectations of respectively €329m and €357m. Consolidated 2Q sales in EMEA, N-AM and L-AM were up 0.3%, 1.1% and 9.8% sequentially at respectively €308m, €178m and €90m. This was closer to our (€318m, €189m and €93m) and consensus (€310m, €180m and €86m) expectations.

KEY FIGURES (€m)

	1H10A	2H10A	FY10A	1Q11A	2Q11A	1H11E	CSS	1H11A	2H11E	FY11E
Consolidated sales	1,535	1,727	3,262	918	862	1,847	1,851	1,780	1,692	3,472
- EMEA	526	540	1,066	307	307	625	617	614	590	1,204
- North America	313	325	638	176	178	365	356	354	328	682
- Latin America	144	167	311	82	91	175	168	173	166	339
- Asia Pacific	552	696	1,248	353	286	682	710	639	608	1,247
EBITDA	349.1	375.6	724.7			377.8		342.4	270.3	612.8
margin	22.7%	21.7%	22.2%			20.5%		19.2%	16.0%	17.6%
- EMEA	81.0	63.0	144.0			90.6		74.0	64.5	138.5
- North America	29.0	21.0	50.0			31.0		34.0	30.8	64.8
- Latin America	20.0	18.0	38.0			21.9		22.0	20.4	42.4
- Asia Pacific	252.0	308.0	560.0			272.8		256.0	184.0	440.0
- Other	-32.9	-34.4	-67.3			-38.5		-43.6	-29.3	-72.9
REBIT	262.0	300.5	562.5			287.1	292.0	242.3	180.3	422.6
margin	17.1%	17.4%	17.2%			15.5%	15.8%	13.6%	10.7%	12.2%
Result from operations	243.5	290.8	534.3			273.0	282.0	231.8	166.9	398.7
Financial result	-15.6	-16.8	-32.4			-27.2	-26.0	-34.7	-26.7	-61.5
Income taxes	-51.3	-88.1	-139.5			-66.3	-71.0	-53.5	-40.9	-94.4
Joint ventures and associates	18.8	17.3	36.1			20.2	19.0	14.1	13.9	28.0
Result for the period	195.3	203.2	398.5			199.6	203.0	157.7	113.1	270.8
Minority interest	14.3	16.5	30.9			13.6	14.0	13.4	11.6	25.0
Net result, group share	181.0	186.6	367.6			186.0	188.0	144.3	101.5	245.8

Source: company data, KBC Securities estimates

EBITDA amounted to €342.4m, down 1.9% y/y and short of our €377.8m expectation. The EBITDA margin declined from 22.7% to 19.2%. Recurring EBIT declined from €262.0m to €242.3m, thus missing expectations (KBC: €271.1m, CSS: €292.0m). Note that recurring EBIT was dented by an increase in bad debt reserves (in selling expenses) of €21m, which was offset by the positive impact from rising raw material prices "in the region of €15 to €20m". Including a non-recurring element of €10.5m, mainly related to provisions for environmental liabilities, the operating result came to €231.8m.

The net result, group share decreased from €181.0m to €144.3m, remaining short of expectations (KBC: €186.0m, CSS: €188.0m). Net interest was up sharply, reflecting the higher average net financial debt position. Contribution from joint-ventures and associates declined from €18.8m to €14.1m.

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SALES BY SEGMENT (€m)

	Consolidated sales					Combined sales			
	1H10	1Q11	2Q11	q/q	1H11	y/y	1H10	1H11	y/y
EMEA	525	307	308	0.3%	614	17.0%	523	608	16.3%
N-AM	313	176	178	1.1%	354	13.1%	310	349	12.6%
L-AM	144	82	90	9.8%	173	20.1%	727	814	12.0%
AP	552	353	286	-19.0%	639	15.8%	553	641	15.9%
	1,535	918	862	-6.1%	1,780	16.0%	2,113	2,412	14.2%

Source: Company data

EMEA

Bekaert's consolidated sales in the EMEA region increased by 17% y/y to €614m (KBC: €625m), driven by strong automotive sales. EBITDA and recurring EBIT remained below expectations at €74m and €54m (KBC: €90.6m and €61.8m), due primarily to start-up costs associated with plant expansions in Belgium, Slovakia and Russia.

North America

Consolidated sales in North America increased by 13.1% to €354m (€365m expected). EBITDA and recurring EBIT showed strong increases y/y to €34m and €28m, beating expectations (KBC: €31.0m and €22.1m). Specialty films and most wire and cord products for the automotive and energy-related markets performed well. Exchange rate movements had an adverse impact on sales of about 6%.

