Equity | Industrial Engineering | Belgium

1 December 2010

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

Bekaert

Much more than just automotive

Buy

Target price
€87.00 (from €70.00)

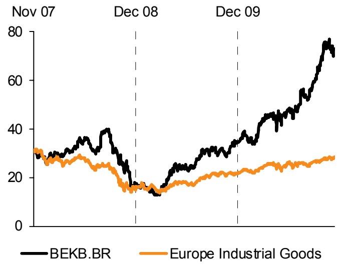
Price
€72.73

Short term (0-60 days)
n/a

Sector view
Overweight

Price performance

	(1M)	(3M)	(12M)
Price (€)	75.85	52.42	32.74
Absolute (%)	-4.1	38.8	122.2
Rel market (%)	-3.8	30.3	102.0
Rel sector (%)	-6.1	20.8	65.4



Market capitalisation
€4.33bn

Average (12M) daily turnover
€9.23m

Market: FTSE Eurotop 300 Index
RIC: BEKB.BR, BEKB BB
Priced €72.73 at close 26 Nov 2010.
Source: Bloomberg

We expect strong growth in the Asia-Pacific to continue for Bekaert, with its expansion in high-end steelcord, like sawing wire. Its strong balance sheet means Bekaert can buy back c14% of its stock. Our 2011-12F EPS are 8% and 15% above Bloomberg consensus. Bekaert is one of our Benelux favourites.

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue (€m)	2,662	2,437	3,164	3,600	4,016
EBITDA (€m)	335.0	391.1	688.0	778.5 ▲	863.2 ▲
Reported net profit (€m)	174.1	151.7	354.6 ▲	415.5 ▲	469.9 ▲
Normalised net profit (€m)	174.1	151.7	354.6 ▲	415.5 ▲	469.9 ▲
Normalised EPS (€)	2.93	2.56	5.87 ▼	6.88 ▼	7.78 ▼
Dividend per share (€)	0.93	0.98	2.35 ▼	2.75 ▼	3.11 ▼
Dividend yield (%)	1.28	1.35	3.23	3.78	4.28
Normalised PE (x)	24.80	28.50	12.40	10.60	9.35
EV/EBITDA (x)	22.80	15.30	8.05	6.77	5.75
EV/invested capital (x)	2.47	2.36	2.05	1.89	1.72
ROIC - WACC (%)	1.49	0.98	9.97	10.50	11.90

Use of ▲ ▼ indicates that the line item has changed by at least 5%.
Accounting standard: IFRS
Source: Company data, RBS forecasts

year to Dec, fully diluted

Ever heard of sawing wire?

Bekaert is usually perceived as a play on China truck sales, given its strong market share in steelcord for tyre reinforcement. But we think Bekaert is much more than just automotive, which accounts for 57% of its sales in the Asia-Pacific. We note the potential in China for sawing wire (wire used to cut wafers). We estimate Bekaert has some 70% share in this market, the steelcord for which is nine times as expensive as that for tyres, given the high specifications. We expect this product alone to account for 25% of Bekaert's EBIT in Asia-Pacific in 2011. Also, in 2011 we anticipate a significant contribution from steelcord in India and Indonesia, where Bekaert has invested heavily in recent years.

Buyback on the agenda

Investment has been Bekaert's top priority in recent years. We expect this to continue, with capex in 2011F and 2012F of about €200m annually. However, net debt is rapidly nearing the 0.8x EBITDA projected for this year end. Bekaert has cautiously resumed its buy-back programme, but we expect an acceleration in 2011. We estimate that it has room to buy back shares worth €620m, which is 14% of its current market cap. We believe this will boost our projected EPS for 2011 and 2012 by 12% and 8%, respectively.

We reiterate Buy, with a new target price of €87

We raise our 2011 and 2012 EPS forecasts 15% and 19%, respectively. We assume stronger sales growth and a sustainable EBIT margin of 16.5% in these years. We expect ROIC to exceed 18%, with capex of about €200m. Our 2011-12 EPS forecasts are, respectively, 8% and 15% above Bloomberg consensus. Our DCF model for the consolidated business, combined with the dividend discount model for the joint venture, leads to our new target price of €87. Based on our new forecasts, Bekaert trades at 10.6x FY11F PE and 6.8x EV/EBITDA, corrected for joint ventures. We reiterate our Buy recommendation and include the company in our Benelux favourites list.

Analyst

Pieter Zwinkels
Netherlands
+31 20 464 3797
pieter.zwinkels@rbs.com

Gustav Mahlerlaan 10, 1082 PP
Amsterdam, Netherlands

http://research.rbsm.com

Much more than just automotive

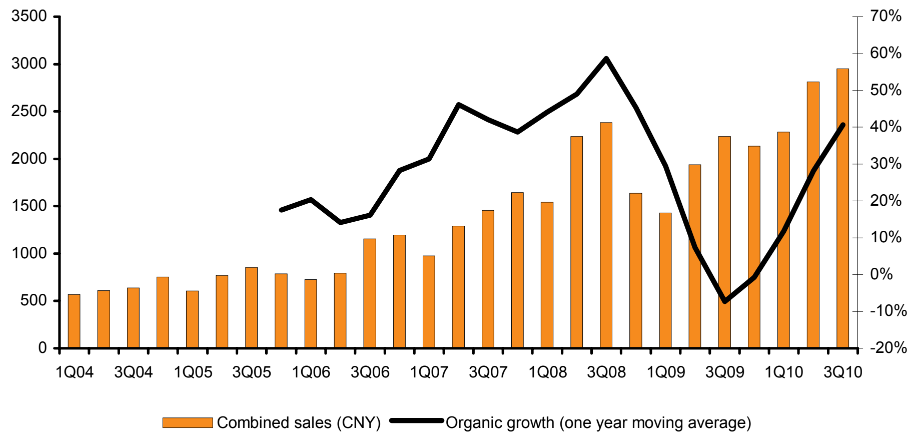
Bekaert's organic growth rate in renminbi in Asia was 36% yoy in 3Q. We believe the company will continue these growth rates, driven by the introduction of high-value-added products like sawing wire and its capacity expansion in China, India and Indonesia.

Automotive not Bekaert's only Asia-Pacific market

Bekaert's 3Q10 trading update showed continuous strong growth in the Asia Pacific region. Combined sales were €337m. Converted into renminbi (since the vast majority of sales is derived from China), the organic growth rate was 36%. Bekaert expects seasonal effects and controlled economic growth in China to bring growth ratios down to more normal levels from 4Q10 onwards.

Although the growth rate in 3Q10 dropped from 45% in 2Q10 and 60% in 1Q10, we are not concerned about long-term growth prospects.

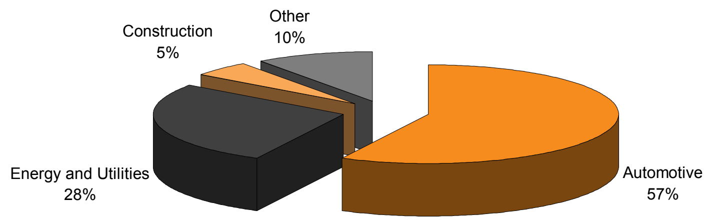
Chart 1 : Asia Pacific – momentum remains strong (€m)



Source: Company data

In Asia-Pacific, Bekaert's automotive exposure is the easiest sector to focus on and accounts for 57% of the company's sales in that region. We note, however, the importance of the Energy & Utilities sector, which already accounts for 28% of Bekaert's sales here. This percentage is significantly above group exposure to Energy & Utilities and we estimate the sector in Asia-Pacific will generate some €330m sales in 2011. According to Bekaert, group sales in Energy & Utilities have risen from €100m in 2000 to €700m in 2010.

