

Initiating coverage

Belgium

Bekaert

Resilient player at trough valuation

Engineering & machinery 25/02/09 **€38.26**

Bekaert has an attractive long-term geographical and product mix but is set to be hit by the cyclical decline. The stock trades at trough multiples, factoring in a consensus-defying 49% 2009F EPS drop. We initiate with a BUY.

Resilience in downturn. The cyclical downturn should hit Bekaert from 4Q08 given its exposure to automotive (31% of sales) and construction (23%). We expect a 49% fall in 2009F adjusted EPS (17% below consensus). Bekaert foresees resilience thanks to its flexibility to manage production capacity and capital spend in line with demand. We see resilience also from tyre replacement exposure (75% of automotive), the less cyclical infrastructure market (Dramix) and sustained demand for its innovative utilities products (16% of sales).

Trough valuation. Despite a strong balance sheet, attractive long-term geographical coverage and innovative products, Bekaert trades at a trough 2009F PER of 6.4x. We initiate coverage with a **BUY** and a €48 target price, targeting a 2009F PER of 8.0x, in line with Bekaert's previous trough multiple and the Benelux cyclical average.

Triggers. Economic recovery is Bekaert's main trigger, given its broad end-market exposure. Its infrastructure exposure implies that the company should be one of the first to benefit from the various government stimulus plans.

Forecasts and ratios

| Yr to Dec (€m) | 2007 | 2008F | 2009F | 2010F |
|--------------------|---------|---------|---------|---------|
| Turnover | 2,174.0 | 2,663.0 | 2,451.6 | 2,500.6 |
| EBITDA | 310.3 | 449.7 | 342.0 | 364.1 |
| Net profit | 153.0 | 194.1 | 106.7 | 125.2 |
| Adj EPS (€) | 8.13 | 11.85 | 6.00 | 6.93 |
| Adj PER (x) | 4.7 | 3.2 | 6.4 | 5.5 |
| Dividend yield (%) | 7.2 | 7.4 | 7.4 | 7.4 |
| EV/EBITDA (x) | 2.3 | 2.9 | 3.6 | 3.2 |
| Price/NAV (x) | 0.7 | 0.6 | 0.6 | 0.6 |
| ROE (%) | 14.2 | 16.6 | 8.5 | 9.5 |

Source: Company data, ING estimates

research.ing.com

BEL 20: 1,681.13

SEE THE DISCLOSURES APPENDIX FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

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Initiating coverage

Buy

27 February 2009

Target price (12 mth)

€48

Reuters

BEKB.BR

12-month forecast returns (%)

| | |
|------------------------|------|
| Share price | 25.5 |
| Dividend | 7.4 |
| 12m f'cst total return | 32.9 |

Key ratios (%)

| | 2007 | 2008F |
|------------------|------|-------|
| Turnover growth | 8.2 | 22.5 |
| EBITDA margin | 14.3 | 16.9 |
| Operating margin | 8.6 | 10.9 |
| Net debt/equity | 43.5 | 45.7 |
| ROACE | 12.1 | 15.1 |

Share data

| | |
|-------------------------|---------|
| No. of shares (m) | 19.8 |
| Daily turnover (shares) | 58,389 |
| Free float (%) | 60.9 |
| Enterprise value (€m) | 1,235.9 |
| Market cap (€m) | 756.9 |

Share price performance



Source: ING

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Investment case

Initiating coverage with a BUY and a €48 target price

Bekaert has an attractive long-term geographical and product mix, but is set to be hit by the cyclical downturn. The company trades at trough multiples, even factoring in a consensus-defying 49% 2009F EPS decline. We initiate coverage with a **BUY**. An economic recovery is Bekaert's main trigger, due to its broad end-market exposure.

Cyclical downturn

Bekaert should be affected by the cyclical downturn from 4Q08, due to its exposure to the automotive (31% of sales) and construction sectors (23%). Organic consolidated sales grew 24.7% (28.8% total sales growth, due to consolidation effects) in the first nine months of 2008, largely driven by passed-on raw material price increases. In 4Q08, however, Bekaert reported flat organic consolidated sales YoY (+5% including currency effects), mainly reflecting lower raw material prices. We expect a 2008F REBIT margin of 10.9% (vs 12.5% in 1H08) and an EBIT margin of 9% (we forecast €50.5m in non-recurring losses, including €23m for the closure of the Hemiksem plant), which translates into 2008F adjusted EPS growth of 46% to €11.85 (vs 89% growth in 1H08). We expect 2009F organic consolidated sales down 14% (total consolidated sales should decline 8% due to consolidation and currency effects), mainly reflecting lower raw material prices. We expect the 2009F REBIT margin to fall 370bp to 7.2% (vs a 330bp margin decline in 2001 including non-recurring elements). At the bottom line, we expect a harsh 49% adjusted EPS decline in 2009F to €6.0 (17% below consensus).

Resilience

Bekaert expects resilience thanks to its flexibility to manage production capacity and capital spending in line with demand (its broad geographical coverage enables a quick response to new trends and opportunities) and does not foresee the current activity slowdown lasting on a company-wide scale.

We see resilience also from tyre replacement, the infrastructure market and sustained demand for Bekaert's innovative product portfolio for utilities. Bekaert is exposed to the tyre market through its steel cord production for radial tyre reinforcement. The tyre market is mainly a replacement market (75%) and as such is less cyclical than the OEM market. On top of this, Bekaert is mainly geared to the Chinese tyre market, which is: (1) a growing market (Chinese GDP is expected to rise 7.5% in 2009F); (2) a market with a low radialisation rate of truck tyres (currently 65% but expected to increase to 100%, in line with mature markets); and (3) a market that is expected to gain international market share via the production of high-quality, low-cost truck tyres (at a price comparable with the cost of retreading).

Furthermore, Bekaert's construction activities should be relatively resilient given that they are mainly linked to the infrastructure business via Dramix steel fibres (for concrete reinforcement), which we do not expect to fall off a cliff due to the fact that contracts are typically large and long-term (tunnels, bridges, etc) and should be supported by various government stimulus plans (more than 50% of China's US\$586bn and roughly 11% of the US\$819bn US stimulus plans are related to infrastructure).

Finally, resilience is expected due to sustained demand for Bekaert's innovative product portfolio for utilities, such as wire for flexible pipes in the offshore oil industry and sawing wire for the solar industry (16% of sales), as witnessed in 4Q08.

Strong balance sheet and market position

Bekaert has market and technological leadership in its key products, attractive long-term geographical coverage (57% emerging and 43% mature markets) and a strong balance sheet (2008F net debt/EBITDA of 1.5x) to maintain R&D (3% of sales), capex (INGF €200m in 2009F, vs maintenance capex of €80-90m) and the dividend payout at high levels (29% payout with currently a 7.4% yield) and safeguard future growth.

Trough valuation

Bekaert currently trades at a 2009F PER of 6.4x on our 17%-below-consensus forecast (vs 5.5x on consensus). In the past 15 years, the company has been trading at 12-month-forward PERs of between 8.0x and 22.0x. On consensus estimates, the Benelux cyclical stocks currently trade at a 2009F PER of 8.0x. We would argue that given its strong balance sheet, attractive long-term geographical coverage and innovative products, Bekaert deserves to trade at least in line with its cyclical peers. We therefore initiate coverage with a **BUY** rating and a €48 TP, targeting a 2009F PER of 8.0x. Our target price implies a 37% discount to our DCF value, which assumes a long-term EBIT margin of 8.0%, a WACC of 9.5% and a long-term growth rate of 2.0%.

Risks

The main risk is the limited short-term visibility. Coming quarters could even disappoint on our below-consensus estimates. We find comfort, however, in the fact that in 2001, Bekaert reported a 2.3% sales increase and a 330bp EBIT margin decline including non-recurring elements (vs our forecast of a 370bp margin decline in 2009F, excluding non-recurring elements). In addition, the 2001 margin decline was mostly due to the European Fencing Business, which was severely hit in the 2001-02 downturn and was divested in 2005.

Triggers

An economic recovery is Bekaert's main trigger, due to its broad end-market exposure. The company's exposure to infrastructure implies that it should be one of the first to benefit from the various government stimulus plans. Bekaert is due to publish its 2008 results on 13 March.

Valuation

Initiating coverage with a BUY rating and a €48 TP, targeting a 2009F PER of 8.0x

Bekaert currently trades at a 2009F PER of 6.4x on our 17%-below-consensus estimates (vs 5.5x on consensus). In the past 15 years, the company has been trading at 12-month-forward PERs of between 8.0x and 22.0x. On consensus estimates, the Benelux cyclical stocks currently trade at a 2009F PER of 8.0x. We would argue that given its strong balance sheet, attractive long-term geographical coverage and innovative products, Bekaert deserves to trade at least in line with its cyclical peers. We therefore initiate coverage with a **BUY** rating and a €48 TP, targeting a 2009F PER of 8.0x. Our target price implies a 37% discount to our DCF value, which assumes a long-term EBIT margin of 8.0%, a WACC of 9.5% and a long-term growth rate of 2.0%.

In-line share price performance

Fig 1 Bekaert: Share price performance



Source: Factset

In-line share price performance

Due to the surprisingly strong numbers reported by Bekaert in the first nine months of 2008, the shares outperformed the market by 50% until August 2008. At the beginning of September, the market started to anticipate that macro headwinds would affect 4Q08 and 2009 numbers and since then the shares have underperformed the market. On a one-year basis, Bekaert's share price performance is in line with the BEL 20.

Target 12-month-forward PER of 8.0x

Fig 2 Bekaert: 12-month-forward PER



Source: Factset

Bekaert has no listed peers with similar geographical and product scope. Xingda is a competitor in the Chinese steel cord market (targeting the Chinese radial tyre makers), but lacks the geographical and product scope to qualify as suitable peer for Bekaert, in our view. Hence, we refrain from making a peer group valuation, and base our target multiple on Bekaert's historical trading multiples.

