UBS

Global Equity Research

Belgium

Industrial, Diversified

UBS Investment Research

First Read: Bekaert

12-month rating	Buy *Unchanged*
12m price target	€125.00/US$173.34 *Unchanged*
Price	€105.30/US$146.02

RIC: BEKB.BR BBG: BEKB BB

1 February 2010

Taking over two steel cord factories

■ Taking over two steel cord factories from Bridgestone for €70m

Bekaert said it will take over two steel cord factories from its customer Bridgestone for €70m and enter into a multiple-year supply agreement with Bridgestone. One factory is in Sardinia, Italy, the other is in Huizhou, China. The transaction is expected is expected to be completed in Q2.

■ Compelling strategic rationale, estimated healthy returns

The takeover of the two steel cord factories should strengthen Bekaert's position in the market for steel cord for car tyres; the long-term supply agreement should improve Bekaert's status as an important supplier of steel cord to Bridgestone. The two factories produce around 40,000 tonnes of steel cord, generating estimated revenues of €60m (adding 2.5% to group revenues). Assuming profitability levels in line with what Bekaert is currently realising (35% in Asia Pacific, Europe underlying breakeven), we estimate healthy returns on capital of >10%.

■ Next catalyst FY09E results on 26 February

The next catalyst will be FY09E results on 26 February; we are projecting a 40% decrease in normalised EPS to €6.72 per share (4% ahead of consensus), after an estimated relatively smaller 7% decrease to €4.25 per share in 09H2E.

■ Valuation: Buy rating with €125 price target

We believe Bekaert shares are attractively valued at a 25% discount to Benelux mid and small caps and a 25% discount to the European engineering sector at 5.7x EV/EBITDA. Our €125 DCF-based price target is assuming a long-term EBIT margin of 10.4%, 9.5% WACC and 2.0% continuing growth.

Highlights (€m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	2,173.6	2,662.4	2,418.5	2,582.1	2,720.7
EBIT (UBS)	186.3	294.0	214.0	257.6	293.6
Net Income (UBS)	151.2	220.2	132.8	178.0	210.6
EPS (UBS, €)	7.54	11.17	6.72	9.00	10.65
Net DPS (UBS, €)	2.76	2.80	2.35	3.15	3.73

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	-	11.0	8.8	10.0	10.8
ROIC (EBIT) %	-	17.4	11.5	12.9	13.7
EV/EBITDA (core) x	-	6.0	6.6	5.7	4.8
PE (UBS) x	-	7.9	15.7	11.7	9.9
Net dividend yield %	-	3.2	2.2	3.0	3.5

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of €105.30 on 29 Jan 2010 21:37 GMT

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Trading data (local/US$)

52-wk range	€117.30-37.88/US$169.33-47.64
Market cap.	€2.07bn/US$2.87bn
Shares o/s	19.7m (ORD)
Free float	60%
Avg. daily volume ('000)	44
Avg. daily value (€m)	4.5

Balance sheet data 12/09E

Shareholders' equity	€1.24bn
P/BV (UBS)	1.7x
Net Cash (debt)	(€0.79bn)

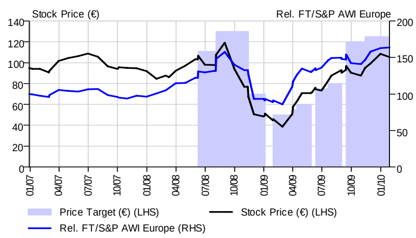
Forecast returns

Forecast price appreciation	+18.7%
Forecast dividend yield	3.0%
Forecast stock return	+21.7%
Market return assumption	6.4%
Forecast excess return	+15.3%

EPS (UBS, €)

	12/09E		12/08
	UBS	Cons.	Actual
H1	2.48	-	6.59
H2E	4.23	-	4.57
12/09E	6.72	*6.45*	
12/10E	9.00	*8.34*	

Performance (€)