Figure 1 : Energy & Utilities accounts for 28% of Bekaert's Asia-Pacific sales



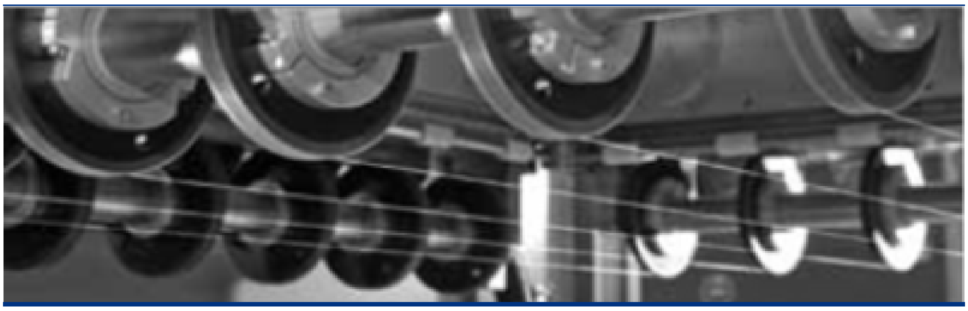
Source: Company data

One of the most important markets for Bekaert within Energy & Utilities is renewable energy. Bekaert's main product is sawing wire, which is used in the crystalline photovoltaic (PV) industry. The PV industry is set to become a market dominated by China. The manufacturers in China have a cost advantage of about 15% over their European competitors. According to industry consultant iSupply, the top four of PV cell producing companies are all Chinese players, followed by German Q-cells with only 5.2% global market share. China has announced generous support for its PV industry. The country aims to increase installed solar PV power capacity to 20GW by 2020, from the current 6GW, implying a CAGR of 13%. This looks aggressive, but capacity multiplied three times 2008-10, and global market leader Suntech (estimated market share of 8.1%), has increased its capacity by 64% in 2010. Therefore, we believe the 20GW target will probably be achieved way before 2020.

Currently, China is largely dependant on imports of oil and on production of its own coal. With the focus on renewable energy, it is aiming to become less dependant on other countries. However, scale is important to reduce costs per kWh production. Two companies, Yingli Green Energy and SDIC Huajing Power, have submitted a bid to build a 10MW solar power plant to provide electricity to the national grid at a price of US$0.10 per kWh. At that price, solar energy would be just as cheap as coal electricity in China.

Bekaert's role in the PV industry in China should not be underestimated, in our view. The company supplies the sawing wires for solar wire cutting machines. The most important producer of sawing systems for the PV industry (by sales) is Meyer Burger (MBTN SW, NR). Meyer Burger's backlog currently consists 71% of orders from Asia. Sawing wire is a high-grade steel wire that can be used to cut a wide range of products. It serves as the abrasive carrier in a multi-wire saw and is applied to slice silicon ingots into extremely thin wafers. Bekaert spends a significant amount of R&D (group total €80m) on this sector and began R&D in this field in 1985.

Figure 2 : Bekaert sawing wire is used in Meyer Burger solar wire-cutting machines



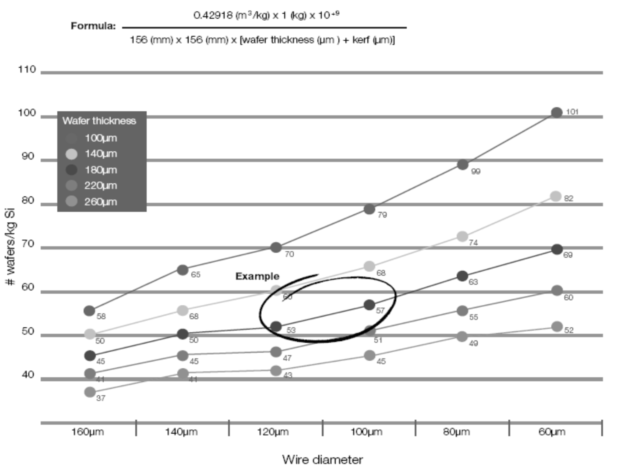
Source: Meyer Burger

The way in which a wire saw works makes the sawing wire susceptible to fracture, which impacts customer yield. Bekaert has developed a very high-tensile wire technology, winding algorithms and spool designs adjusted to optimise performance during cutting.

This ultra-tensile technology allows Bekaert to produce very thin sawing wires (down to 100µm). This results, on the one hand, in lower kerf loss and, hence, more wafers per cut. On the other hand, it reduces slurry consumption. Charts 10 and 11 show Bekaert's increasing efficiency is largely dependant on the diameter of the sawing wire.

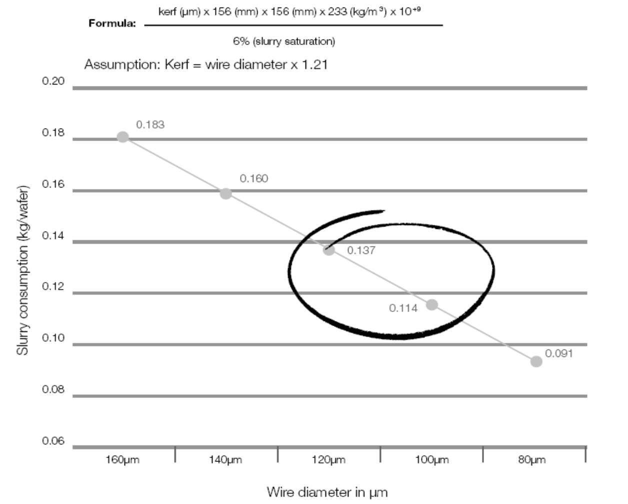
There is greater demand for thinner diameters. In 2006, 90% of demand was for diameters of 150µm, while Bekaert today delivers more than 30% of its output at 110µm or finer. To put things in perspective; steel cord for tyre reinforcement is around 500µm. Reducing the diameter is hi-tech process, which creates high barriers to entry.

Chart 2 : Calculated number of wafers per kg Si



Source: Company data

Chart 3 : Calculated slurry consumption per 156 x 156 wafer



Source: Company data

Simply put, by making thinner wafers, PV cell manufacturers can reduce the amount of silicon per wafer and lower the cost-per-watt of in the solar industry. We believe the added value of these wires supplied by Bekaert is high. The sawing wire rotates rapidly, driving the wire web at about 15 metres per second and must therefore be strong.

The selling price and gross margins of these wires are much higher than for the wires used for reinforcing tyres. Very important is the installed base in sawing machines since the sawing wires have to replaced frequently. Meanwhile, competitor Xingda has announced in its 1H10 results presentation that it is to start manufacturing sawing wires as a future earnings booster.

Bekaert's sales in tonnes of sawing wire are hard to determine. We know the growth in sawing wires in absolute tonnes will not be spectacular compared to the growth in steelcord for tyres. However, the added value per tonne is much higher. In order to calculate the potential for growth in the sawing wire market, we need to make several assumptions:

- China will expand its solar capacity from the current 6GW to 20GW by 2012, and so will need 14GW of wafers in the next 10 years.
- According to Meyer Burger, sawing wire for its Meyer Burger DS 271 machine costs between US$1.2 and US$1.7 per kilometre. One spool contains 800km of wire and weights 65-70kg. We calculate that the price per tonne for Bekaert sawing wire is €13,369. In 1H10, Xingda's selling price for steel cord for tyre reinforcement was Rmb13,600 (about €1,500) per tonne. Sawing wire is 9 times as expensive as steel cord for tyre reinforcement.
- The Meyer Burger DS 271 produces wafers for 6-7MW solar production. The sawing machine consumes two to three spools a day and operates 365 days a year. We calculate that each sawing machine making wafers for 2GW solar production needs 19,092t of sawing wire.
- Bekaert's share of the market for sawing wire in China is 70%. The company's closest peer in the production of steel cord in China, Xingda, has only recently announced it is entering the market. Therefore, Bekaert's market share is much higher in the sawing wire market than in tyre reinforcement.
- Given the high market share and high pricing, we estimate that EBIT margin of sawing wire is around 50%. This looks aggressive but remember Bekaert's average EBIT margin in Asia-Pacific was 36.4% in 1H10, corrected for the FIFO adjustments. Xingda, with a broadly similar tonnage capacity in steel cord, generated EBIT margin of 24.1% in 1H10. We believe that Bekaert's higher margin is generated by the high-end steel cord applications like sawing wire. We estimate EBIT contribution from sawing wire at €83m in 2010.