A 12-month-forward PER of 8.0x seems an appropriate bear market multiple

The company currently trades at a 12-month-forward PER of 6.4x, below the 2001-02 trough multiple of 8.0x. Since 2001-02, however, Bekaert has divested its low-growth, low-margin European fencing business (2004 consolidated sales of €454m) in 2005 and increased its higher-margin products for the utilities sector from 3% to 16% of combined sales. In terms of geographies, Bekaert has shifted production from 65% mature markets/35% emerging markets in 2002 to the opposite situation in 2008, linking production capacity to future growth potential.

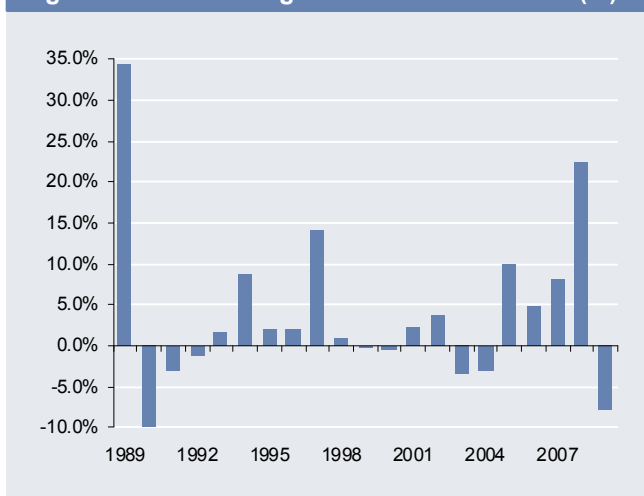
In addition, Bekaert trades below the current Benelux cyclical average 12-month-forward PER multiple of 8.0x. We would argue that the company deserves a premium, given its market leadership, smart geographical mix, focus on R&D and solid financial position.

Figure 2 suggests that a 12-month-forward PER of 8.0x is an appropriate bear market multiple, in our view. Hence, we apply this as our target multiple. Based on our 2009F adjusted EPS forecast of €6.0, we thus set our target price at €48.

We admit that a 12-month-forward target PER multiple of 8.0x is substantially below the historical average of 12.0x, meaning that our target multiple might seem conservative. However, we see few short-term triggers that would justify a quick mean reversion. If and when the economy shows signs of recovery, we would expect multiple expansion for Bekaert.

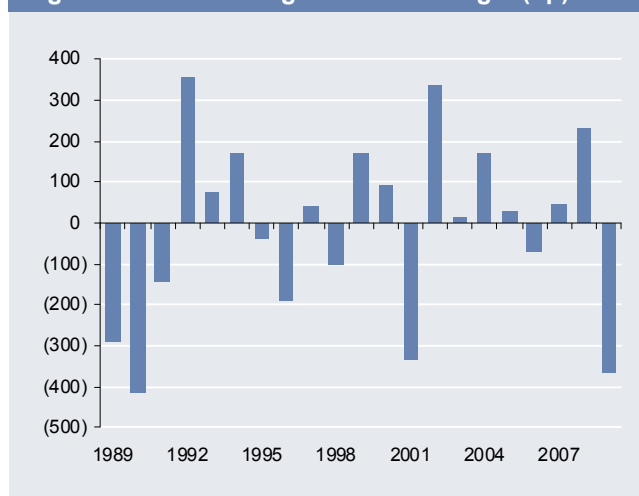
Key EPS assumptions in a historic context

Fig 3 Bekaert: Change in consolidated sales (%)



Source: Company data, ING estimates

Fig 4 Bekaert: Change in REBIT margin (bp)



Source: Company data, ING estimates

We expect adjusted EPS to decline 49% to €6.0 in 2009F. Key assumptions include a 14% decline in organic consolidated sales (resulting in an 8% decline in consolidated sales, due to consolidation and exchange-rate effects) and a 370bp decline in REBIT margin. Figures 3 and 4 suggest that our sales and margin assumptions are sufficiently cautious from a historical perspective. In 2001, Bekaert's sales actually increased (and were not distorted by consolidation or exchange-rate effects), and the EBIT margin declined 330bp including non-recurring elements. In addition, the 2001 margin decline was mostly due to the European fencing business, which was severely hit by the 2001-02 downturn and was divested in 2005.

DCF valuation suggest a €76 fair value

In times of almost unprecedented market volatility, we refrain from valuing (cyclical) companies using DCF. Nevertheless, we include our DCF model for information purposes.

Fig 5 Bekaert: DCF valuation (€m)

| | 2008F | 2009F | 2010F | 2011F | 2012F | 2013F | 2014F | 2015F | 2016F | 2017F | 2018F |
|--|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------------------|--------------|--------------|
| Turnover | 2,663.0 | 2,451.6 | 2,500.6 | 2,550.6 | 2,601.7 | 2,653.7 | 2,706.8 | 2,760.9 | 2,816.1 | 2,872.4 | 2,929.9 |
| %ch | | -7.9 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| EBIT | 239.3 | 162.0 | 184.1 | 204.1 | 208.1 | 212.3 | 216.5 | 220.9 | 225.3 | 229.8 | 234.4 |
| % margin | 9.0 | 6.6 | 7.4 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 |
| -Tax | (51.4) | (36.5) | (43.3) | (51.0) | (52.0) | (53.1) | (54.1) | (55.2) | (56.3) | (57.4) | (58.6) |
| % tax rate | 21.5 | 22.5 | 23.5 | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 |
| NOPLAT | 187.9 | 125.6 | 140.8 | 153.0 | 156.1 | 159.2 | 162.4 | 165.7 | 169.0 | 172.3 | 175.8 |
| + Depreciation | 159.9 | 165.0 | 165.0 | 150.0 | 145.0 | 140.0 | 138.0 | 140.7 | 143.5 | 146.4 | 149.3 |
| - Investments in fixed assets | (250.0) | (200.0) | (150.0) | (130.0) | (132.6) | (135.3) | (138.0) | (140.7) | (143.5) | (146.4) | (149.3) |
| Total net investments in fixed assets | (90.1) | (35.0) | 15.0 | 20.0 | 12.4 | 4.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Investments in working capital | (136.9) | 50.2 | (11.6) | (11.9) | (12.1) | (12.3) | (12.6) | (12.8) | (13.1) | (13.4) | (13.6) |
| = Free cash flow | -39.1 | 140.7 | 144.2 | 161.2 | 156.4 | 151.6 | 149.8 | 152.8 | 155.9 | 159.0 | 162.2 |
| %ch YoY | - | N/M | 2.5 | 11.8 | -3.0 | -3.1 | -1.2 | 2.0 | 2.0 | 2.0 | 2.0 |
| Discount factor | 1.00 | 0.91 | 0.83 | 0.76 | 0.70 | 0.64 | 0.58 | 0.53 | 0.48 | 0.44 | 0.40 |
| Present value of free cash flow | (39.1) | 128.5 | 120.3 | 122.8 | 108.8 | 96.4 | 87.0 | 81.0 | 75.5 | 70.3 | 65.5 |
| Cumulative present value of free cash flow | 916.9 | | | | | | | | | | |
| + Present value of terminal value | 891.9 | | | | | | | | | | |
| = Enterprise value | 1,808.8 | | | | | | | | | | |
| - Net financial debt | (498.0) | | | | | | | | | | |
| - Minorities | (48.0) | | | | | | | | | | |
| - Other LT liabilities | (203.0) | | | | | | | | | | |
| + Associates (estimated value) | 261.0 | | | | | | | | | | |
| + Other LT assets | 32.5 | | | | | | | | | | |
| = Theoretical market capitalisation | 1,353.2 | | | | | | | | | | |
| Number of shares (m) | 19.8 | | | | | | | | | | |
| Equity value/share (€) | 68.4 | | | | | | | | | | |
| 1-year forward TP (€) | 75.6 | | | | | | | | | | |
| | | | | | | | | | Assumptions | | |
| | | | | | | | | | Gearing (%) (net debt part) | 20.0 | |
| | | | | | | | | | Tax rate (%) | 25.0 | |
| | | | | | | | | | Cost of debt before tax (%) | 7.0 | |
| | | | | | | | | | Cost of Debt after tax (%) | 5.25 | |
| | | | | | | | | | Risk free 10Y (%) | 4.5 | |
| | | | | | | | | | Risk premium (%) | 5.5 | |
| | | | | | | | | | Beta | 1.10 | |
| | | | | | | | | | Cost of equity (%) | 10.6 | |
| | | | | | | | | | WACC (%) | 9.49 | |

Source: ING estimates

We have used the following assumptions:

- A 7.9% sales decline in 2009F and sales growth of 2.0% thereafter. Long-term sales growth company guidance is GDP+.
- The EBIT margin declining from 9.0% in 2008F to 6.6% in 2009F. An EBIT margin of 8.0% as of 2011F. Long-term EBIT margin company guidance is for 7-9%. Note that long-term guidance was set in 2002, when the actual EBIT margin amounted to 3.4%.
- A tax rate of 21.5% in 2008F (versus 20.7% in 1H08), increasing to 25% in 2011F, in line with long-term company guidance.
- (High) capex of €250m in 2008F (related to the expansion of tyre cord capacity in China), gradually declining to €130m (which is the average amount spent on capex in 2002-06). Note that maintenance capex guidance amounts to €80-90m.
- A WACC of 9.49%.
- An estimated value of €261m for Bekaert's joint ventures (we estimate its 2009F net share in the joint ventures at €32.6m, valued at 8x PER).

