

Bekaert

Emerging Bekaert!

Key forecasts

	FY04A	FY05A	FY06F	FY07F	FY08F
Revenue (€m)	2173	1914	2041	2114	2189
EBITDA (€m)	307.7	257.2	283.1 ▲	297.2 ▲	317.1
Reported net profit (€m)	167.6	189.6	143.6	153.3	169.8
Normalised net profit (€m)	170.8	135.5	143.6	153.3	169.8
Normalised EPS (€)	7.78	6.17	6.55	6.99	7.74
Dividend per share (€)	2.00	3.00	2.50	2.75	3.00
Dividend yield (%)	2.37	3.56	2.97	3.26	3.56
Normalised PE (x)	10.8	13.6	12.9	12.1	10.9
EV/EBITDA (x)	7.34	8.42	7.15	6.43	5.93
EV/invested capital (x)	1.33	1.21	1.14	1.10	1.07
ROIC - WACC (%)	10.9	5.18	6.25	7.55	6.36

Source: Company data, ABN AMRO forecasts
Accounting Standard: IFRS

year to Dec, fully diluted

Hold

Absolute performance

n/a

Short term

Overweight

Market relative to region

Engineering & Machinery

Belgium

Price

€84.25

Target price

€85.00 ▲

Market capitalisation

€1.81bn

Avg (12mth) daily turnover

€2.84m

Reuters

BERTt.BR

Bloomberg

BEKB BB

Asset allocation

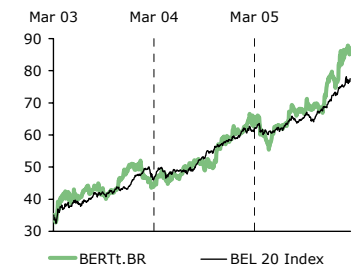
Equities Overweight

Cash Neutral

Bonds Underweight

Price performance (1M) (3M) (12M)

	1M	3M	12M
Price (€)	85.1	76.1	66.1
Absolute %	-0.9	10.7	27.6
Rel market %	-3.7	-2.2	1.3
Rel sector %	-9.0	-10.9	-13.3



Stock borrowing: n/a

Volatility (30-day): 22.7

Volatility (6-month trend): ↓

52-week range: 88.80-55.30

BEL 20 Index: 3901.67

Europe Engineering: 235.47

Source: ABN AMRO & Bloomberg

Quick summary

Bekaert reported strong FY05 figures ahead of our estimates. We believe the main cause for this difference was due to the joint venture (JV), which reported a net profit of €57m. As a result of Bekaert's increasing focus on the emerging markets, we have raised our JV earnings forecast for the next few years. For FY06, we remain cautious on Western-European and Northern-American margin pressure and lowered our EBIT margin in the Advanced Wire industry to 10%. Beyond FY07, we are positive on its expected emerging market expansion. We reiterate our Hold rating as a result of the recent share price rally and have increased our DCF-based target price to €85 (from €80).

Beneficial joint ventures

Bekaert reported 2005 net earnings of €190m vs our estimated €174m. Our estimated JV profit of €40m was significantly lower than the actual €57m, as the beneficial exchange rates and high growth in Latin American markets generated positive net profit contributions.

We have upgraded our JV expectations for FY06 and FY07 to €58m as we believe Bekaert's focus on the emerging markets deserves a closer look. In *Focus on participations*, 14 November 2005, we discussed the hidden value from the JVs with its book value and accompanied low 2005 PE of 4.0x. We argued that its emerging market projects are a good focus point and we emphasised any further expansion in Russia and China. Since management recently announced further expansion in the latter, we have upgraded our forecasts for the JVs.

Important disclosures and analyst certifications regarding companies that are the subject of this report can be found in the Disclaimer Appendix.

Priced at close of business 17 March 2006. Use of ▲ indicates that the line item has changed by at least 5%.

