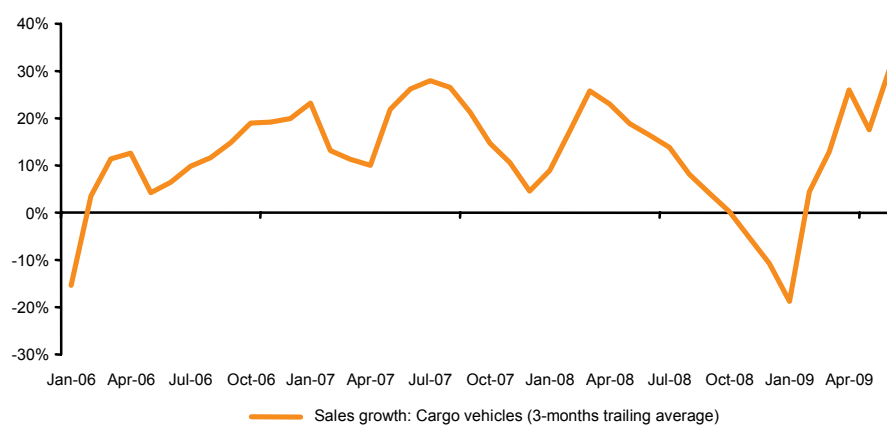


Benelux Eye-opener

Bekaert - Chinese fireworks

Bekaert's new reporting will make Xingda its most relevant peer. Using Xingda's margins on Bekaert China and an appropriate valuation for Bekaert Europe/US, Bekaert China trades at 2.8x EV/EBITDA. Using the Hang Seng average of 8.5x for Bekaert China gives upside to €122. Time for midyear Chinese fireworks.

Chart 1 : Chinese car market on its way up



Source: Datastream

Table 1 : Bekaert vs Xingda

Bekaert	BEKB BB
Sales 2008 (EUR)	2,662
EBITDA margin	15.7%
Market cap (EUR)	1,533
Market share China	33%
Xingda	1899 HK
Sales 2008 (mRmb)	3,489
EBITDA margin	26.7%
Market cap (mHKD)	4,297
Market share China	31%

Source: Company data

Bekaert (Buy) has the highest exposure to China in our Benelux universe. In 2008, Bekaert generated 22% of sales in China. As the steelcord market leader, Bekaert has a 33% market share in China, followed by Xingda (31% market share – 1899 HK). Steelcord is predominantly used to reinforce tyres. Post the Chinese new year, and aided by the Chinese stimulus plan, we saw a surge in new car sales, which is important as these enlarge the total pool of cars and trucks. More cars mean more replacement tyres (often containing more steelcord, indicating better quality), translating into higher sales for Bekaert. Bekaert's China sales grew 20% in 1Q09 and recent trends bode well for 2Q09. Bekaert will change its reporting method from a divisional to a geographical breakdown with the publication of its 1H09 results on 31 July. This should increase transparency, while Xingda will come back in the picture as the most relevant peer in high-growth China. Ultimately, this should change the perceived growth profile of Bekaert. In 2008, Bekaert achieved a group EBITDA margin of 15.7%, compared to 26.7% for Xingda. Bekaert has always argued that its Chinese business is superior compared to Xingda's. Therefore, it would be odd not to expect similar margins, else Bekaert's statement would not hold true. Assuming an equal Chinese EBITDA margin for Bekaert, China should have generated as much as 37% of Bekaert's 2008 EBITDA. If we apply a 2009F EBITDA margin of 25%, China will generate EBITDA of €163.2m. If we value Bekaert US/Europe at our average Benelux EV/EBITDA multiple of 6.6x and deduct this €1.1bn and the €608m of the JVs (DDM model) from Bekaert's current EV of €2.2bn, the implicit valuation for China of 2.8x EV/EBITDA becomes visible. This compares to an average Hang Seng multiple of 8.5x. A re-rating to the average multiple, would give a target price of €122, 60% above the current price. Time for mid-year Chinese fireworks.

Analyst

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Important disclosures can be found in the Disclosures Appendix.

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Benelux research team

Table 2 : Benelux research team and coverage

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Products	Periodicity	Description
Benelux Equity Morning Note	Daily	Highlights overnight news on Benelux equities
Benelux Eye-opener	Weekly	Weekly editorial discussing the impact of local/current themes on the Benelux universe

Source: ABN AMRO

Table 3 : London-based analysts with Benelux coverage

Analyst	Telephone	e-mail address	Benelux stocks under coverage
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Source: ABN AMRO

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For UK Small/Mid-Cap Analysis a Buy/Sell implies upside/downside of 10% or more, an Add/Reduce 5-10% and a Hold less than 5%. For UK-based Investment Funds research the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For listed property trusts (LPT) or real estate investment trusts (REIT) the recommendation is based upon the target price plus the dividend yield, ie total return.

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Long Term recommendations (as at 16 Jul 2009)		
	Global total (IB%)	Europe total (IB%)
Buy	488 (6)	170 (17)
Add	0 (0)	0 (0)
Hold	399 (3)	168 (5)
Reduce	1 (0)	1 (0)
Sell	183 (0)	68 (0)
Total (IB%)	1071 (4)	407 (9)

Source: ABN AMRO

Trading recommendations (as at 16 Jul 2009)		
	Global total (IB%)	Europe total (IB%)
Trading Buy	5 (0)	0 (0)
Trading Sell	3 (0)	0 (0)
Total (IB%)	8 (0)	0 (0)

Source: ABN AMRO

Valuation and risks to target price

None

Regulatory disclosures

None

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