

2 July 2010

Produced by: The Royal Bank of Scotland N.V.

Bekaert

We anticipate strong 1H10 results

Buy

Target price
€175.00 (from €145.00)

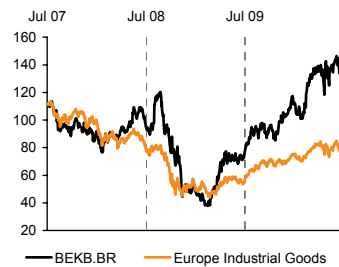
Price
€133.85

Short term (0-60 days)
n/a

Sector view
Overweight

Price performance

	(1M)	(3M)	(12M)
Price (€)	137.9	134.7	74.75
Absolute (%)	-2.9	-0.6	79.1
Rel market (%)	0.5	12.2	59.9
Rel sector (%)	-1.0	5.1	32.4



Market capitalisation
€2.65bn

Average (12M) daily turnover
€6.39m

Market: FTSE Eurotop 300 Index
RIC: BEKB.BR, BEKB.BB
Priced €133.85 at close 1 Jul 2010.
Source: Bloomberg

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Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue (€m)	2,662	2,437	2,801	3,070	3,371
EBITDA (€m)	335	391.1	526.3 ▲	571 ▲	612.1 ▲
Reported net profit (€m)	174.1	151.7	259.9 ▲	291.1 ▲	320.5 ▲
Normalised net profit (€m)	174.1	151.7	259.9 ▲	291.1 ▲	320.5 ▲
Normalised EPS (€)	8.79	7.67	12.9 ▲	14.5 ▲	15.9 ▲
Dividend per share (€)	2.8	2.94	4.52 ▲	5.06 ▲	5.57 ▲
Dividend yield (%)	2.09	2.2	3.38	3.78	4.16
Normalised PE (x)	15.2	17.5	10.4	9.26	8.41
EV/EBITDA (x)	15.2	10	7.39	6.55	5.8
EV/invested capital (x)	1.64	1.54	1.42	1.3	1.18
ROIC - WACC (%)	1.21	0.7	5.81	5.84	6.32

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

year to Dec, fully diluted

Accounting standard: IFRS

Source: Company data, RBS forecasts

We anticipate strong 1H10 results

We believe Bekaert will post very strong 1H10 results on 30 July, driven by 15% sales growth and flat margins vs 2H09. According to Michelin, volumes for truck tyres for the replacement market – the single largest driver for Bekaert sales – increased at a double-digit pace across all regions in 1H10. We forecast 1H10 recurring EBIT of €199m.

Expansion plans in China should be absorbed by market growth

Beyond 1H10, we remain positive on Bekaert's profit growth. Despite capacity expansion plans representing a 16% CAGR in the Chinese steel cord industry in 2010-12, we believe market growth should absorb the expansion. As a result, utilisation rates in the industry should remain high. GDP growth in China remains strong, and secular growth trends of increased car penetration and higher radialisation should be evident as well. We expect Bekaert's margin in China to gradually drop from 36% in 2H09 to 29% in 2010-12, but for this to be more than compensated by sales growth. We believe the absolute EBIT contribution from the Asia Pacific region will increase to more than €400m in 2012, from €288m in 2009. Further recovery in the EMEA region and North America to normalised EBIT margins of 7-9% should only add to profit growth.

Our 2010 EPS forecast is 12% higher than consensus

We believe the market is exaggerating the EBIT margin decline for Bekaert in China. Our 2010 group EBIT margin forecast of 14.3% is some 230bp above company-compiled consensus. Bottom line, our 2010 EPS forecast is 12% higher than consensus. In line with our new forecasts, we raise our target price to €175 per share, from €145, based on DCF and dividend discount for the JVs, justifying our Buy recommendation. Bekaert trades at 9.3x 2011F PE and 4.2x EV/EBITDA, the latter corrected for joint ventures.

Important disclosures can be found in the Disclosures Appendix.

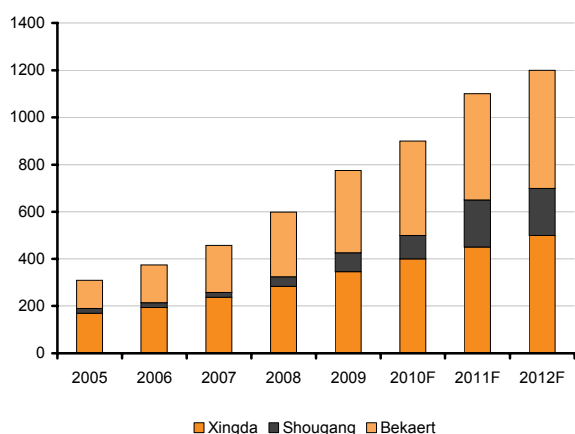
The Chinese tiger

We believe Bekaert's EBIT in China will continue to grow beyond 2010. Capacity expansion of Bekaert, Xingda and Shougang, representing a 16% CAGR over 2010-12, should be absorbed by market growth.

A classic growth story

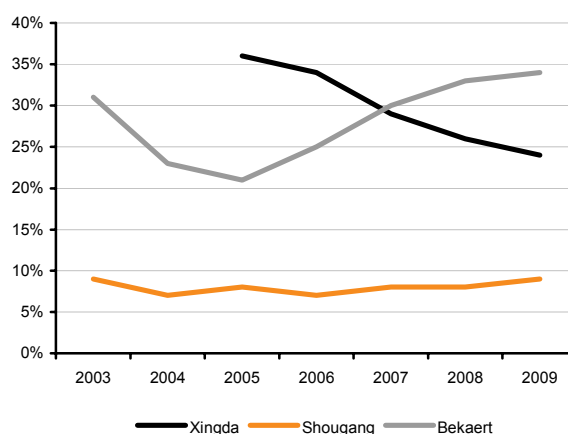
Bekaert entered China in 1993, when construction of the first steelcord plant in Jiangyin began. After several years of impressive market growth – from 300,000 tonnes in 2005 to more than 800,000 tonnes in 2008 – the Chinese steelcord market temporarily weakened in 1Q09, affected by the global economic crisis. However, in 2009 the Chinese government launched its Rmb4trn incentive programme, which prompted a strong rebound. Investments in the Chinese infrastructure spurred demand for passenger cars again, which resulted in demand for tyres and steelcord. In addition, the rate of radialisation (percentage of tyres with steelcord for reinforcement) continued to improve. According to Xingda, the radialisation rate was 76.3% by the end of 2009. Despite a weak 1Q09, we estimate the Chinese steelcord market increased 25% in 2009 to 1,030m tonnes.