We believe that in 2010, China's additional 2GW capacity of solar wafers required 19,092 tonnes of sawing wire. In order to achieve the 20GW target by 2020, the wafer producers will require another 133,644 tonnes of sawing wire. In the next few years, we expect the Chinese solar market to further ramp up. Estimates vary significantly but we believe the growth of 2GW seen in 2010 should be the least that is achievable annually in the next few years. If we assume that the

Chinese solar market grows from 6GW in 2010 to 9GW in 2011, demand for sawing wire will increase by 50% to 28,638 tonnes in 2011. Xingda has announced a significant investment in sawing wire. We therefore believe that Bekaert's current market share in China of 70% will be hard to maintain.

If Bekaert's market share falls to 65% in 2011 and 60% in 2012, but it maintains its selling price and EBIT margins, EBIT from sawing wire will increase from €89m in 2010 to €124m in 2011 if we assume China needs 3GW in 2011 rather than the 2GW in 2010. We estimate the contribution of sawing wire in 2011 will be 25% of our current EBIT forecast for Asia-Pacific.

Table 1 : Sawing wire for Meyer Burger DS 271

	Indication	2010F	2011F	2012F
Sawing wire: price per km (US$)	1.2-1.7	1.5	1.5	1.5
Km per spool		800	800	800
Weight of spool (kg)	65-70	68	68	68
Price per tonne (US$)		17,647	17,647	17,647
Price per tonne (€)		13,369	13,369	13,369
Spools per cut		1	1	1
Cuts a day	2-3	2.5	2.5	2.5
Spools per day		2.5	2.5	2.5
Wafers per cut		3,700	3,700	3,700
Wafers per year		3,376,250	3,376,250	3,376,250
MW per year per machine	6-7	6.5	6.5	6.5
Km per year per machine		730,000	730,000	730,000
Sales per machine per year (US$ '000)		1,095	1,095	1,095
Consumption per year (tonnes)		62.1	62.1	62.1
Sales sawing wire per MW (US$ '000)		168	168	168
Sales sawing wire per GW (US$ '000)		168,462	168,462	168,462
GW China		6	9	13
Additional GW China		2	3	4
Market for sawing wire in China (US$ '000)		336,923	505,385	673,846
Market for sawing wire in China (€ '000)		255,245	382,867	510,490
Market for sawing wire in China (tonnes)		19,092	28,638	38,185
Market share Bekaert		70%	65%	60%
Bekaert sawing-wire sales (tonnes)		13,365	18,615	22,911
EBIT margin		50%	50%	50%
EBIT (€m)		89	124	153
as % of EBIT in Asia-Pacific		21%	25%	27%

Source: Company data, RBS forecasts

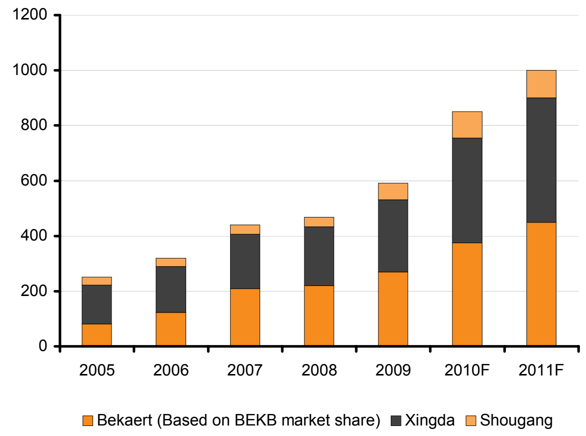
We expect 25% sales growth in Asia-Pacific in 2011

In October, Bekaert opened its greenest production plant yet in Shenyang (Liaoning Province, China). This adds 25,000 tonnes of tyre cord capacity, bringing Bekaert's total annual tyre cord capacity in China to 450,000 tonnes by year-end. Bekaert's largest competitors in China are Xingda and Shougang.

Competitor Xingda began construction of its No 9 factory in 2009, and it expects to complete this by 2012. According to Xingda, its total capacity for radial cord will exceed 550,000 tonnes in 2012. Shougang will add 50,000 tonnes of capacity in 2H10 to achieve annual production capacity of 100,000 tonnes by end-2010.

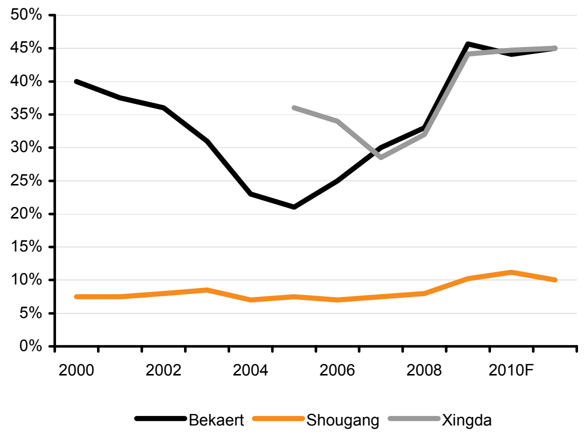
The next chart shows production of the top three players in China. We forecast the production growth CAGR for 2005-11 should be 26%. Bekaert views itself as a market follower. As the only non-domestic steelcord producer, Bekaert is keen to maintain (not increase) its market share. Chart 5 shows that Bekaert is clearly keeping up with Xingda.

Chart 4 : Top-three production capacity



Source: Company data and guidance

Chart 5 : Market share China



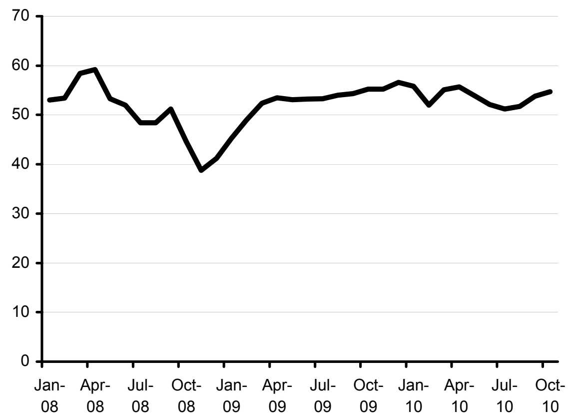
Source: Company data and guidance

Several factors prompt us to believe that market growth will remain strong for some years:

- **Roll-out of high-margin products.** Bekaert has introduced several high-end steelcord applications, like the aforementioned sawing wire. Some take a considerable time to be accepted by the market, like Dramix. Others are accepted faster and will contribute to sales growth sooner. Therefore, we focus not only on tonnage, but also on added value. With the same capacity, Bekaert should be able to generate higher sales via high-end products.

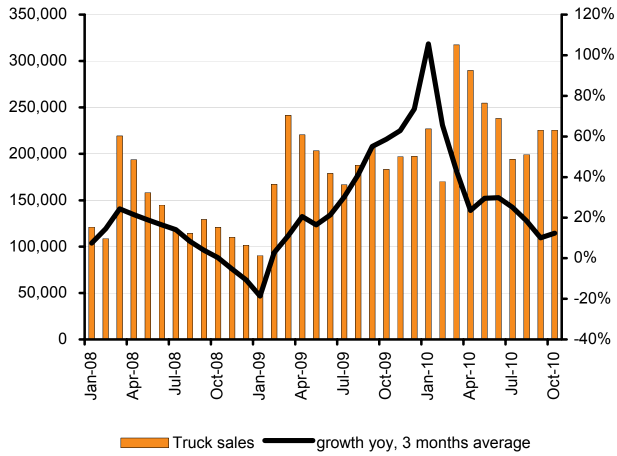
- **Expansion in China's infrastructure projects.** We forecast 10% GDP growth in 2010 and 9% in 2011. Public investment and exports are slowing and private consumption is steady. However, steady residential investment and stronger facilities and business equipment investment offset some slack. China's PMI rose to 54.7 in October from 53.8 in September.

