The Royal Bank of Scotland

2 August 2010

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

Bekaert

Once again...

Buy

Target price
€210.00 (from €175.00)

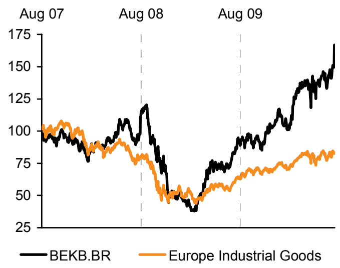
Price
€166.90

Short term (0-60 days)
n/a

Sector view
Overweight

Price performance

	(1M)	(3M)	(12M)
Price (€)	137.4	135.2	84.46
Absolute (%)	21.5	23.4	97.6
Rel market (%)	15.7	25.7	76.2
Rel sector (%)	16.9	22.1	48.4



Market capitalisation
€3.31bn

Average (12M) daily turnover
€6.75m

Market: FTSE Eurotop 300 Index
RIC: BEKB.BR, BEKB BB
Priced €166.90 at close 30 Jul 2010.
Source: Bloomberg

Bekaert posted blowout 1H10 results and the party isn't over, in our view. The EBIT margin in Asia looks sustainable to us, and the recovery in EMEA and North America continues. We raise our 2010-12F EPS 23-28%, and the valuation still seems undemanding. We reiterate Buy and raise our target price to €210.

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue (€m)	2,662	2,437	3,205	3,566	3,917
EBITDA (€m)	335.0	391.1	687.9 ▲	738.4 ▲	800.1 ▲
Reported net profit (€m)	174.1	151.7	332.6 ▲	359.5 ▲	395.6 ▲
Normalised net profit (€m)	174.1	151.7	332.6 ▲	359.5 ▲	395.6 ▲
Normalised EPS (€)	8.79	7.67	16.50 ▲	17.90 ▲	19.60 ▲
Dividend per share (€)	2.80	2.94	5.78 ▲	6.25 ▲	6.88 ▲
Dividend yield (%)	1.68	1.76	3.46	3.75	4.12
Normalised PE (x)	19.00	21.80	10.10	9.35	8.49
EV/EBITDA (x)	18.20	12.10	6.38	5.72	4.96
EV/invested capital (x)	1.96	1.86	1.63	1.49	1.36
ROIC - WACC (%)	1.21	0.70	9.21	8.07	8.65

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

Blowout 1H10 results

Bekaert again posted blowout 1H10 results. Consolidated sales came in at €1,535m (company-compiled consensus: €1,408m, RBS forecast: €1,419m), which is 28% higher yoy. Sequential sales growth in 2Q10 was 21%, which is strong and largely driven by volume increases rather than price increases. The acquisition of two Bridgestone plants contributed some €16m to sales. Excluding a positive FIFO effect of €20m, REBIT was €242m (consensus: €185m, RBS forecast: €199m). Bekaert's joint ventures contributed €18.8m (consensus: €20m, RBS forecast: €19m). Reported net profit was €181m (consensus: €115m, RBS forecast: €121m). Reported EPS came in at €9.15 (consensus: €5.77).

Management confident of medium-term outlook

Bekaert is somewhat cautious on 2H10 given the volatility in markets, FX rates and raw materials prices, but its medium-term outlook is strong. It raised its medium-term EBIT margin target to at least 10% (from 7-9%). In addition, it announced an interim dividend of €2 per share to reflect a strong 1H performance, but this also shows confidence in the future. Finally, a 3:1 share split was announced to increase liquidity.

We reiterate Buy, with a new target price of €210 per share

We increase our sales forecasts some 16% related to FX changes and higher growth assumptions. We raise our recurring EBIT forecasts for 2010-12 by 25-30%. We believe the recovery and restructuring in EMEA and North America is more aggressive than we previously assumed. As a result, we increase our 2010-12 EPS forecasts by 28%, 24% and 23% respectively. We value Bekaert using a combination of DCF for the consolidated business and dividend discount model for the joint ventures. We increase our 2013-22F average margin assumption to 11.4% and raise our 2010-12 sales and EBIT forecasts. We increase our target price to €210 per share and reiterate our Buy recommendation.

Analyst

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Once again…

Bekaert again posted strong results. EMEA and Asia were the growth drivers, and we believe these trends are sustainable. A higher medium-term margin target, interim dividend and share split are signs of confidence. We reiterate our Buy recommendation.

Blowout 1H10 results

Bekaert again posted blowout 1H10 results. Consolidated sales came in at €1,535m (company-compiled consensus: €1,408m, RBS forecast: €1,419m), which is 28% higher yoy. Sequential sales growth in 2Q10 was 21%, which is strong and largely driven by volume increases rather than price increases. The acquisition of two Bridgestone plants contributed some €16m to sales. Recurring EBIT was €262m (consensus: €185m, RBS forecast: €199m), yielding a 17.1% REBIT margin, the highest ever. Excluding a positive FIFO effect of €20m, REBIT was €242m. The results were driven by EMEA (9% sales beat and 10.2% REBIT margin) and Asia (10% sales beat and 37.4% margin). Bekaert's joint ventures contributed €18.8m (consensus: €20m, RBS forecast: €19m). Reported net profit was €181m (consensus: €115m, RBS forecast: €121m). Reported EPS came in at €9.15 (consensus: €5.77).