Source: UBS

www.ubs.com/investmentresearch

Bekaert

Income statement (€m)	-	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	-	1,914.3	2,009.6	2,173.6	2,662.4	2,418.5	-9.2	2,582.1	6.8	2,720.7	5.4
Operating expenses (ex depn)	-	(1,639.0)	(1,736.9)	(1,867.6)	(2,250.4)	(2,060.8)	-8.4	(2,179.0)	5.7	(2,273.0)	4.3
EBITDA (UBS)	-	275.3	272.7	306.0	412.0	357.8	-13.2	403.1	12.7	447.7	11.1
Depreciation	-	(107.4)	(110.0)	(119.7)	(118.0)	(143.8)	21.8	(145.5)	1.2	(154.1)	5.9
Operating income (EBIT, UBS)	-	167.9	162.7	186.3	294.0	214.0	-27.2	257.6	20.4	293.6	14.0
Other income & associates	-	56.9	51.0	47.1	56.1	37.4	-33.3	45.1	20.4	51.4	14.0
Net interest	-	(15.3)	(31.0)	(41.0)	(49.2)	(53.5)	8.7	(42.4)	-20.7	(39.4)	-7.1
Abnormal items (pre-tax)	-	(31.6)	(16.8)	(11.7)	(84.0)	(20.1)	-76.0	(15.0)	-25.5	(15.0)	0.0
Profit before tax	-	177.9	165.9	180.7	216.9	177.8	-18.0	245.2	37.9	290.5	18.5
Tax	-	(30.3)	(18.4)	(19.1)	(25.5)	(34.5)	34.9	(50.0)	45.3	(62.2)	24.3
Profit after tax	-	147.7	147.6	161.6	191.3	143.4	-25.1	195.2	36.2	228.4	17.0
Abnormal items (post-tax)	-	54.2	0.0	0.0	0.0	0.0	-	0.0	-	0.0	-
Minorities / pref dividends	-	(12.0)	(4.8)	(8.7)	(17.7)	(20.2)	13.8	(22.0)	9.0	(23.8)	8.0
Net income (local GAAP)	-	189.9	142.8	152.9	173.6	123.2	-29.0	173.2	40.6	204.6	18.1
Net Income (UBS)	-	148.3	147.3	151.2	220.2	132.8	-39.7	178.0	34.0	210.6	18.3
Tax rate (%)	-	17.0	11.1	10.6	11.8	19.4	64.6	20.4	5.3	21.4	4.9
Pre-abnormal tax rate (%)	-	32.3	23.2	22.4	25.7	28.0	8.9	28.0	0.0	28.0	0.0

Per share (€)	-	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	-	8.78	6.60	7.63	8.80	6.23	-28.9	8.75	40.4	10.34	18.1
EPS (UBS)	-	6.86	6.81	7.54	11.17	6.72	-39.8	9.00	33.8	10.65	18.3
Net DPS	-	3.00	2.50	2.76	2.80	2.35	-16.0	3.15	33.8	3.73	18.3
Cash EPS	-	11.82	11.89	13.52	17.15	14.00	-18.4	16.35	16.8	18.43	12.7
BVPS	-	50.28	49.39	55.25	57.48	62.77	9.2	69.70	11.0	77.76	11.6

Balance sheet (€m)	-	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net tangible fixed assets	-	800.1	824.4	917.7	1,070.7	1,101.9	2.9	1,124.3	2.0	1,147.0	2.0
Net intangible fixed assets	-	125.4	134.5	122.0	111.5	111.5	0.0	111.5	0.0	111.5	0.0
Net working capital (incl. other assets)	-	755.3	660.3	682.3	837.4	915.6	9.3	1,032.1	12.7	1,168.8	13.2
Other liabilities	-	(44.6)	(40.0)	(158.4)	(205.9)	(205.9)	0.0	(205.9)	0.0	(205.9)	0.0
Operating invested capital	-	1,636.2	1,579.2	1,563.7	1,813.7	1,923.1	6.0	2,062.0	7.2	2,221.4	7.7
Investments	-	238.4	237.7	215.6	199.9	199.9	0.0	199.9	0.0	199.9	0.0
Total capital employed	-	1,874.6	1,816.9	1,779.2	2,013.6	2,123.0	5.4	2,261.9	6.5	2,421.3	7.0
Shareholders' equity	-	1,079.5	1,060.4	1,098.3	1,130.6	1,240.1	9.7	1,378.9	11.2	1,538.3	11.6
Minority interests	-	51.1	48.9	48.4	41.8	41.8	0.0	41.8	0.0	41.8	0.0
Total equity	-	1,130.6	1,109.3	1,146.7	1,172.4	1,281.8	9.3	1,420.7	10.8	1,580.1	11.2
Net debt / (cash)	-	533.9	492.3	575.4	791.2	791.2	0.0	791.2	0.0	791.2	0.0
Debt deemed provisions	-	210.1	215.3	57.1	50.0	50.0	0.0	50.0	0.0	50.0	0.0
Total capital employed	-	1,874.6	1,816.9	1,779.2	2,013.6	2,123.0	5.4	2,261.9	6.5	2,421.3	7.0