Chart 6 : China PMI



Source: Bloomberg

Chart 7 : China truck sales (units)



Source: Bloomberg

- **Exponential automobile demand in China.** According to Xingda, 22% of its steelcord is produced for passenger cars. The remaining 78% is produced for trucks. Although automobile demand is included in GDP, in emerging markets this growth usually outpaces GDP growth. In China, there are some 64 cars per 1,000 inhabitants, compared with close to 1,000 in the US. The low number in China also explains the rapid growth rate of 43% ytd. Truck sales in China are up 24% ytd, according to the National Bureau of Statistics.

- **Faster radialisation rate.** On 11 October, the Ministry of Industry and Information Technology of China announced new regulations, which require the domestic tyre industry to increase production of radial tyres (reinforced with steelcord). Radialisation for light-commercial vehicles must reach 85% by 2015, and 90% of medium- and heavy-truck tyres must be radials by the beginning of 2015. According to Bekaert, the current radialisation rate for trucks in China is about 60%.

- **Accelerated migration of overseas tyre production base to China.** Large tyre manufacturers such as Michelin are heavily investing in growth markets of Brazil, India and China. In China, Michelin plans to invest US$800m in new passenger car and truck facilities. Production is scheduled to begin in 2012.

We assume sales growth of 25% for 2011 and 20% for 2012 for Bekaert's Asia Pacific region. The company is also heavily expanding in India and Indonesia.

Bekaert has been active in China since 1993, and its long-term presence is currently bearing fruit. In recent years, it has invested heavily in India, Russia and Indonesia. Although these markets are relatively small today, they have huge potential.

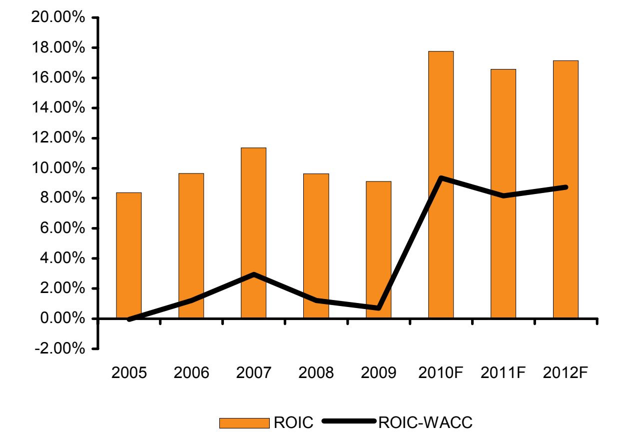
In March 2010, Bekaert installed a technical centre in Pune, India. It already had a steelcord production plant in Pune employing some 200 people. The Bekaert India Technical Centre in Pune will support Bekaert's customers in India with enhanced technical services in the form of product quality testing, technical assessments and related dedicated assistance.

In January 2010, Bekaert opened its new steelcord plant in Lipetsk, Russia. The plant currently employs 92 people, but a significant ramp-up planned in 2013 should bring the number to 412. We believe that in 2011 we will see the first significant contribution to Bekaert from other emerging markets.

EBIT margin in emerging markets exceeds that of mature markets

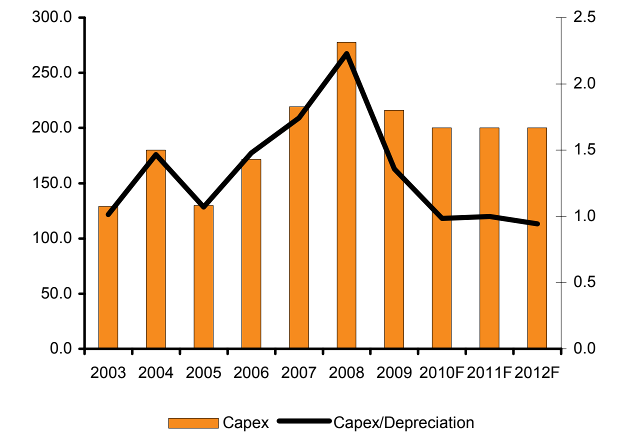
Bekaert has significantly invested in capacity expansion in recent years. In 2010, capex will be around €200m. Obviously, the major part of the capex has been spent in China. However, Bekaert is also investing in other emerging markets. In Chart 6 we show that, with the major expansion in China, group ROIC has ballooned to close to 18%. Since Bekaert reports per region, we have learned that the EBIT margin in the Asia Pacific region is impressively above 35% (was 36.4% in 1H10, corrected for inventory adjustments). The main investor concern is that this margin is no longer sustainable.

Chart 8 : ROIC exceeds WACC by more than 10% in 2010



Source: Company data, RBS forecasts

Chart 9 : Capex has exceeded depreciation in recent years



Source: Company data, RBS forecasts

We believe there are several reasons why the EBIT margin in the Asia Pacific region will not fall to the levels in the EMEA region (was 8.4% in 1H10, corrected for inventory adjustments) or in North America (was 5.8%, corrected for inventory adjustments):

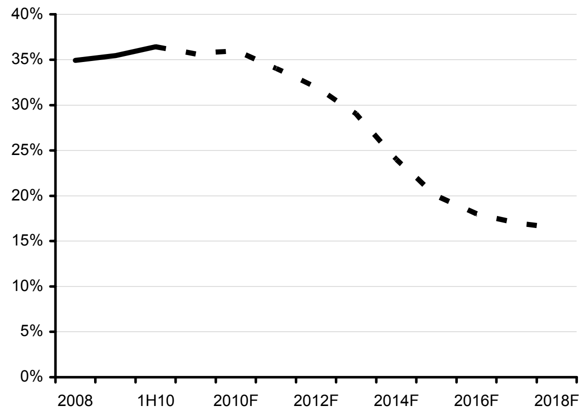
- Bekaert will continue to roll out niche products, like sawing wire. These products contain a significant higher added value than steel cord for tyre reinforcement. We believe Bekaert should keep pace with the "commoditization" of the other products. In other words, the innovation will be strong.

- 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. We estimate that Michelin will also use Bekaert's steelcord in its operations in China.

- There is an ongoing trend from tyre manufacturers to outsource production of steelcord in the EMEA and North America. On 1 February, Bekaert announced the acquisition of two Bridgestone tyre-cord plants for a total EV of €70m – one in Sardinia, Italy and the other in Huizhou, Guangdong, in China. Total sales are about €60m and total capacity is 40,000t. As part of this transaction, Bekaert and Bridgestone entered into a long-term supply agreement for tyre-cord delivery. Most Western tyre producers, such as Bridgestone, Goodyear and Michelin, have their own tyre-cord plants. We estimate the market share breakdown of captive and non-captive tyre-cord producers is about 35-65. Bekaert is the largest non-captive producer globally, with an estimated 25% global market share, according to the company. We see the company's acquisition of the Bridgestone plants as further evidence that tyre producers are focusing on development and assembly of tyres and that non-captive tyre-cord producers are gaining market share. Goodyear has two other tyre-cord plants for sale (in Luxemburg and the US). Bekaert's R&D expenditure for tyre cord is much larger than that of the tyre producers. We expect this trend to continue, especially in Europe and the US, enabling Bekaert to outpace market growth.
- Bekaert's plants in China are the most efficient plants in its portfolio. According to Bekaert, the cost of a plant in China has dropped substantially within the past five years. It 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.