Table 1 : Income statement

€m	1H08	2H08	2008	1H09	2H09	2009	1H10	2H10F	2010F	2011F	2012F
Sales	1303	1395	2698	1200	1237	2437	1535	1670	3205	3566	3917
Recurring EBIT excl. corp costs	192	166	358	111	201	312	295	293	588	620	671
Non-recurring cost	-16	-65	-81	-7	-18	-25	-19	-9	-37	-15	-15
Corporate costs	-31	-36	-67	-25	-30	-55	-33	-33	-66	-67	-68
Reported EBIT	145	65	211	79	153	232	243	250	485	538	588
Recurring EBIT	161	130	292	86	171	257	262	260	522	553	603
Depreciation	80	122	202	69	90	159	106	97	203	200	212
Recurring EBIT margin	12.4%	9.3%	10.8%	7.1%	13.9%	10.6%	17.1%	15.6%	16.3%	15.5%	15.4%
EBITDA	**225**	**187**	**413**	**148**	**243**	**391**	**313**	**383**	**688**	**738**	**800**
Interest income	2	3	5	2	4	6	4	4	8	4	3
Interest expense	-20	-27	-46	-29	-34	-63	-28	-35	-63	-63	-63
Other financial income	-5	-3	-8	-3	-6	-9	8	0	8	0	0
Result from continuing ops before taxes	123	38	161	48	118	167	228	219	438	480	529
Income taxes	-26	0	-26	-13	-21	-34	-51	-63	-114	-130	-143
Tax rate	-21%	-0%	-16%	-28%	-17%	-20%	-25%	-29%	-26%	-27%	-27%
Result for continuing operations	**97**	**38**	**136**	**35**	**98**	**133**	**177**	**157**	**324**	**350**	**386**
JVs	36	20	56	17	20	38	19	19	38	42	45
Minority interest	-7	-11	-18	-8	-11	-19	-14	-16	-30	-32	-36
Net profit for shareholders	**126**	**48**	**174**	**44**	**108**	**152**	**181**	**161**	**333**	**359**	**396**

Source: Company data, RBS forecasts

Net debt increased to €582m, from €395 at year-end 2009, related to a higher working capital requirement, payment of dividend and the share buyback. Bekaert bought back 150,000 shares for a total amount of €20.6m. As always, its 2H outlook is very prudent and not quantified, but Bekaert is positive on automotive and energy & utilities. However, for the long term, the company is very positive. The company raised its medium-term EBIT margin target to at least 10% (from 7-9%), which should not come as a surprise given the 17.1% recurring EBIT margin in 1H10. An interim dividend of €2 per share (first-time interim dividend) was announced, reflecting the strong prospects. Finally, to increase liquidity, Bekaert proposed a 3:1 share split.

EMEA (25% of sales in 1H10)

Sales in 1H10 in EMEA increased 28%, driven by impressive 41% higher sales in 2Q. Most of the sales growth – around 20% – in 1H was driven by volume growth, with the remaining 8% coming from pricing. Sales in the quarter were the highest since 4Q04. Bekaert saw a sustained recovery in all activities, except construction (Dramix). Automotive especially was very strong, driven by a high production rate of cars in Europe. The utilisation rate in Bekaert's plants was close to maximum. Bekaert also consolidated the steelcord plant of Bridgestone in Italy in the 2Q. We estimate this acquisition contributed some €11m to 2Q sales. The 1H10 EBIT was €54m, which was some €10m skewed by positive FIFO adjustments. The recurring EBIT margin excluding the FIFO effect was 8.4%. The company restructured its production organisation in Belgium in 2008 and moved the production to Eastern Europe, which is positive for margins. Bekaert's margin target in mature markets is 7-9%, so we are approaching peak margins.

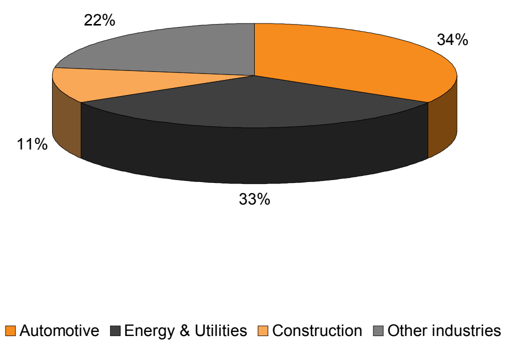
Table 2 : EMEA

€m	1H08	2H08	2008	1H09	2H09	2009	1H10	2H10F	2010F	2011F	2012F
Consolidated sales	612	592	1204	410	416	826	526	530	1056	1116	1183
Recurring EBIT	53	15	68	-21	22	1	54	40	94	89	95
Recurring EBIT margin	8.7%	2.5%	5.6%	-5.1%	5.4%	0.2%	10.3%	7.6%	8.9%	8.0%	8.0%
FIFO adjustment				-25		-25	10		10		
Recurring EBIT margin ex FIFO				1.0%		3.2%	8.4%	7.6%	8.0%	8.0%	8.0%
Non-recurring items	-17	-60	-77	-6	-15	-21	-2	-5	-7	-10	-10
EBIT	36	-45	-9	-27	7	-20	52	35	87	79	85
Depreciation	39	65	104	27	39	66	30	30	60	61	62
EBITDA	75	20	95	0	46	46	82	65	147	140	147