Chart 1 : Capacity developments of Bekaert, Xingda and Shougang ('000 tonnes)



Source: Company data

Chart 2 : Market shares – China



Source: Company data, RBS estimates

Bekaert has displayed impressive sales growth and capacity expansion in recent years to keep up with demand. Its capacity, which was only 120,000 tonnes in 2005, should reach 400,000 tonnes in 2010 after the acquisition of the Bridgestone plant in Huizhou, which has 15,000 tonnes of capacity. Excluding this acquisition, the capacity expansion CAGR in 2004-10 is should be 26%, with utilisation rates of all plants close to maximum.

We believe Bekaert has gained market share in recent years given stronger capacity expansion than its competition. However, Bekaert's competitors – Shougang and Xingda – have major capacity expansion plans for 2010-12.

Shougang

We estimate Shougang, which is 13% owned by Bekaert, had some 9% market share in 2009. Shougang has shown rapid capacity expansion, with major expansion of its plants in Jiaying City in the Zhejiang province and in Tengzhou City in the Shandong Province. In Tengzhou, Shougang launched the first line of 30,000 tonnes production. An additional 70,000 tonnes will be added in 2010. By the end of 2010, Shougang's capacity should reach 180,000 tonnes. With some smaller expansions planned, capacity should total 200,000 tonnes in 2011.

Xingda

Bekaert's main competitor is the listed company Xingda (1899.HK). In 2009, Xingda increased its capacity of radial tyre cords for trucks and passenger cars to 345,000 tonnes, which is a 61,000-tonne increase over 2008. In 2H09, Xingda commenced construction of a new factory with

potential capacity of 150,000-180,000 tonnes. The expansion plan will be carried out in several phases of 50,000 tonnes annually. Total capacity for steelcord will exceed 500,000 tonnes in 2012.

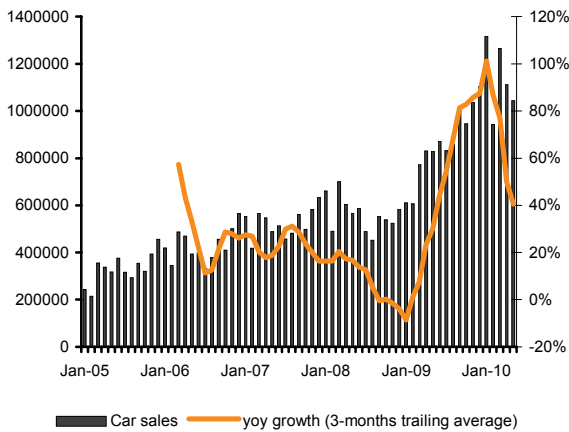
The market is heading for rapid expansion, which should be absorbed by the market

At the end of 2009, Bekaert, Xingda and Shougang had a combined capacity of 775,000 tonnes. Assuming that Bekaert adds 50,000 tonnes annual capacity beyond 2010, and assuming the announced expansion plans of Xingda and Shougang are carried out, installed capacity would total 1,200,000 tonnes by 2012. This represents a capacity expansion CAGR of 16% within the next three years.

We believe market growth for steelcord will absorb this capacity expansion in 2011 and 2012 as well. We believe the main indicators for market growth point in the right direction.

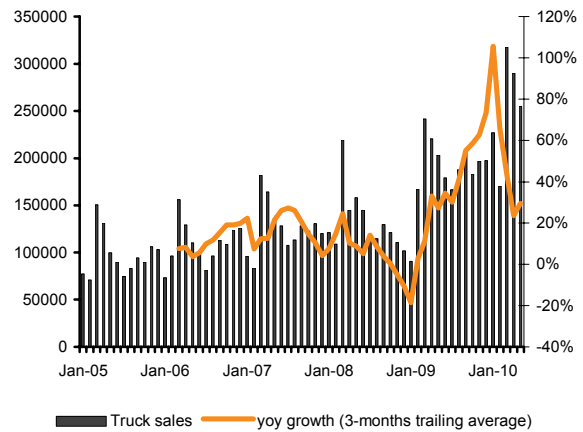
- RBS expects the Chinese economy to grow 11.0% in 2010 and 9.5% in 2011. China's GDP increased 8.5% yoy in 2009.
- Chinese car sales are strong. Car sales are not only driven by GDP growth, but also by the car-penetration rate. Per every 1,000 inhabitants in China, only 16 people own a car. In the US and Western Europe, the numbers are 783 and 481 per every 1,000 inhabitants. The higher penetration rate of cars is a strong secular growth driver. The following charts show passenger and truck sales in China since 2005, which are accelerating in 2010. In 2010, including May, passenger car sales increased 55% yoy, while truck sales in China rose 36% yoy. Roughly speaking, 75% of the steelcord production in China is for trucks and 25% is for passenger cars. IHS Global Insight forecasts light-duty vehicle production in Asia of 33.1m in 2010 (up 14% yoy) and 36.5m (up 10% yoy).

Chart 3 : China's passenger car sales



Source: Datastream

Chart 4 : China's truck sales



Source: Datastream

- As discussed, according to Xingda, the radialisation rate for passenger cars in China was 76% in 2009. We estimate that for truck tyres, the radialisation rate is only 60%, compared with close to 100% for Western Europe and North America. Radial tyres have the advantage of higher comfort and less fuel consumption, and the tyres are more efficient. An increase in this rate would result in a second secular growth rate.
- Global tyre manufacturers are exploring growth opportunities in China. Michelin is attempting to get a foothold in the Chinese market. Michelin said it plans to invest some US\$800m in a greenfield plant in China focusing primarily on truck tyres. This indicates that the global No 2 tyre producer forecasts strong market growth in China and Bekaert is following its clients. According to latest data from Michelin, Chinese tyre sales for Original Equipments increased 58% yoy in January-May, with replacement tyres increasing 17% yoy.

We conclude that demand for steelcord in China will likely grow by more than 16% in 2011 and 2012, given secular growth trends. Demand for cars and trucks should outpace GDP growth, while demand for steelcord should outpace demand for tyres. Bekaert expects the steelcord market to grow by 17% yoy during this period to 1,200m tonnes, which should keep utilisation rates across the industry close to maximum. In our view, this limits the risk of strong margin deterioration.

