

## Bekaert

### Much more than China! Much more than tire cord!

In recent months, Bekaert's stock price has shown a high correlation with Chinese economic macro data and newsflow. At a moment of monetary tightening, investors see Bekaert's high China exposure and margins as a glass half empty and not half full. We believe this is unjustified:

#### Bekaert is much more than a China play

- A large part of Chinese sales and profits have end-user demand outside of China and are "just" being produced in China. From the 2010 Asian sales, an estimated 25% are linked to sawing wire with the bulk of end-market being Europe. From the 50% of Asian tire cord sales, 10% is directly going outside of China and about 40% indirectly. This implies that the 2 most important value drivers of China sales (50%) are actually going to other end markets.
- The Slovakian plant visit also showed that Bekaert is doing an excellent job in its more traditional wire and tire cord products in Central Europe, with smart capex and factory spending, with very high capacity utilization and a constant focus on operational excellence.
- Bekaert continues to expand its capacity and to expand its higher margin product portfolio in this region and is running at full capacity.

#### Bekaert is much more than a tire cord play

- During the Slovakian investor days, Bekaert also provided some info on the sawing wire market, of which about 1/10 of production takes place in the 40k ton Slovakian steelcord plant, the other 9/10 in China.
- We believe that thanks to very high margins, sawing wire has a higher Chinese profit contribution than tire cord.
- The photovoltaic (PV) solar cells market is currently mainly European based. Growth is currently driven by Feed-in-Tariff based subsidies but increased yield and lower production costs should bring this energy source towards grid parity in the coming years in the US and Europe.
- In that sense, the new 5 year plan presented by China's President to the National Congress puts heavy focus on reining pollution and energy use. This will be a future boost to PV demand, also in China!

#### BUY reiterated with target price of EUR 100

Based on these items, we raise our LT sales estimates and our 2011 REBIT estimate by 12%. At our TP of EUR 100 the shares trade at 10.6x EV/EBIT 2011.

Year end	Sales (m)	EBITDA (m)	Adj. profit (m)	EPS	Div.	EV/EBITDA (*)	P/E (*)	FCF Yield (*)	Div. Yield (*)
12/07	2,174	299	153	2.29	0.92	7.9	13.4	7.7%	3.0%
12/08	2,662	411	209	3.50	0.93	3.7	4.6	11.6%	5.8%
12/09	2,438	385	151	2.53	0.98	6.3	14.3	14.3%	2.7%
12/10	3,262	728	367	6.13	1.68	7.7	14.0	-0.3%	2.0%
12/11e	3,624	768	392	6.62	1.72	6.5	11.8	5.9%	2.2%
12/12e	3,844	803	414	6.99	1.72	5.8	11.2	7.9%	2.2%
12/13e	4,053	825	428	7.22	1.77	5.4	10.9	6.9%	2.3%

(\*) 2007-2010 figures of EV, P/E and Yield are based on end F.Y. price

### Buy

Price: EUR 78.33  
(07/03/11)

Target price: 100.00  
Risk: Medium

Reuters: BERTt.BR  
Bloomberg: BEKB BB

Shares number (m): 59.88  
Market cap. (m): 4,691  
Net debt 12/10 (m): 578  
Net debt/equity 12/10: 34%

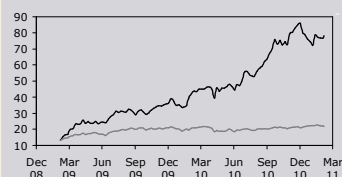
H/L 1 year: 87.43 - 39.43  
1 year price perf.: 85.6%  
Diff. with Euro Stoxx : 80.1%  
Volume (sh./day): 190,622

Free Float 87%  
Family shareholders 13%

#### Company description:

Bekaert is a global leader in advanced metal transformation & advanced materials and coatings. It is a worldwide market leader in tire cord and different wire products. It has a high emerging market exposure.

Bekaert + relative to Euro Stoxx (grey)



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### Slovakian plant visits show Bekaert’s high quality product offering strategy

During its 2 day Capital Markets Event, Bekaert organized 2 plant visits near Bratislava in the Western part of Slovakia. The region is close to Vienna with South Germany and North Italy nearby, providing an excellent access to some of the richest regions in Europe.

First, we visited the 200k ton brownfield wire plant in Hlohovec. This is a former communist plant of 50 years old that was acquired in 2003. Bekaert paid an estimated EUR 30m for the plant and has in the meantime invested an accumulated EUR 70m. While initially it fired quite some people, it has heavily recruited in recent years and employment is again close to the initial levels, with a much higher productivity. The turnover more than doubled since acquisition and cashflow almost tripled.

The plant is a mix of old legacy buildings and Bekaert’s newest equipment and technology. It has a typical wire plant product portfolio with a lot of different wire products, made from a lot of different wire rods and sold to a lot of different customers. This variety in sourcing, production and customers, adds an additional complexity to the wire business and requires higher operational costs. However, capital employed is more limited than for tire cord and as such, ROCE is very attractive. We believe this plant recorded a 2010 pre-tax ROCE of over 20%.

The second day, we visited a greenfield steel cord plant in Sladkovicovo that was started in 2001 for tire cord, expanded in 2007 for sawing wire and now further expanded with half products, that were so far sourced from other Bekaert factories.

The number of people increased from 177 to 510 in the 2004-2010 period, total accumulated capex amounted to EUR 80m, the turnover increased by a factor 5 and cashflow by a factor 8 in this same period. The tonnage quadrupled to more than 40k tons.

However, tonnage becomes less and less important for Bekaert as a performance indicator because of the higher value added products. A small part of the tonnage (2.0k?) is indeed also related to sawing wire but sells at much higher prices than tire cord, as we explain in the section below.

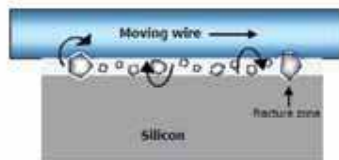
## Sawing wire – Already the next big thing

The Slovakian steelcord plant is one of Bekaert’s sawing wire plants. Sawing wire is a high-grade steel wire that can be used to cut a wide range of hard materials. It serves as the abrasive carrier in a multi-wire saw and is applied to slice silicon ingots into extremely thin wafers.

**Exhibit 1 Cutting Polysilicon ingots into wafers**

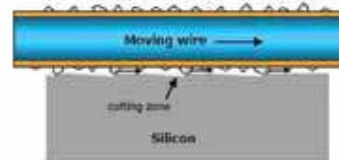
### Slurry-Based Wafering

- A mixture of silicon carbide and ethylene glycol is used as an abrasive that erodes, rather than cuts, the ingot
- 3 body erosion
- Grits roll between wire and material
- Grits speed max of ½ the wire



### Diamond Wire-Based Wafering

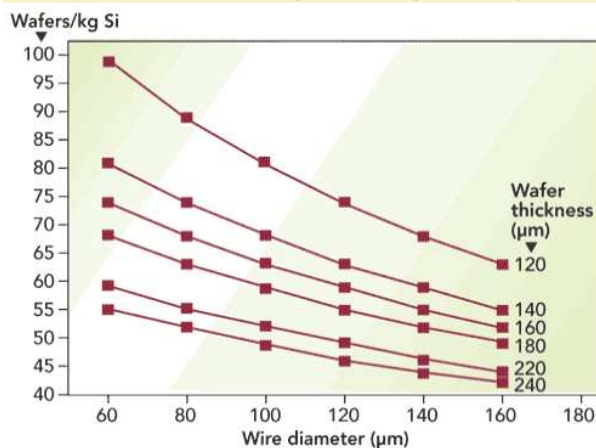
- Diamonds are coated on the wire to generate a true cutting action
- 2 body erosion
- Grits slide over silicon
- Grits speed equal to wire speed
- Theoretically doubling removal rate