Source: Company data, RBS forecasts

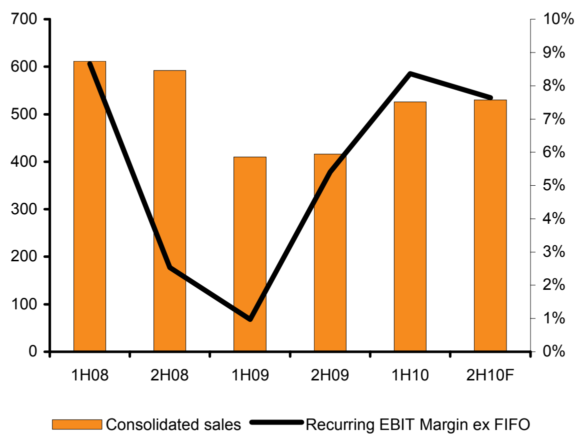
Going forward, we believe growth in EMEA will be 6%. Bekaert is introducing new products related to the high R&D, which was close to €40m in 1H10. We expect EBIT will flatten out at the mid-point of the long-term target of 7-9%.

Chart 1 : End market breakdown 2009



Source: Company data

Chart 2 : Sales (€m) and EBIT margin



Source: Company data, RBS forecasts

North America (15% of sales in 1H10)

In North America, 1H10 sales were €313m, 19% higher than in 1H09. 2Q sales improved 43% yoy to €171m, aided by 3% appreciation of the USD. Organic growth in 2Q was therefore an impressive 40%. Bekaert decided to produce lower-margin products, such as beat wire, to increase utilisation rates in the plants. In addition, demand for tire cord improved significantly. In Canada, demand from the agricultural sector improved significantly. 1H10 recurring EBIT was €21m, with €3m related to FIFO adjustments. Adjusted for this one-off, the recurring EBIT margin was 5.8%.

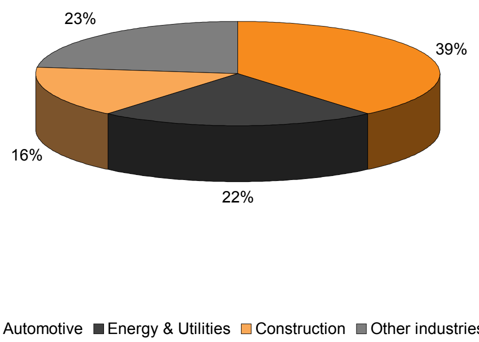
Table 3 : North America

€m	1H08	2H08	2008	1H09	2H09	2009	1H10	2H10F	2010F	2011F	2012F
Consolidated sales	289	316	605	263	210	473	313	320	633	668	708
Recurring EBIT	21	4	25	-5	0	-5	21	17	38	37	39
Recurring EBIT margin	7.3%	1.3%	4.1%	-1.9%	0.0%	-1.1%	6.7%	5.3%	6.0%	5.5%	5.5%
FIFO adjustment				-5	0	-5	3	0	3	0	0
Recurring EBIT margin ex FIFO				0.0%		0.0%	5.8%	5.3%	5.5%	5.5%	5.5%
Non-recurring items	1	0	1	0	-3	-3	-3	-5	-7	-5	-5
EBIT	22	4	26	-5	-3	-8	19	12	31	32	34
Depreciation	8	11	19	9	12	21	9	9	18	18	18
EBITDA	**30**	**15**	**45**	**4**	**9**	**13**	**28**	**21**	**49**	**50**	**52**

Source: Company data, RBS forecasts

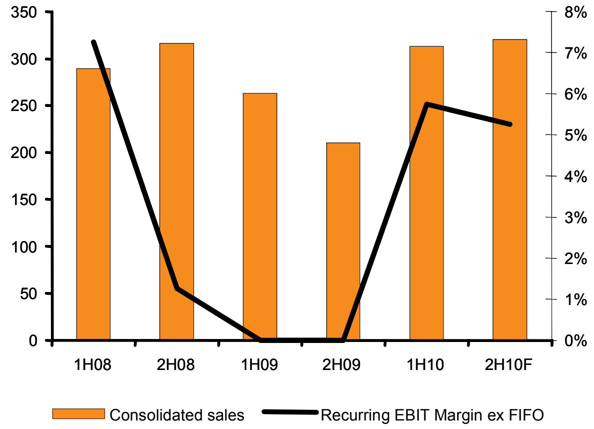
Going forward, we believe that in North America the margin will remain slightly below the margin in the EMEA. We believe the recurring EBIT margin should be around 5.5% in 2010 through 2012.