Sensitivity analysis

Fig 6 Bekaert: DCF fair value sensitivity analysis (€)

| | | Long-term growth rate | | | | | | |
|-----------------------|-------|-----------------------|------|------|------|------|-------|-------|
| | | 0.0% | 0.5% | 1.0% | 1.5% | 2.0% | 2.5% | 3.0% |
| Long-term EBIT margin | 10.0% | 86.7 | 89.7 | 92.9 | 96.1 | 99.4 | 102.9 | 106.4 |
| | 9.0% | 76.2 | 78.9 | 81.7 | 84.5 | 87.5 | 90.6 | 93.8 |
| | 8.0% | 65.7 | 68.0 | 70.5 | 73.0 | 75.6 | 78.3 | 81.1 |
| | 7.0% | 55.1 | 57.2 | 59.3 | 61.5 | 63.7 | 66.0 | 68.4 |
| | 6.0% | 44.6 | 46.3 | 48.1 | 49.9 | 51.8 | 53.8 | 55.8 |
| | 5.0% | 34.1 | 35.5 | 36.9 | 38.4 | 39.9 | 41.5 | 43.1 |
| | 4.0% | 23.6 | 24.6 | 25.7 | 26.8 | 28.0 | 29.2 | 30.4 |

Source: ING estimates

Figure 6 provides a sensitivity analysis of the Bekaert DCF value to various long-term growth rate and EBIT margin assumptions. Our DCF model suggests that the current share price implies a 0% long-term growth rate and a 5.5% long-term EBIT margin. Recall that Bekaert's long-term EBIT margin guidance range is 7-9%. As such, this sensitivity analysis supports our positive stance on the Bekaert shares.

Company profile

Introduction

Bekaert is an international group, headquartered in Belgium. Core competences are advanced metal transformation, advanced materials and coatings. This unique combination of competences is Bekaert's key strength.

Unique competence to transform wire rod into (coated) steel cable and cord

Bekaert's basic raw material is wire rod, steel wire about the thickness of a finger, which it converts by mechanical deformation and heat treatment into wires that can be as fine as one-fiftieth of the thickness of a human hair. These wires are then turned into cable and cord, woven or knitted into cloth, or processed into ultra-fine filters and fibres, for a wide range of industrial applications in virtually all sectors of the economy but mainly in the automotive (31% of sales), infrastructure (23%) and utilities (16%) sectors (see Figure 7).

Combined sales of €4.0bn

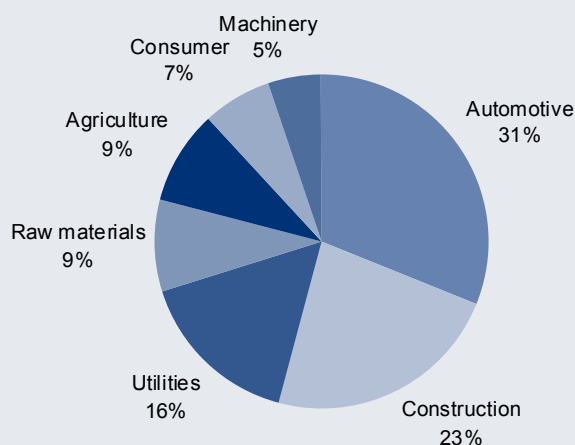
Bekaert reported 2008 combined sales (ie, sales of consolidated companies +100% of sales of joint ventures and associates after intercompany elimination) of €4.0bn and is expected to report a net result of €194m. The company currently employs c.23,000 people and is organised into three business segments: advanced wire products, advanced materials and advanced coatings.

Sales breakdown per sector

Bekaert is mainly exposed to automotive, construction and utilities

Bekaert's products are used in sectors right across the economy (see Figure 7). This diversification is an advantage as it makes Bekaert less sensitive to sector-specific trends. Bekaert is mainly exposed to the automotive (31% of combined sales), construction (23%) and utilities sectors (16%).

Fig 7 Bekaert: Sales breakdown per end-market sector, 3Q08



Source: Company data (combined sales)

Automotive (31% of sales)

75% replacement

The replacement market accounts for 75% of sales in this sector. Bekaert produces steel cord for reinforcement of radial tyres for cars and trucks, and numbers virtually all the international tyre manufacturers among its customers. Bekaert is mainly geared to the Chinese tyre market, which is: (1) a growing market (Chinese GDP is expected to rise 7.5% in 2009F); (2) a market with a low radialisation rate of truck tyres (currently

65% but expected to increase to 100%, in line with mature markets); and (3) a market that is expected to gain international market share via the production of high-quality, low-cost truck tyres (at a price comparable with the cost of retreading). Bekaert also supplies customers in the automotive sector with specialised wire products, including spring wires, fine cable wires, welding wires, wires for windshield wiper arms, cables for side-window systems and wire for seat heating elements.

Construction (23% of sales)

Mainly infrastructure

Bekaert also has a strong presence in the construction sector, with products such as Dramix steel fibres for concrete reinforcement, which are typically used in the infrastructure business (tunnels, bridges, etc). Bekaert also produces strands and wires for pre-stressed concrete elements, plastering mesh, corner beads and cables for applications in elevators and other machinery.

Utilities (16% of sales)

Growth driver

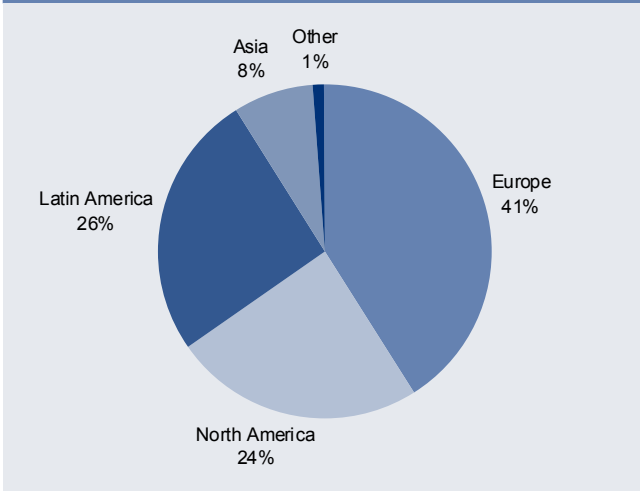
Bekaert is a major supplier to the telecommunications, submarine energy transmission, green energy, mining, and oil & gas production segments, to which it offers reinforcing wire for cables and flat and profiled wire for flexible pipes, sawing wire, and wires for hoisting. Bekaert’s product portfolio for utilities is one of its key growth drivers. As a percentage of sales, utilities has increased from 3% in 2001-02 to 16% in 3Q08, and Bekaert has reported that demand was even sustained in 4Q08.

Sales breakdown per geography

Centre of gravity has shifted towards emerging markets

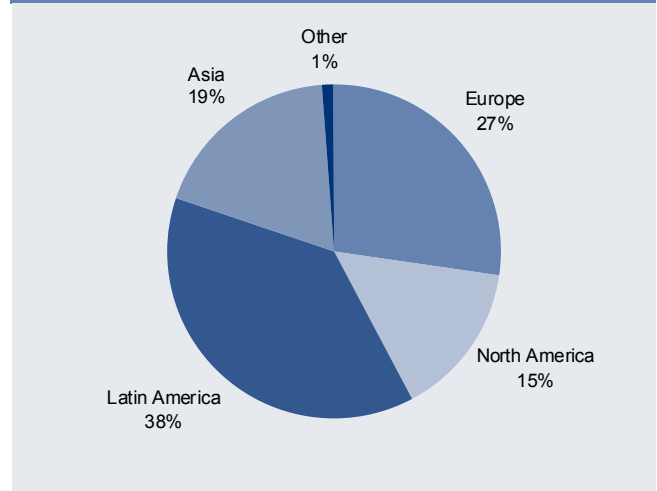
Bekaert constantly aligns its product platform to customer demand and market trends. Hence, the company’s geographical coverage has changed significantly. Over the past few years, the centre of gravity has shifted from Europe and North America towards Latin America and Asia (see Figures 8 and 9). Emerging markets today account for more than 50% of combined sales. We see Bekaert’s global presence, close to its customers, as a key strategic element.

Fig 8 Bekaert: Geographical sales breakdown, 2002



Source: Company data (combined sales)

Fig 9 Bekaert: Geographical sales breakdown, 2008



Source: Company data (combined sales)

Sales breakdown per segment

Bekaert also provides a sales breakdown per segment. However, given that 92% of sales are reported under Advanced Wire Products, this breakdown does not provide much insight.

From very high-tensile wires to ultra-thin metal fibres

Advanced wire products (92%)

Bekaert produces a wide range of advanced wire products, which find application in many sectors. Steel wires of various grades and in various forms are used in a variety of applications meeting many different product specifications. The product range runs from very high-tensile wires to ultra-thin metal fibres of 1 micron. The development of wires with higher tensile strength allows thinner wires to be used without compromising flexibility. High-tensile wires are bunched into steel cord.

Environmentally friendly filters, gas burners and combustion systems

Advanced materials (5%)

The advanced materials segment, based on stainless steel, covers applications such as fibre and combustion technologies. On the basis of its expertise, the company uses ultra-thin Bekaert metal fibres to produce environmentally friendly filters, gas burners and combustion systems for both residential and industrial applications. It also develops products for other applications in textiles and in conductive plastics.

Application of coatings to various materials, mainly glass and metal

Advanced coatings (3%)

The advanced coatings segment covers industrial coatings and specialised films. Within the industrial coatings activity platform, Bekaert deploys its expertise in the application of coatings to various materials, mainly glass and metal. The company manufactures a range of window films for vehicles and buildings to keep out the sun's heat, filter out ultraviolet radiation and hold glass together in the event of breakage.

Strategy

Sustainable profitable growth

Bekaert's long-term strategic objective since 2002 has been sustainable profitable growth. The company pursues this objective through:

Market leadership

- Global market leadership (funding R&D requires high volumes). Bekaert is currently global market leader for its two key products: steel cord for radial tyre reinforcement and Dramix.

Technological leadership

- Technological leadership (Bekaert invests 3% of sales in R&D and currently holds over 2,000 patents; innovation often occurs in collaboration with customers). High-added-value products are a safeguard for the future.

Operational excellence

- Operational excellence (prerequisite for global market leadership and technological leadership).

Joint ventures

- Selected acquisitions and joint ventures, to gain faster access to new markets, activities and/or technologies. Examples include a joint venture with Mukand (India), investments in China and the consolidation exercise in Latin America (Venezuela and Colombia).