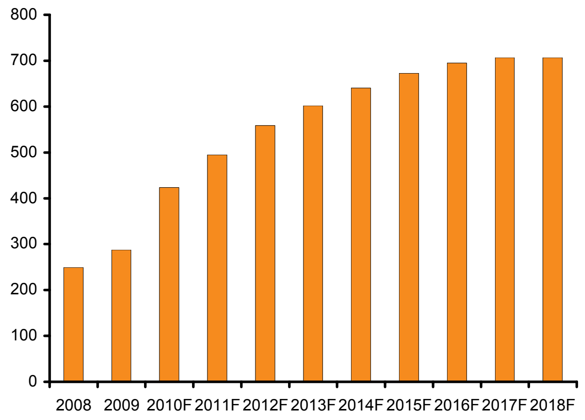
We believe the EBIT margin in the Asia Pacific region should be around 15-20% by 2020. We assume a gradual margin decline from 36% in 2010 to 34% in 2011 and 32% in 2012. Beyond 2012, we estimate that the margin erosion will continue at an S-curve. Assuming that the sales growth rate will also drop 500bp pa from 2011F onward, the 2010-15F EBIT CAGR would still be 10%.

Chart 10 : We assume a 200bp EBIT margin decline in 2010-20F followed by the S-curve



Source: Company data, RBS forecasts

Chart 11 : Absolute EBIT contribution from Asia Pacific is expected to show a CAGR of 10% in 2010-15 (€m)



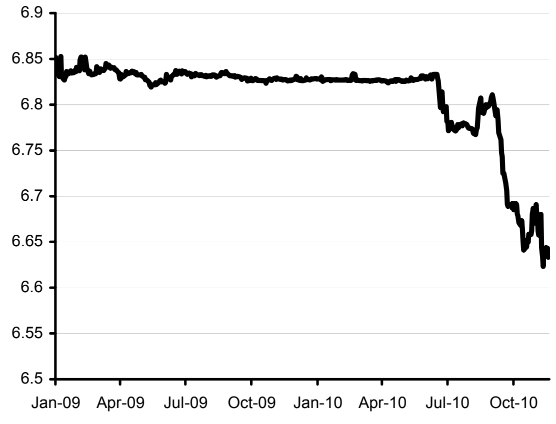
Source: Company data, RBS forecasts

Renminbi appreciation will benefit Bekaert

With a large part of its EBIT generated in renminbi, the exchange rate is very important for Bekaert. The company's main exposure is to the local market – hence, the translation effect into euros is positive when the renminbi strengthens. According to our analysts in China, there is speculation that China and the US will shortly agree on a current account target. Shifting the focus from the currency to the current account makes sense to us, given the widespread disagreement over what magnitude of renminbi appreciation would produce rebalancing, with estimates ranging widely from less than 10% to more than 40%. In recent months, we have seen the RMB appreciate 2.8%, from 6.83 per USD until June, to 6.64 per USD now.

Although it is difficult to make a call, we can calculate the potential impact of renminbi appreciation. If the renminbi appreciates 10% in 2011 and 10% in 2012, we estimate the absolute contribution from China in euros translates into an increase in EBIT of €50m in 2011 and €120m in 2012.

Chart 12 : USD-CNY



Source: Datastream

Chart 13 : EUR-CNY

Source: Datastream

Share buyback on the agenda

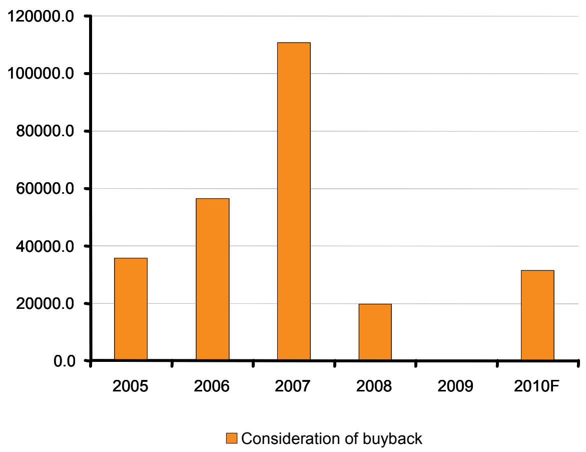
Bekaert's balance sheet looks very strong with an estimated 0.8x net debt/EBITDA at year-end. Given management's track record of share buy-backs, we believe Bekaert could buy back some 14% of current market cap.

More due in 2011

We have seen in recent years that Bekaert has turned into a cash flow machine. In 2005-08, it bought back more than €220m of shares. The timing was perfect, in our view, with an average price of €28 per share (adjusted for the 3:1 share split). Although Bekaert cautiously resumed its buyback of shares in 2010 (in total 600,000 shares have been bought to date to cover for option plans), we expect a significant ramp-up in 2011.

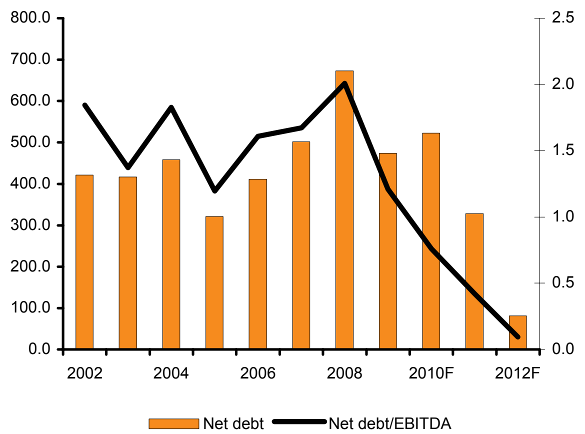
Net debt after 3Q was €463m, already a €120m improvement vs 1H10. Although the €2 per share interim dividend was distributed in 4Q10 (total cash-out some €40m), we estimate the net debt/EBITDA ratio will be at 0.8x at year-end. We emphasise that the contribution of the JVs (which are almost debt-free) is not included in this ratio. Including the JVs, the net debt/EBITDA ratio would drop below 0.7x. Even given a significant increase in capex from our forecast of €200m, there is sufficient room for a share buyback.

Chart 14 : In 2005-08, Bekaert bought back €220m of shares (€m)



Source: Company data, RBS forecasts

Chart 15 : Average net debt/EBITDA ratio in 2002-09 was 1.6x (€m)



Source: Company data, RBS forecasts

We know that Bekaert is a conservative company and prefers a strong balance sheet. Its average net debt/EBITDA ratio over 2002-09 (when CEO de Graeve came on board, initially as CFO) was 1.6x. We believe Bekaert is comfortable with this ratio. This means that even if we do not include the JVs in our calculations, Bekaert can buy back €620m of shares. At its current share price, this equals 14% of its current market cap.

Assuming an interest rate of 4% and a 25% tax rate, the pro forma net profit would be €396m in 2011F and €430m in 2012F. Assuming Bekaert buys back some 8.3m shares, the buyback would increase our EPS forecasts to €7.73 in 2011 and €8.40 in 2012. Therefore, the buyback would spur 12% and 8% changes in our 2011 and 2012 EPS forecasts, respectively. Based on these pro forma EPS forecasts, Bekaert trades at 10.6x PE 2011F and 9.4x 2012F, which looks undemanding to us.

We reiterate Buy; new target price of €87

We raise our 2011-12 EPS forecasts 15% and 19%, respectively. We are 8% and 15% above Bloomberg consensus. We raise our target price to €87 and reiterate our Buy rating.

Changes to our forecasts

We have again raised our forecasts in response to higher sales growth and EBIT margin assumptions. We forecast 14% sales growth for 2011 and 12% for 2012. We forecast a recurring EBIT margin of 16.5% in 2011 and 2012. This is significantly above Bekaert's long-term target of at least 10%. We believe this is justified given its strong emerging market exposure. Also, we assume capex will remain at €200m in 2011 and 2012, while ROIC remains above 18%. Our 2011 and 2012 EPS forecasts are 8% and 15% above Bloomberg consensus, respectively.