Chart 3 : End market breakdown 2009



Source: Company data

Chart 4 : Sales (€m) and EBIT margin



Source: Company data, RBS forecasts

Asia (26% of sales in 1H10)

In Asia, 1H10 sales were €552m, driven by a very strong 2Q with 46% organic growth. Bekaert has acquired the Bridgestone plant, which added some €5m to sales. Bekaert finalised plans to expand the plant to 400,000t. A decision about further expansion will be based on market growth. Utilisation rates are still close to maximum. The recurring EBIT margin was 36.4% excluding the FIFO adjustment.

Table 4 : Asia Pacific

€m	1H08	2H08	2008	1H09	2H09	2009	1H10	2H10F	2010F	2011F	2012F
Consolidated sales	318	395	713	367	445	812	552	660	1212	1407	1633
Sales growth				15%	13%	14%	50%	48%	49%	16%	16%
Recurring EBIT	107	142	249	128	160	288	206	223	429	464	506
Recurring EBIT margin	33.6%	35.9%	34.9%	34.9%	36.0%	35.5%	37.3%	33.0%	35.4%	33.0%	31.0%
FIFO adjustment							5		5		
Recurring EBIT margin ex FIFO				34.9%	36.0%	35.5%	36.4%	33.8%	35.0%	33.0%	31.0%
Non-recurring items	0	-5	-5	0	0	0	-3	-3	-6	0	0
EBIT	107	137	244	128	160	288	203	220	423	464	506
Depreciation	31	43	74	29	33	62	48	52	100	110	120
EBITDA	**138**	**180**	**318**	**157**	**193**	**350**	**251**	**272**	**523**	**574**	**626**

Source: Company data, RBS forecasts

Bekaert has significantly higher EBIT margins than its competitors in the Asia Pacific region. Xingda and Shougang have not yet reported 1H10, although in a preliminary statement Xingda indicated 1H10 sales grew by 60% and profit by 130%. The last comparable results stem from 2H09. Bekaert achieved a 35.5% EBIT margin in 2009, with 2H09 even at 36.0%. 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 offroad 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, we believe margins should gradually drop. As long as Bekaert offsets margin decline with sales growth, we believe its recurring EBIT for the Asia Pacific region should grow in 2011 and 2012 from our current forecast of €429m for 2010. In 2H10, the renmimbi is 10% higher compared with 2H09 at current rates.

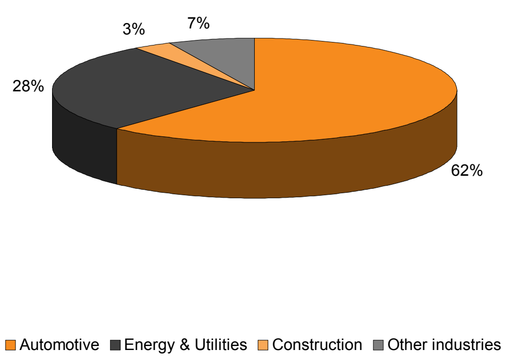
We believe Bekaert should be able to show double-digit sales growth, based on market growth. We believe the recurring EBIT margin will gradually drop from 37.3% in 1H10 to 31% in 2012.

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 and China 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 those of its competitors.
- 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 1,000kg 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.

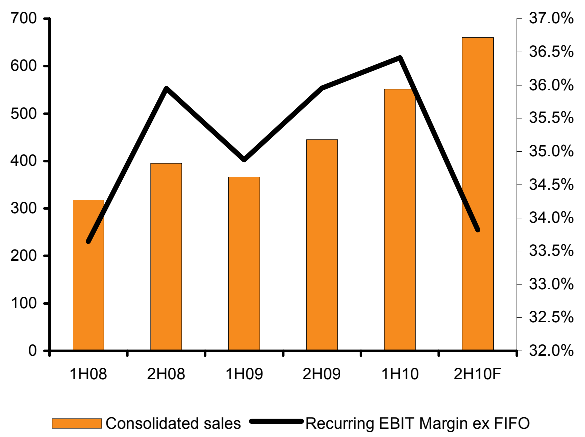
In June, the Chinese central bank announced that it will impose a more flexible exchange rate of CNY vs the US dollar. This would end the two-year peg to the dollar. Obviously, it is good news for Bekaert if the CNY further appreciates. We estimate that Bekaert's sales are largely dependent upon domestic consumption rather than export. Bekaert would therefore benefit from a positive translation effect. The EUR-CNY rate has dropped to 8.8 CNY per euro, compared with an average EUR-CNY rate of 9.5 in 2009. For Bekaert, this means a 8% positive translation effect, which is now only related to the stronger USD. For 2H10, the positive EBIT translation effect from China is some €18m, which is almost 7% of total EBIT. If the CNY becomes more flexible and gains strength against the USD and euro, this could further spur profits from China.