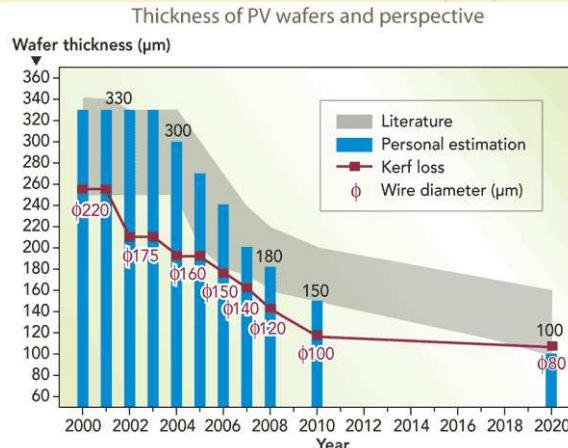
Source: www.pv-tech.org

Crystalline silicon (c-Si), sometimes referred to as First Generation solar, presently accounts for 90 percent of industry demand. First Generation modules require solar-grade silicon, which is processed into solar cells. Securing adequate silicon feedstock and using it efficiently is key in reducing end product costs. Technological advances may reduce the industry requirements for this raw material by cutting thinner wafers or reducing cell breakage during the manufacturing process. These technological advancements should improve efficiency and contribute to creating economies of scale. A thinner sawing wire, implies less waste material and allows to produce more wafers, thereby bringing down production cost.

**Exhibit 2 Yield of PV wafer production (wafers/kg silicon)** **Exhibit 3 Thickness of PV wafers and perspective**



Source: KUKA Systems



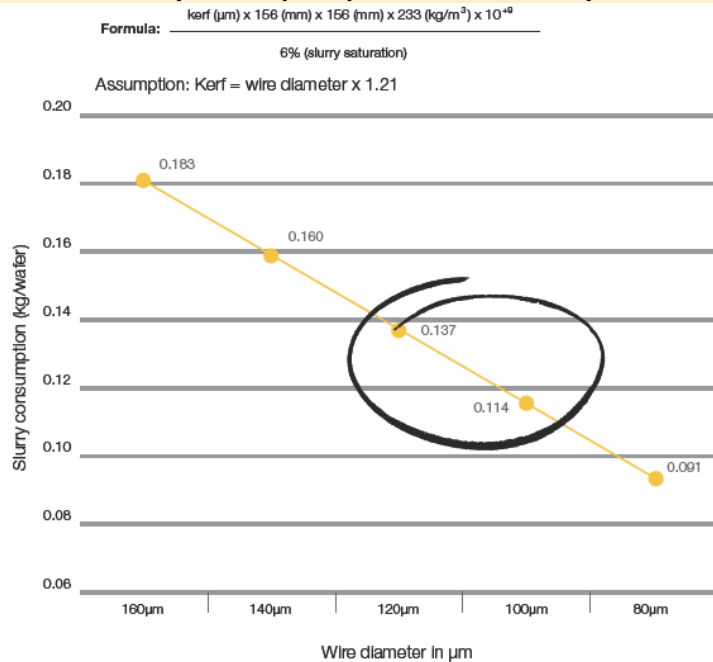
Source: KUKA Systems

Sawing wire is not a new activity for Bekaert, having developed it for the first time about two decades ago. However, in recent years and in particular in 2010, it has grown extremely strongly as it is the preferred technology to saw photovoltaic wafers out of polysilicon ingots. This ultra-tensile technology allows Bekaert to produce very thin sawing wires (down to 100µm and even 80µm). This results, on

the one hand, in lower kerf loss (see exhibit 3), and hence more wafers per cut. On the other hand, it reduces slurry consumption (exhibit 4) for the customers. Bekaert in the meantime is even able to produce sawing wire as thin as 80µm. It is the only one able to do this and this offers the company a clear advantage. It is crucial that the thin sawing wire does not break, in order to limit downtime for customers. Bekaert is also the only one able to adapt rapidly to customer demand, to offer a worldwide service, etc

The industry standard for the time being is still 120µm because polysilicon is currently relatively inexpensive. As demand grows, customers will increasingly move to thinner wires, which is positive for Bekaert.

**Exhibit 4 Calculated slurry consumption per 156 x 156 wafer (theoretical)**



Source: Interview with Bekaert Sawing Wire sales manager / PES:Europe

**Very strong, early mover, market share**

We believe that Bekaert has a very strong market position, probably closer to 90% than to 50%. Other producers are the typical tire cord manufacturers of which some Japanese companies such as Tokyo Rope, KisWire (South-Korea) and also Xingda is starting-up. None of these players is able to produce the same quality as Bekaert for the same thickness and at the same volumes.

In its H1 press release, Xingda indicated that:” The Group has successfully developed a new product, a sawing wire, which is widely used in the solar cells industry for cutting polycrystalline silicon ingots to wafers. As it is a horizontal advance, more than half of the Group’s existing production facilities can be shared in manufacturing this new product which have also boosted its overall cost effectiveness. Pilot production has been completed and mass production is expected to commence in 2011. The new product is expected to be another growth driver for the Group in the future.”

We believe Xingda will launch 5k capacity in 2011, while we estimate Bekaert’s 2010 Chinese production capacity amounted to an estimated 23k ton.

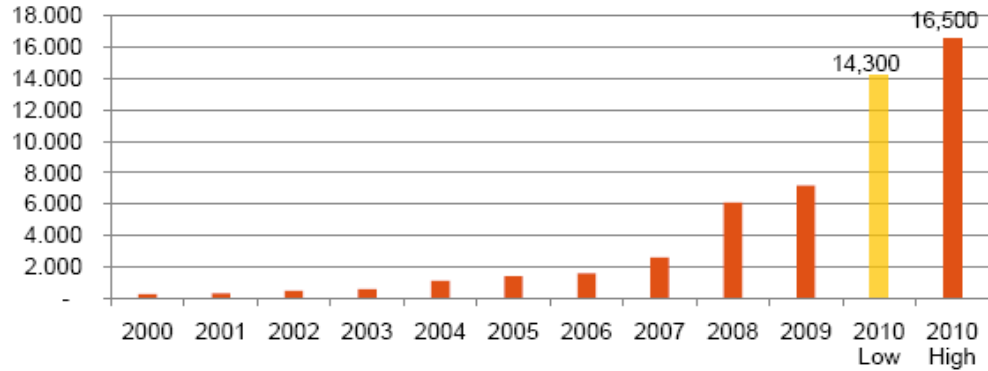
**Demand for PV solar cells to boom in coming years**

**Germany far ahead**

Demand for sawing wire is indeed driven by the rapid demand for solar cells (PV-Photovoltaics). Currently this market is mainly a European market. Initially, Spain was dominating but since the crisis, Germany has taken the clear lead. In 2010,

13k MW was installed in Europe. For the second year in a row, Germany has been the global PV market leader, adding over 6,500 MW of new installations to the already existing 9,800 MW of PV systems. For the first time, the yearly installations in Italy and Czech Republic surpassed 1,000 MW. These countries were followed by Belgium, France and Spain, all of which saw very significant volumes in 2010.