Management

CEO Bert De Graeve

Relatively high variability in remuneration

Bert De Graeve started his career in 1980 with Arthur Andersen & Co. He joined Alcatel Bell in 1982 as Asset and Tax Manager. He became Financial Manager of Bell Subsidiaries in 1988 and General Manager of Shanghai Bell Telephone Equipment Mfg. Cy in Shanghai in 1991. In 1994, he was appointed Vice President, Director Operations, Alcatel Trade International in Paris and in 1996 as Director International Affairs, Alcatel Alsthom in Paris. In 1996, he transferred to the Flemish Public Radio & TV Broadcaster (VRT) and became its Managing Director. In 2002, he left to join Bekaert where he took up the roles of Chief Financial and Administration Officer and

General Secretary. Mr De Graeve was appointed CEO of Bekaert in May 2006. He has a Masters degree in Law from the University of Gent (1980). He also studied Financial Management at IPO (Antwerp) and has a Masters in Tax Management from VLEKHO (Brussels). The level of variability in Mr De Graeve's remuneration is relatively high. In 2007, he received €639,725 in fixed remuneration, €500,000 in variable remuneration, €161,970 in other contractual remuneration and 7,500 stock options.

CFO Bruno Humblet

Bruno Humblet started his career as a business analyst at Procter & Gamble in 1989. Prior to joining Bekaert, he built up 17 years of international finance and business experience in different areas, including supply chain management, international market analysis, information systems, audit and treasury. In 2000, he was appointed Director of Finance for the European household care business in Switzerland. In 2002, he became Director of Internal Audit and he was named Director of Treasury (Europe, Middle East, Africa) in 2004. He joined Bekaert as Chief Financial Officer and member of the Bekaert Group Executive in October 2006. From November 2006, he took on additional responsibility for the Specialized films activity platform. Mr Humblet holds a Commercial Engineering degree from the Solvay Business School of the Brussels University and a CIA certification (2001).

Shareholders

Fig 10 Bekaert: Principal shareholders

| | Number of shares | % of total number of issued shares |
|--|------------------|------------------------------------|
| Stichting Administratiekantoor Bekaert | 7,604,621 | 38.44 |
| SA Subeco | 52,600 | 0.27 |
| SA Berfin | 30,640 | 0.15 |
| Millennium 3 SA | 30,000 | 0.15 |
| Velge & Co, in liquidation | 19,000 | 0.10 |
| Non free-float subtotal | 7,736,861 | 39.11 |
| AXA SA | 598,821 | 3.03 |
| Total declarations | 8,335,682 | 42.13 |

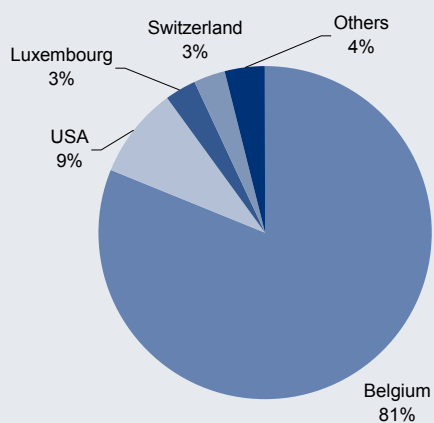
Source: Company data

Bekaert has a total of 19,783,625 shares in issue (or 20,060,603 on a fully diluted basis). The Stichting Administratiekantoor Bekaert acts in concert with the companies Velge & Co, in liquidation, SA Berfin, SA Subeco and Millennium 3 SA. As such, the free float amounts to 60.9%.

The nationality of institutional shareholders has changed substantially

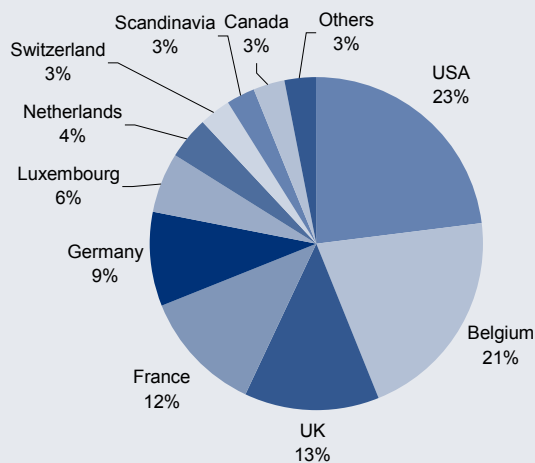
Over the past few years, the nationality of the institutional shareholders in Bekaert has changed substantially. While 81% of institutional shareholders in 2001 were Belgian, this percentage had declined to 21% by 2007 (see Figures 11 and 12). As a consequence, we believe the company currently has more 'lively' shareholders.

Fig 11 Bekaert: Institutional shareholders, 2001



Source: Company data

Fig 12 Bekaert: Institutional shareholders, 2007



Source: Company data

Risks

Short-term visibility

The main risk is the limited short-term visibility. Bekaert is a cyclical company by nature, but coming quarters could even disappoint on our below-consensus estimates, due to the current economic crisis. We find comfort, however, in the fact that in 2001, Bekaert's reported a 2.3% sales increase and a 330bp EBIT margin decline including non-recurring elements (vs our 2009F 370bp margin decline forecast excluding non-recurring elements). In addition, the 2001 margin decline was mostly due to the European fencing business, which was severely hit in the 2001-02 downturn and was divested in 2005.

Raw material prices

During 2008, Bekaert was able to pass on higher raw material prices. We would not rule out the possibility of Bekaert facing difficulties if raw material prices increase during the economic downturn. That said, raw material prices and the economy tend to move in the same direction.

Exchange rates

Bekaert has important sales and production facilities outside Europe and therefore has a natural currency hedge. Still, the company faces translation risk, which is not hedged.

Increasing competition

The company flagged in its 2007 annual report that it saw increased competition for advanced wire products in Brazil and Chile and industrial and high carbon wire in Europe.

Ongoing need to streamline operations

Since 2002, Bekaert has been constantly downsizing operations in mature markets and investing in emerging markets. The company is expected to continue to do so for the foreseeable future. As the latter entails restructuring charges, we expect the company to report €15m in non-recurring charges on an annual basis.

Exceptional first nine months of 2008

In the first nine months of 2008, Bekaert's consolidated sales increased 28.8%, driven by organic growth (+24.7%), the consolidation of Vicson and Proalco in Latin-America (+7.9%) and exchange-rate fluctuations (-3.8%). The organic growth mainly reflected the passing-on of wire rod price increases from US\$500-600/ton at end-2007 to US\$1,100-1,200/ton in mid-2008 and an improved product mix. In 1H08, the EBIT margin jumped 310bp to 11.2% due to operational gearing. 1H08 EPS increased 77.2% to €6.40.

Strong sales growth

28.8% consolidated sales growth

In the first nine months of 2008, Bekaert reported a 28.8% increase in consolidated sales to €2.05bn and a 24.0% increase in combined sales (ie, sales of consolidated companies + 100% of sales of joint ventures and associates after intercompany elimination) to €3.1bn.

24.7% organic sales growth...

The consolidated sales growth was 24.7% from organic growth, largely driven by passed-on raw material price rises, and 7.9% from the net movement in acquisitions and divestments in Vicson (Venezuela) and Proalco (Colombia). Fluctuations in several exchange rates tempered the growth by 3.8%.

From a segmental perspective, Bekaert reported a strong 26.7% growth in advanced wire products combined sales.

Fig 13 Bekaert: Consolidated and combined sales by segment, 9M08 (€m)

| | Consolidated sales | %ch | Combined sales | %ch |
|-------------------------------|--------------------|-------------|----------------|-------------|
| Advanced wire products | 1,802.0 | 34.3 | 2,882.0 | 26.7 |
| Advanced materials | 145.0 | -3.6 | 145.0 | -3.6 |
| Advanced coatings | 93.0 | 0.7 | 93.0 | 0.7 |
| Intersegment sales and others | 7.0 | | -1.0 | |
| Total | 2,047.0 | 28.8 | 3,119.0 | 24.0 |

Source: Company data

... driven by Advanced Wire Products

A sales growth breakdown by activity platform confirmed that emerging markets were the largest growth engine for Advanced Wire Products in the first nine months of 2008.

Fig 14 Bekaert: Combined sales by activity platform (%)

| Advanced wire products | 26.7 |
|------------------------------|-------|
| Wire Europe | 15.0 |
| Wire North America | 19.0 |
| Wire Latin America | 31.0 |
| Wire Asia | 81.0 |
| Building products | 31.0 |
| Steel cord China | 80.0 |
| Steel cord others | 3.0 |
| Other advanced wire products | -22.0 |

Source: Company data

The key driver was the 80% increase in **steel cord in China**. Demand for steel cord in China was mainly driven by a strong increase in demand for steel cord to reinforce radial tyres. Bekaert's steel cord supply has been supported by major capex efforts

since 2006. The company increased its steel cord capacity from 250kt at the end of 2007 to 300kt at the end of 1H08.

The other emerging markets also performed very strongly. **Wire Asia's** combined sales increased 81%, due to newly launched galvanised steel wire production in Indonesia, mainly used for binding pulp bales used by the local paper industry. **Wire Latin America's** combined sales grew 31% thanks to the success of Bekaert's joint ventures (particularly in Brazil and Chile) in marketing the complete range of wire products (from commodity products to high-value-added nylon-coated wires) via strong local partners. Key products for Bekaert in Latin America are fencing wire and mattress spring wire.

Furthermore, **Building Products'** sales increased a very solid 31%, driven by the success of Dramix (concrete reinforcement) in regions enjoying an infrastructure boom such as Asia and the Middle East.

Wire Europe also reported very comfortable 15% sales growth, mainly thanks to the emerging economies of Slovakia and the Czech Republic (mainly industrial wires).