Chart 5 : End market breakdown 2009



Source: Company data

Chart 6 : Sales (€m) and EBIT margin



Source: Company data, RBS forecasts

Latin America (34% of sales in 1H10)

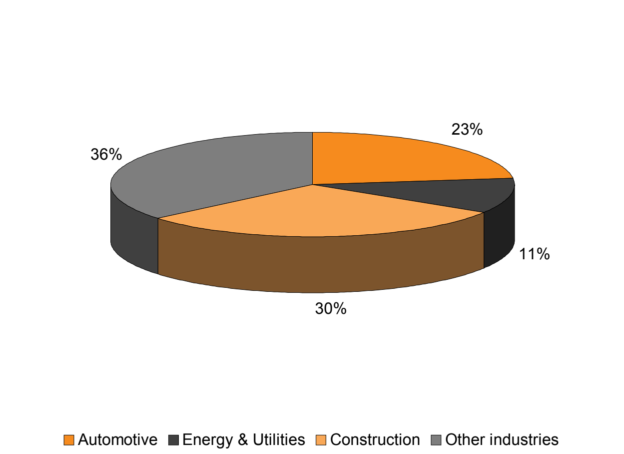
Sales in Latin America in 1H10 dropped to €144m, from €160m in 1H09. In Venezuela, Bekaert was confronted with hyperinflation. The company changed its reporting currency from the official rate to the parallel rate. Basically, this decreased revenues by two-thirds. At the top-line figure, this shaved off €52m in sales. Excluding Venezuela, sales increased 177% in 1H10. Excluding the FIFO adjustment, the recurring EBIT margin was 7.7%. Bekaert also impaired the assets in Venezuela by €12m, which is shown in the non-recurring costs.

Table 5 : Latin America

€m	1H08	2H08	2008	1H09	2H09	2009	1H10	2H10F	2010F	2011F	2012F
Consolidated sales	84	92	176	160	166	326	144	160	304	375	393
Recurring EBIT	11	5	16	9	19	28	14	12	26	30	31
Recurring EBIT margin	13.1%	5.4%	9.1%	5.6%	11.4%	8.6%	9.7%	7.7%	8.7%	8.0%	8.0%
FIFO adjustment				0	0	0	2	0	2	0	0
Recurring EBIT margin ex FIFO							8.3%	7.7%	8.0%	8.0%	8.0%
Non-recurring items	0	0	0	-1	0	-1	-12	-5	-17	0	0
EBIT	11	4	15	8	19	27	2	7	9	30	31
Depreciation	2	3	5	4	6	10	19	6	25	11	12
EBITDA	**13**	**7**	**20**	**12**	**25**	**37**	**21**	**13**	**34**	**41**	**43**

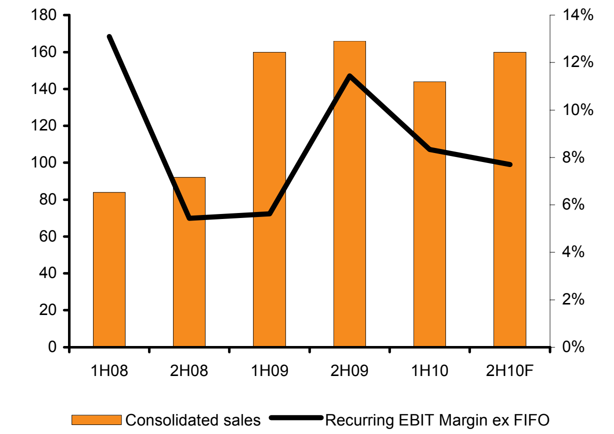
Source: Company data, RBS forecasts

Chart 7 : End market breakdown 2009



Source: Company data

Chart 8 : Sales (€m) and EBIT margin



Source: Company data, RBS forecasts

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 Aretefatos de Arame – are in Brazil with partner ArcelorMittal. 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 1H10, the net profit contribution from the joint ventures was €19m. The Brazilian real appreciated on average 23% in 1H10, while the Chilean peso appreciated 13%, which had a positive translation effect for Bekaert. At current rates, the Brazilian real is some 15% higher than in 2H09. 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. In total, we expect the JVs to contribute €38m to net profit in 2010, which is virtually flat compared with 2009.

We reiterate Buy with a target price of €210

We raise our 2010-12 EPS forecasts 23-28%. We assume higher EBIT margins to be sustainable. As a result of our higher forecasts, we raise our target price to €210 per share and reiterate Buy.

We raise our sales forecasts some 16% related to FX changes and higher growth assumptions. We raise our recurring EBIT forecasts for 2010-12 by 25-30%. We believe the recovery and restructuring in EMEA and North America is more aggressive than we previously assumed. As a result, we increase our 2010-12 EPS forecasts by 28%, 24% and 23% respectively.