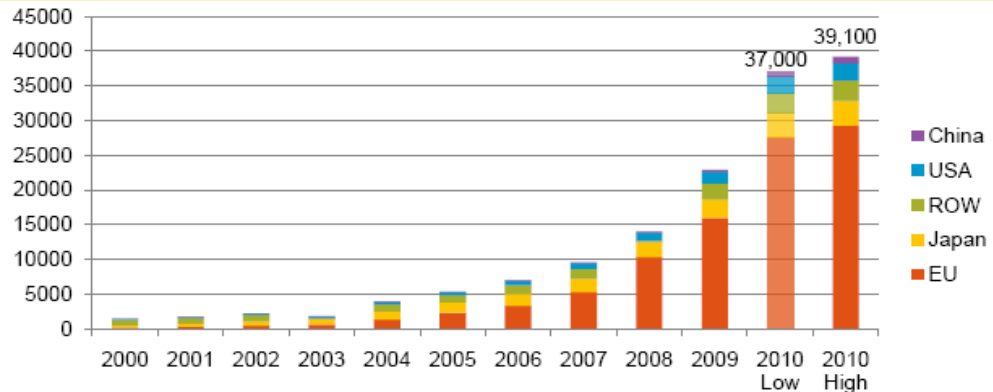
**Exhibit 5 Annual worldwide installed PV capacity from 2000 to 2010 in the World (in MW)**



Source: Epia

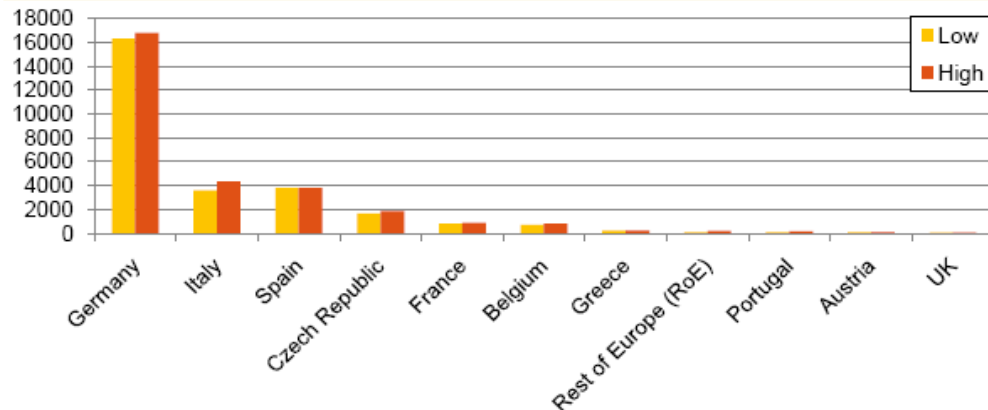
The total installed capacity has therefore reached at least the 37 GW mark and can be possibly up to almost 40 GW. The increase of the capacity from 2009 to 2010 is the most impressively represented in absolute values.

**Exhibit 6 Evolution of global cumulative installed capacity worldwide (in MW)**



Source: Epia

**Exhibit 7 Estimated cumulative PV capacity in Europe in 2010 (in MW)**



Source: Epia

## **China and the US could be huge new markets!**

While the supply of PV products will grow significantly in 2011, growth in the global market is likely as well. A decrease of the German market in 2011, depending on political choices, cannot be excluded as Germany has moved ahead of initial targets. However, according to EPIA (European Photovoltaic Industry Association) this could remain limited to 1 or 2 GW.

Depending on what was installed in 2010 in the end, Italy could grow to 4 to 6 GW in the most optimistic case.

On the other hand, only few markets in the world are at a development phase where high levels of PV penetration would be reached. After one and a half years of strong growth, the demand could stagnate in Europe during the first half of 2011, which will most likely trigger a further price decrease. Prices are even more pushed downwards because of the increased production capacities at the supply side. This could restart the market in Q2 2011 and help to reach similar levels as in 2010 or even higher.

Germany and Italy are followed at reasonable distance by medium sized markets in Europe, such as France, Spain, Greece, Belgium, the UK and possibly Portugal. It is seen that most eastern European markets will either stagnate or slowly grow.

Outside Europe, Japan and the US could reach the GW mark, while China's growth will strongly depend on the support measures that the government might put in place. Also South Korea will add more PV than in 2008 and India could also start developing fast (see below).

Today, indeed, short term growth depends on government subsidies. As can be seen in Exhibit 6, the Chinese market is very small compared to the European market, although potentially much bigger. The huge Chinese market is largely untapped today. However, this weekend's new 5 year plan presented to the National Congress puts heavy focus on reining pollution and energy use, which could be a significant future boost to solar cell demand!

The Chinese PV installed market is limited to about 600MW in 2010 (Exhibit 9). This compares to 7,000MW in Germany alone in 2010. Now, China is not only a much larger country, but China has also favorable conditions in utilizing solar photovoltaic technology. More than 2/3 of China's territory is covered by abundant solar energy; with annual quantity radiation reaches 60 hundred million joule/sq.m. The solar energy absorbed by the earth's surface amounts to 1.7 trillion tons of standard coal, especially in the area like the northwest part, Tibet and Yunnan etc. (Source: China's Renewable Energy Report, 2006). As such, China faces favorable climatic conditions to move closer to grid parity, the major long term growth driver for the solar PV industry.

In its new plan, the Chinese government is looking to introduce a FIT scheme to meet its goal of having 20GW of solar power installed by 2020, of which 5GW is to be installed by 2015. Given the country's current pace of growth, the EPIA even expects China to easily exceed its 2020 target, fuelled by government support and a well-established manufacturing base.

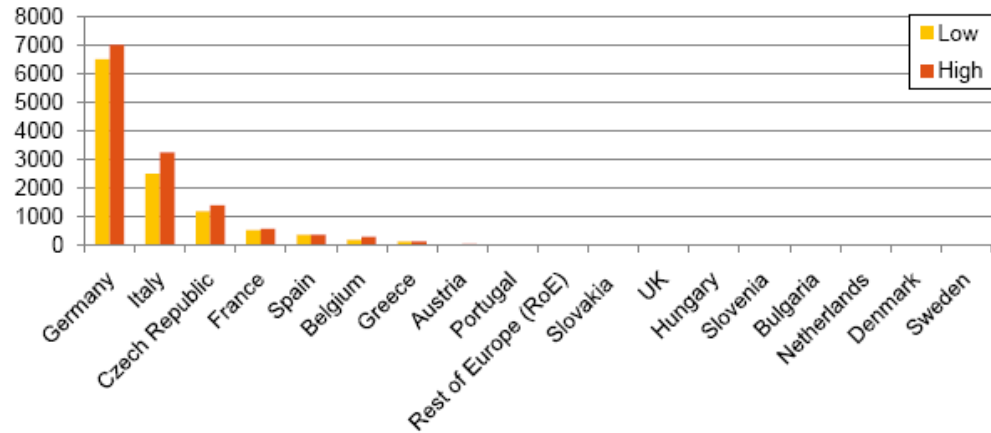
The 5GW over a 5 year period would imply 1GW per year, which compares to 16.5GW installed worldwide in 2010, or an additional initial growth contribution of 6%/year by China alone. Growth should even accelerate between 2015 – 2020 as in the same 5 year period not 5MW will be installed but the remaining 15MW.

Although it is hard to forecast worldwide demand due to erratic government behaviour, it is clear that also China will be a main growth contributor in the coming years, as will be the US, India, etc. India also aims to have a total installed capacity of 20GW by 2022, up from the current low level of 200MW and as such could show similar or even higher growth than China.

Below, we show the 2010 installed capacity in Europe and in other countries. Although China is way behind Europe (see exhibit 6), 2010 was not yet a breakthrough year with estimated newly installed capacity of max 600MW against e.g. almost 7000MW in Germany alone.