Bekaert outperforms competitors

Bekaert's performance in the Asia Pacific region accounted for 24% of 2009 combined sales and includes China. In 2008, in the old reporting style, Bekaert reported sales in Steelcord China of €594m of its total €713m sales in the Asia Pacific region. Consequently, of total sales from the Asia Pacific region, some 82% is related to steelcord in China.

Table 1 : Asia Pacific region

€m	1H08	2H08	2008	1H09	2H09	2009	1H10F	2H10F	2010F	2011F	2012F
Consolidated sales	318	395	713	367	445	812	502	528	1030	1195	1386
Sales growth				15%	13%	14%	37%	19%	27%	16%	16%
Recurring EBIT	107	142	249	128	160	288	176	174	350	370	402
Recurring EBIT margin	33.6%	35.9%	34.9%	34.9%	36.0%	35.5%	35.0%	33.0%	34.0%	31.0%	29.0%
EBIT	107	137	244	128	160	288			350	370	402

Source: Company data, RBS forecasts

Since Bekaert changed its reporting style and uses geographical breakdown, we have seen that the EBIT margin in the Asia Pacific region was 34.9% in 2008 and 35.6% in 2009, accounting for more than 100% of group EBIT. Bekaert has repeatedly stated that it expects its margin to gradually drop. Besides the additional capacity built in China, it is also adding more commoditised products, and therefore lower margin products to its portfolio. Although margins of these products will lower EBIT margin, the production contributes to absolute EBIT.

Margins in China will not fall to group margins

Bekaert has significantly higher EBIT margins than its competitors. It achieved a 35.5% EBIT margin in 2009, with 2H09 even at 36.1%. In the same period, Xingda showed a 24.8% EBIT margin and Shougang 19.5%. Bekaert generates the highest margins because of its cost leadership and most efficient equipment. In addition, it produces steelcord for niches such as off-road and Energy & Utilities, while its competition focuses on steelcord for passenger car tyres.

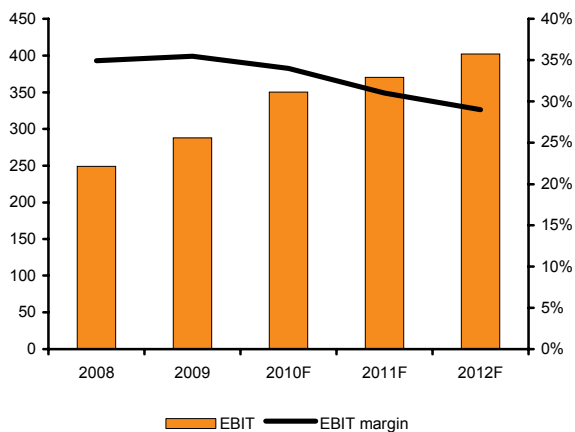
In our view, the high EBIT margins within the industry indicate there was still a shortage of steelcord in 2H09. With current market expansion plans of 16% within the next three years, we do not expect margins to drop rapidly, but with Bekaert also adding lower-margin products to its portfolio, margins should gradually drop.

As long as Bekaert offsets margin decline with sales growth, we believe its EBIT for the Asia Pacific region should grow in 2011 and 2012 from our current forecast of €350m for 2010. We believe Bekaert should be able to show double-digit sales growth, based on market growth. We believe the EBIT margin will gradually drop from 35.6% in 2009 to 29% in 2012.

There are several reasons to believe the EBIT margin in China will not fall back to the margin in EMEA or North America. Bekaert's EBIT margin target in the mature regions is 7-9%:

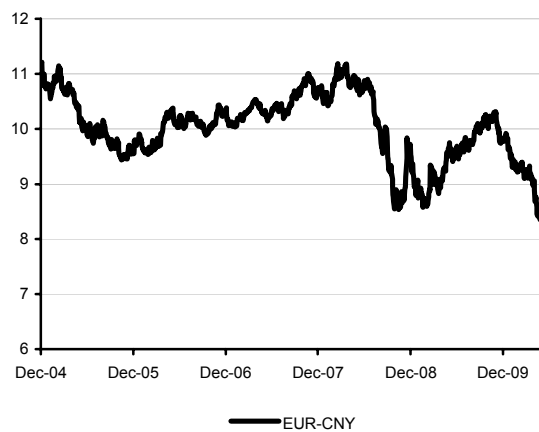
- Tyre manufacturers in China usually purchase Bekaert's steelcord for the production of tyres, while European tyre manufacturers also produce steelcord in-house. Michelin, for example, has its own steelcord plants in Europe. Therefore, Bekaert must compete with its own clients. Bekaert is therefore limited in its price increases. There is an ongoing trend from tyre manufacturers to outsource production of steelcord, in EMEA and North America. A practical example is Bekaert's acquisition of Bridgestone's steelcord plants in Italy at the beginning of this year.
- Bekaert's plants in China are the most efficient plants in its portfolio. According to Bekaert, the cost of a plant has dropped substantially within the past five years. Bekaert has more than 60 years of experience producing steelcord, while Xingda and Shougang are relatively new companies. In addition, Bekaert develops its own equipment. This also explains why Bekaert's margins are significantly higher than its competition.
- Bekaert has a strong position in the production of steelcord for off-road tyres in China. These tyres, for example for mining equipment, can contain some 1,000 kg steelcord, which is the equivalent of 2,000 passenger cars. Bekaert is also strong in the production of steelcord for the Energy & Utilities sector. We believe these products generate higher margins, since the company has a virtual monopoly on these products.

Chart 5 : EBIT from Asia Pacific (€m) should continue to grow



Source: Company data, RBS forecasts

Chart 6 : Renmimbi has appreciated in recent months



Source: Datastream

Chinese Renmimbi appreciation should be good news

In June, the Chinese central bank announced that it will impose a more flexible exchange rate of CNY vs the US dollar. This would end the two-year peg to the dollar. Obviously, this is good news for Bekaert if the CNY further appreciates. We estimate that Bekaert's sales are largely dependent upon domestic consumption, rather than export. Bekaert would therefore benefit from a positive translation effect. Chart 6 shows the EUR-CNY rate has dropped to 8.3 CNY per euro. This compares with an average EUR-CNY rate of 9.5 in 2009. For Bekaert, this means a 13% positive translation effect, which is now only related to the stronger US\$. For 1H10F, the positive EBIT translation effect from China is some €20m, which is almost 10% of total EBIT. If the CNY becomes more flexible and gains strength against the US\$ and euro, this could further spur profits from China. We did not take further appreciation into account in our forecasts.