Table 6 : Changes to our forecasts

€m	2010F			2011F			2012F		
	New	Old	Change	New	Old	Change	New	Old	Change
Sales	3205	2801	14%	3566	3070	16%	3917	3371	16%
Recurring EBIT	522	401	30%	553	444	25%	603	483	25%
Net profit	333	260	28%	360	291	24%	396	321	23%
EPS (€)	16.50	12.91	28%	17.90	14.46	24%	19.60	15.92	23%

Source: RBS forecasts

We value Bekaert with a combination of DCF for the consolidated business and a dividend discount model for the joint ventures. We raise our average 2013-2022 margin assumptions to 11.4% and raise our 2010-12 sales and EBIT forecasts. We raise our target price to €210 per share and reiterate our Buy recommendation.

Income statement

€m	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	2662	2437	3205	3566	3917
Cost of sales	-1935	-1744	-2137	-2403	-2647
Operating costs	-391.3	-302.0	-380.5	-424.4	-469.4
EBITDA	**335.0**	**391.1**	**687.9**	**738.4**	**800.1**
DDA & Impairment (ex gw)	-124.5	-159.0	-203.0	-200.0	-212.0
EBITA	**210.5**	**232.1**	**484.9**	**538.4**	**588.1**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**210.5**	**232.1**	**484.9**	**538.4**	**588.1**
Net interest	-41.4	-56.7	-54.5	-58.5	-59.5
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	-7.83	-8.94	8.00	0.00	0.00
Reported PTP	**161.2**	**166.5**	**438.4**	**479.9**	**528.6**
Taxation	-25.5	-33.9	-114.0	-129.6	-142.7
Minority interests	-17.7	-18.6	-30.0	-32.4	-35.7
Other post-tax items	56.1	37.8	38.2	41.6	45.3
Reported net profit	**174.1**	**151.7**	**332.6**	**359.5**	**395.6**
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	335.0	391.1	687.9	738.4	800.1
Normalised PTP	161.2	166.5	438.4	479.9	528.6
Normalised net profit	**174.1**	**151.7**	**332.6**	**359.5**	**395.6**

Source: Company data, RBS forecasts — year to Dec

Balance sheet

€m	FY08A	FY09A	FY10F	FY11F	FY12F
Cash & market secs (1)	118.3	275.8	271.1	409.5	624.6
Other current assets	1140	1018	1391	1558	1691
Tangible fixed assets	1071	1128	1225	1225	1213
Intang assets (incl gw)	111.5	105.0	132.8	132.8	132.8
Oth non-curr assets	226.6	302.8	305.5	305.5	305.5
Total assets	**2667**	**2830**	**3325**	**3631**	**3966**
Short term debt (2)	503.1	151.4	236.1	236.1	236.1
Trade & oth current liab	478.0	483.6	623.7	659.7	694.8
Long term debt (3)	288.1	598.1	604.3	604.3	604.3
Oth non-current liab	225.6	222.8	271.6	271.6	271.6
Total liabilities	**1495**	**1456**	**1736**	**1772**	**1807**
Total equity (incl min)	1172	1374	1589	1859	2159
Total liab & sh equity	**2667**	**2830**	**3325**	**3631**	**3966**
Net debt	672.9	473.7	569.3	430.9	215.8

Source: Company data, RBS forecasts — year ended Dec

Cash flow statement

€m	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	335.0	391.1	687.9	738.4	800.1
Change in working capital	-145.8	127.5	-264.2	-131.9	-97.1
Net interest (pd) / rec	-49.2	-65.6	-46.5	-58.5	-59.5
Taxes paid	-44.5	-55.4	-156.9	-203.7	-216.9
Other oper cash items	84.4	41.1	182.4	108.7	112.5
Cash flow from ops (1)	**179.8**	**438.7**	**402.7**	**453.0**	**539.1**
Capex (2)	-277.5	-216.0	-200.0	-200.0	-200.0
Disposals/(acquisitions)	0.00	0.00	-100.0	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**	**-300.0**	**-200.0**	**-200.0**
Incr / (decr) in equity	-7.70	-42.2	0.00	0.00	0.00
Incr / (decr) in debt	215.8	-41.7	90.9	0.00	0.00
Ordinary dividend paid	-62.4	-55.6	-58.3	-114.7	-124.0
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-4.96	-94.1	10.8	0.00	0.00
Cash flow from fin (5)	**140.7**	**-233.6**	**43.4**	**-114.7**	**-124.0**
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	**43.0**	**-10.9**	**146.1**	**138.3**	**215.1**
Equity FCF (1+2+4)	-97.8	222.7	202.7	253.0	339.1