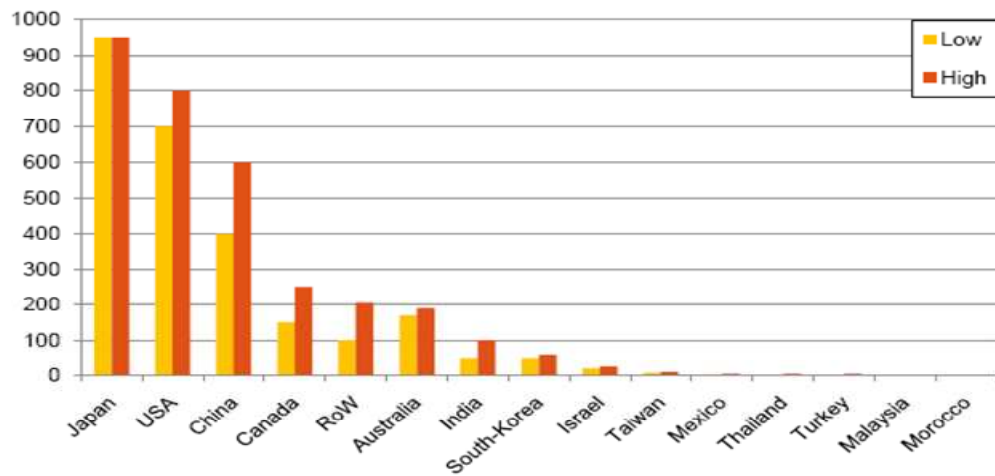
Therefore it is clear, once China starts more actively promoting SV energy, the potential is really huge.

**Exhibit 8 Newly installed capacity in Europe in 2010 (in MW)**



Source: Epia

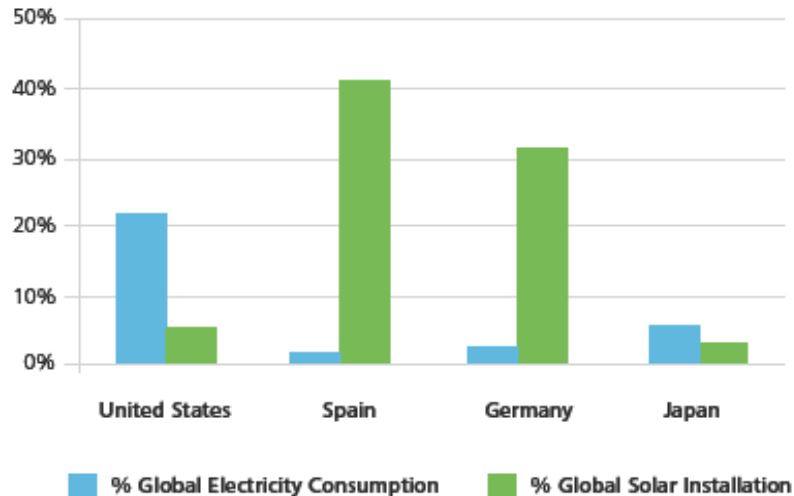
**Exhibit 9 Newly installed capacity outside Europe in 2010 (in MWp)**



Source: Bekaert, Epia

And also the US offers huge market potential. While Germany consumes only 15% as much electricity as the US, it has about five times as many solar panels installed as can be seen from exhibit 10.

**Exhibit 10 Public Policy Drives Solar Installations.**



Source: CIA World Fact Book, SolarBuzz.com, New York Times

**Short term growth driven by government incentives**

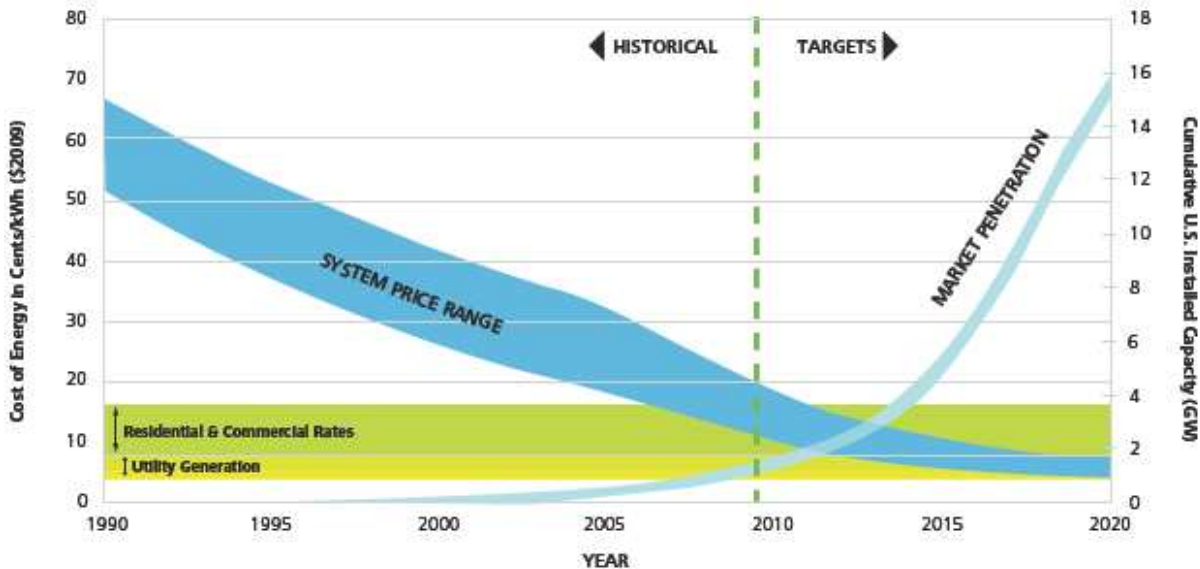
The above shown graphs show that the market currently is really dominated by Germany, which at the same time highlights the enormous potential in other countries. Although there could be a slowdown in 2011 in Germany, other markets will pick-up and in Germany long term growth will continue. Can policy makers justify it to increase the life of nuclear energy while stopping solar cell initiatives? The answer is clearly, NO.

Short term demand, as long as grid parity is not reached in a wide geographical area apart from Southern European countries, is indeed to a large extent driven by policy measures such as FIT's. A feed-in tariff (FIT, feed-in law, advanced renewable tariff or renewable energy payments) is a policy mechanism designed to encourage the adoption of renewable energy sources and to help accelerate the move toward grid parity. Under a feed-in tariff, eligible renewable electricity generators (which can include homeowners and businesses) are paid a premium price for any renewable electricity they produce. Typically regional or national electric grid utilities are obligated to take the electricity and pay them.

**Long term growth driven by move to grid parity**

Future long term growth is driven by technology improvements and production cost reductions. In most areas of the world, solar energy is too expensive to compete directly with traditional fossil fuels — primarily because the industry is relatively immature and lacks economies of scale. Grid parity refers to the point at which the cost of solar electricity (or other alternative energy source) rivals that of more traditional sources, such as coal, oil, natural gas or nuclear. While, for example, many areas of the United States are expected to reach this point for solar by 2015, grid parity actually varies geographically as a function of local climate, utility rates and government support. In Europe, Italy, for example, has almost reached grid parity.

**Exhibit 11 Projected PV Solar Market Penetration. Falling PV system prices will spur up a sharp increase in demand from 2010 to 2020**



Source: U.S. Department of Energy. Solar Energy Industry Forecast (2008)

Cost reduction is indeed a major driver for the PV market. And this is very important for Bekaert as a leading saw wire technology player. Bekaert is currently able to produce sawing wire of 100µm and is moving to 80µm in a market where the standard is still 120µm. As we have shown above, with sawing wire moving from 120µm to 100µm, 57 wafers/kg polysilicon can be produced instead of 53, or an improvement of 8%. Because down time is extremely costly in the production process, the wire may not break! Bekaert is the only supplier

offering this reliable thin wire, with enough volume, innovation and cooperation with the customer.