Latin America

Consolidated sales increased by 20.1% to €173m (KBC: €175m), despite an adverse currency impact of 4.6%. EBITDA and recurring EBIT amounted to €22m and €16m, in-line with expectations (€21.9m and €16.1m). Combined sales growth amounted to "only 12%" as sales of the Brazilian joint ventures were tempered by the downward adjustments of selling prices to compensate for the strong Real. Also in Chile, sales were impacted negatively by the strong local currency.

Asia Pacific

Sales in Asia Pacific were up by 15.8% to €639m but remained below expectations (KBC: €682m, CSS: €710m) as second quarter sales declined 19% sequentially. While strong growth was witnessed in India and Indonesia, government measures for more controlled growth in China and a downturn in the solar sector started to affect the top line in the second quarter.

While Bekaert still had a strong first quarter in sawing wire, the market collapsed during the second quarter. Changed fiscal stimulus policies in European end-markets resulted in a significant demand reduction. In addition, Bekaert was faced with increased capacity from rivals and adjusted prices to defend its market position. Bekaert did not disclose by how much ASPs have been reduced. However, we understand price cuts were implemented from mid-April. We estimate by about 20% on average, ranging from 10 to 40%, depending on the specifications.

The situation in the tire cord market differed somewhat from the sawing wire market, as Bekaert did not see an overall decline in volumes but did see some price erosion, albeit minor. The scaling back of stimulus packages in China combined with overcapacity in the transportation market resulted in lower demand for truck tire cord from the second quarter and longer periods for collecting receivables. As such, Bekaert has raised its bad debt reserve by €21m.

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KEY FIGURES BY SEGMENT (€m)

	EMEA		N-AM		L-AM		AP	
	1H10	1H11	1H10	1H11	1H10	1H11	1H10	1H11
Consolidated sales	526	614	313	354	144	173	552	639
EBITDA	81	74	29	34	20	22	252	256
margin	15.4%	12.1%	9.3%	9.6%	13.9%	12.7%	45.7%	40.1%
REBIT	54	54	21	28	14	16	206	185
margin	10.3%	8.8%	6.7%	7.9%	9.7%	9.2%	37.3%	29.0%
Operating result	52	46	20	27	1	16	203	185

Source: Company data

Sharp increase in net financial debt

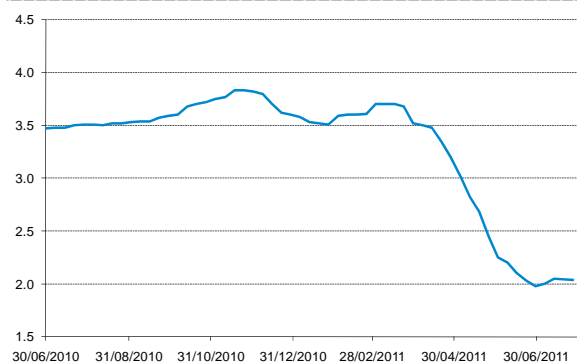
Net financial debt (Bekaert def.) increased from €521.9m at the end of December to €815.9m at end-June. This increase was very much driven by a WCR of €306.8m. Inventories increased from €507.7m at year-start to €636.9m at end-June. Bekaert reassured investors at the analysts meeting, saying that the increased inventories are in (high-grade) wire rod rather than finished products (no significant build-up of sawing wire volumes). Receivables were up sharply as well, especially on longer days of sales outstanding in China. Capital expenditure was a high €129.7m and is guided at around the same level in the second half of the year.

Bekaert proposed to keep its gross interim dividend unchanged at €0.67 per share. The ex-date is set at 12 October.

CAUTIOUS OUTLOOK STATEMENT

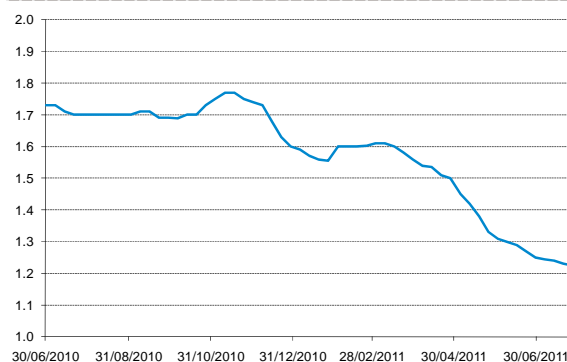
Bekaert remains cautious on the short- to medium-term outlook. "In response to growing competition, mainly in China, the company's measures to defend its market position will be continued. Early signs of slight demand pick-up indicate that the solar market downturn might have bottomed out." Elaborating on this, Bekaert said that it recently saw orders coming in again (albeit from a collapsed market) and also referred to the spot wafer market, where prices seem to have stabilised at around \$ 2.0 (156mm square multi wafer).