Fig 15 Bekaert: Combined sales by geographical area, 9M08 (€m)

| | Combined sales | %ch |
|---------------|----------------|-------------|
| Europe | 862.0 | 8.6 |
| North America | 453.0 | 9.0 |
| Latin America | 1,187.0 | 31.3 |
| Asia | 582.0 | 60.0 |
| Other regions | 35.0 | -7.0 |
| Total | 3,119.0 | 24.0 |

Source: Company data

... and emerging markets

From a geographical perspective, the combined sales figures are the most relevant. The company reported very strong growth in Latin America (+31.3% YoY) and Asia (+60.0% YoY). The two regions together now account for the majority (57%) of Bekaert's sales.

Margin growth via innovation

Fig 16 Bekaert: 1H08 results

| | 1H07 | 1H08 | %ch |
|--|----------------|----------------|-------------|
| Sales | 1,061.7 | 1,302.8 | 22.7 |
| REBITDA | 148.7 | 242.7 | 63.2 |
| Margin (%) | 14.0 | 18.6 | |
| REBIT | 90.3 | 162.8 | 80.3 |
| Margin (%) | 8.5 | 12.5 | |
| EBIT | 86.5 | 145.3 | 68.0 |
| Margin (%) | 8.1 | 11.2 | |
| Interest income | 0.9 | 2.4 | |
| Interest expenses | (17.3) | (19.6) | |
| Other financial result | 0.1 | (5.2) | |
| PBT | 70.2 | 122.9 | 75.1 |
| Income taxes | (15.0) | (25.5) | |
| Tax rate (%) | 21.4 | 20.7 | |
| Result continuing operations (consol) | 55.2 | 97.4 | 76.4 |
| Share in the joint ventures | 23.4 | 35.7 | 52.6 |
| Result continuing operations | 78.6 | 133.1 | 69.3 |
| Result discontinued operations | 0.0 | 0.0 | |
| Result for the period | 78.6 | 133.1 | 69.3 |
| Attributable to: | | | |
| The Group | 72.8 | 126.0 | 73.1 |
| Minority interests | 5.8 | 7.1 | |

Source: Company data

***Historical high REBIT
margin of 12.5%...***

Bekaert posted 1H08 REBIT of €163m. This equated to a historical high REBIT margin of 12.5%, compared with 8.5% in 1H07. EBIT amounted to €145m, representing an EBIT margin of 11.2% compared with 8.1% last year.

***... due to major
investments in R&D***

The improvement in margin was due to major investments in R&D, allowing the company constantly to renew/upgrade its product portfolio. Bekaert took maximum advantage of growth sectors such as submarine energy transmission, green energy (mainly solar), mining, telecommunications, and the oil & gas industry.

Non-recurring items included provisions for the restructuring of the Belgian operations' footprint, environmental liabilities and the partial goodwill impairment of Solaronics.

Taxes amounted to €25.5m, versus €15m in 1H07, implying a tax rate of 20.7%.

The share in the results of joint ventures and associated companies amounted to €35.7m, in spite of the transfer of Vicson and Proalco to full consolidation. This represented a growth rate of 53% versus 1H07.

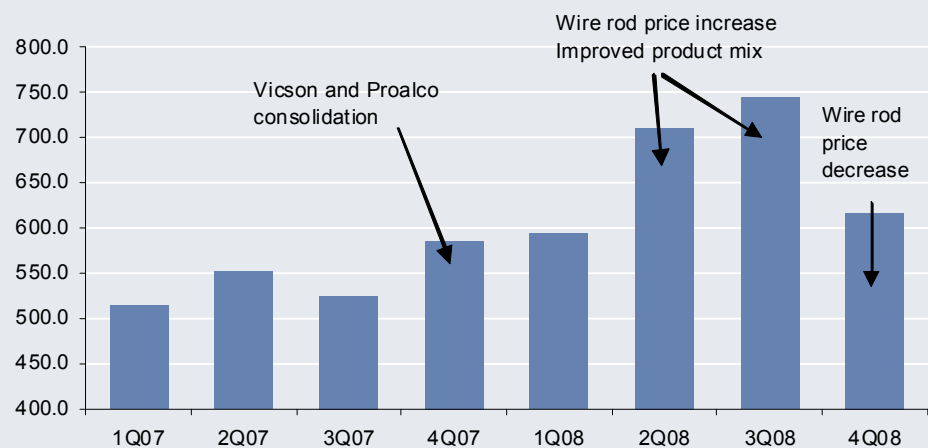
The 1H08 net result was €133m, compared with €78.6m in 1H07. After minority interests (€7m versus €6m in 1H07), the result for the period attributable to the group was €126m, up 73%.

Cyclical downturn as of 4Q08

Flat organic consolidated sales in 4Q08...

Bekaert reported 4Q08 consolidated sales up 5% YoY at €616m (implying a 17.2% decline QoQ), driven by flat organic consolidated sales, no further impact from Vicson and Proalco (consolidated as of 4Q07) and a 5% increase from exchange-rate fluctuations. 4Q08 organic consolidated sales remained flat due to normalised wire rod prices (back down to c.€550/ton). We believe the impact of the improved product mix was wiped out by volume declines.

Fig 17 Bekaert: Quarterly consolidated sales progression (€m)



Source: Company data

Flat organic consolidated sales

... mainly due to lower raw material prices

Organic consolidated sales remained flat in 4Q08, versus an increase of 24.7% (or €385m) in the first nine months of 2008, due to normalised wire rod prices (back down to c.€550/ton) and the impact of improved product mix being wiped out by volume declines.

Wire rod prices back down to c.€550/ton

Fig 18 Western Europe export wire rod (mesh) (€/t)



Source: Metal Bulletin

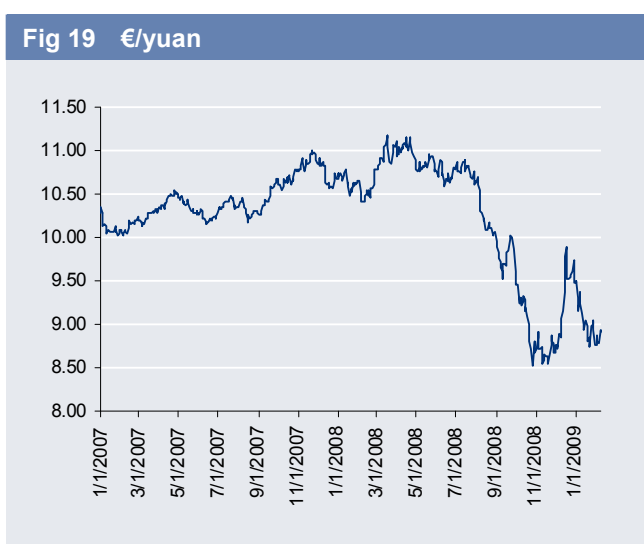
Wire rod (raw material) typically accounts for 40% of Bekaert's direct costs. The company has a cost-plus model, and negotiates wire rod prices on a quarterly basis. In the first nine months of 2008, wire rod prices increased from €600/t to €1,200/t in mid-2008 and Bekaert was able to pass these increases on to customers. As Figure 18 shows, wire rod prices came back down to about €550/t in 4Q08.

Impact of improved product mix wiped out by volume declines

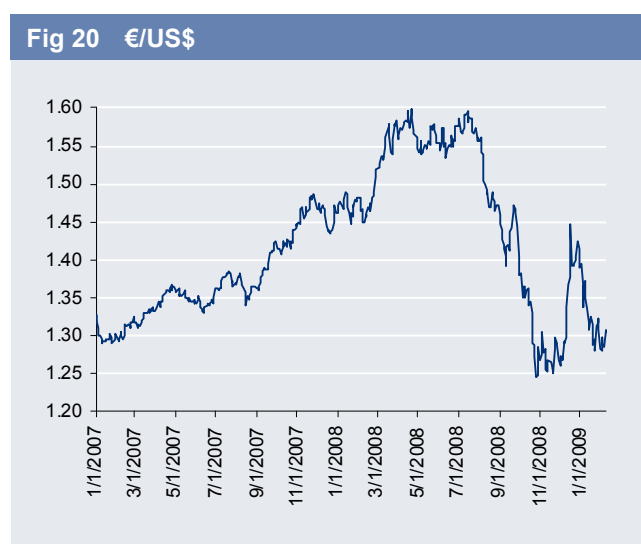
Impact of improved product mix wiped out by volume declines

Bekaert reported that market demand for innovative products with high added value was sustained throughout the year, and added that this particularly applied to advanced wire products for the utilities sector. We estimate the impact of the improved product mix at 5%. Hence, we estimate that volumes had a 5% negative impact on organic consolidated sales in 4Q08.

Positive impact of stronger yuan and US\$



Source: Factset



Source: Factset

Exchange rates had a 5% positive impact on sales in 4Q08

In 2008, 29% of consolidated sales originated from Asia (mainly China) and 21% from North America. Given the appreciation of both currencies versus the euro in 4Q08F, we estimate the latter had a 5% positive impact on consolidated sales in the last quarter.

Bekaert's key 2H08 estimates

2008F adjusted EPS expected up 45% to €11.85

For 2008F, we expect adjusted EPS up 46% to €11.85, broadly in line with consensus. 2008F reported EPS should rise 29% to €9.84, down sharply on 1H08's 77.2% increase. Key margin assumptions for 2H08F are:

- A gross margin assumption of 20% (vs 23.5% in 1H08), in line with 2007 levels (due to similar raw material prices).
- SG&A at €65m (in line with 1H08).
- Depreciation at €80m (in line with 1H08)
- €33m in non-recurring losses (including a €23m restructuring charge for the closure of the Hemiksem plant (264 employees)).