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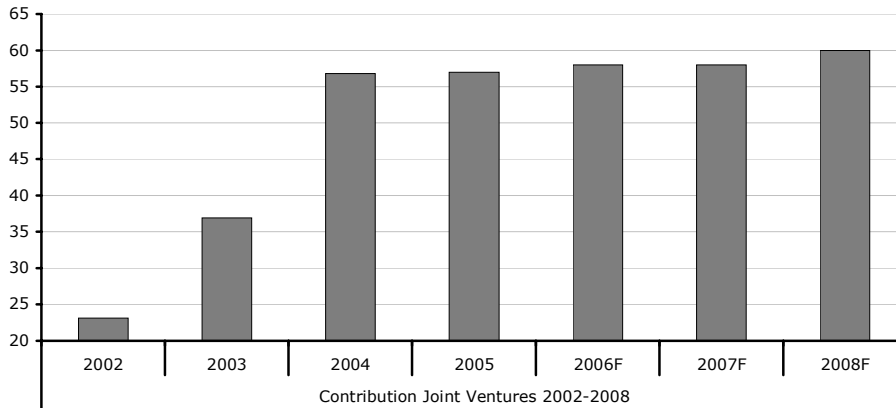
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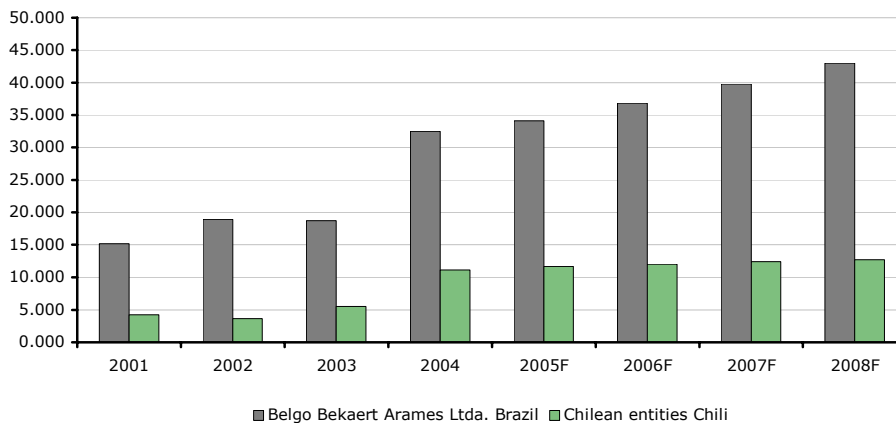
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Chart 1 : Joint ventures (2002-08F)

Source: ABN AMRO forecasts, company data

Brazil for real

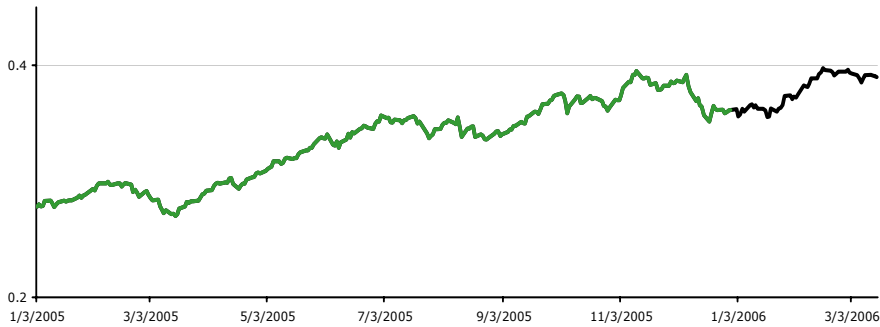
The most profitable JVs appear to be Belgo Bekaert Arames in Brazil and the Chilean entities in Chile. Belgo Bekaert Arames is mostly active in the LatAm tyre reinforcement industry and Bekaert generates in c€700m of sales in this area and the trends in this industry appear to be positive.

Chart 2 : Most profitable joint ventures: Brazil and Chile

Source: ABN AMRO forecasts, company data

Organic growth for the Brazilian JV should be secure since tyre demand is booming in this region. According to Michelin, demand for passenger cars tyres should show organic growth of around 8% in the next few years and demand for truck tyres, which contain 3-4kg of Bekaert's steel cord should reach double-digit organic growth.

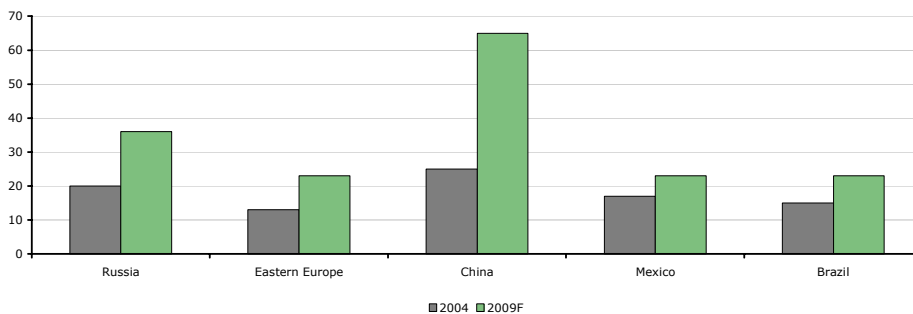
The FY05 JV figures show a positive exchange rate result of around €6m, mainly caused by the appreciation of the Brazilian real. As seen in the chart below, the Brazilian real has increased in value yoy and this trend has continued this quarter and should result in a strong net profit.