Cash flow (€m)	-	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Operating income (EBIT, UBS)	-	167.9	162.7	186.3	294.0	214.0	-27.2	257.6	20.4	293.6	14.0
Depreciation	-	107.4	110.0	119.7	118.0	143.8	21.8	145.5	1.2	154.1	5.9
Net change in working capital	-	(32.3)	(31.9)	(41.9)	(162.4)	74.4	-	(30.8)	-	(22.5)	-27.1
Other (operating)	-	(28.6)	(25.5)	(2.7)	(10.0)	(37.4)	272.8	(45.1)	20.4	(51.4)	14.0
Operating cash flow	-	214.4	215.3	261.4	239.6	394.7	64.7	327.2	-17.1	373.8	14.3
Net interest received / (paid)	-	(15.3)	(31.0)	(41.0)	(49.2)	(53.5)	8.7	(42.4)	-20.7	(39.4)	-7.1
Dividends paid	-	(64.6)	(52.4)	(54.7)	(55.5)	(46.6)	-16.2	(62.3)	33.8	(73.7)	18.3
Tax paid	-	(30.3)	(18.4)	(19.1)	(25.5)	(34.5)	34.9	(50.0)	45.3	(62.2)	24.3
Capital expenditure	-	(151.6)	(161.3)	(199.8)	(251.0)	(175.0)	-30.3	(167.8)	-4.1	(176.8)	5.4
Net (acquisitions) / disposals	-	71.8	(31.3)	(6.8)	(38.2)	0.0	-	0.0	-	0.0	-
Other	-	-	35.0	40.0	(29.9)	27.1	-	44.1	62.9	53.7	21.7
Share issues	-	11.1	2.2	(111.0)	(19.7)	0.0	-	0.0	-	0.0	-
Cash flow (inc)/dec in net debt	-	67.9	(41.9)	(131.0)	(229.6)	112.3	-	48.7	-56.6	75.4	54.8
FX / non cash items	-	-	83.5	47.8	13.9	(112.3)	-	(48.7)	-56.6	(75.4)	54.8
Balance sheet (inc)/dec in net debt	-	-	41.6	(83.1)	(215.8)	0.0	-	0.0	-	0.0	-
Core EBITDA	-	275.3	272.7	306.0	412.0	357.8	-13.2	403.1	12.7	447.7	11.1
Maintenance capital expenditure	-	(79.9)	(192.6)	(206.6)	(289.2)	(175.0)	-39.5	(167.8)	-4.1	(176.8)	5.4
Maintenance net working capital	-	679.6	551.1	602.0	810.7	888.9	9.6	1,005.4	13.1	1,142.1	13.6
Operating free cash flow, pre-tax	-	875.1	631.2	701.4	933.5	1,071.7	14.8	1,240.7	15.8	1,412.9	13.9

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

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Belgium

Industrial, Diversified

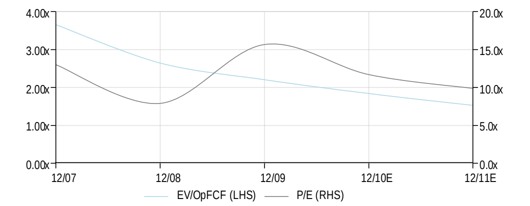
12-month rating	Buy
12m price target	€125.00

