

Change in recommendation

Engineering &amp; machinery

Belgium

Previously: Hold

Bekaert

Buy

Upgrade to BUY

20/12/07

Maintained

Reuters: BEKB.BR

Price: €87.12

12-mth target: €108.00

- We upgrade Bekaert from a Hold to a BUY recommendation as we believe that its shares have fallen too much in recent weeks in the slipstream of cyclical stocks, although we consider that Bekaert's fundamentals remained intact.

- We maintain our €108 TP on Bekaert, which is backed by our DCF pointing to €112 per share.

**Bekaert shares have lost more than 10% since 13 November**, whereas the BEL20 has remained nearly unchanged over the same period. This is in our view mainly due to the sell-off in cyclical shares since then.

**We consider this market reaction to Bekaert shares to be exaggerated**, basically as we do not expect Bekaert's fundamentals to have altered since the company's 3Q07 trading update on 9 November, which we consider reassuring in terms of 3Q07 sales recorded as well as in terms of outlook. Management expected "to maintain its revenue growth in 2007", which appears to us to mean that the 3Q07 YTD sales growth of 5.6% is persisting in 4Q07. The US market conditions remain challenging (as before), notably in the automotive, building and agricultural sectors. In Latin America, the competitive environment should somewhat improve, however.

**Moreover, we believe that Bekaert should be able to strengthen its gross margin** slightly moving forward, basically as its geographical sales mix moves increasingly towards growth (higher-margin) markets such as China and as the company proactively assesses the need to scale down the capacity in mature (lower-margin) markets such as the US and Western Europe. As such, the company also attains more efficient capacity usage in mature markets.

**Bekaert's shares trade at a c.15% discount** to the median for Belgian small & mid caps in terms of PER, adj. EV/EBIT and adj. EV/EBITDA 2007-09F (adjusted for the sizeable contribution of the Latin American equity affiliates). A limited discount is understandable as Bekaert's business is to a certain extent cyclical, but the company's orientation to growth markets should be able to almost balance out the adverse cyclical effect. As such, we see the current share price level as a buying opportunity and upgrade the shares from a Hold to a **BUY** recommendation. We leave our DCF-based €108 TP unchanged.

**We consider Bekaert a solid long-term investment**, backed by its strategy to build, ahead of its competitors, a worldwide platform in (growth) areas such as China, Latin America, Central Europe, India and Russia. Besides this first-mover advantage, we believe that Bekaert will remain a leading worldwide player thanks to its other fundamental strengths: strong worldwide market shares, leading technology, focus on quality and a geographically well balanced manufacturing platform.

12-month forecast returns (%)	
Share price	24.0
Dividend	3.1
<b>12m f'cst total return</b>	<b>27.1</b>

Forecasts and ratios		
Yr to Dec (€m)	2006	2007F
Turnover	2,009.6	2,125.5
EBITDA	262.2	286.1
Net profit	142.3	135.9
Adj EPS	6.80	6.84
Adj PER (x)	12.8	12.7
Dividend yield (%)	2.9	3.1
EV/EBITDA (x)	8.5	7.9
Price/NAV (x)	1.7	1.7
ROE (%)	13.2	12.8

Share data	
No. of shares (m)	19.9
Daily turnover (shares)	52,359
Free float (%)	53.7
Enterprise value (€m)	2,273.7
Market cap (€m)	1,731.7



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SEE THE DISCLOSURES APPENDIX FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

## Company profile

### Overview

Bekaert produces and markets a range of products based on metal-forming and coating technologies. Incorporated in 1880, it has evolved from a small manufacturing and trading company into a global group. Internationalisation began in the 1920s in Western Europe, then in Latin America and, since the 1970s, in North America and Asia. In January 2005, it divested from European fencing systems.

### Advanced wire products

This is the company's main division (c.83% of 2006 sales), which groups the wire and steel cord activities. Bekaert produces mainly for the automotive and construction sectors. Its product range includes industrial spring wire, flexible hose reinforcement wire, plastic-coated specialities and champagne cork wire. Bekaert's steel cord activities are mainly linked to tyre reinforcement (tyre cord and bead wire).

### Advanced materials

This division (c.7% of 2006 sales) is focused on specific innovative industrial products in less cyclical markets (fibre technologies and combustion technologies).

### Advanced coatings

Bekaert is specialised in sputtering, a high-end process in which a coating is deposited on a substrate under vacuum. Applications include diamond-like coatings (eg, used in DVD production) and specialised window films (for solar control and safety enhancement). This activity represents c.6% of 2006 sales.