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

Standard ratios

Performance	Bekaert FY08A	FY09A	FY10F	FY11F	FY12F	Imtech FY10F	FY11F	FY12F	Europe sector aggregate 2010	2011	2012
Sales growth (%)	22.5	-8.43	31.5	11.3	9.84	1.69	3.27	3.28	5.52	5.62	5.58
EBITDA growth (%)	11.5	16.8	75.9	7.34	8.36	3.38	4.74	3.61	30.9	16.0	14.1
EBIT growth (%)	20.5	10.3	108.9	11.0	9.23	3.17	4.78	3.66	69.3	25.3	21.0
Normalised EPS growth (%)	16.0	-12.8	115.4	8.10	10.0	7.19	6.40	5.22	n/a	n/a	n/a
EBITDA margin (%)	12.6	16.0	21.5	20.7	20.4	6.27	6.36	6.38	10.5	11.4	12.1
EBIT margin (%)	7.91	9.52	15.1	15.1	15.0	5.54	5.62	5.64	6.26	7.30	7.80
Net profit margin (%)	6.54	6.23	10.4	10.1	10.1	3.55	3.66	3.72	4.06	4.60	5.02
Return on avg assets (%)	9.37	8.10	12.9	12.5	12.5	7.10	7.30	7.35	4.24	4.73	5.34
Return on avg equity (%)	15.6	12.6	24.1	22.4	20.9	28.8	26.2	24.1	11.7	12.9	13.8
ROIC (%)	9.63	9.12	17.6	16.5	17.1	14.6	15.5	16.0	8.86	10.1	23.4
ROIC - WACC (%)	1.21	0.70	9.21	8.07	8.65	6.44	7.35	7.85	0.85	1.84	8.66
					year to Dec			year to Dec			year to Dec

Valuation	Bekaert FY08A	FY09A	FY10F	FY11F	FY12F	Imtech FY10F	FY11F	FY12F	Europe sector aggregate 2010	2011	2012
EV/sales (x)	1.50	1.55	1.21	1.05	0.90	0.45	0.42	0.39	0.84	0.78	0.71
EV/EBITDA (x)	18.2	12.1	6.38	5.72	4.96	7.25	6.62	6.04	7.97	6.78	5.85
EV/EBITDA @ tgt price (x)	22.1	14.8	7.78	7.03	6.16	7.99	7.33	6.72	1.52	1.24	1.09
EV/EBIT (x)	18.9	16.3	8.00	6.95	5.99	8.21	7.50	6.83	13.4	10.6	9.05
EV/invested capital (x)	1.96	1.86	1.63	1.49	1.36	1.74	1.65	1.58	1.37	1.31	0.74
Price/book value (x)	2.92	2.57	2.28	1.93	1.65	2.84	2.45	2.15	n/a	n/a	n/a
Equity FCF yield (%)	-2.96	6.74	6.03	7.53	10.1	8.06	8.41	9.83	3.52	5.38	7.24
Normalised PE (x)	19.0	21.8	10.1	9.35	8.49	10.7	10.0	9.53	18.0	13.6	11.3
Norm PE @ tgt price (x)	23.9	27.4	12.7	11.8	10.7	12.0	11.3	10.7	0.00	0.00	0.00
Dividend yield (%)	1.68	1.76	3.46	3.75	4.12	3.24	3.48	3.69	2.33	3.05	3.78
					year to Dec			year to Dec			year to Dec

Per share data	FY08A	FY09A	FY10F	FY11F	FY12F
Tot adj dil sh, ave (m)	19.8	19.8	20.1	20.1	20.1
Reported EPS (EUR)	8.79	7.67	16.5	17.9	19.6
Normalised EPS (EUR)	8.79	7.67	16.5	17.9	19.6
Dividend per share (EUR)	2.80	2.94	5.78	6.25	6.88
Equity FCF per share (EUR)	-4.94	11.3	10.1	12.6	16.8
Book value per sh (EUR)	57.1	64.9	73.1	86.5	101.4
					year to Dec

Solvency	FY08A	FY09A	FY10F	FY11F	FY12F
Net debt to equity (%)	57.4	34.5	35.8	23.2	9.99
Net debt to tot ass (%)	25.2	16.7	17.1	11.9	5.44
Net debt to EBITDA	2.01	1.21	0.83	0.58	0.27
Current ratio (x)	1.28	2.04	1.93	2.20	2.49
Operating CF int cov (x)	5.56	8.53	13.0	12.2	13.7
Dividend cover (x)	2.79	2.73	5.70	3.13	3.19
					year to Dec

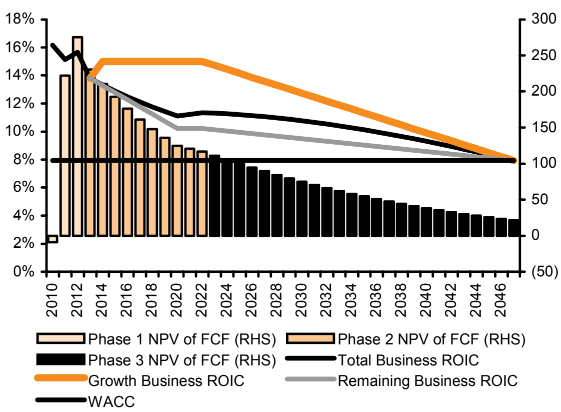
Priced as follows: BEKB.BR - €166.90; IMUN.AS - €21.38
Source: Company data, RBS forecasts