Chart 3 : Brazilian real vs the euro

Source: ABN AMRO, Datastream

Russia: strengthening its positions

Bekaert has been active in Russia for several years, where the most important industry for it is tyre reinforcement. To strengthen its position in this market, Bekaert recently entered into discussions on an exclusive cooperation with Uralkord (re a steel cord production platform), Kordinvest (a management company) and TTMP (which manufactures equipment for the group). Michelin expects the Russian tyre market to show strong double-digit growth for the next few years and believes it is one of the fast-growing emerging markets.

Chart 4 : Millions of tyres sold

Source: Michelin

China: moving on!

We believe China is also an interesting market for the tyre industry. As chart 4 shows, according to Michelin, the number of tyres sold per year should almost triple in the next five years. In May 2003, Bekaert increased its production in China up to 120,000 tonnes annually in anticipation of the increase in demand. It is now working on further increasing its production capacity in China by at least 50%. Capex in 2004-05 amounted to €160m and we expect these investments to continue.

The contribution from the JV in our model has been raised by €18m for the next few years due to the company's strong investment programmes in Russia and China and the appreciation of the Brazilian real.

Valuation and target price

Because of its unique combination of divisions, it is difficult to immediately compare Bekaert with its peers. Most of Bekaert's rivals are privately owned. In the following table, we compare Bekaert with its listed rivals and we conclude that the current valuation seems fair.

Table 1 : Bekaert's Group

(x)	Country	EV/EBITDA	EV/EBITDA	EV/EBITDA	PE 06F	PE 07F	PE 08F
		06F	07F	08F			
Bekaert SA	Belgium	7.1	6.4	5.9	12.9x	12.1	10.9
Keystone Automotive Ind* (wire North America)	US				22.0		
Leggett & Platt* (wire North America)	US	7.5	7.1		14.4	12.5	9.7
Tree Island Wire Income Fund* (wire North America)	Canada						
Acindar Ind Argenti Aceros* (wire Latin America)	Argentina				6.6		
OneSteel Ltd.* (wire Asia)	Australia	6.3	5.0	5.3	11.4	9.1	9.8
Bridgestone Corp.* (steel cord others)	Japan				16.1	13.9	11.7
Arcelor* (wire Latin-America)	France	4.5	4.0		8.7	9.0	14.2
Exel Industries* (composites)	France	6.3	5.7	4.6	14.2	12.5	11.7
Average		6.5	5.8	4.9	13.4	11.6	11.3

Source: ABN AMRO forecast, * JCF

Bekaert shares are trading at 7.3x 2007F EV/EBITDA and 11.8x PE, which is a fair valuation, in our view. We still consider Bekaert a favourable long-term investment. It is producing steady cash flows and has low gearing (35%). We believe its focus on the emerging markets is a good strategic decision to create organic growth, especially with respect to the mature markets in Western Europe and North America. We therefore reiterate our Hold rating and raise our target price to €85 (from €80).

Catalysts for share price performance

The recent consolidations in the Steel sector (i.e. Mittal steel-Arcelor) tend to have a big impact on the valuation of companies active in the sector. Although we do not consider Bekaert to be a potential target in this consolidation spree, its valuation could be influenced in a positive way by a re-rating of multiples in the sector.

Risks to our target price

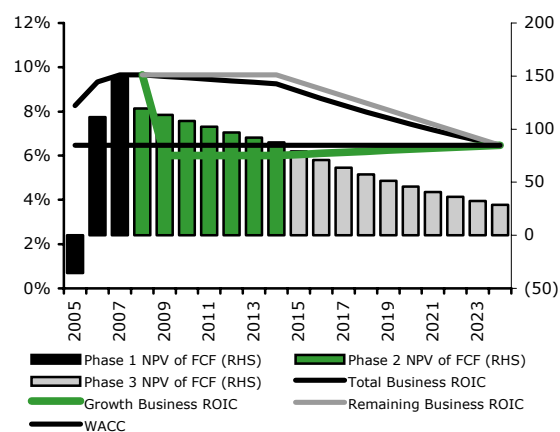
At the release of the FY05 figures, the company announced that it is experiencing more intense competition around the world and higher prices for raw materials. In our model, we incorporated cautious margins of 7.6% at the overall EBIT level. This margin is more or less based on steadily increasing prices for raw materials and energy. A sudden peak of the prices of wire rod could negatively influence margins as prices would not be fully passed onto customers.