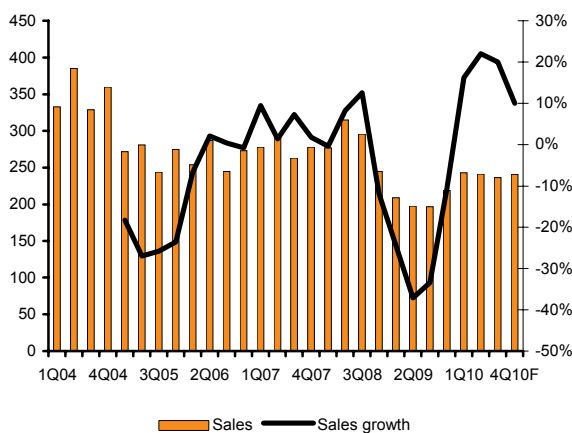
All in all, we believe Bekaert should be able to at least maintain its current EBIT from the Asia Pacific region at around €350m in 2011 and 2012. Further appreciation of the renmimbi only comes on top of this.

EMEA and North America back in the black

After several years of restructuring in EMEA and North America, Bekaert showed strong sales growth in 1Q. EBIT margin was positive in 2H, indicating that the EBIT contribution in 2010 will be good.

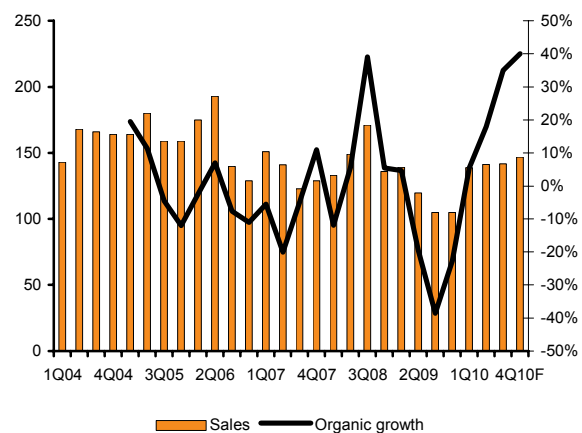
Bekaert's sales in the EMEA region and North America were severely hit by the financial crisis. Car production and tyre sales (automotive represents 30% of tyre sales in the EMEA region and 40% in the US) dropped and the construction sector (representing 25% of tyre sales in the EMEA region and the US) also hit Bekaert's sales. Bekaert has been restructuring in these areas since 2005. We estimate that restructuring costs in EMEA in 2010 will be €10m and in North America €5m. The company implemented strong cost controls and produced more commoditised products in an effort to maintain high utilisation rates.

Chart 7 : EMEA sales (€m) have shown a strong rebound since 2Q09



Source: Company data, RBS forecasts

Chart 8 : North American sales (€m) growth should further accelerate



Source: Company data, RBS forecasts

In the EMEA region and North America, Bekaert was loss making in 1H09 with negative EBIT margins of 5.1% and 1.9%, respectively. However, the margin was hurt by the negative FIFO impact related to lower wire rod prices. Excluding this effect, both regions were breakeven, despite 33% and 15% organic sales declines, respectively.

With a recovery in the EMEA region and further weakening in North America in 2H09 driven by a weak US construction market, Bekaert managed to return to the black in both regions. The EBIT margin was 5.4% in Europe and breakeven in North America in 2H09. The positive margin developments have continued in 2010. Sales growth in 1Q in the EMEA region was 16% yoy to €243m, while organic growth in North America at about 5% to €139m. Bekaert indicated at 1Q result that the company saw higher sales across all activity platforms, except for the construction industry. Bekaert specifically cited the automotive sector and energy sector as strong performers. The construction markets in EMEA and North America remained subdued.

If Bekaert can maintain the 1Q sales level in EMEA throughout 2010 (hardly any seasonality in sales), sales for 2010 should be €972m. In addition, Bekaert will consolidate sales of the Italian Bridgestone acquisition of €30m and therefore 2010 sales could be around €1bn, implying 16% yoy sales growth. We are somewhat conservative and assume 2010 sales in EMEA of €962m. We also assume Bekaert should be able to slightly improve its 2H09 EBIT margin of 5.4% to 6.0% given the higher sales. In total, the 2010 EBIT should be €58m, compared with 2009 EBIT of €1m. In North America, we can extrapolate 1Q sales into 2010 and we arrive at €556m. Given the appreciation of the US\$, Bekaert's sales would be €572m in 2010. We expect a 4% EBIT margin given the production of more commoditised products to maintain utilisation rates. In total, we expect 2010 EBIT of €23m, compared with -€5m in 2009.

In total, the mature markets should generate €81m EBIT in 2010, which equals a 5.2% EBIT margin and is an €85m improvement over 2009. This is below Bekaert's objective of a 7-9% EBIT margin, but there is still scope for improvement, in our view. Even in 1H08, the EMEA region

generated an 8.7% EBIT margin and North America 7.3%. We argue therefore that in the longer term there is no reason to assume that margins will not return to these levels.

Latin American joint ventures

A compelling part of Bekaert's investment case is its joint ventures in Latin America. The most important JVs – Belgo Mineira Bekaert Arames and Belgo Mineira Bekaert Arefatos de Arame – are in Brazil with partner Arcelor Mittal. Bekaert has important JVs in Chile as well. Bekaert has increasingly stepped up capex in Brazil to benefit from the improving infrastructure, which should bear fruit within the next few years. In 1Q10, JV sales increased 32%, partly because of the strong real, but also as a result of the strong economic recovery in Brazil and Chile. Strong growth prospects in Brazil for steelcord are underpinned by Michelin, which has publicly stated that it plans to invest €1bn in 2006-12 in this region.

The Brazilian real appreciated on average 23% in 1H, while the Chilean peso appreciated 13%, which should have a positive translation effect for Bekaert. In total, we expect the JVs to contribute €47m to net profit in 2010, compared with €38m in 2009.