Bekaert

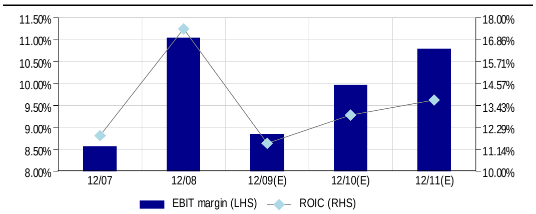
Company profile

Bekaert is an engineering company built on two core competences, metal transformation and advanced coatings. Its main products are made from wire rod, which is used to reinforce tyres, among other uses. Bekaert realises over 2/3 of revenues from three main market sectors, including automotive (31% of revenues), construction (23%) and utilities (16%). In terms of geography, Bekaert realises 34% of revenues in Europe, 22% in North America, 13% in Latin America and 31% in Asia Pacific (25%, 16%, 36%, 23%, respectively on a combined sales basis). In 2008, Bekaert realised revenues of €2.7bn with an 11.0% EBIT margin.

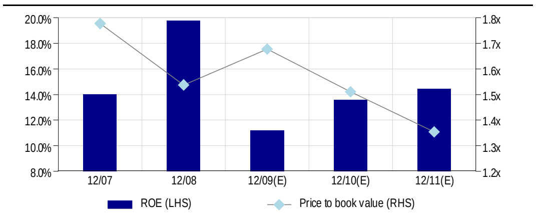
Value (EV/OpFCF & P/E)



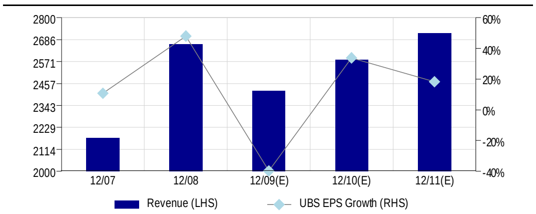
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	-	13.0	10.1	16.9	12.0	10.2
P/E (UBS)	-	13.0	7.9	15.7	11.7	9.9
P/CEPS	-	7.3	5.2	7.5	6.4	5.7
Net dividend yield (%)	-	2.8	3.2	2.2	3.0	3.5
P/BV	-	1.8	1.5	1.7	1.5	1.4
EV/revenue (core)	-	1.2	0.9	1.0	0.9	0.8
EV/EBITDA (core)	-	8.4	6.0	6.6	5.7	4.8
EV/EBIT (core)	-	13.8	8.4	11.1	8.8	7.4
EV/OpFCF (core)	-	3.7	2.6	2.2	1.8	1.5
EV/op. invested capital	-	1.6	1.5	1.3	1.1	1.0

Enterprise value (€m)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	2,001.0	1,742.0	2,071.3	2,071.3	2,071.3
+ minority interests	48.4	41.8	206.7	206.7	206.7
+ average net debt (cash)	517.4	686.5	533.9	448.2	334.1
+ pension obligations and other	0.1	0.1	0.1	0.1	0.1
- non-core asset value	(0.1)	(0.1)	(446.9)	(446.9)	(446.9)
Core enterprise value	2,566.8	2,470.3	2,365.1	2,279.4	2,165.2

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	-	8.2	22.5	-9.2	6.8	5.4
EBITDA (UBS)	-	12.2	34.6	-13.2	12.7	11.1
EBIT (UBS)	-	14.5	57.8	-27.2	20.4	14.0
EPS (UBS)	-	10.8	48.0	-39.8	33.8	18.3
Cash EPS	-	13.6	26.9	-18.4	16.8	12.7
Net DPS	-	10.4	1.4	-16.0	33.8	18.3
BVPS	-	11.9	4.0	9.2	11.0	11.6

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	-	14.1	15.5	14.8	15.6	16.5
EBIT / revenue	-	8.6	11.0	8.8	10.0	10.8
Net profit (UBS) / revenue	-	7.0	8.3	5.5	6.9	7.7

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	-	11.9	17.4	11.5	12.9	13.7
ROIC post tax	-	9.2	12.9	8.2	9.3	9.9
Net ROE	-	14.0	19.8	11.2	13.6	14.4