## **Pricing environment**

Prices in the sawing wire market are very attractive. We understood from industry sources that the market price for sawing wire in China is RMB 120k/ton for 120 $\mu$ m.

Actually, this is a factor 8 to 10x the price applicable for tire cord for truck tires and passenger cars respectively.

Bekaert's average group gross margin amounts to 28% but contains a lot of different products. If we look at Xingda, it reached a gross margin of 32.1% in H1 2010. If we do some reversed engineering and we adjust for this pricing, we estimate that the gross margin for sawing wire is close to 90% instead of the Bekaert group margin of 28%.

Of course, sawing wire also requires additional production steps. This step is a logical extension from the tire cord production as the wires used for tire cord have to be reduced further in size and are drawn to a thickness of merely 100 micron against tire cord wires which are drawn to a diameter of 0.15mm.

Taking an assumption on these additional manufacturing steps and related equipment amortisation costs, handling costs and personnel costs, we believe Bekaert's sawing wire EBIT margins are well above 50%.

Of course, prices might not remain at these attractive levels for ever. Bekaert itself has hinted to this after the FY results although it probably also referred to the pricing environment in the traditional tire cord. Bekaert even states that if margins in China remain at these levels, it has not done a good job.

We tend to agree on this. Given the huge growth potential of the sawing wire market that we have highlighted above, taking this growth should be the main value driver. In our model, we have therefore increased our topline growth forecasts for the coming years but expect a reduction of Chinese margins.

According to our industry sources, Xingda will launch its sawing wires this year at a price of EUR 100k/ton, or a 17% reduction to market prices, at which we assume Bekaert operates.

Although we anticipate some pricing pressure in the future, it is important to state that Bekaert has got by far the largest production capacity out there, is the most reliable and most technically advanced supplier and also has a global presence. These features should keep the margin decline within limits.

## **Pricing combined with growth potential**

New competitors with lower prices will try to fight their way into the market but we do not believe that this will too significantly deteriorate Bekaert's overall Asian margins. Even if margins on Asian tire cord and sawing wire decline, the different growth dynamics of the different product lines will support margins. Indeed, while margins on sawing wire might decline most, they will probably remain significantly above the margins of the other Asian product lines. Sawing wire is also expected to have the highest growth rates, as we have highlighted earlier in this report.

It's indeed clear that solar PV energy has got a very bright future, with growth rates most likely outpacing the ones of tire cord and the other Asian businesses of Bekaert. The by far highest margin business showing the highest growth rates, puts a certain floor to margins. Even if the margins of sawing wires will decline, the blended Asian margin should resist relatively well and what's more, nominal Asian EBIT will continue to grow.

In the table below, we have made a simulation with the highest margin business, outpacing growth of the lower margin businesses. This is not an exact science but should serve as a kind of simulation analysis to show that thanks to this dynamic, the Chinese margins could resist better than we and consensus analysts anticipate. It also shows, that given the different growth dynamics of the different product lines, with different margins, overall EBIT will continue to grow.

We have assumed tire cord to grow at the 7% overall economic growth target for the Chinese economy in the next 5 years. We have reduced this growth rate to 5% for the 2015-2020 period. For the sawing wire business we have higher growth rates for the reasons mentioned in this report. We have taken 10% in the next 5 years and we have accelerated growth to 15% in the 2015-2020 period. In this period, solar efficiency will come closer to grid parity, which should boost growth. China will also accelerate in this period (5MW in 2010-2015 and 15MW in 2015-2020). We have assumed a decline in margin in the coming years, due to the high starting base and new competitors fighting their way in.

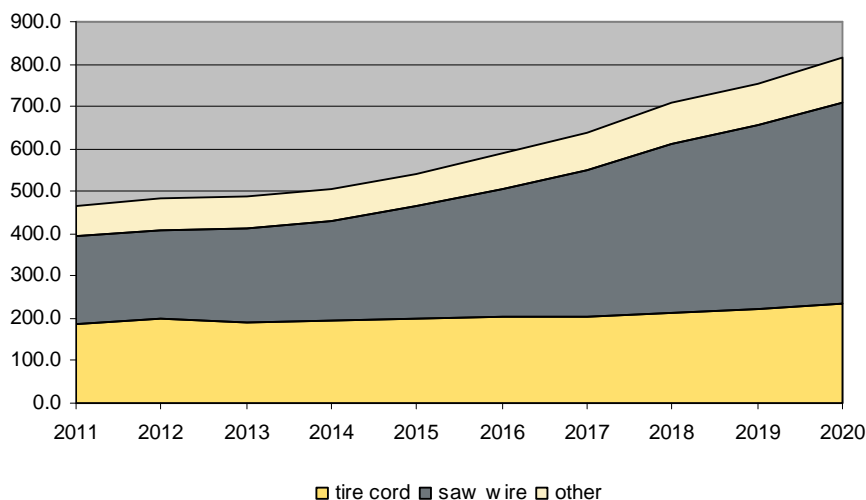
However, let's not forget, in recent years, Asian margins have always surprised positively and even the H2 2010 margin was above H1 2010.

**Exhibit 12 Example of theoretical blended margin model – Nominal EBIT continues to grow at 6% CAGR**

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	CAGR
<b>Asia sales</b>	<b>1,248.3</b>	<b>1,360.6</b>	<b>1,466.6</b>	<b>1,581.2</b>	<b>1,704.9</b>	<b>1,838.5</b>	<b>1,991.8</b>	<b>2,161.1</b>	<b>2,348.7</b>	<b>2,556.8</b>	<b>2,788.0</b>	<b>8.4%</b>
tire cord	624.1	667.8	714.6	764.6	818.1	875.4	919.2	965.1	1,013.4	1,064.1	1,117.3	6.0%
saw wire	312.1	358.9	394.8	434.2	477.7	525.4	604.3	694.9	799.1	919.0	1,056.9	13.0%
other	312.1	333.9	357.3	382.3	409.1	437.7	468.3	501.1	536.2	573.7	613.9	7.0%
<b>Asia growth</b>	<b>54.1%</b>	<b>9.0%</b>	<b>7.8%</b>	<b>7.8%</b>	<b>7.8%</b>	<b>7.8%</b>	<b>8.3%</b>	<b>8.5%</b>	<b>8.7%</b>	<b>8.9%</b>	<b>9.0%</b>	
tire cord		7%	7%	7%	7%	7%	5%	5%	5%	5%	5%	
saw wire		15%	10%	10%	10%	10%	15%	15%	15%	15%	15%	
other		7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	
<b>Asia margins</b>	<b>37.7%</b>	<b>35.0%</b>	<b>33.6%</b>	<b>31.5%</b>	<b>30.4%</b>	<b>29.5%</b>	<b>29.6%</b>	<b>29.6%</b>	<b>30.2%</b>	<b>29.4%</b>	<b>29.2%</b>	
tire cord		28.0%	28.0%	25.0%	24.0%	23.0%	22.0%	21.0%	21.0%	21.0%	21.0%	
saw wire		60.0%	55.0%	53.0%	51.0%	50.0%	50.0%	50.0%	50.0%	47.0%	45.0%	
other		22.0%	21.0%	20.0%	19.0%	18.0%	18.0%	18.0%	18.0%	17.0%	17.0%	
<b>Asia REBIT</b>	<b>470.0</b>	<b>475.8</b>	<b>492.2</b>	<b>497.8</b>	<b>517.7</b>	<b>542.8</b>	<b>588.6</b>	<b>640.3</b>	<b>708.9</b>	<b>752.9</b>	<b>814.6</b>	<b>5.7%</b>
tire cord		187.0	200.1	191.2	196.4	201.3	202.2	202.7	212.8	223.5	234.6	
saw wire		215.3	217.1	230.2	243.6	262.7	302.1	347.4	399.6	431.9	475.6	
other		73.5	75.0	76.5	77.7	78.8	84.3	90.2	96.5	97.5	104.4	

Source: Petercam simulation model

**Exhibit 13 Individual Asian EBIT evolutions long term**



Source: Petercam simulation model

## New estimates

Based on the above items, and adjusting our numbers for the FY earnings release from last week, we upgrade our sales forecast for 2011 from EUR 3.384bn to EUR 3.624bn, i.e. by 7%. We increase our 2012 topline estimate by 9.2%.