Table 2 : Changes to our forecasts

	2010F			2011F			2012F		
€m	New	Old	Diff	New	Old	Diff	New	Old	Diff
Sales	3,164	3,205	-1%	3,600	3,566	1%	4,016	3,917	3%
Recurring EBIT	522	522	0%	594	553	7%	666	603	10%
Net profit	355	333	6%	416	360	15%	470	396	19%
EPS (€)	5.87	5.5	7%	6.88	5.97	15%	7.78	6.53	19%
	New	Consensus	Diff	New	Consensus	Diff	New	Consensus	Diff
Sales	3,164	3,164	0%	3,600	3,429	5%	4,016	3,633	11%
EBIT	522	505	3%	594	539	10%	666	563	18%
Net profit	355	362	-2%	416	379	10%	470	402	17%
EPS (€)	5.87	6.05	-3%	6.88	6.38	8%	7.78	6.74	15%

Source: RBS forecasts, Bloomberg

We reiterate Buy, with a new target price of €87

We value Bekaert's consolidated business on the basis of discount cash flow. We use our implicit forecasts for 2010-12. Beyond 2012, we assume invested capital growth of 5.0%, which is close to 17% in 2010F. We are conservative since we also believe Bekaert will continue to invest in emerging markets. We forecast a return on growth investment of 15%, in line with the current group EBIT margin. We forecast the EBIT margin of the remaining business will fall from 16% in 2013 to 10% by 2020. We forecast capital turnover at 1.6x. In our calculations, we apply a WACC of 7.65%.

Bekaert's joint ventures, of which the largest two are in a 45-55% partnership with ArcelorMittal, are on the balance sheet for book value of €252m in 1H10. We estimate that the JVs will contribute some €42m to net profit in 2010. We estimate that dividend growth will be 10% pa in 2013-17. With our dividend discount model, we arrive at a value of €430m. This indicates that there is a hidden value of €215m, which is €3.60 per share.

Our target price for Bekaert has fallen from €210 to €87 as a result of a 3:1 share split and increased estimates for 2011-12F. Had the stock split applied before, our target would have risen from €70 to €87.

Income statement

€m	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	2662	2437	3164	3600	4016
Cost of sales	-1935	-1744	-2107	-2428	-2720
Operating costs	-391.3	-302.0	-369.3	-393.5	-433.2
EBITDA	**335.0**	**391.1**	**688.0**	**778.5**	**863.2**
DDA & Impairment (ex gw)	-124.5	-159.0	-203.0	-200.0	-212.0
EBITA	**210.5**	**232.1**	**485.0**	**578.5**	**651.2**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**210.5**	**232.1**	**485.0**	**578.5**	**651.2**
Net interest	-41.4	-56.7	-42.4	-46.4	-47.4
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**	**450.5**	**532.1**	**603.8**
Taxation	-25.5	-33.9	-108.1	-127.7	-144.9
Minority interests	-17.7	-18.6	-30.0	-35.4	-40.2
Other post-tax items	56.1	37.8	42.2	46.6	51.3
Reported net profit	**174.1**	**151.7**	**354.6**	**415.5**	**469.9**
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	335.0	391.1	688.0	778.5	863.2
Normalised PTP	161.2	166.5	450.5	532.1	603.8
Normalised net profit	**174.1**	**151.7**	**354.6**	**415.5**	**469.9**

Source: Company data, RBS forecasts year to Dec

Balance sheet

€m	FY08A	FY09A	FY10F	FY11F	FY12F
Cash & market secs (1)	118.3	275.8	317.4	512.6	759.9
Other current assets	1140	1018	1291	1439	1580
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	345.5	345.5	345.5
Total assets	**2667**	**2830**	**3311**	**3654**	**4031**
Short term debt (2)	503.1	151.4	236.1	236.1	236.1
Trade & oth current liab	478.0	483.6	587.9	627.1	664.6
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**	**1700**	**1739**	**1777**
Total equity (incl min)	1172	1374	1611	1915	2255
Total liab & sh equity	**2667**	**2830**	**3311**	**3654**	**4031**
Net debt	672.9	473.7	523.1	327.8	80.6

Source: Company data, RBS forecasts year ended Dec

Cash flow statement

€m	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	335.0	391.1	688.0	778.5	863.2
Change in working capital	-145.8	127.5	-200.1	-109.0	-104.0
Net interest (pd) / rec	-49.2	-65.6	-34.4	-46.4	-47.4
Taxes paid	-44.5	-55.4	-151.0	-201.8	-219.0
Other oper cash items	84.4	41.1	146.5	113.8	118.4
Cash flow from ops (1)	**179.8**	**438.7**	**449.0**	**535.0**	**611.0**
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	-139.8	-163.8
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**	**-139.8**	**-163.8**
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**	**192.3**	**195.2**	**247.3**
Equity FCF (1+2+4)	-97.8	222.7	249.0	335.0	411.0

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	29.8	13.8	11.6	4.97	7.29	4.15	7.82	5.39	5.75
EBITDA growth (%)	11.5	16.8	75.9	13.2	10.9	10.1	14.3	7.83	29.1	13.2	12.0
EBIT growth (%)	20.5	10.3	108.9	19.3	12.6	10.8	15.5	8.34	74.2	10.7	16.9
Normalised EPS growth (%)	16.0	-12.8	129.7	17.2	13.1	-1.82	25.0	8.67	n/a	n/a	n/a
EBITDA margin (%)	12.6	16.0	21.7	21.6	21.5	6.47	6.90	7.14	10.7	11.4	11.6
EBIT margin (%)	7.91	9.52	15.3	16.1	16.2	5.76	6.20	6.45	7.30	7.59	7.74
Net profit margin (%)	6.54	6.23	11.2	11.5	11.7	3.70	4.31	4.50	4.69	4.57	4.64
Return on avg assets (%)	9.37	8.10	13.4	14.0	14.2	7.44	8.04	8.15	4.84	4.77	5.05
Return on avg equity (%)	15.6	12.6	25.6	25.3	23.9	26.3	24.9	23.5	14.9	14.1	14.4
ROIC (%)	9.63	9.12	18.1	18.6	20.0	15.7	17.2	18.2	9.55	10.7	10.8
ROIC - WACC (%)	1.49	0.98	9.97	10.5	11.9	7.40	8.88	9.91	1.77	2.69	2.51
					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)	1.88	1.97	1.53	1.29	1.10	0.58	0.52	0.47	0.89	0.83	0.74
EV/EBITDA (x)	22.8	15.3	8.05	6.77	5.75	8.95	7.53	6.60	8.32	7.29	6.35
EV/EBITDA @ tgt price (x)	26.7	18.1	9.46	8.00	6.86	10.1	8.55	7.54	1.66	1.42	1.47
EV/EBIT (x)	23.8	20.7	10.0	8.05	6.77	10.1	8.37	7.30	12.1	10.9	9.54
EV/invested capital (x)	2.47	2.36	2.05	1.89	1.72	2.13	2.01	1.91	1.61	1.53	1.38
Price/book value (x)	3.82	3.36	2.95	2.45	2.06	3.09	2.65	2.32	n/a	n/a	n/a
Equity FCF yield (%)	-2.26	5.16	5.67	7.63	9.36	6.75	6.51	8.88	3.50	5.87	7.74
Normalised PE (x)	24.8	28.5	12.4	10.6	9.35	14.3	11.5	10.5	17.2	13.9	11.7
Norm PE @ tgt price (x)	29.7	34.0	14.8	12.6	11.2	16.3	13.1	12.0	0.00	0.00	0.00
Dividend yield (%)	1.28	1.35	3.23	3.78	4.28	2.36	3.06	3.36	2.32	2.69	3.35
					year to Dec			year to Dec			year to Dec