Fig 21 Bekaert: Key 2H08F and 2008F estimates

| | 1H07 | 2H07 | 1H08 | 2H08F | 2007 | 2008F |
|-----------------------|---------|---------|---------|---------|---------|---------|
| Consolidated sales | 1,065.0 | 1,109.0 | 1,303.0 | 1,360.0 | 2,174.0 | 2,663.0 |
| %ch | | | 22.3 | 22.6 | 8.2 | 22.5 |
| Gross profit | 214.0 | 220.0 | 306.8 | 272.0 | 434.0 | 578.8 |
| Gross margin (%) | 20.1 | 19.8 | 23.5 | 20.0 | 20.0 | 21.7 |
| REBITDA | 148.7 | 161.6 | 242.7 | 207.0 | 310.3 | 449.7 |
| REBITDA margin (%) | 14.0 | 14.6 | 18.6 | 15.2 | 14.3 | 16.9 |
| REBIT | 90.3 | 100.3 | 162.8 | 127.0 | 186.4 | 289.8 |
| REBIT margin (%) | 8.5 | 9.0 | 12.5 | 9.3 | 8.6 | 10.9 |
| Non-recurring | (3.8) | (7.9) | (17.5) | (33.0) | (11.7) | (50.5) |
| EBIT | 86.5 | 92.4 | 145.3 | 94.0 | 174.7 | 239.3 |
| EBIT margin (%) | 8.1 | 8.3 | 11.2 | 6.9 | 8.0 | 9.0 |
| Net financing charges | (16.3) | (31.1) | (22.4) | (25.0) | (41.0) | (47.4) |
| PBT | 70.2 | 61.3 | 122.9 | 69.0 | 133.7 | 191.9 |
| Taxes | (15.0) | (4.0) | (25.5) | (15.8) | (19.0) | (41.3) |
| Tax rate (%) | 21.4 | 6.5 | 20.7 | 22.8 | 14.2 | 21.5 |
| Share in JVs | 23.4 | 23.6 | 35.7 | 20.4 | 47.0 | 56.1 |
| Minorities | 5.8 | 2.9 | 7.1 | 5.5 | 8.7 | 12.6 |
| Net profit | 72.8 | 78.0 | 126.0 | 68.1 | 153.0 | 194.1 |
| Adj net profit | 75.8 | 85.4 | 139.9 | 93.6 | 163.0 | 233.8 |
| EPS (€) | | | | | 7.63 | 9.84 |
| %ch | | | | | | 29.0 |
| Adj EPS (€) | | | | | 8.13 | 11.85 |
| %ch | | | | | | 45.8 |

Source: Company data, ING estimates

Bottom line down sharply in 2009F

49% adjusted EPS decline expected in 2009F

We expect 2009F organic consolidated sales down 14.4% (total consolidated sales should decline 7.9% due to consolidation and currency effects), mainly reflecting lower raw material prices. We forecast a 370bp decline in the 2009F REBIT margin to 7.2% (vs a 330bp margin decline in 2001 including non-recurring elements). At the bottom line, we expect a harsh 49% adjusted EPS decline to €6.0 (17% below consensus).

Our key 2009F assumptions are:

- A 7.9% consolidated sales decline to €2,451m, due to:
 - A 14.4% decline in organic sales, due to lower raw material prices (under the assumption that wire rod prices remain at current levels), a 5% volume decline and a 5% increase from the product innovations.
 - 4.7% growth in consolidated sales, due to the consolidation of Ideal Alambrec (Ecuador) and Prodac (Peru), in which Bekaert has held an 80% stake since 1 January 2009.
 - 1.8% growth in consolidated sales due to exchange-rate effects (US\$ and yuan), under the assumption that both currencies remain at current levels versus the euro.
- A 19.5% gross margin assumption (vs 21.7% in 2008F).
- A 5.4% increase in SG&A, related to the consolidation of Alambrec and Prodac.
- A 3.2% increase in depreciation (record €250m in 2008F capex).
- A 22.5% tax rate (vs 21.5% in 2008F).

Fig 22 Bekaert: Key financials (€m)

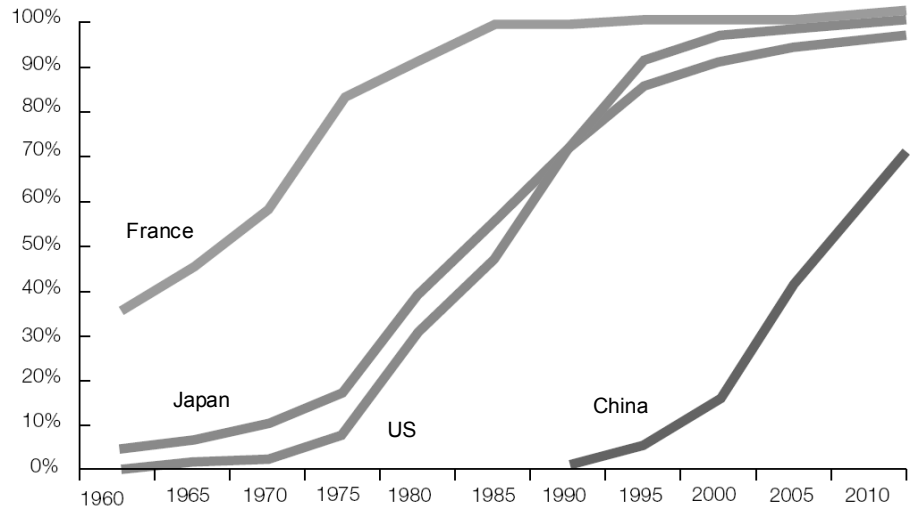
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F | 2011F |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Consolidated sales | 1,863.0 | 1,797.0 | 1,742.0 | 1,914.3 | 2,009.5 | 2,174.0 | 2,663.0 | 2,451.6 | 2,500.6 | 2,550.6 |
| %ch | | -3.5 | -3.1 | 9.9 | 5.0 | 8.2 | 22.5 | -7.9 | 2.0 | 2.0 |
| Gross profit | 373.0 | 373.0 | 401.0 | 392.0 | 395.0 | 434.0 | 578.8 | 478.1 | 500.1 | 522.9 |
| Gross margin (%) | 20.0 | 20.8 | 23.0 | 20.5 | 19.7 | 20.0 | 21.7 | 19.5 | 20.0 | 20.5 |
| REBITDA | 267.5 | 249.0 | 265.0 | 289.0 | 278.8 | 310.3 | 449.7 | 342.0 | 364.1 | 384.1 |
| REBITDA margin (%) | 14.4 | 13.9 | 15.2 | 15.1 | 13.9 | 14.3 | 16.9 | 14.0 | 14.6 | 15.1 |
| REBIT | 124.0 | 122.0 | 148.0 | 168.0 | 162.6 | 186.4 | 289.8 | 177.0 | 199.1 | 219.1 |
| REBIT margin (%) | 6.7 | 6.8 | 8.5 | 8.8 | 8.1 | 8.6 | 10.9 | 7.2 | 8.0 | 8.6 |
| Non-recurring | (60.0) | (10.0) | (9.0) | (32.0) | (16.7) | (11.7) | (50.5) | (15.0) | (15.0) | (15.0) |
| EBIT | 64.0 | 112.0 | 139.0 | 136.0 | 145.9 | 174.7 | 239.3 | 162.0 | 184.1 | 204.1 |
| EBIT margin (%) | 3.4 | 6.2 | 8.0 | 7.1 | 7.3 | 8.0 | 9.0 | 6.6 | 7.4 | 8.0 |
| Net financing charges | (130.0) | (43.0) | (21.0) | (15.0) | (31.0) | (41.0) | (47.4) | (52.5) | (49.5) | (45.9) |
| PBT | (66.0) | 69.0 | 118.0 | 121.0 | 114.9 | 133.7 | 191.9 | 109.5 | 134.6 | 158.2 |
| Taxes | 7.0 | (8.0) | (18.0) | (30.0) | (18.0) | (19.0) | (41.3) | (24.6) | (31.6) | (39.5) |
| Tax rate (%) | -10.6 | -11.6 | -15.3 | -24.8 | -15.7 | -14.2 | -21.5 | -22.5 | -23.5 | -25.0 |
| Share in JVs | 19.0 | 33.0 | 53.0 | 57.0 | 51.0 | 47.0 | 56.1 | 32.6 | 34.9 | 37.7 |
| Minorities | 6.0 | 7.0 | 12.0 | 12.0 | 4.9 | 8.7 | 12.6 | 10.8 | 12.7 | 14.4 |
| Net profit | (46.0) | 87.0 | 168.0 | 190.0 | 143.0 | 153.0 | 194.1 | 106.7 | 125.2 | 142.0 |
| Adj net profit | 14.0 | 95.8 | 175.6 | 214.1 | 157.1 | 163.0 | 233.8 | 118.3 | 136.6 | 153.2 |
| EPS (€) | (2.09) | 3.92 | 6.44 | 6.27 | 6.65 | 7.63 | 9.84 | 5.41 | 6.35 | 7.20 |
| %ch | | | 64.3 | -2.6 | 6.1 | 14.7 | 29.0 | -45.0 | 17.3 | 13.4 |
| Adj. EPS (€) | | | | | 7.31 | 8.13 | 11.85 | 6.00 | 6.93 | 7.77 |
| %ch | | | | | | 11.3 | 45.8 | -49.4 | 15.5 | 12.1 |

Source: Company data, ING estimates

Resilience

Bekaert expects resilience thanks to its flexibility to manage production capacity and capital spending in line with demand (its broad geographical coverage enables a quick response to new trends and opportunities) and does not foresee the current activity slowdown lasting on a company-wide scale. We see resilience also from tyre replacement, the infrastructure market and sustained demand for Bekaert's innovative product portfolio for utilities. Bekaert is exposed to the tyre market due to its steel cord production for radial tyre reinforcement. The tyre market is mainly a replacement market (75%), and as such is less cyclical than the OEM market. On top of this, Bekaert is mainly geared to the Chinese tyre market, which is: (1) a growing market (Chinese GDP is expected to increase 7.5% in 2009F); (2) a market with a low radialisation rate of truck tyres (currently 65% but expected to increase to 100%, in line with mature markets – see Figure 23); and (3) a market that is expected to gain international market share via the production of high-quality, low-cost truck tyres (at a price comparable with the cost of retreading). Bekaert's construction activities should also be relatively resilient, given that they are mainly linked to the infrastructure business via Dramix (for concrete reinforcement), which we do not expect to fall off a cliff due to the fact that contracts are typically large and long-term (tunnels, bridges, etc), which should be supported by various government stimulus plans (more than 50% of China's US\$586bn and roughly 11% of the US\$819bn US stimulus plans are related to infrastructure). Finally, resilience is expected due to sustained demand for Bekaert's innovative product portfolio for utilities, such as wire for flexible pipes in the offshore oil industry and sawing wire for the solar industry (16% of sales), as witnessed in 4Q08.