Table 2 : Joint ventures (€m)

		2007	2008	2009	2010F	2011F	2012F
Belgo Mineira Bekaert Arames (45%)	Brazil						
Net profit		29.86	45.05	25.95	34.37	37.80	41.58
Tax rate		25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
EBIT		39.82	60.07	34.60	45.82	50.40	55.44
Growth		-6%	51%	-42%	32%	10%	10%
Currency		3%	0%	0%	22%	0%	0%
Organic growth		-9%	50%	-42%	10%	10%	10%
Belgo Mineira Bekaert Artefatos de Arame (45%)	Brazil						
Net profit		4.24	-1.61	3.19	4.22	4.64	5.11
Tax rate		25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
EBIT		5.65	(2.15)	4.25	5.63	6.19	6.81
Growth		14%	-138%	-298%	32%	10%	10%
Currency		3%	0%	0%	22%	0%	0%
Organic growth		12%	-138%	-298%	10%	10%	10%
Chilean entities (50%)	Chile						
Net profit		7.07	9.47	8.26	9.83	10.33	10.84
Tax rate		17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
EBIT		8.52	11.41	9.96	11.85	12.44	13.06
Growth		-20%	34%	-13%	19%	5%	5%
Currency		-8.4%	-5.6%	-5.6%	9.0%	0.0%	0.0%
Organic growth		-11%	40%	-7%	10.0%	5.0%	5.0%

Source: Company data, RBS forecasts

1H10 results preview

We believe Bekaert's 1H10 results will be strong. We forecast 15% sales growth hoh with a 14% EBIT margin. Net profit should have increased 275% hoh.

Bekaert's 1Q10 trading update was strong. 1Q consolidated sales were €694m, which was 17% higher yoy and 12% higher qoq. Organic growth was 24%, while currencies shaved off 7%. Since the price effect was 7% negative, we believe volume growth was some 30%. The company benefited from strong emerging market demand from the automotive sector, while construction remains under pressure. The Latin American JVs generated €259m in sales. Sales in the Asia Pacific region were €242m, which represented a 52% increase yoy and 12% higher compared with 4Q09. The EMEA region continues its recovery with sales of €210m with higher volumes and a higher utilisation rate. Sales were €141m in North America, with higher volumes but lower prices, and according to the company, the US has passed the trough.

We expect most trends continued in 2Q10, especially in North America (up 21% yoy) and the Asia Pacific region (up 24% yoy). According to Michelin, in the period January-May, volumes in China rose 59% for OEM and 17% for replacement tyres. In the next table, provided by Michelin, we see that all growth trends were at a double-digit pace.

Table 3 : Volume trends in the tyre market very strong in January-May

	Passenger car			Truck market	
	OE	Replacement		OE	Replacement
Europe	29.4%	9.8%	Europe	20.0%	31.0%
North America	68.6%	10.6%	North America	20.2%	23.8%
China	58.4%	16.6%	Brazil	57.2%	35.2%
			Japan	106.4%	14.0%
			China	15.2%	11.5%

Source: Michelin

In total, we forecast 1H10F consolidated sales of €1,419m, which is 18% higher yoy. We expect recurring EBIT margin to have stabilised at 14.0%, compared with 13.9% in 2H09. Finally, we expect net profit of €121m, which is a 275% increase from 2H09.

We believe recurring EBIT will be €401m in 2010, compared with company-compiled consensus of €358m. Extrapolating 2H09 recurring EBIT of €171m into 2010, we already arrive at €342m. Given the positive trends in the EMEA region and in North America, we believe Bekaert will show a significant improvement compared with 2H09.

Table 4 : Preview 1H10F

€m	1H08	2H08	2008	1H09	2H09	2009	1H10F	2H10F	2010F	2011F	2012F
EMEA											
Consolidated sales	612	592	1204	410	416	826	484.4	477.3	961.7	1019.4	1080.6
Recurring EBIT	53	15	68	-21	22	1	26.6	31.1	57.7	71.4	75.6
Recurring EBIT margin	8.7%	2.5%	5.6%	-5.1%	5.4%	0.2%	5.5%	6.5%	6.0%	7.0%	7.0%
EBIT	36	-45	-9	-27	7	-20			47.7	61.4	65.6
US											
Consolidated sales	289	316	605	263	210	473	283.7	288.8	572.4	606.8	643.2
Recurring EBIT	21	4	25	-5	0	-5	8.5	14.4	22.9	30.3	32.2
Recurring EBIT margin	7.3%	1.3%	4.1%	-1.9%	0.0%	-1.1%	3.0%	5.0%	4.0%	5.0%	5.0%
EBIT	22	4	26	-5	-3	-8			17.9	25.3	27.2
Latin America											
Consolidated sales	84	92	176	160	166	326	148.6	88.6	237.2	249.0	261.5
Recurring EBIT	11	5	16	9	19	28	17.1	11.4	28.5	29.9	31.4
Recurring EBIT margin	13.1%	5.4%	9.1%	5.6%	11.4%	8.6%	11.5%	12.8%	12.0%	12.0%	12.0%
EBIT	11	4	15	8	19	27			28.5	29.9	31.4
Asia Pacific											
Consolidated sales	318	395	713	367	445	812	502.3	527.8	1030.1	1194.9	1386.0
Recurring EBIT	107	142	249	128	160	288	176	174.4	350.2	370.4	402.0
Recurring EBIT margin	33.6%	35.9%	34.9%	34.9%	36.0%	35.5%	35%	33%	34.0%	31.0%	29.0%
EBIT	107	137	244	128	160	288			350.2	370.4	402.0
Sales	1303.0	1395.0	2662.0	1200.0	1237.0	2437.3	1418.9	1382.4	2801.4	3070.1	3371.3
Recurring EBIT excl. corporate costs	192	166	358	111	201	312	228	231	459	502	541
Non-recurring cost	-16	-65	-81	-7	-18	-25	-7.5	-7.5	-15	-15	-15
Corporate costs	-30.7	-35.8	-66.5	-25.3	-30.0	-55.3	-29	-29	-58	-58	-58
Reported EBIT	145.3	65.2	210.5	79	153	232.2	192	195	386	429	468
Recurring EBIT	161	130	292	86	171	257.2	199	202	401	444	483
Recurring EBIT margin	12.4%	9.3%	10.8%	7.1%	13.9%	10.6%	14.0%	14.6%	14.3%	14.5%	14.3%
Result from continuing operations before taxes	123.0	38.3	161.3	48.2	118.4	166.6	159	169	328.3	370.1	408.2
Income taxes	-25.5	0.0	-25.5	-13.3	-20.6	-33.9	-39.8	-42.3	-82.1	-92.5	-102.0
Tax rate	-20.7%	-0.1%	-15.8%	-27.5%	-17.4%	-20.4%	-25%	-25%	-25%	-25%	-25%
Result for continuing operations	97.4	38.3	135.7	34.9	97.7	132.7	119.3	127.0	246.3	277.5	306.1
JVs	35.7	20.4	56.1	17.4	20.3	37.8	19.0	29.3	48.3	52.6	57.4
Minority interest	-7.1	-10.6	-17.7	-8.2	-10.5	-18.6	-17	-17.6	-34.6	-39.0	-43.0
Net profit for shareholders	126.0	48.1	174.1	44.2	107.6	151.8	121.3	138.6	259.9	291.1	320.5

Source: Company data, RBS forecasts

We believe consensus is too low

We believe the margin in China is more sustainable than the market expects. This results in our 2010 EBIT margin forecast being 190bp above consensus. We raise our 2010 EPS forecast 17%.