Per share data	FY08A	FY09A	FY10F	FY11F	FY12F
Tot adj dil sh, ave (m)	59.4	59.4	60.4	60.4	60.4
Reported EPS (EUR)	2.93	2.56	5.87	6.88	7.78
Normalised EPS (EUR)	2.93	2.56	5.87	6.88	7.78
Dividend per share (EUR)	0.93	0.98	2.35	2.75	3.11
Equity FCF per share (EUR)	-1.65	3.75	4.12	5.55	6.81
Book value per sh (EUR)	19.0	21.6	24.7	29.7	35.3
					year to Dec

Solvency	FY08A	FY09A	FY10F	FY11F	FY12F
Net debt to equity (%)	57.4	34.5	32.5	17.1	3.57
Net debt to tot ass (%)	25.2	16.7	15.8	8.97	2.00
Net debt to EBITDA	2.01	1.21	0.76	0.42	0.09
Current ratio (x)	1.28	2.04	1.95	2.26	2.60
Operating CF int cov (x)	5.56	8.53	18.4	16.9	18.5
Dividend cover (x)	2.79	2.73	6.08	2.97	2.87
					year to Dec

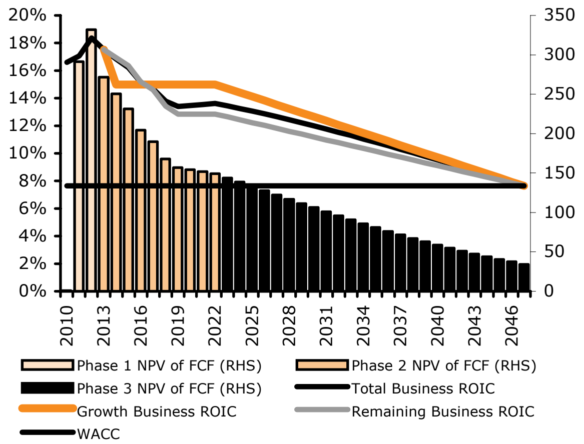
Priced as follows: BEKB.BR - €72.73; IMUN.AS - €26.27
Source: Company data, RBS forecasts

Valuation methodology

Economic Profit Valuation	EURm	%
Adjusted Opening Invested Capital	2480.0	46
NPV of Economic Profit During Explicit Period	476.9	9
NPV of Econ Profit of Remaining Business (1, 2)	1554.5	29
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	900.1	17
Enterprise Value	5411.5	100
Plus: Other Assets	430.1	8
Less: Minorities	121.9	2
Less: Net Debt / Leases (as at 28 Nov 2010)	523.1	10
Equity Value	5196.6	96
No. Shares (millions)	59.4	
Per Share Equity Value	**87.6**	
Current Share Price	72.73	

Discounted Cash Flow Valuation	EURm	%
Value of Phase 1: Explicit (2010 to 2012)	624.2	12
Value of Phase 2: Value Driver (2013 to 2022)	1927.4	36
Value of Phase 3: Fade (2023 to 2047)	2099.2	39
Terminal Value	761.4	14
Enterprise Value	5412.2	100
FCF Grth Rate at end of Phs 1 implied by DCF Valuation		0.7
FCF Grth Rate at end of Phs 1 implied by Current Price		2.5

Returns, WACC and NPV of Free Cash Flow



Sensitivity Table		No of Years in Fade Period				
		15	18	20	23	25
WACC	6.0%	97.58	101.24	103.64	107.19	109.52
	7.0%	86.99	89.59	91.28	93.73	95.32
	8.0%	77.95	79.77	80.94	82.61	83.68
	9.0%	70.21	71.45	72.24	73.36	74.06
	10.0%	63.54	64.36	64.88	65.60	66.05

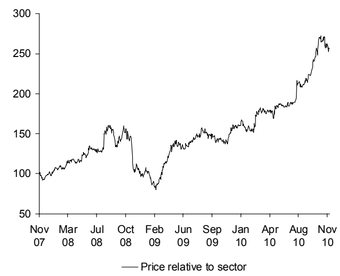
Performance Summary	2010	2011	2012	Phase 2 Avg (2013 - 2022)
Invested Capital Growth (%)	16.1	4.5	3.6	5.0
Operating Margin (%)	14.4	15.1	15.2	12.5
Capital Turnover (x)	1.5	1.5	1.6	1.6

Source: Company data, RBS forecasts
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

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

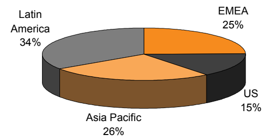
Strategic acquisitions could reinforce its leading positions and generate synergy advantages. Due to difficult market circumstances, we believe some of Bekaert's rivals will leave the market.

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)

Combined sales - 1H10



Source: Company data

Market data

Headquarters
President Kennedypark 18 Kortrijk

Website
www.bekaert.be

Shares in issue
59.5m

Freefloat
60%

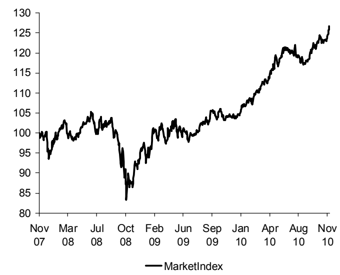
Majority shareholders
Stichting Administratiekantoor Bekaert (38%), Common attorney, Mr Oberson (11%)

Sector view: Industrial Engineering

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.

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 can directly increase its selling prices and largely protect its gross profits in the advanced wire division.

Barriers to entry — 4+

Bekaert increased its research and development expenses to almost €40m in 1H10, 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-

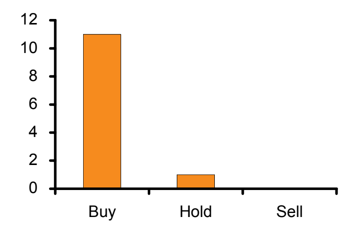
Not relevant

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 29 Nov 2010)

	Global total (IB%)	Europe total (IB%)
Buy	710 (0)	242 (0)
Add	0 (0)	0 (0)
Hold	445 (0)	177 (0)
Reduce	0 (0)	0 (0)
Sell	111 (0)	29 (0)
Total (IB%)	1266 (0)	448 (0)

Source: RBS

Trading recommendations (as at 29 Nov 2010)

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

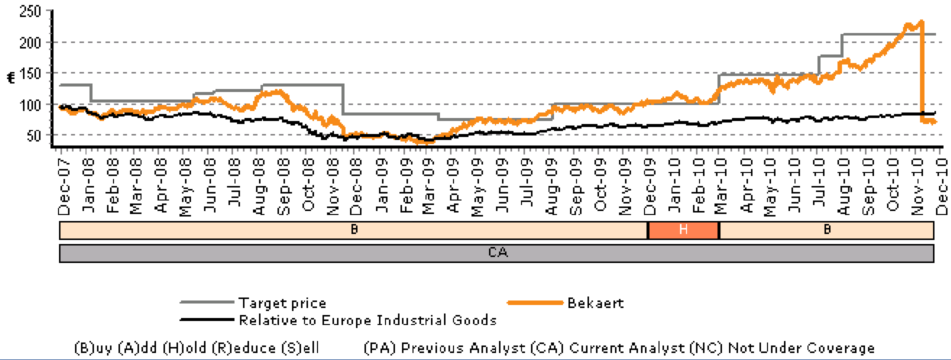
Source: RBS

Valuation and risks to target price

Bekaert (RIC: BEKB.BR, Rec: Buy, CP: €72.73, TP: €87.00): 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 29 Nov 2010)



Pieter Zwinkels started covering this stock on 2 Aug 07. Moved to new recommendation structure between 1 November 2005 and 31 January 2006. Source: RBS

Trading recommendation history (as at 29 Nov 2010)

Date	Rec	Analyst
	n/a	

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.: **BEKB.BR**

RBS acting as Joint Lead Manager to Michelin on the rights issue **: MICP.PA**

Global disclaimer

This material was prepared by the legal entity named on the cover or inside cover page. It is provided for informational purposes only and does not constitute an offer to sell or a solicitation to buy any security or other financial instrument. While based on information believed to be reliable, no guarantee is given that it is accurate or complete. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. The opinions, forecasts, assumptions, estimates, derived valuations and target price(s) contained in this material are as of the date indicated and are subject to change at any time without prior notice. The investments referred to may not be suitable for the specific investment objectives, financial situation or individual needs of recipients and should not be relied upon in substitution for the exercise of independent judgement. The stated price of any securities mentioned herein is as of the date indicated and is not a representation that any transaction can be effected at this price. Neither RBS nor other persons shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. This material is for the use of intended recipients only and the contents may not be reproduced, redistributed, or copied in whole or in part for any purpose without RBS's prior express consent. In any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this document is intended solely for distribution to professional and institutional investors.