### Geographic breakdown of combined sales (2006)

Europe 32%, Latin America 35%, US 18%, Asia 13%, ROW 2%.

### Risks

Bekaert's business model is sensitive to economic cycles (at a global level), to US dollar weakness (compared with the euro) and could suffer from raw material (wire rod) price increases when the economic climate weakens, as this would lower the company's pricing power.

## Financials

Yr to Dec (€m)	2006	2007F	2008F	2009F
<b>Income statement</b>				
Turnover	2,009.6	2,125.5	2,423.1	2,501.1
EBITDA	262.2	286.1	322.0	325.5
Net financial charges	(31.7)	(33.8)	(34.8)	(35.6)
Operating exceptionals	0.0	0.0	0.0	0.0
Adj pre-tax profit	165.2	177.6	194.0	192.8
Corporate exceptionals	0.0	0.0	0.0	0.0
Profit/loss on sale of tangible fixed assets	0.0	0.0	0.0	0.0
Amortisation of goodwill	0.0	0.0	0.0	0.0
Pre-tax profit	165.2	177.6	194.0	192.8
Taxes	(18.1)	(30.9)	(39.6)	(39.9)
Extraordinary items (net)	0.0	0.0	0.0	0.0
Minorities	(4.8)	(10.9)	(11.8)	(12.2)
Preference dividend	0.0	0.0	0.0	0.0
Net profit	142.3	135.9	142.6	140.7
<b>Balance sheet</b>				
Total fixed assets and L/T investments	1,302.6	1,407.9	1,494.6	1,532.5
Working capital	409.4	417.7	471.6	480.3
L/T non-interest-bearing liabilities	175.6	175.6	175.6	175.6
Enterprise net assets	1,536.4	1,650.0	1,790.6	1,837.2
Group equity	1,121.3	1,107.9	1,208.6	1,305.8
Net debt	415.0	542.1	582.0	531.4
Capital employed	1,536.4	1,650.0	1,790.6	1,837.2
<b>Cash flow</b>				
Operating cash flow	312.6	321.8	306.3	353.0
Cash taxes	(18.1)	(30.9)	(39.6)	(39.9)
Net financial charges (CF)	(31.7)	(33.8)	(34.8)	(35.6)
Gross cash flow	262.8	257.2	231.9	277.5
Capital expenditures (net of disposals)	(252.6)	(180.0)	(180.0)	(135.0)
Free cash flow	10.2	77.2	51.9	142.5
<b>Ratios (%)</b>				
EBITDA margin	13.0	13.5	13.3	13.0
Operating margin	7.3	7.8	7.9	7.6
Net debt/equity	37.0	48.9	48.2	40.7
ROACE	9.6	9.1	8.8	8.3
ROE	13.2	12.8	13.1	11.9
<b>Growth (%)</b>				
Turnover	5.0	5.8	14.0	3.2
EBITDA	1.8	9.1	12.5	1.1
Net profit	4.9	(4.5)	5.0	(1.4)
<b>Valuation</b>				
EV/EBITDA (x)	8.5	7.9	7.2	7.0
Adj EPS	6.80	6.84	7.17	7.08
Adj PER (x)	12.8	12.7	12.1	12.3
Price/NAV (x)	1.7	1.7	1.5	1.4
DPS	2.50	2.70	2.70	2.80
Dividend yield (%)	2.9	3.1	3.1	3.2

Source: Company data, ING estimates

# Disclosures Appendix

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Buy	49%	28%
Hold	43%	26%
Sell	8%	24%
	<b>100%</b>	

\* Percentage of companies in each rating category that are Investment Banking clients of ING Financial Markets LLC or an affiliate.

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**Buy:** Forecast 12-mth absolute total return greater than +15%

**Hold:** Forecast 12-mth absolute total return of +15% to -5%

**Sell:** Forecast 12-mth absolute total return less than -5%

Total return: forecast share price appreciation to target price plus forecast annual dividend. Price volatility and our preference for not changing recommendations too frequently means forecast returns may fall outside of the above ranges at times.

Research published prior to 15/12/05: EMEA equities' ratings were based on US dollar total returns; Western Europe's were based on: absolute return +25%, Strong Buy; greater than +10%, Buy; +10% to -10%, HOLD; lower than -10%, Sell.

## PRICE & RATINGS HISTORY TO 03/12/07: BEKAERT (BEKB.BR)



SB = Strong Buy; B = Buy; H = Hold; S = Sell; NR = Not Rated; R = Restricted

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Where ING coverage is longer than three years, chart shows recommendation current at start of the share price history

Source: ING

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