We slightly raise our sales forecasts for 2010 on the back of FX changes. Bekaert has more than 50% exposure to the US\$ or pegged currencies, which results in a positive translation effect. We are much more positive on the margin side. We raise our recurring EBIT margin forecast to 14.3% from 12.5% to reflect the sustainability of the Chinese contribution. We also believe that in 2011 and 2012, the Chinese contribution will remain at around the same level.

Table 5 : Changes to our forecasts

€m	2010F			2011F			2012F		
	New	Old	Chg	New	Old	Chg	New	Old	Chg
Sales	2801	2733	3%	3070	2935	5%	3371	3152	7%
Recurring EBIT	401	341	18%	444	378	17%	483	398	21%
Net profit	260	222	17%	291	247	18%	320	262	23%
EPS	12.91	11.03	17%	14.46	12.29	18%	15.92	12.99	23%

Source: RBS forecasts

Our 2010 recurring EBIT forecast is €401m. Company-compiled consensus currently stands at €336m. Consensus is much more negative on the sustainability of the EBIT margin. Our 14.3% recurring EBIT margin compares with a consensus EBIT margin of 12.0%.

Table 6 : RBS vs consensus

€m	New	Consensus	Difference	New	Consensus	Difference	New	Consensus	Difference
Sales	2801	2800	0%	3070	2994	3%	3371	3150	7%
EBIT	401	336	19%	444	366	21%	483	388	25%
Net profit	260	228	14%	291	252	16%	320	273	17%
EPS	12.91	11.55	12%	14.46	12.7	14%	15.92	13.77	16%

Source: RBS forecasts, Company-compiled consensus

We value Bekaert with a combination of DCF for the consolidated business and dividend discount model for the joint ventures. We raise our long-term margin assumption to 9.5% and raise our 2010-12 forecasts. We raise our target price to €175 per share and reiterate our Buy recommendation.

Income statement

€m	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	2662	2437	2801	3070	3371
Cost of sales	-1935	-1744	-2073	-2283	-2519
Operating costs	-391.3	-302.0	-202.0	-215.7	-239.8
EBITDA	335.0	391.1	526.3	571.0	612.1
DDA if & Impairment (ex gw)	-124.5	-159.0	-140.0	-142.0	-144.0
EBITA	210.5	232.1	386.3	429.0	468.1
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	210.5	232.1	386.3	429.0	468.1
Net interest	-41.4	-56.7	-51.9	-52.9	-53.9
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	-7.83	-8.94	-6.00	-6.00	-6.00
Reported PTP	161.2	166.5	328.3	370.1	408.2
Taxation	-25.5	-33.9	-82.1	-92.5	-102.0
Minority interests	-17.7	-18.6	-34.6	-39.0	-43.0
Other post-tax items	56.1	37.8	48.3	52.6	57.4
Reported net profit	174.1	151.7	259.9	291.1	320.5
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	335.0	391.1	526.3	571.0	612.1
Normalised PTP	161.2	166.5	328.3	370.1	408.2
Normalised net profit	174.1	151.7	259.9	291.1	320.5

Source: Company data, RBS forecasts

year to Dec

Balance sheet

€m	FY08A	FY09A	FY10F	FY11F	FY12F
Cash & market secs (1)	118.3	275.8	201.7	309.6	460.6
Other current assets	1140	1018	1208	1337	1450
Tangible fixed assets	1071	1128	1188	1206	1222
Intang assets (incl gw)	111.5	105.0	105.0	105.0	105.0
Oth non-curr assets	226.6	302.8	307.6	312.9	318.6
Total assets	2667	2830	3010	3270	3556
Short term debt (2)	503.1	151.4	151.4	151.4	151.4
Trade & oth current liab	478.0	483.6	516.6	543.5	573.6
Long term debt (3)	288.1	598.1	598.1	598.1	598.1
Oth non-current liab	225.6	222.8	222.8	222.8	222.8
Total liabilities	1495	1456	1489	1516	1546
Total equity (incl min)	1172	1374	1521	1754	2010
Total liab & sh equity	2667	2830	3010	3270	3556
Net debt	672.9	473.7	547.8	439.9	288.9

Source: Company data, RBS forecasts

year ended Dec

Cash flow statement

€m	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	335.0	391.1	526.3	571.0	612.1
Change in working capital	-145.8	127.5	-156.5	-102.4	-83.4
Net interest (pd) / rec	-49.2	-65.6	-57.9	-58.9	-59.9
Taxes paid	-44.5	-55.4	-82.1	-92.5	-102.0
Other oper cash items	84.4	41.1	31.4	47.3	51.6
Cash flow from ops (1)	179.8	438.7	261.2	364.5	418.4
Capex (2)	-277.5	-216.0	-200.0	-160.0	-160.0
Disposals/(acquisitions)	0.00	0.00	-70.0	0.00	0.00
Other investing cash flow	0.00	0.00	0.00	0.00	0.00
Cash flow from invest (3)	-277.5	-216.0	-270.0	-160.0	-160.0
Incr / (decr) in equity	-7.70	-42.2	0.00	0.00	0.00
Incr / (decr) in debt	215.8	-41.7	0.00	0.00	0.00
Ordinary dividend paid	-62.4	-55.6	-65.3	-96.6	-107.4
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-4.96	-94.1	0.00	0.00	0.00
Cash flow from fin (5)	140.7	-233.6	-65.3	-96.6	-107.4
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Incr/(decr) cash (1+3+5+6)	43.0	-10.9	-74.1	107.9	151.0
Equity FCF (1+2+4)	-97.8	222.7	61.2	204.5	258.4