Australia: Any report referring to equity securities is distributed in Australia by RBS Equities (Australia) Limited (ABN 84 002 768 701, AFS Licence 240530), a participant of the ASX Group. Any report referring to fixed income securities is distributed in Australia by The Royal Bank of Scotland NV (Australia Branch) (ABN 84 079 478 612, AFS Licence 238266). Australian investors should note that this document was prepared for wholesale investors only.

Canada: The securities mentioned in this material are available only in accordance with applicable securities laws and many not be eligible for sale in all jurisdictions. Persons in Canada requiring further information should contact their own advisors.

EEA: This material constitutes "investment research" for the purposes of the Markets in Financial Instruments Directive and as such contains an objective or independent explanation of the matters contained in the material. Any recommendations contained in this document must not be relied upon as investment advice based on the recipient's personal circumstances. In the event that further clarification is required on the words or phrases used in this material, the recipient is strongly recommended to seek independent legal or financial advice.

Denmark: Royal Bank of Scotland N.V. is authorised and regulated in the Netherlands by De Netherlandsche Bank. In addition, Royal Bank of Scotland N.V. Danish branch is subject to local supervision by Finanstilsynet, The Danish Financial Supervisory Authority.

Hong Kong: This document is being distributed in Hong Kong by, and is attributable to, RBS Asia Limited which is regulated by the Securities and Futures Commission of Hong Kong.

India: Shares traded on stock exchanges within the Republic of India may only be purchased by different categories of resident Indian investors, Foreign Institutional Investors registered with The Securities and Exchange Board of India ("SEBI") or individuals of Indian national origin resident outside India called Non Resident Indians ("NRIs"). Any recipient of this document wanting additional information or to effect any transaction in Indian securities or financial instrument mentioned herein must do so by contacting a representative of RBS Equities (India) Limited. RBS Equities (India) Limited is a subsidiary of The Royal Bank of Scotland N.V..

Italy: Persons in Italy requiring further information should contact The Royal Bank of Scotland N.V. Milan Branch.

Japan: This report is being distributed in Japan by RBS Securities Japan Limited to institutional investors only.

South Korea: This document is being distributed in South Korea by, and is attributable to, RBS Asia Limited (Seoul) Branch which is regulated by the Financial Supervisory Service of South Korea.

Malaysia: RBS research, except for economics and FX research, is not for distribution or transmission into Malaysia.

Netherlands: the Authority for the Financial Markets ("AFM") is the competent supervisor.

Russia: This Material is distributed in the Russian Federation by RBS and "The Royal Bank of Scotland" ZAO (general banking license No. 2594 issued by the Central Bank of the Russian Federation, registered address: building 1, 17 Bolshaya Nikitskaya str., Moscow 125009, the Russian Federation), an affiliate of RBS, for information purposes only and is not an offer to buy or subscribe or otherwise to deal in securities or other financial instruments, or to enter into any legal relations, nor as investment advice or a recommendation with respect to such securities or other financial instruments. This Material does not have regard to the specific investment purposes, financial situation and the particular business needs of any particular recipient. The investments and services contained herein may not be available to persons other than 'qualified investors" as this term is defined in the Federal Law "On the Securities Market".

Singapore: Any material in connection with equity securities is distributed in Singapore by The Royal Bank of Scotland Asia Securities (Singapore) Pte Limited ("RBS Asia Securities") (RCB Regn No. 198703346M). Without prejudice to any of the foregoing disclaimers, this material and the securities, investments or other financial instruments referred to herein are not in any way intended for, and will not be available to, investors in Singapore unless they are institutional investors (as defined in Section 4A(1) of the Securities and Futures Act (Cap. 289) of Singapore ("SFA") or relevant persons falling within Section 275 of the SFA and in accordance with the conditions specified therein or otherwise fall within the circumstances under Section 275 of the SFA. Further, without prejudice to any of the foregoing disclaimers, where this material is distributed to accredited investors or expert investors as defined in Regulation 2 of the Financial Advisers Regulations ("FAR") of the Financial Advisers Act (Cap. 110) of Singapore ("FAA"), RBS Asia Securities is exempted by Regulation 35 of the FAR from the requirements in Section 36 of the FAA mandating disclosure of any interest in securities referred to in this material, or in their acquisition or disposal. Recipients who do not fall within the description of persons under Regulation 49 of the Securities and Futures (Licensing and Conduct of Business) Regulations or Regulations 34 and 35 of the Financial Advisers Regulations should seek the advice of their independent financial advisor prior to taking any investment decision based on this document or for any necessary explanation of its contents.

Thailand: Pursuant to an agreement with Asia Plus Securities Public Company Limited (APS), reports on Thai securities published out of Thailand are prepared by APS but distributed outside Thailand by RBS Bank NV and affiliated companies. Responsibility for the views and accuracy expressed in such documents belongs to APS.

Turkey: The Royal Bank of Scotland N.V. is regulated by Banking Regulation and Supervision Authority (BRSA).

UAE and Qatar: This report is produced by The Royal Bank of Scotland N.V and is being distributed to professional and institutional investors only in the United Arab Emirates and Qatar in accordance with the regulatory requirements governing the distribution of investment research in these jurisdictions.

Dubai International Financial Centre: This material has been prepared by The Royal Bank of Scotland N.V. and is directed at "Professional Clients" as defined by the Dubai Financial Services Authority (DFSA). No other person should act upon it. The financial products and services to which the material relates will only be made available to customers who satisfy the requirements of a "Professional Client". This Document has not been reviewed or approved by the DFSA.

Qatar Financial Centre: This material has been prepared by The Royal Bank of Scotland N.V. and is directed solely at persons who are not "Retail Customer" as defined by the Qatar Financial Centre Regulatory Authority. The financial products and services to which the material relates will only be made available to customers who satisfy the requirements of a "Business Customer" or "Market Counterparty".

United States of America: This document is intended for distribution only to "major institutional investors" as defined in Rule 15a-6 under the U.S. Exchange Act of 1934 as amended (the "Exchange Act"), and may not be furnished to any other person in the United States. Each U.S. major institutional investor that receives these materials by its acceptance hereof represents and agrees that it shall not distribute or provide these materials to any other person. Any U.S. recipient of these materials that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this document, should contact and place orders solely through a registered representative of RBS Securities Inc., 600 Washington Boulevard, Stamford, CT, USA. Telephone: +1 203 897 2700. RBS Securities Inc. is an affiliated broker-dealer registered with the U.S. Securities and Exchange Commission under the Exchange Act, and a member of the Securities Investor Protection Corporation (SIPC) and the Financial Industry Regulatory Authority (FINRA).

- Material means all research information contained in any form including but not limited to hard copy, electronic form, presentations, e-mail, SMS or WAP.

The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.

For a discussion of the valuation methodologies used to derive our price targets and the risks that could impede their achievement, please refer to our latest published research on those stocks at research.rbsm.com.

Disclosures regarding companies covered by us can be found on our research website at research.rbsm.com.

Our policy on managing research conflicts of interest can be found at https://research.rbsm.com/Disclosure/Disclosure.AspX?MI=2.

Should you require additional information please contact the relevant research team or the author(s) of this report.