At the same time, we increase our 2011 REBIT estimate by 12% to EUR 615m and 2012 by 15% to EUR 641m.

The bottom line increase is somewhat more limited due to an increased anticipated tax rate. We increase our 2011 EPS estimate by 7.4% to EUR 6.62 and 2012 by 12.7% to EUR 6.99.

<b>Exhibit 14 New estimates</b>						
<b>in EUR m</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011e</b>	<b>2012e</b>	<b>2013e</b>
Combined Revenues	4,010.5	3,340.8	4,464.5	4,920.0	5,214.4	5,502.0
<i>y/y</i>	17.3%	-16.7%	33.6%	10.2%	6.0%	5.5%
Associates	1,345.7	903.0	1,202.3	1,296.0	1,370.0	1,449.4
Revenues	2,661.8	2,437.8	3,262.2	3,624.1	3,844.4	4,052.6
<i>yoy</i>	22.5%	-8.4%	33.8%	11.1%	6.1%	5.4%
<i>volume</i>		-7.5%	23.6%	8.4%	4.1%	3.4%
<i>price</i>		-9.7%	6.8%	2.0%	2.0%	2.0%
<i>acq/div</i>		5.4%	1.8%	0.5%	0.0%	0.0%
<i>forex</i>		3.4%	2.0%	0.2%	0.0%	0.0%
EMEA	1,167.8	827.9	1,065.7	1,148.5	1,194.5	1,242.2
North America	605.2	473.4	637.3	689.6	717.2	745.9
Latin America	176.6	326.6	310.9	322.0	331.6	341.6
Asia Pacific	712.9	809.8	1,248.3	1,464.0	1,601.1	1,722.9
EBITDA	411.5	384.7	728.0	767.7	803.0	825.0
<i>margin</i>	15.5%	15.8%	22.3%	21.2%	20.9%	20.4%
REBIT	293.6	256.5	562.2	614.7	641.0	653.0
<i>margin</i>	11.0%	10.5%	17.2%	17.0%	16.7%	16.1%
non-recurring	-83.7	-25.1	-28.2	-25.0	-24.0	-24.0
<b>EBIT</b>	<b>210.0</b>	<b>231.4</b>	<b>534.0</b>	<b>589.7</b>	<b>617.0</b>	<b>629.0</b>
<i>margin</i>	7.9%	9.5%	16.4%	16.3%	16.0%	15.5%
EMEA	-8.7	-19.5	86.1	81.8	72.0	70.0
<i>margin</i>	-0.7%	-2.4%	8.1%	7.1%	6.0%	5.6%
North America	25.2	-7.7	31.8	32.0	28.0	28.0
<i>margin</i>	4.2%	-1.6%	5.0%	4.6%	3.9%	3.8%
Latin America	15.5	26.5	14.0	31.9	33.0	37.0
<i>margin</i>	8.8%	8.1%	4.5%	9.9%	10.0%	10.8%
Asia Pacific	244.1	287.9	466.5	504.0	544.0	554.0
<i>margin</i>	34.2%	35.6%	37.4%	34.4%	34.0%	32.2%
Other	-65.4	-55.5	-63.0	-60.0	-60.0	-60.0
Net financial charges	-49.3	-65.5	-32.4	-60.7	-56.7	-54.9
PBT	160.7	165.9	501.6	529.0	560.3	574.1
taxes	-25.5	-33.9	-139.9	-148.1	-156.9	-160.7
<i>tax rate</i>	15.9%	20.4%	27.9%	28.0%	28.0%	28.0%
Associates	56.1	37.8	36.0	42.5	42.8	44.2
Minoritiess	-17.7	-18.6	-30.9	-31.0	-32.0	-30.0
<b>Net profit</b>	<b>173.6</b>	<b>151.3</b>	<b>366.8</b>	<b>392.4</b>	<b>414.2</b>	<b>427.6</b>
EPS	3.50	2.53	6.13	6.62	6.99	7.22
<i>y/y</i>	52.7%	-27.7%	142.4%	8.0%	5.5%	3.2%

Source: Petercam estimates

## Valuation

In recent months, Bekaert's stock price has shown a high correlation with Chinese economic macro data and newsflow. At a moment of monetary tightening, investors see Bekaert's high China exposure and margins as a glass half empty and not half full. We believe this is the main reason for the still low valuation and believe this is unjustified. We have clearly indicated in this report that Bekaert is not just a China play and Bekaert is not just a tire cord manufacturer. Its earnings resources are widely spread both geographically and product wise.

At a target price of EUR 100.0 we value Bekaert at 10.6x EV/EBIT 2011 and 9.7x 2012, which we believe is still an undemanding valuation given the leading market positions of the company and given the important growth drivers available.

### Exhibit 15 Valuation ratio's at current stock price

At EUR 78.54	2010	2011e	2012e	2013e
EV/EBITDA	7.1	6.5	5.9	5.4
EV/EBIT	9.7	8.4	7.6	7.1
PER	12.8	11.9	11.2	10.9
DPS	1.68	1.72	1.72	1.77
gross yield	2.1%	2.2%	2.2%	2.2%

Source: Petercam estimates

### Exhibit 16 Valuation ratio's at target price

At EUR 100,0	2010	2011e	2012e	2013e
EV/EBITDA	8.8	8.1	7.5	7.0
EV/EBIT	12.1	10.6	9.7	9.2
PER	16.3	15.1	14.3	13.9
DPS	1.68	1.72	1.72	1.77
gross yield	1.7%	1.7%	1.7%	1.8%