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	-	5.7	7.1	4.7	7.1	8.7
Dividend cover (UBS EPS)	-	2.7	4.0	2.9	2.9	2.9
Div. payout ratio (%, UBS EPS)	-	36.6	25.1	35.0	35.0	35.0
Net debt / EBITDA	-	1.9	1.9	2.2	2.0	1.8

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	-	1.4	1.6	1.3	1.3	1.3
Revenue / fixed assets	-	2.2	2.4	2.0	2.1	2.2
Revenue / net working capital	-	3.8	3.8	2.8	2.7	2.5

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	-	3.8	3.2	5.0	4.8	4.8
Capex / revenue (%)	-	9.2	9.4	7.2	6.5	6.5
Capex / depreciation	-	1.7	2.1	1.2	1.2	1.1

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	-	52.4	70.0	63.8	57.4	51.4
Net debt / (net debt + equity)	-	34.4	41.2	39.0	36.5	34.0
Net debt (core) / EV	-	20.2	27.8	22.6	19.7	15.4

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of €105.30 on 29 Jan 2010 21:37 GMT Market cap(E) may include forecast share issues/buybacks.

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■ Bekaert

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■ Statement of Risk

Bekaert's operations are not immune to the economic cycle as its products are used in the construction sector and automotive sector (although 75% replacement market). Bekaert has suppliers and customers with some pricing power. Bekaert's main raw material is wire rod and as such it is exposed to movements in the steel price. The market for tire steel cord in China, an important market for Bekaert, is very competitive. As a truly global company Bekaert is exposed to movements in foreign currencies, notably the $, renminbi and Slovakian koruna although most of the effect is translational. Finally, Bekaert faces the risk of insourcing by customers, notably in the tyre industry.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	48%	40%
Neutral	**Hold/Neutral**	40%	35%
Sell	**Sell**	13%	26%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	17%
Sell	**Sell**	less than 1%	67%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2009.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.
Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.
Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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UBS Limited: David Kerstens.

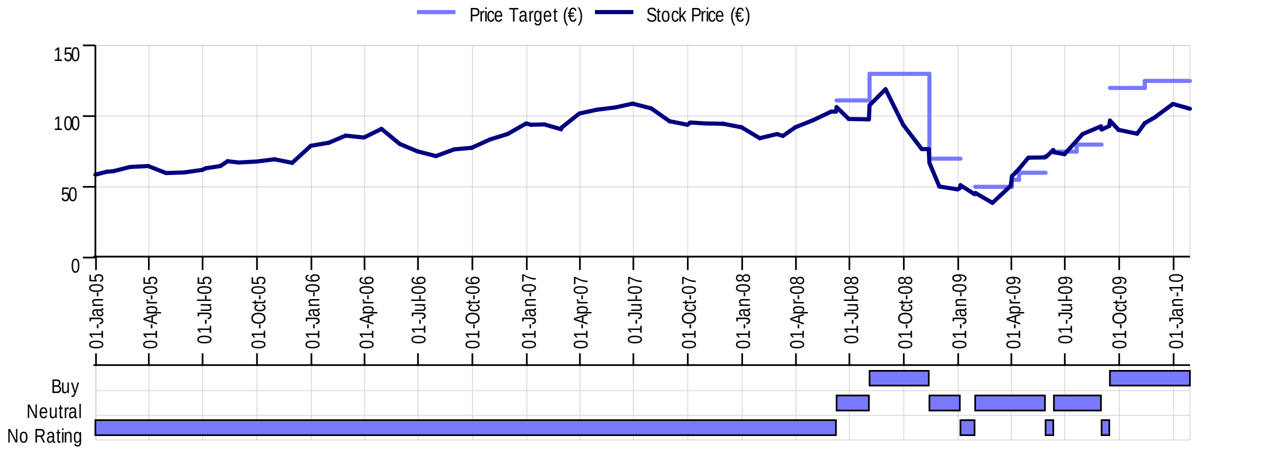
Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Bekaert	BEKB.BR	Buy	N/A	€105.30	29 Jan 2010

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Bekaert (€)



Source: UBS; as of 29 Jan 2010

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