SOLAR WAFER WEEKLY SPOT PRICE (\$)



Source: PV Insights

SOLAR MODULE WEEKLY SPOT PRICE (\$)



Source: PV Insights

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Following the interim results publication, we have further trimmed our estimates, especially on Asia Pacific. For the period 2011-13, our projections are down by around 5% for the top-line and around 25% on the bottom-line. For the current year, we now bank on 6.4% top-line growth to €3,472.4m, a 24.9% decline in recurring EBIT at €422.6m and a 33.1% decline in the net result to €245.8m. For the second half, we now bank on recurring EBIT of €180.3m (10.7% margin), down from €242.3m in the first half and €300.5m in the same period last year.

	2011 OLD	2011 NEW	2012 OLD	2012 NEW	2013 OLD	2013 NEW
Consolidated sales	3,665.7	3,472.4	3,879.3	3,655.7	4,044.1	3,813.9
- EMEA	1,247.1	1,204.5	1,309.5	1,264.7	1,335.7	1,290.0
- North America	723.7	682.3	731.0	689.1	738.3	696.0
- Latin America	356.0	338.9	391.7	372.8	419.1	398.9
- Asia Pacific	1,338.8	1,246.7	1,447.3	1,329.1	1,551.1	1,429.0
EBITDA	694.3	612.8	719.5	614.6	734.9	635.7
margin	18.9%	17.6%	18.5%	16.8%	18.2%	16.7%
- EMEA	174.6	138.5	183.3	145.4	187.0	148.4
- North America	57.9	64.8	58.5	65.5	59.1	66.1
- Latin America	42.7	42.4	47.0	46.6	50.3	49.9
- Asia Pacific	496.0	440.0	512.2	433.9	523.5	451.4
- Other	-77.0	-72.9	-81.5	-76.8	-84.9	-80.1
REBIT	512.8	422.6	523.7	409.5	528.8	419.8
margin	14.0%	12.2%	13.5%	11.2%	13.1%	11.0%
Result from operations	484.5	398.7	494.3	384.9	498.6	394.5
Financial result	-54.4	-61.5	-49.4	-55.9	-42.4	-51.2
Income taxes	-120.4	-94.4	-126.8	-93.7	-132.3	-99.6
Joint ventures and associates	40.4	28.0	44.4	30.8	47.5	33.0
Result for the period	350.0	270.8	362.5	266.0	371.4	276.7
Minority interest	27.1	25.0	28.1	24.6	28.8	25.5
Net result, group share	322.9	245.8	334.5	241.4	342.6	251.2

Source: KBC Securities estimates

Visibility on the second half of the year remains extremely low. The comparison base will be tough however after the excellent 2H10, and the speed with which the business declined in Q2 does not bode well. We have made yet another sharp downgrade to our numbers. At our new estimates, Bekaert is trading at respectively 9.61x and 9.76x P/E and 5.39x and 5.23x EV/EBITDA 2011 and 2012. This is far from excessive and reflects that a lot of the bad news is priced in. Nevertheless, the second half remains extremely challenging and it remains hard to see triggers in the short- to medium-term. We therefore go no further than our Accumulate rating with a new target price of €54 per share. At this DCF-based price, Bekaert would be trading at 6.5X EV/EBITDA and 12.1x P/E 2011.