Source: Petercam estimates

<b>Profit &amp; Loss (EUR m)</b>	<b>12/07</b>	<b>12/08</b>	<b>12/09</b>	<b>12/10</b>	<b>12/11e</b>	<b>12/12e</b>	<b>12/13e</b>
<b>Revenues</b>	<b>2,173.6</b>	<b>2,661.8</b>	<b>2,437.8</b>	<b>3,262.2</b>	<b>3,624.1</b>	<b>3,844.4</b>	<b>4,052.6</b>
(Y/Y - %)	8%	22%	-8%	34%	11%	6%	5%
Gross profit	433.9	601.5	534.5	903.9	981.2	1,009.3	1,064.0
Selling expenses	-98.2	-121.8	-105.4	-128.9	-147.0	-147.5	-147.5
R & D expenses	-56.7	-68.5	-63.4	-79.3	-83.5	-82.5	-82.5
General & administ. expenses	-96.6	-113.6	-110.6	-135.8	-133.0	-138.0	-138.0
Other expenses	-7.8	-51.5	-9.6	-9.7	-17.0	-14.0	-14.0
<b>EBITDA</b>	<b>298.6</b>	<b>411.5</b>	<b>384.7</b>	<b>728.0</b>	<b>767.7</b>	<b>803.0</b>	<b>825.0</b>
EBITA	186.3	293.6	256.5	562.2	614.7	641.0	653.0
(Ebita margin - %)	8.6%	11.0%	10.5%	17.2%	17.0%	16.7%	16.1%
Amortization	0.0	-35.7	-14.1	-16.2	-11.0	-13.0	-13.0
Impairment	-	-	-	-	-	-	-
EBIT	174.6	210.0	231.4	534.0	589.7	617.0	629.0
Net Financial Result	-32.5	-41.4	-56.6	-50.1	-60.7	-56.7	-54.9
(of which Net interest charges)	-32.5	-41.4	-56.6	-50.1	-60.7	-56.7	-54.9
(of which Other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax result	133.7	160.7	165.9	501.6	529.0	560.3	574.1
Taxes	-19.1	-25.5	-33.9	-139.9	-148.1	-156.9	-160.7
Except. / Discont. operations	-	-	-	-	-	-	-
Associates	47.1	56.1	37.8	36.0	42.5	42.8	44.2
Minorities	-8.7	-17.7	-18.6	-30.9	-31.0	-32.0	-30.0
Net declared earnings	152.9	173.6	151.3	366.8	392.4	414.2	427.6
<b>Net adjusted earnings</b>	<b>152.9</b>	<b>209.3</b>	<b>151.3</b>	<b>366.8</b>	<b>392.4</b>	<b>414.2</b>	<b>427.6</b>
<b>Cash Flow (EUR m)</b>	<b>12/07</b>	<b>12/08</b>	<b>12/09</b>	<b>12/10</b>	<b>12/11e</b>	<b>12/12e</b>	<b>12/13e</b>
EBIT	174.6	210.0	231.4	534.0	589.7	617.0	629.0
Depreciation	124.0	166.5	153.3	194.0	178.0	186.0	196.0
Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Impairment	0.0	35.7	14.1	16.2	11.0	13.0	13.0
Changes in provision	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in working capital	-41.9	-162.4	152.7	-274.0	-109.6	1.3	-56.8
Others	-1.5	0.0	-43.0	6.0	32.6	-9.9	-9.4
<b>Operational Cash Flow</b>	<b>255.2</b>	<b>254.9</b>	<b>508.5</b>	<b>476.1</b>	<b>701.7</b>	<b>807.4</b>	<b>771.9</b>
Tax expenses	-24.9	-31.1	-31.1	-113.3	-148.1	-156.9	-160.7
Dividends from associates	54.7	46.1	41.1	40.4	35.3	35.5	36.7
Net interest charges	-30.8	-41.4	-39.2	-43.5	-60.7	-56.7	-54.9
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>CF from operating activities</b>	<b>254.2</b>	<b>232.0</b>	<b>479.3</b>	<b>359.7</b>	<b>528.2</b>	<b>629.3</b>	<b>592.9</b>
CAPEX	-199.8	-251.0	-167.7	-247.6	-250.0	-260.0	-270.0
Investments in intangibles	-	-	-	-	-	-	-
Acquisitions	-14.7	-44.2	-3.3	-29.7	0.0	0.0	0.0
Divestments	8.0	6.0	0.0	26.7	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-206.6</b>	<b>-289.2</b>	<b>-171.0</b>	<b>-250.6</b>	<b>-250.0</b>	<b>-260.0</b>	<b>-270.0</b>
Dividend payment	-57.2	-62.2	-50.6	-118.5	-100.7	-102.7	-102.7
Minor. & pref. dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity financing	-111.0	-19.7	0.0	-57.7	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-168.2</b>	<b>-81.9</b>	<b>-50.6</b>	<b>-176.2</b>	<b>-100.7</b>	<b>-102.7</b>	<b>-102.7</b>
Changes in consolidation scope	-	0.0	-	-	-	-	-
Exchange rate impact	0.0	-0.7	0.0	0.0	0.0	0.0	0.0
<b>Net debt/cash change</b>	<b>-120.6</b>	<b>-139.1</b>	<b>257.7</b>	<b>-67.1</b>	<b>177.5</b>	<b>266.6</b>	<b>220.2</b>
FCF to Enterprise	-	-	-	-	-	-	-
FCF to Equity	155.3	112.0	308.3	-17.9	278.2	369.3	322.9
<b>Notes</b>	-	-	-	-	-	-	-

<b>Balance Sheet (EUR m)</b>	<b>12/07</b>	<b>12/08</b>	<b>12/09</b>	<b>12/10</b>	<b>12/11e</b>	<b>12/12e</b>	<b>12/13e</b>
<b>Fixed assets</b>	<b>1,335.5</b>	<b>1,408.7</b>	<b>1,535.5</b>	<b>1,765.9</b>	<b>1,590.8</b>	<b>1,662.6</b>	<b>1,689.0</b>
Tangible fixed assets	917.6	1,070.7	1,127.7	1,295.1	1,109.9	1,174.3	1,193.3
Goodwill	70.1	59.1	54.3	58.1	58.1	58.1	58.1
Other intang. assets	51.9	52.3	50.7	73.1	73.1	73.1	73.1
Financial fixed assets	295.9	226.6	302.8	339.6	349.8	357.1	364.6
Other fixed assets	-	-	-	-	-	-	-
<b>Current assets</b>	<b>977.1</b>	<b>1,258.5</b>	<b>1,294.0</b>	<b>1,907.3</b>	<b>2,252.4</b>	<b>2,531.9</b>	<b>2,864.9</b>
Inventories	385.4	510.5	358.4	507.7	543.1	582.5	614.1
Trade receivables	437.7	483.2	479.6	774.3	796.5	776.7	818.8
Other current assets	73.1	125.3	103.1	182.4	208.9	217.7	226.0
Cash & Equivalents	73.2	118.3	344.0	442.9	703.9	954.9	1,205.9
Discontinued assets	7.6	21.1	8.9	0.0	0.0	0.0	0.0
<b>Total assets</b>	<b>2,312.6</b>	<b>2,667.2</b>	<b>2,829.5</b>	<b>3,673.1</b>	<b>3,843.2</b>	<b>4,194.5</b>	<b>4,553.9</b>
<b>Total Equity</b>	<b>1,146.6</b>	<b>1,172.3</b>	<b>1,373.6</b>	<b>1,696.6</b>	<b>1,988.3</b>	<b>2,299.8</b>	<b>2,624.7</b>
Equity	1,098.2	1,130.6	1,284.8	1,610.7	1,902.4	2,213.9	2,538.8
Minorities & preferred	48.4	41.8	88.7	86.0	86.0	86.0	86.0
Provisions	201.0	214.9	217.7	226.9	226.9	226.9	226.9
Provisions for pensions	120.8	143.4	135.6	150.9	150.9	150.9	150.9
Deferred taxes	55.0	39.3	52.7	41.7	41.7	41.7	41.7
Other provisions	25.2	32.2	29.4	34.3	34.3	34.3	34.3
Other LT liabilities	2.1	10.7	5.1	9.5	9.5	9.5	9.5
LT interest bearing debt	322.5	288.1	598.1	700.5	700.5	700.5	700.5
<b>Current liabilities</b>	<b>640.5</b>	<b>981.1</b>	<b>635.0</b>	<b>1,039.6</b>	<b>918.0</b>	<b>957.8</b>	<b>992.3</b>
ST interest bearing debt	253.0	503.1	151.4	320.3	320.3	320.3	320.3
Accounts payables	231.7	253.8	247.1	341.7	289.6	310.7	327.5
Other ST liabilities	152.9	219.5	234.2	377.7	308.0	326.8	344.5
Discontinued liabilities	2.9	4.7	2.3	0.0	0.0	0.0	0.0
<b>Total liabilities</b>	<b>2,312.6</b>	<b>2,667.2</b>	<b>2,829.5</b>	<b>3,673.1</b>	<b>3,843.2</b>	<b>4,194.5</b>	<b>4,553.9</b>
<b>EV and CE details (EUR m)</b>	<b>12/07</b>	<b>12/08</b>	<b>12/09</b>	<b>12/10</b>	<b>12/11e</b>	<b>12/12e</b>	<b>12/13e</b>
<b>Market cap.</b>	<b>2,025.1</b>	<b>963.3</b>	<b>2,163.0</b>	<b>5,137.4</b>	<b>4,684.7</b>	<b>4,684.7</b>	<b>4,684.7</b>
+ Net financial debt	502.2	672.9	405.6	577.9	389.8	123.1	-97.1
(of which LT debt)	322.5	288.1	598.1	700.5	700.5	700.5	700.5
(of which ST debt)	253.0	503.1	151.4	320.3	320.3	320.3	320.3
(of which Cash position)	73.2	118.3	344.0	442.9	703.9	954.9	1,205.9
+ Provisions (pension)	120.8	143.4	135.6	150.9	150.9	150.9	150.9
+ Minorities (MV)	48.4	46.8	46.8	46.8	46.8	46.8	46.8
- Peripheral assets (MV)	-342.1	-317.5	-317.5	-317.5	-317.5	-317.5	-317.5
+ Others	-	-	-	-	-	-	-
<b>Enterprise Value</b>	<b>2,354.5</b>	<b>1,508.8</b>	<b>2,433.4</b>	<b>5,595.4</b>	<b>4,954.6</b>	<b>4,687.9</b>	<b>4,467.7</b>
<b>Equity (group share)</b>	<b>1,098.2</b>	<b>1,130.6</b>	<b>1,284.8</b>	<b>1,610.7</b>	<b>1,902.4</b>	<b>2,213.9</b>	<b>2,538.8</b>
+ Net financial debt	502.2	672.9	405.6	577.9	389.8	123.1	-97.1
+ Provisions (pension)	120.8	143.4	135.6	150.9	150.9	150.9	150.9
+ Minorities	48.4	41.8	88.7	86.0	86.0	86.0	86.0
- Peripheral assets	-220.2	-199.9	-218.6	-243.8	-254.0	-261.3	-268.8
+ Others	-	-	-	-	-	-	-
<b>Capital employed (for ROCE)</b>	<b>1,549.3</b>	<b>1,788.7</b>	<b>1,696.2</b>	<b>2,181.6</b>	<b>2,275.0</b>	<b>2,312.6</b>	<b>2,409.7</b>
+ Accumulated goodwill amortiz.	57.3	57.3	57.3	57.3	57.3	57.3	57.3
<b>CE (for ROCE grossed gdwl)</b>	<b>1,606.7</b>	<b>1,846.1</b>	<b>1,753.5</b>	<b>2,238.9</b>	<b>2,332.3</b>	<b>2,369.9</b>	<b>2,467.1</b>
Notes	-						