Lines in bold can be derived from the immediately preceding lines.
Source: Company data, RBS forecasts

year to Dec

Standard ratios

	Bekaert					Imtech			Europe sector aggregate		
	FY08A	FY09A	FY10F	FY11F	FY12F	FY10F	FY11F	FY12F	2010	2011	2012
Performance											
Sales growth (%)	22.5	-8.43	14.9	9.59	9.81	1.69	3.27	3.28	3.96	5.15	5.21
EBITDA growth (%)	11.5	16.8	34.6	8.50	7.21	3.38	4.74	3.61	28.7	16.6	13.4
EBIT growth (%)	20.5	10.3	66.4	11.1	9.12	3.17	4.78	3.66	70.4	28.0	21.1
Normalised EPS growth (%)	16.0	-12.8	68.3	12.0	10.1	7.19	6.40	5.22	n/a	n/a	n/a
EBITDA margin (%)	12.6	16.0	18.8	18.6	18.2	6.27	6.36	6.38	10.4	11.3	11.7
EBIT margin (%)	7.91	9.52	13.8	14.0	13.9	5.54	5.62	5.64	5.84	6.87	7.10
Net profit margin (%)	6.54	6.23	9.28	9.48	9.51	3.55	3.66	3.72	3.60	4.25	4.55
Return on avg assets (%)	9.37	8.10	11.6	11.9	12.0	7.10	7.30	7.35	3.71	4.30	4.79
Return on avg equity (%)	15.6	12.6	19.1	18.8	17.9	28.8	26.2	24.1	10.6	12.3	13.1
ROIC (%)	9.63	9.12	14.2	14.3	14.7	14.6	15.5	16.0	8.09	9.47	24.5
ROIC - WACC (%)	1.21	0.70	5.81	5.84	6.32	6.44	7.35	7.85	0.46	1.64	9.15
				year to Dec				year to Dec			year to Dec
Valuation											
EV/sales (x)	1.25	1.28	1.14	1.01	0.87	0.44	0.41	0.38	0.78	0.72	0.65
EV/EBITDA (x)	15.2	10.0	7.39	6.55	5.80	7.09	6.47	5.90	7.53	6.36	5.54
EV/EBITDA @ tgt price (x)	18.9	12.6	9.28	8.28	7.41	7.99	7.33	6.72	1.63	1.35	1.29
EV/EBIT (x)	15.8	13.5	8.29	7.21	6.29	8.04	7.33	6.67	13.4	10.5	9.14
EV/invested capital (x)	1.64	1.54	1.42	1.30	1.18	1.70	1.62	1.54	1.26	1.21	0.63
Price/book value (x)	2.34	2.06	1.88	1.62	1.40	2.76	2.39	2.10	n/a	n/a	n/a
Equity FCF yield (%)	-3.69	8.41	2.27	7.59	9.59	8.27	8.63	10.1	2.83	5.17	7.25
Normalised PE (x)	15.2	17.5	10.4	9.26	8.41	10.4	9.77	9.29	17.9	13.0	10.8
Norm PE @ tgt price (x)	19.9	22.8	13.6	12.1	11.0	12.0	11.3	10.7	0.00	0.00	0.00
Dividend yield (%)	2.09	2.20	3.38	3.78	4.16	3.33	3.58	3.79	2.56	3.18	3.91
				year to Dec				year to Dec			year to Dec
Per share data											
Tot adj dil sh, ave (m)	19.8	19.8	20.1	20.1	20.1	Solvency					
Reported EPS (EUR)	8.79	7.67	12.9	14.5	15.9	Net debt to equity (%)	57.4	34.5	36.0	25.1	14.4
Normalised EPS (EUR)	8.79	7.67	12.9	14.5	15.9	Net debt to tot ass (%)	25.2	16.7	18.2	13.5	8.12
Dividend per share (EUR)	2.80	2.94	4.52	5.06	5.57	Net debt to EBITDA	2.01	1.21	1.04	0.77	0.47
Equity FCF per share (EUR)	-4.94	11.3	3.04	10.2	12.8	Current ratio (x)	1.28	2.04	2.11	2.37	2.64
Book value per sh (EUR)	57.1	64.9	71.1	82.7	95.5	Operating CF int cov (x)	5.56	8.53	6.93	8.75	9.68
				year to Dec		Dividend cover (x)	2.79	2.73	3.98	3.01	2.98
											year to Dec

Priced as follows: BEKB.BR - €133.85; IMUN.AS - €20.83
Source: Company data, RBS forecasts

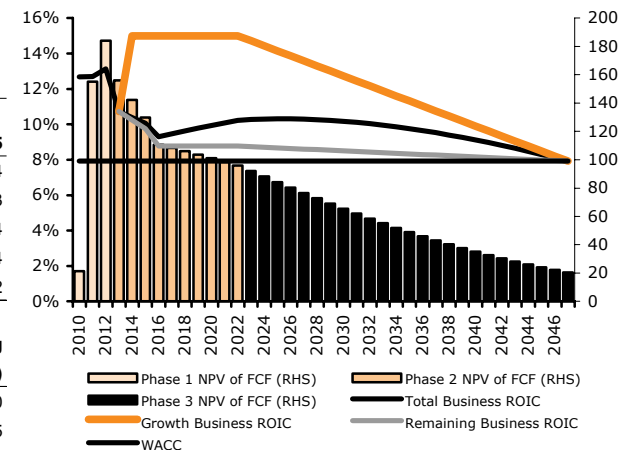
Valuation methodology

Economic Profit Valuation			EURm		%		Discounted Cash Flow Valuation			EURm		%	
Adjusted Opening Invested Capital			2279.6		71		Value of Phase 1: Explicit (2010 to 2012)			360.4		11	
NPV of Economic Profit During Explicit Period			259.7		8		Value of Phase 2: Value Driver (2013 to 2022)			1152.0		36	
NPV of Econ Profit of Remaining Business (1, 2)			267.4		8		Value of Phase 3: Fade (2023 to 2047)			1290.9		40	
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)			421.3		13		Terminal Value			425.4		13	
Enterprise Value			3228.1		100		Enterprise Value			3228.8		100	
Plus: Other Assets			799.1		25		FCF Grth Rate at end of Phs 1 implied by DCF Valuation					1.4	
Less: Minorities			88.7		3		FCF Grth Rate at end of Phs 1 implied by Current Price					-2.3	
Less: Net Debt / Leases (as at 01 Jul 2010)			473.7		15								
Equity Value			3464.7		107								
No. Shares (millions)			19.8										
Per Share Equity Value			175.00										
Current Share Price			133.85										

Sensitivity Table		No of Years in Fade Period				
		15	18	20	23	25
WACC	6.0%	206.97	211.99	215.28	220.10	223.24
	7.0%	185.34	188.65	190.80	193.92	195.93
	8.0%	166.95	169.03	170.37	172.30	173.54
	9.0%	151.25	152.44	153.21	154.33	155.04
	10.0%	137.78	138.34	138.72	139.27	139.62