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FINANCIAL DATA

Income statement (€m)	2009	2010	2011E	2012E	2013E	2014E
Sales	2,437.3	3,262.5	3,472.4	3,655.7	3,813.9	3,962.0
Gross profit	534.2	904.3	786.4	792.5	819.3	842.5
EBIT	232.2	534.3	398.7	384.9	394.5	401.6
Pre-tax earnings	166.6	501.9	337.3	328.9	343.4	356.3
Net earnings	151.8	367.6	245.8	241.4	251.2	260.0
EBITDA	385.5	724.7	612.8	614.6	635.7	652.4
REBITDA	385.5	724.7	612.8	614.6	635.7	652.4
REBITA	256.8	562.5	422.6	409.5	419.8	427.4
Balance sheet (€m)	2009	2010	2011E	2012E	2013E	2014E
Intangible assets	105.0	131.1	131.1	131.1	131.1	131.1
Tangible assets	1,127.7	1,295.1	1,342.2	1,338.7	1,298.9	1,224.4
Financial assets	218.6	243.8	243.8	243.8	243.8	243.8
Net other assets & liabilities	27.9	94.3	94.3	94.3	94.3	94.3
Net working capital	640.2	1,004.2	1,303.1	1,371.9	1,431.3	1,486.9
Net debt	473.7	577.9	752.0	660.9	516.2	326.4
Provisions	272.1	408.1	408.1	408.1	408.1	408.1
Minorities	88.8	86.0	86.0	86.0	86.0	86.0
Equity	1,284.8	1,696.6	1,868.5	2,024.9	2,189.1	2,360.0
Capital employed	1,685.7	2,310.5	2,656.5	2,721.8	2,741.3	2,722.5
TOTAL ASSETS	2,829.5	3,673.1	3,817.0	3,942.6	4,073.3	4,209.8
Cash flow statement (€m)	2009	2010	2011E	2012E	2013E	2014E
Cash flow from operations	468.2	230.6	184.9	425.7	457.2	480.3
Net capital expenditure	-158.4	-230.3	-260.0	-225.0	-200.0	-175.0
Free cash-flow	309.8	0.2	-75.1	200.7	257.2	305.3
Acquisitions / disposals	-12.0	-34.6	0.0	0.0	0.0	0.0
Dividend payments	-50.6	-118.5	-98.9	-109.6	-112.6	-115.5
Shares issues	1.8	-57.7	0.0	0.0	0.0	0.0
New borrowings / reimbursements	-41.7	271.3	-50.0	-50.0	-50.0	-50.0
Other	-49.7	106.5	0.0	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	157.5	167.1	-224.1	41.1	94.7	139.8
Performance criteria	2009	2010	2011E	2012E	2013E	2014E
Sales growth	-8.5%	33.9%	6.4%	5.3%	4.3%	3.9%
Gross margin	21.9%	27.7%	22.6%	21.7%	21.5%	21.3%
REBITDA margin	15.8%	22.2%	17.6%	16.8%	16.7%	16.5%
REBITA margin	10.5%	17.2%	12.2%	11.2%	11.0%	10.8%
EBIT margin	9.5%	16.4%	11.5%	10.5%	10.3%	10.1%
Net debt / Equity + Minorities	34.5%	32.4%	38.5%	31.3%	22.7%	13.3%
Net debt / EBITDA	1.23	0.80	1.23	1.08	0.81	0.50
EBITDA / net interest	6.80	14.48	9.97	10.99	12.43	14.41
Pay-out ratio	38.4%	27.2%	40.7%	45.9%	45.3%	44.9%
= Return on Equity (avg)	12.6%	24.7%	13.8%	12.4%	11.9%	11.4%
Return on Capital Employed (avg)	10.5%	19.3%	11.6%	10.2%	10.3%	10.4%
Per share data (€)	2009	2010	2011E	2012E	2013E	2014E
weighted average # shares, diluted	59,355,930	59,558,664	59,558,664	59,558,664	59,558,664	59,558,664
Basic EPS	2.56	6.21	4.15	4.07	4.24	4.39
Diluted EPS	2.56	6.17	4.13	4.05	4.22	4.37
Diluted, adjusted EPS	2.89	6.52	4.42	4.35	4.52	4.67
Net book value / share	21.59	28.33	31.20	33.81	36.55	39.41
Free cash flow / share	5.23	0.00	-1.27	3.39	4.34	5.15
Dividend (€)	0.98	1.67	1.67	1.85	1.90	1.95
Valuation data	2009	2010	2011E	2012E	2013E	2014E
Reference share price (€)	53.68	42.44	42.44	42.44	42.44	42.44
Reference market capitalisation (€m)	3,194.3	2,541.2	2,541.2	2,541.2	2,541.2	2,541.2
Enterprise value (€m)	3,569.0	3,131.1	3,305.2	3,214.1	3,069.4	2,879.7
P/E	18.6	6.5	9.6	9.8	9.4	9.1
EV/sales	1.5	1.0	1.0	0.9	0.8	0.7
EV/EBITDA	9.3	4.3	5.4	5.2	4.8	4.4
EV/Capital employed	2.1	1.4	1.2	1.2	1.1	1.1
P/ NBV	2.5	1.5	1.4	1.3	1.2	1.1
Free cash flow yield	9.7%	0.0%	-3.0%	7.9%	10.1%	12.0%
Dividend yield	1.8%	3.9%	3.9%	4.4%	4.5%	4.6%

Source: KBC Securities

*Historic valuation data are based on historic prices

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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 discloses the recommendations of its reports to the issuers before their dissemination. In case the recommendation 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	30.30%	25.00%
ACCUMULATE	47.10%	62.50%
HOLD	20.20%	12.50%
REDUCE	2.50%	0.00%
SELL	0.00%	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
01-AUG-11	Accumulate	€ 54.00
29-JUL-11	Accumulate	€ 60.00
29-JUN-11	Buy	€ 68.00
02-MAR-11	Buy	€ 90.00
10-NOV-10	Buy	€ 85.00
14-OCT-10	Buy	€ 76.67

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

Within the last 12 months, KBC Securities has been lead manager or co-lead manager of any publicly disclosed offer of financial instruments of Bekaert.

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