Figure 1 : DCF valuation

Economic Profit Valuation			Discounted Cash Flow Valuation		
	EURm	%		EURm	%
Adjusted Opening Invested Capital	1792.5	78	Value of Phase 1: Explicit (2005 to 2007)	224.2	10
NPV of Economic Profit During Explicit Period	94.7	4	Value of Phase 2: Value Driver (2008 to 2014)	720.4	31
NPV of Econ Profit of Remaining Business (1, 2)	413.8	18	Value of Phase 3: Fade (2015 to 2024)	505.1	22
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	-6.4	0	Terminal Value	845.2	37
Enterprise Value	<u>2294.6</u>	<u>100</u>	Enterprise Value	<u>2294.9</u>	<u>100</u>
Plus: Other Assets	0.0	0	FCF Grth Rate at end of Phs 1 implied by DCF Valuation		-0.6
Less: Minorities	51.1	2	FCF Grth Rate at end of Phs 1 implied by Current Price		-0.7
Less: Net Debt / Leases (as at 20 Mar 2006)	<u>412.1</u>	18			
Equity Value	1831.4	80			
No. Shares (millions)	21.5				
Per Share Equity Value	85.06				
Current Share Price	84.25				

Sensitivity Table		No of Years in Fade Period				
		15	18	20	23	25
WACC	6.0%	92.43	93.97	94.90	96.19	96.98
	7.0%	82.18	82.98	83.45	84.08	84.45
	8.0%	73.23	73.48	73.62	73.79	73.88
	9.0%	65.38	65.25	65.15	65.01	64.91
	10.0%	58.47	58.07	57.81	57.46	57.24

Performance Summary		Phase 2 Avg			
	2005	2006	2007	(2008 - 2014)	
Invested Capital Growth (%)	-1.0	2.8	0.7	2.0	
Operating Margin (%)	9.5	10.0	10.2	10.2	
Capital Turnover (x)	1.1	1.2	1.2	1.2	

Returns, WACC and NPV of Free Cash Flow

Source: ABN AMRO

1. In periods following the Explicit Period i.e. Phase 2 and Phase 3

2. Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter

3. Net Investment is defined as capex over and above depreciation after Phase 1

Source: ABN AMRO forecasts

BEKAERT: KEY FINANCIAL DATA

Income statement

€m	FY04A	FY05A	FY06F	FY07F	FY08F
Revenue	2173	1914	2041	2114	2189
Cost of sales	-1560	-1401	-1484	-1536	-1582
Operating costs	-305.7	-255.8	-273.0	-280.7	-290.8
EBITDA	307.7	257.2	283.1	297.2	317.1
DDA & Impairment (ex gw)	-122.6	-121.2	-127.0	-128.1	-128.1
EBITA	185.1	136.0	156.1	169.1	189.0
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	185.1	136.0	156.1	169.1	189.0
Net interest	-26.6	-26.9	-26.5	-26.5	-26.5
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	-3.97	11.7	0.00	0.00	0.00
Reported PTP	154.5	120.8	129.6	142.6	162.5
Taxation	-28.1	-30.3	-32.4	-35.6	-40.6
Minority interests	-12.4	-12.0	-11.6	-11.6	-12.0
Other post-tax items	53.6	111.1	58.0	58.0	60.0
Reported net profit	167.6	189.6	143.6	153.3	169.8
Tot normalised items	-3.22	54.2	0.00	0.00	0.00
Normalised EBITDA	307.7	257.2	283.1	297.2	317.1
Normalised PTP	154.5	120.8	129.6	142.6	162.5
Normalised net profit	170.8	135.5	143.6	153.3	169.8

Source: Company data, ABN AMRO forecasts

year to Dec

Balance sheet

€m	FY04A	FY05A	FY06F	FY07F	FY08F
Cash & market secs (1)	57.1	132.2	270.4	384.3	458.8
Other current assets	941.4	959.5	912.0	908.8	936.9
Tangible fixed assets	791.6	799.8	830.0	830.0	830.0
Intang assets (incl gw)	118.4	125.4	125.4	121.6	121.6
Oth non-curr assets	280.9	214.7	244.3	275.3	275.3
Total assets	2189	2232	2382	2520	2623
Short term debt (2)	314.4	246.7	240.0	240.0	225.1
Trade & oth current liab	389.8	311.8	336.9	349.2	356.8
Long term debt (3)	246.5	297.7	300.0	300.0	300.0
Oth non-current liab	280.1	245.3	237.4	264.7	264.7
Total liabilities	1231	1101	1114	1154	1147
Total equity (incl min)	958.5	1130	1268	1366	1476
Total liab & sh equity	2189	2232	2382	2520	2623
Net debt (2+3-1)	503.8	412.1	269.6	155.7	66.3