Fig 23 Truck tyre radialisation rates



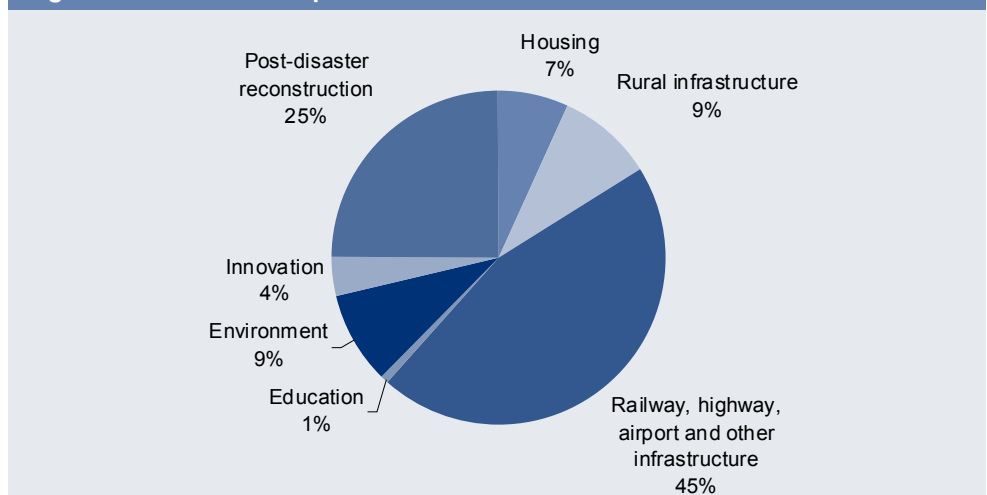
Source: Company data

China stimulus plan

US\$586bn

China announced a stimulus plan last November, which could potentially exceed US\$586bn. There are ten major measures, but the bulk of the investments are directed at accelerating the construction of railroads, highways, airports and other infrastructure. The country is also investing heavily in rebuilding earthquake-stricken areas. The US\$586bn is planned to be spread over the **next two years**, as shown in Figure 24.

Fig 24 China stimulus plan breakdown



Source: www.chinanews.com.cn

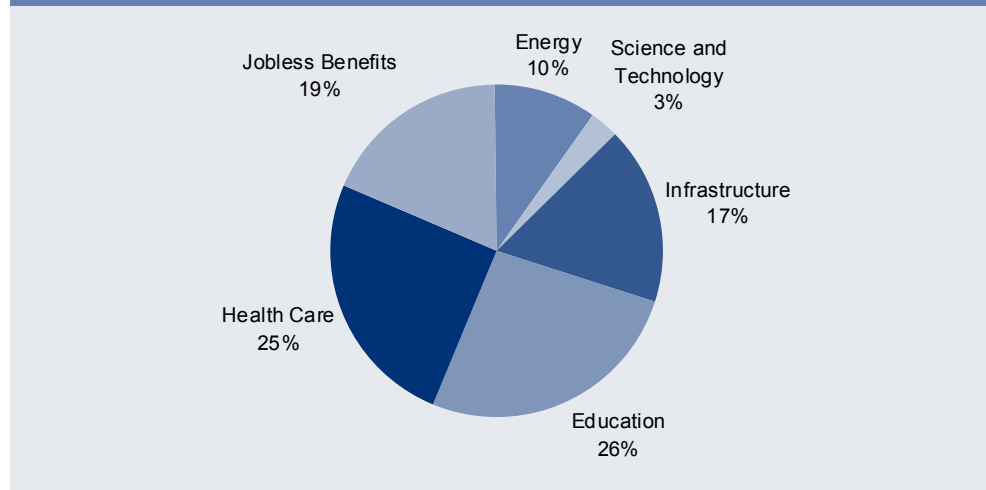
Investments in railway are the top priority. **In 2009**, the railway building plans require US\$88bn in capital construction investments. The investment needed to complete such a scale of construction requires 20m tons of steel and 120m tons of cement, and will provide 6m new jobs, which will directly increase the national GDP growth rate by 1.5%.

US stimulus plan

US\$819bn

The US House of Representatives approved an US\$819bn economic stimulus package in early 2009. The plan is a mixture of two-thirds (US\$544bn) investments in new projects and one-third (US\$275bn) tax cuts for consumers and businesses. The US\$544bn investment breakdown is as shown in Figure 25.

Fig 25 US stimulus plan: US\$544bn breakdown



Source: Reuters

Infrastructure will be a cornerstone of the stimulus plan

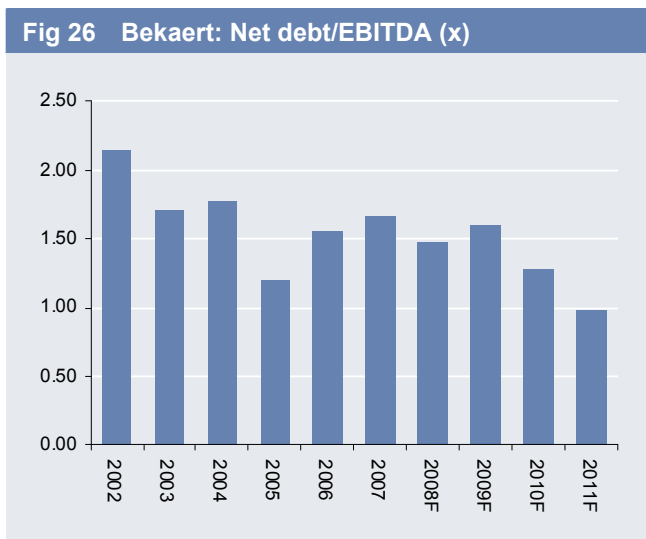
Infrastructure will be a cornerstone of this stimulus initiative. US\$93.4bn is proposed in infrastructure spending. The US Conference of Mayors has identified more than 4,500 infrastructure projects that could start immediately and could be completed by the end of 2009. The money will be directed to projects including highways and bridges, public transit, aviation, rail, federal buildings, environmental infrastructure, as well as renewable energy and energy efficiency projects. Priority will be given to 'ready-to-go' projects (short-term and immediate) that can put construction workers to work within 120 days. The detailed investment breakdown is as follows:

- US\$30bn for the modernisation of federal and public buildings: the modernisation of the electric grid, advanced battery manufacturing, energy-efficient projects.
- US\$29bn for modernising roads and bridges.
- US\$8.4bn for mass transit improvements: US\$6bn would help transit agencies purchase locomotives and buses and repair track; other funds would be used for station upgrades, security systems and computers.
- US\$8bn for high-speed rail investments.
- US\$18bn for water pollution prevention (waste-water and drinking-water treatment facilities), flood control and environmental restoration

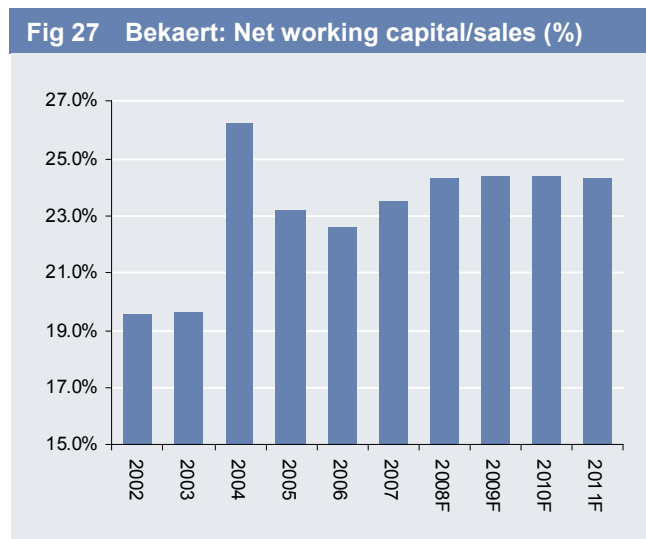
Solid financial position

Net debt/EBITDA at 1.47x

Bekaert benefits from a solid balance sheet. Net debt/EBITDA is likely to decline to 1.47x at the end of 2008 (vs 1.67x at end-2007), in spite of record capex spending and substantial shareholder rewards in recent periods.