Performance Summary				Phase 2 Avg
	2010	2011	2012	(2013 - 2022)
Invested Capital Growth (%)	10.6	5.4	4.3	3.0
Operating Margin (%)	12.6	12.7	12.6	9.5
Capital Turnover (x)	1.3	1.3	1.4	1.3

Returns, WACC and NPV of Free Cash Flow



Source: RBS

- In periods following the Explicit Period i.e. Phase 2 and Phase 3
- Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
- Net Investment is defined as capex over and above depreciation after Phase 1

Company description

Buy

Price relative to sector

Bekaert, established in 1880, is the global market leader for steelcord. Steelcord is used for a wide range of applications. Bekaert's most important end markets are automotive (31%), construction (23%) and utilities (16%). Bekaert strives to be a market and technological leader in its niche markets. The company is a true global player with some 55% of revenues derived from emerging markets. Management is very strong, in our view, with a focus on creating shareholder value. Bert de Graeve is CEO, and Bruno Humblet is CFO. Bekaert should be able to maintain its market position and profitability via small add-on acquisitions.



Strategic analysis

Average SWOT company score:

4

Combined sales, 2009

Strengths

4

Worldwide positions in almost every niche market in which it is active. Well positioned in emerging markets. Management is very strong, in our view.

Weaknesses

3

Sensitivity to the GDP rate. When GDP declines, Bekaert's sold volume will normally decline and therefore profitability will decline.

Opportunities

4

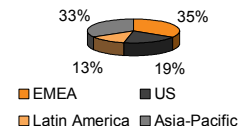
Strategic acquisitions could reinforce its leading positions and generate synergy advantages. Due to difficult market circumstances, we believe some of Bekaert's rivals will leave the market.

Threats

3

A further depreciation of the US dollar would threaten net profit as half the sales are generated in the US dollar or currencies tied to the US dollar.

Scoring range is 1-5 (high score is good)



Source: Company data

Market data

Headquarters

President Kennedypark 18 Kortrijk

Website

www.bekaert.be

Shares in issue

19.8m

Freefloat

60%

Majority shareholders

Stichting Administratiekantoor Bekaert (38%),
Common attorney, Mr Oberson (11%)

Sector view: Industrial Engineering

Overweight

Sector rel to Europe

Thematically, we see European Industrials as a core holding for the next cycle, given significant exposure to emerging markets. The sector is strongly correlated to macro industrial activity indicators, which have bounced sharply and support further sector outperformance. In our view, balance sheets generally look strong across the sector, and operational valuations still have scope to expand, given the growth premium likely to be generated over the coming years. We continue to prefer the later-cycle plays versus the early-cycle names.

The sector view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Industry competitive position

Average competitive score:

4+

Broker recommendations

Supplier power

5+

Because of its market leadership, Bekaert is able to directly increase its selling prices and largely protect its gross profits in the advanced wire division.

Barriers to entry

4+

Bekaert has increased its research and development expenses to €35m in 1H09, resulting in more than 1,400 patents owned. In addition, Bekaert's global scale is very important.

Customer power

3+

High in some niches such as the tyre industry. Few clients account for a high share of sales, making Bekaert dependent upon them. Low in other markets where Bekaert is unique.

Substitute products

5-

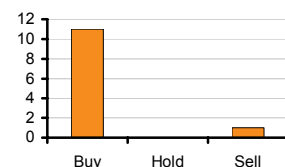
Not relevant

Rivalry

5-

Bekaert's combination of core competencies makes the company unique. Most rivals are privately owned companies with less supplier power.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

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 and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For research produced by Nedbank Capital, a Buy implies upside in excess of 20%, a Sell implies an expected return less than 10%, and a Hold implies a return between 10% and 20%. 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 research produced by Nedbank Capital and for research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months. Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside. Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship. These numbers include recommendations produced by third parties with which RBS has joint ventures or strategic alliances.

Long term recommendations (as at 02 Jul 2010)		
	Global total (IB%)	Europe total (IB%)
Buy	707 (0)	265 (0)
Add	0 (0)	0 (0)
Hold	397 (0)	153 (0)
Reduce	0 (0)	0 (0)
Sell	97 (0)	23 (0)
Total (IB%)	1201 (0)	441 (0)

Source: RBS

Trading recommendations (as at 02 Jul 2010)		
	Global total (IB%)	Europe total (IB%)
Trading Buy	4 (0)	0 (0)
Rec	00 (00)	00 (00)
Trading Sell	3 (0)	0 (0)
Total (IB%)	7 (0)	0 (0)

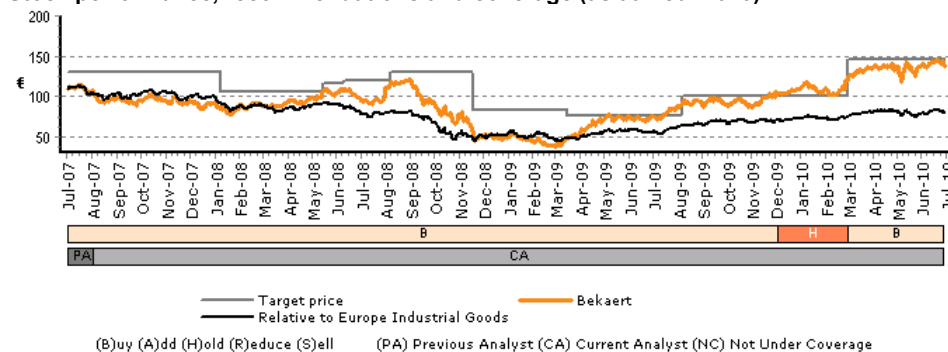
Source: RBS

Valuation and risks to target price

Bekaert (RIC: BEKB.BR, Rec: Buy, CP: €133.85, TP: €175.00): A key risk to our DCF- and DDM-based valuation and target price would be a shortage of raw materials. A sudden drop in the price of wire rods could squeeze margins, as we saw in 1H09, although an increase in the price would be beneficial. In addition, any deterioration in the global tyre market could pose a risk.

Bekaert coverage data

Stock performance, recommendations and coverage (as at 1 Jul 2010)



Trading recommendation history (as at 02 Jul 2010)

Date	Rec	Analyst
	n/a	

Source: RBS

Pieter Zwinkels started covering this stock on 2 Aug 07

Source: RBS

Regulatory disclosures

RBS currently maintains a market in the security of this company and otherwise purchases and sells securities of this company as principal: **IMUN.AS**
RBS currently maintains a market in the security of this company and otherwise purchases and sells securities of this company as principal: **BEKB.BR**

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