Source: Company data, ABN AMRO forecasts

year ended Dec

Cash flow statement

€m	FY04A	FY05A	FY06F	FY07F	FY08F
EBITDA	307.7	257.2	283.0	297.2	317.1
Change in working capital	-117.1	15.0	-10.3	0.46	-20.5
Net interest (pd) / rec	-26.6	-26.9	-26.5	-26.5	-26.5
Taxes paid	-28.1	-30.3	-32.4	-35.6	-40.6
Other oper cash items	35.0	101.9	151.5	72.2	48.0
Cash flow from ops (1)	171.8	316.9	365.3	307.7	277.5
Capex (2)	-179.9	-129.7	-166.0	-138.8	-128.1
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	0.00	0.00	0.00	0.00	0.00
Cash flow from invest (3)	-179.9	-129.7	-166.0	-138.8	-128.1
Incr / (decr) in equity	-10.2	13.6	0.00	0.00	0.00
Incr / (decr) in debt	61.3	-16.5	-4.36	0.00	-14.9
Ordinary dividend paid	-38.6	-52.3	-55.0	-55.0	-60.0
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	5.49	2.23	-1.80	0.00	0.00
Cash flow from fin (5)	18.1	-52.9	-61.2	-55.0	-74.9
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	9.94	134.3	138.1	113.9	74.5
Equity FCF (1+2+4)	-8.16	187.2	199.3	168.9	149.4

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Dec

DISCLOSURES

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 3% or more and a Trading Sell indicates downside of 3% or more. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For listed property trusts (LPT) or real estate investment trusts (REIT) the recommendation is based upon the target price plus the dividend yield, ie total return. A Buy implies a total return of 10% or more, a Hold 5-10% and a Sell less than 5%. For Scandinavian mid- and small-caps a Buy/Sell implies upside/downside of 15% or more, an Add/Reduce 5-15% and a Hold less than 5%. For other European mid- and small-caps a Buy/Sell implies upside/downside of 10% or more, an Add/Reduce 5-10% and a Hold less than 5%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Sector relative to market: The sector view relative to the market is the responsibility of the strategy team. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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Distribution of recommendations

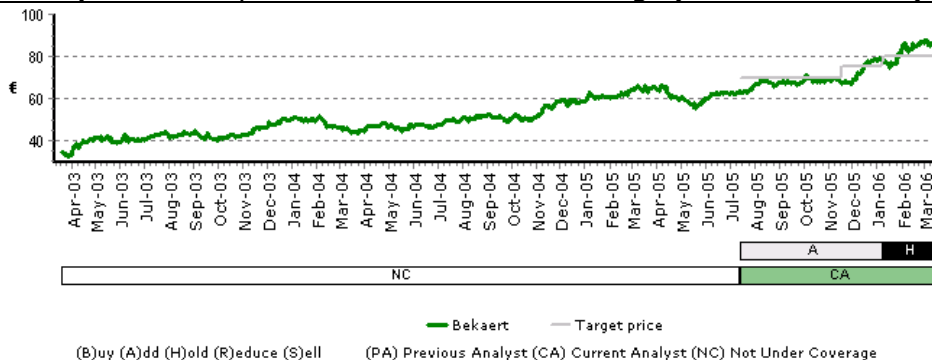
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Long Term recommendations (as at 20 Mar 2006)		
	Global total (IB%)	Europe total (IB%)
Buy	524 (19)	186 (49)
Add	96 (41)	83 (46)
Hold	472 (17)	225 (32)
Reduce	42 (10)	32 (13)
Sell	122 (7)	39 (21)
Total (IB%)	1256 (19)	565 (38)

Trading recommendations (as at 20 Mar 2006)		
	Global total (IB%)	Europe total (IB%)
Trading Buy	22 (36)	14 (57)
Trading Sell	12 (25)	6 (33)
Total (IB%)	41 (29)	26 (42)

Bekaert

Stock performance, recommendations and coverage (as at 19 Mar 2006)



Trading recommendation history (as at 20 Mar 2006)

Date	Rec	Analyst
	n/a	

ABN AMRO changed the recommendation structure for this stock from one based on absolute performance to sector relative performance on 12 Jul 05
 Thijs Hovers started covering this stock on 14 Jul 05
 Moved to new recommendation structure between 1 November 2005 and 31 January 2006

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