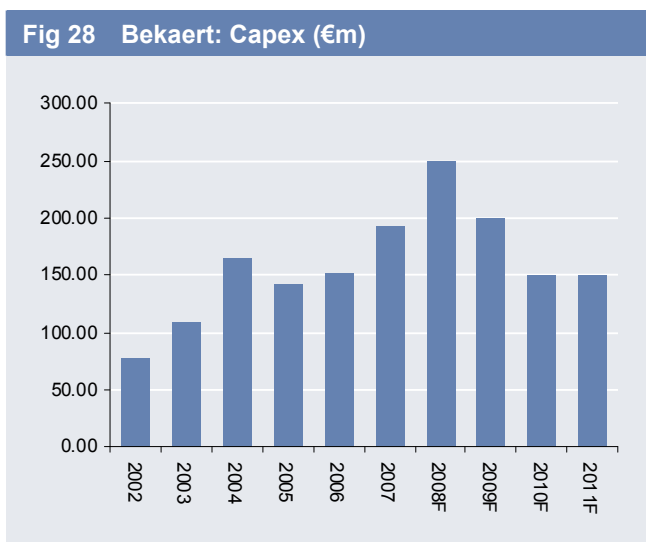
Source: Company data, ING estimates



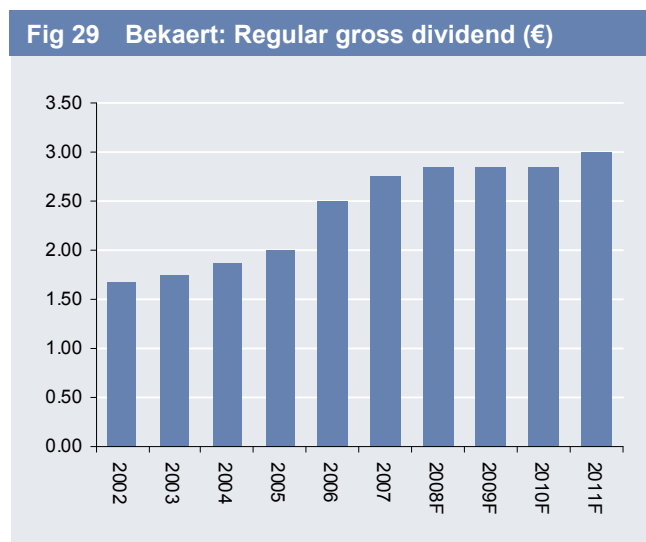
Source: Company data, ING estimates

7.4% yield

Capex amounted to €196m in 2007 and is estimated at €250m for 2008F. In addition, share buybacks and dividend payments amounted to €166m in 2007 (on our estimates) and €59m in 2008 (dividend only). Furthermore, we expect Bekaert to pay a €2.85 dividend on 2008F earnings (53% payout), which equates to a 7.4% yield.



Source: Company data, ING estimates



Source: Company data, ING estimates

For 2009F, we expect net debt/EBITDA to be maintained at current levels (INGF 1.59x), in spite of an expected 24% decline in REBITDA to €342m. The latter should be offset by a working capital inflow during 2009F related to falling prices (€50.2m) and lower capex (€200m), which should still allow Bekaert to maintain investment in long-term growth projects (maintenance capex is estimated at €80-90m). We estimate working capital as a percentage of sales to amount to 24.4% in 2009. The latter is high from a historical perspective and leaves room for improvement.

Fig 30 Bekaert: Balance sheet (€m)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F | 2011F |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Non-current assets | 1,174 | 1,181 | 1,241 | 1,247 | 1,306 | 1,336 | 1,426 | 1,461 | 1,446 | 1,431 |
| Intangible assets | 55 | 48 | 42 | 45 | 57 | 52 | 52 | 52 | 52 | 52 |
| Goodwill | 72 | 71 | 76 | 80 | 77 | 70 | 70 | 70 | 70 | 70 |
| PPE | 778 | 758 | 792 | 800 | 824 | 918 | 1,008 | 1,043 | 1,028 | 1,013 |
| Investments joint ventures | 205 | 201 | 220 | 238 | 238 | 216 | 216 | 216 | 216 | 216 |
| Other non-current assets | 54 | 88 | 93 | 68 | 91 | 75 | 75 | 75 | 75 | 75 |
| Deferred tax assets | 10 | 15 | 18 | 16 | 19 | 5 | 5 | 5 | 5 | 5 |
| Current assets | 748 | 757 | 948 | 992 | 914 | 976 | 1,227 | 1,211 | 1,302 | 1,409 |
| Inventories | 312 | 323 | 419 | 348 | 368 | 385 | 493 | 454 | 463 | 472 |
| Trade receivables | 311 | 307 | 385 | 354 | 399 | 438 | 546 | 503 | 513 | 523 |
| Other receivables | 42 | 31 | 36 | 54 | 54 | 53 | 53 | 53 | 53 | 53 |
| Short-term deposits | 20 | 31 | 42 | 91 | 29 | 15 | 15 | 15 | 15 | 15 |
| Cash and cash equivalents | 53 | 50 | 57 | 132 | 52 | 58 | 94 | 160 | 232 | 319 |
| Other current assets | 10 | 15 | 9 | 9 | 10 | 19 | 19 | 19 | 19 | 19 |
| Assets held for sale | | | | 4 | 2 | 8 | 8 | 8 | 8 | 8 |
| Total assets | 1,922 | 1,938 | 2,189 | 2,239 | 2,220 | 2,312 | 2,654 | 2,672 | 2,748 | 2,840 |
| Equity | 802 | 834 | 959 | 1,109 | 1,109 | 1,146 | 1,284 | 1,334 | 1,403 | 1,486 |
| Share capital | 170 | 170 | 171 | 173 | 173 | 174 | 174 | 174 | 174 | 174 |
| Reserves | 588 | 621 | 739 | 885 | 887 | 924 | 1,062 | 1,112 | 1,181 | 1,264 |
| Minority interests | 44 | 43 | 49 | 51 | 49 | 48 | 48 | 48 | 48 | 48 |
| Non-current liabilities | 663 | 604 | 526 | 562 | 516 | 526 | 526 | 526 | 526 | 526 |
| Employee benefit obligations | 176 | 171 | 172 | 169 | 151 | 121 | 121 | 121 | 121 | 121 |
| Provisions | 54 | 44 | 44 | 35 | 27 | 25 | 25 | 25 | 25 | 25 |
| Interest-bearing debt | 324 | 312 | 242 | 288 | 274 | 323 | 323 | 323 | 323 | 323 |
| Other non-current liabilities | 43 | 12 | 4 | 12 | 4 | 2 | 2 | 2 | 2 | 2 |
| Deferred tax liabilities | 66 | 65 | 64 | 58 | 60 | 55 | 55 | 55 | 55 | 55 |
| Current liabilities | 457 | 500 | 704 | 567 | 595 | 640 | 844 | 811 | 819 | 827 |
| Interest-bearing debt | 147 | 177 | 312 | 246 | 218 | 253 | 378 | 378 | 378 | 378 |
| Trade payables | 185 | 192 | 251 | 187 | 228 | 232 | 284 | 262 | 267 | 272 |
| Employee benefit obligations | 76 | 70 | 89 | 73 | 76 | 83 | 101 | 93 | 95 | 97 |
| Provisions | | | | 9 | 13 | 12 | 12 | 12 | 12 | 12 |
| Income taxes payable | 5 | 7 | 13 | 10 | 16 | 13 | 21 | 20 | 20 | 20 |
| Other current liabilities | 44 | 54 | 39 | 42 | 44 | 44 | 44 | 44 | 44 | 44 |
| Liabilities assoc with assets held for sale | | | | | | 3 | 3 | 3 | 3 | 3 |
| Total liabilities | 1,922 | 1,938 | 2,189 | 2,238 | 2,220 | 2,312 | 2,654 | 2,672 | 2,748 | 2,839 |

Source: Company data, ING estimates

Fig 31 Bekaert: Cash flow statement (summary) (€m)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F | 2011F |
|----------------------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Net profit | (46.0) | 87.0 | 168.0 | 190.0 | 143.0 | 153.0 | 194.1 | 106.7 | 125.2 | 142.0 |
| Depreciation & amort. | 143.5 | 127.0 | 117.0 | 121.0 | 116.2 | 123.9 | 159.9 | 165.0 | 165.0 | 165.0 |
| WCR | 39.0 | 12.0 | (104.0) | 13.0 | (10.0) | (57.0) | (136.9) | 50.2 | (11.6) | (11.9) |
| CF from operations | 136.5 | 226.0 | 181.0 | 324.0 | 249.2 | 219.9 | 217.1 | 321.9 | 278.5 | 295.1 |
| Capex | (78.0) | (109.0) | (166.0) | (142.0) | (153.0) | (193.0) | (250.0) | (200.0) | (150.0) | (150.0) |
| Acquisitions | (5.0) | (34.0) | (17.0) | (21.0) | (43.0) | (15.0) | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposals | 3.0 | 6.0 | | 86.0 | 0.0 | 4.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| CF from investments | (80.0) | (137.0) | (183.0) | (77.0) | (196.0) | (204.0) | (250.0) | (200.0) | (150.0) | (150.0) |
| Dividends paid | (43.0) | (45.0) | (45.0) | (52.0) | (74.0) | (57.0) | (56.2) | (56.2) | (56.2) | (59.2) |
| CF from financing | (43.0) | (45.0) | (45.0) | (52.0) | (74.0) | (57.0) | (56.2) | (56.2) | (56.2) | (58.2) |
| Others | | (7.0) | 0.0 | (47.0) | (81.2) | (47.9) | | | | |
| Net CF | 37.0 | (47.0) | 148.0 | (102.0) | (89.0) | (89.0) | (89.1) | 65.7 | 72.3 | 86.9 |

Source: Company data, ING estimates

Disclosures Appendix

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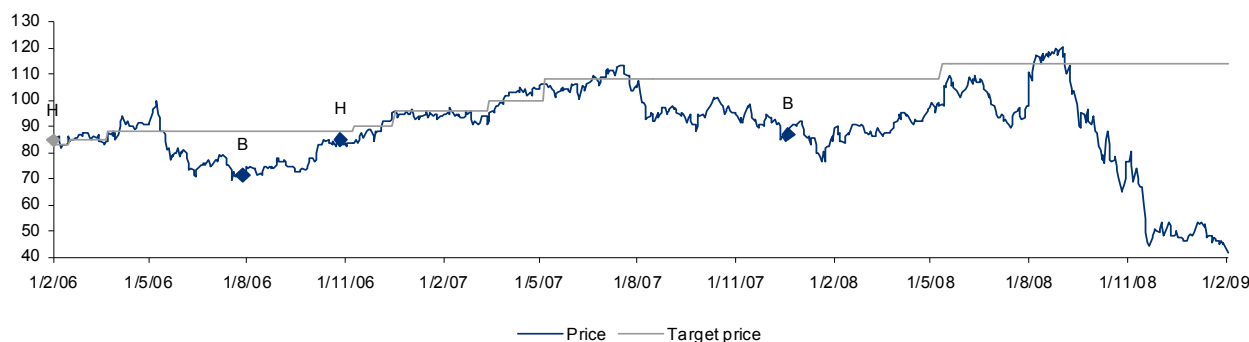
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Source: ING

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