Valuation methodology

Economic Profit Valuation	EURm	%
Adjusted Opening Invested Capital	2382.8	59
NPV of Economic Profit During Explicit Period	407.0	10
NPV of Econ Profit of Remaining Business (1, 2)	787.3	20
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	445.0	11
Enterprise Value	4022.1	100
Plus: Other Assets	718.3	18
Less: Minorities	88.7	2
Less: Net Debt / Leases (as at 02 Aug 2010)	473.7	12
Equity Value	4178.0	104
No. Shares (millions)	19.8	
Per Share Equity Value	**211.2**	
Current Share Price	166.90	

Discounted Cash Flow Valuation	EURm	%
Value of Phase 1: Explicit (2010 to 2012)	488.5	12
Value of Phase 2: Value Driver (2013 to 2022)	1616.6	40
Value of Phase 3: Fade (2023 to 2047)	1468.4	37
Terminal Value	449.3	11
Enterprise Value	4022.8	100
FCF Grth Rate at end of Phs 1 implied by DCF Valuation		0.1
FCF Grth Rate at end of Phs 1 implied by Current Price		-7.1

Returns, WACC and NPV of Free Cash Flow



Sensitivity Table		No of Years in Fade Period				
		15	18	20	23	25
WACC	6.0%	246.81	252.90	256.84	262.59	266.30
	7.0%	222.05	226.19	228.84	232.66	235.10
	8.0%	200.89	203.61	205.33	207.80	209.36
	9.0%	182.71	184.40	185.47	186.98	187.93
	10.0%	167.02	167.98	168.58	169.43	169.97

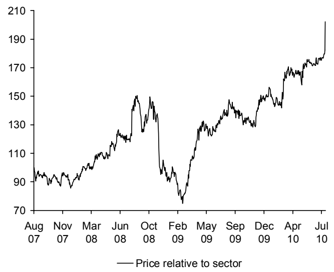
Performance Summary	2010	2011	2012	Phase 2 Avg (2013 - 2022)
Invested Capital Growth (%)	17.2	5.4	3.3	3.0
Operating Margin (%)	14.2	14.2	14.1	11.4
Capital Turnover (x)	1.5	1.5	1.5	1.4

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

Company description — Buy

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.

Price relative to sector



Strategic analysis — Average SWOT company score: 4

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

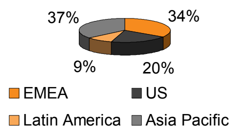
Strategic acquisitions could reinforce its leading positions and generate synergy advantages. Due to difficult market circumstances, we believe some of Bekaert's rivals will leave the market.

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)

Sales breakdown, 1H10



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

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.

Sector rel to Europe

Industry competitive position — Average competitive score: 4+

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-

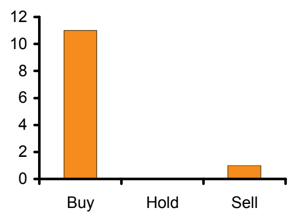
Not relevant

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

Broker recommendations



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 Aug 2010)

	Global total (IB%)	Europe total (IB%)
Buy	711 (0)	267 (0)
Add	0 (0)	0 (0)
Hold	399 (0)	150 (0)
Reduce	0 (0)	0 (0)
Sell	96 (0)	22 (0)
Total (IB%)	1206 (0)	439 (0)

Source: RBS

Trading recommendations (as at 02 Aug 2010)

	Global total (IB%)	Europe total (IB%)
Trading Buy	1 (0)	0 (0)
Rec	00 (00)	00 (00)
Trading Sell	3 (0)	0 (0)
Total (IB%)	4 (0)	0 (0)

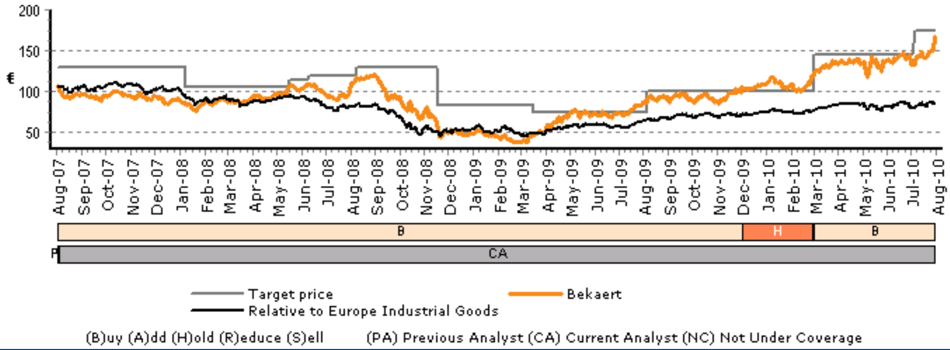
Source: RBS

Valuation and risks to target price

Bekaert (RIC: BEKB.BR, Rec: Buy, CP: €166.90, TP: €210.00): 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 Aug 2010)



Pieter Zwinkels started covering this stock on 2 Aug 07

Source: RBS

Trading recommendation history (as at 02 Aug 2010)

Date	Rec	Analyst
	n/a	

Source: RBS

Regulatory disclosures

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