Per Common Share (EUR)	12/07	12/08	12/09	12/10	12/11e	12/12e	12/13e
<b>Adjusted EPS (*)</b>	<b>2.29</b>	<b>3.50</b>	<b>2.53</b>	<b>6.13</b>	<b>6.62</b>	<b>6.99</b>	<b>7.22</b>
Adjusted EPS (fully diluted)	2.29	3.50	2.53	6.13	6.62	6.99	7.22
Declared EPS	-	-	-	-	-	-	-
CFS	4.15	6.87	5.09	9.38	9.63	10.13	10.52
FCF (to Equity)	2.33	1.87	5.15	-0.30	4.70	6.23	5.45
Dividend	0.92	0.93	0.98	1.68	1.72	1.72	1.77
Book Value	16.46	18.90	21.48	26.93	32.11	37.37	42.85
<b>Shares (m)</b>							
At the end of F.Y.	66.037	59.807	59.807	59.807	59.807	59.807	59.807
Average number	66.730	59.807	59.807	59.807	59.250	59.250	59.250
Fully diluted Average number	67.774	60.670	60.670	60.670	60.670	60.670	60.670

(\*) Adjusted EPS : pre-goodwill amortisation earnings, adjusted for post-tax non-recurrent items

Ratios	12/07	12/08	12/09	12/10	12/11e	12/12e	12/13e
<b>Valuation analysis</b>							
P/E	13.4	4.6	14.3	14.0	11.8	11.2	10.9
P/CF	7.4	2.3	7.1	9.2	8.1	7.7	7.4
P/BV	1.9	0.9	1.7	3.2	2.4	2.1	1.8
EV/Sales	1.1	0.6	1.0	1.7	1.4	1.2	1.1
EV/EBITDA	7.9	3.7	6.3	7.7	6.5	5.8	5.4
EV/EBITA	12.6	5.1	9.5	10.0	8.1	7.3	6.8
EV/EBIT	13.5	7.2	10.5	10.5	8.4	7.6	7.1
EV/CE	1.5	0.8	1.4	2.6	2.2	2.0	1.9
EV/CE (grossed goodwill)	1.5	0.8	1.4	2.5	2.1	2.0	1.8
EV/FCF (1)	-	-	-	-	-	-	-
FCF yield (2)	7.7%	11.6%	14.3%	-0.3%	5.9%	7.9%	6.9%
Dividend yield	3.0%	5.8%	2.7%	2.0%	2.2%	2.2%	2.3%
<b>Financial ratios</b>							
Interest cover	5.4	5.1	4.1	10.7	9.7	10.9	11.5
Net Debt/EBITDA	1.7	1.6	1.1	0.8	0.5	0.2	-0.1
Net Debt/Equity	43.8%	57.4%	29.5%	34.1%	19.6%	5.4%	-3.7%
Net Debt/FCF (2)	3.2	6.0	1.3	-32.4	1.4	0.3	-0.3
Capital turnover	1.4	1.5	1.4	1.5	1.6	1.7	1.7
ROCE pre-tax	12.0%	16.4%	15.1%	25.8%	27.0%	27.7%	27.1%
ROCE post-tax	11.6%	15.9%	14.6%	25.1%	26.4%	27.0%	26.5%
ROCE pre-tax (grossed goodwill)	10.3%	13.8%	12.0%	18.6%	19.5%	20.0%	19.5%
ROCE post-tax (grossed gdwill)	9.9%	13.4%	11.6%	18.1%	19.0%	19.5%	19.1%
ROE	13.9%	18.5%	11.8%	22.8%	20.6%	18.7%	16.8%
Working capital (in % of sales)	27.2%	27.8%	24.2%	28.8%	29.0%	27.3%	27.3%
Payout	40.1%	26.7%	38.7%	27.5%	25.9%	24.6%	24.5%
<b>Margin analysis and tax rate</b>							
Gross margin	20.0%	22.6%	21.9%	27.7%	27.1%	26.3%	26.3%
EBITDA margin	13.7%	15.5%	15.8%	22.3%	21.2%	20.9%	20.4%
EBITA margin	8.6%	11.0%	10.5%	17.2%	17.0%	16.7%	16.1%
Adjusted profit margin	7.0%	7.9%	6.2%	11.2%	10.8%	10.8%	10.6%
Tax rate	14.3%	15.9%	20.4%	27.9%	28.0%	28.0%	28.0%
<b>Growth analysis</b>							
Sales	8%	22%	-8%	34%	11%	6%	5%
EBITDA	12%	38%	-7%	89%	5%	5%	3%
EBITA	15%	58%	-13%	119%	9%	4%	2%
Adjusted profit	3%	37%	-28%	142%	7%	6%	3%
Adjusted EPS	11%	53%	-28%	142%	8%	6%	3%
Dividend	10%	1%	5%	72%	2%	0%	3%

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

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