

Bekaert

Indy - Industrial, Diversified / Belgium

Target Price EUR 250.00

Expected performance (12 mth) 49.8%

BUY EUR 166.90 (Closing price 30-Jul-10)

Company results

Estimates and target price raised by c. 50%

2 August 2010

Analyst: Maarten Bakker

ABN AMRO Bank N.V.

Tel: +31 20 34354 12

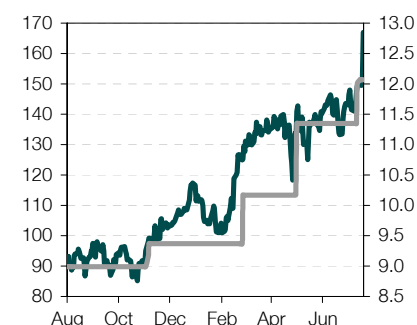
Email: maarten.bakker@nl.abnamro.com

Opinion on qualitative criteria

Accounting	IFRS 01/01/2004
Quality of track record	High
Solvency	High
Currency risk	High
Risk of asset write-off	Neutral

Share price performance/EPS revision (EUR)

Price ABN AMRO EPS est. 2010



Source: FactSet, ABN AMRO Equity Research

Market capitalisation (EUR m)	3,310.4
No. of shares (m)	19.8
Free float	62.0%
1/3/12 mth perf. (%)	21.5/23.4/97.6
High/low 52 weeks (EUR)	166.90/85.22
Next results due	10 November 2010
Price/book value (x)	2.1
Volatility (β) (5yrs/)	
Reuters symbol	BEKB.BR
Bloomberg symbol	BEKB.BB
Website	www.bekaert.com

1H10 improves our view of sustainable profitability – EPS raised by >50%

Bekaert reported blowout 1H10 results, with EBITE of EUR 262m (+205%) significantly beating our forecast (EUR 195m) and the consensus (EUR 185m). Predominantly driven by a strong pick up in volume, the results improved across the board, with an impressive recovery of profitability for the mature EMEA and North America divisions and ongoing strong growth for the Asia Pacific division. Also worth noting is the good quality of the results, with only a EUR 20m contribution from windfall gains on inventories. The strong results are not an incident, but rather the fruits of a well-executed strategy focused on innovation, emerging markets and fast growing industries, implemented already since the beginning of this decade. The 1H10 results have changed our view of a sustainable level of profitability for Bekaert for the better, particularly in respect of the EMEA and North America divisions. It prompted us to upgrade our EPS forecasts for 2010 through 2012 by EUR 7.27/6.62/6.52 (or c. 50-60%) to EUR 19.34/19.60/20.01 (the muted EPS growth in the coming years is due to our assumption of a return to a normalised tax rate by 2012).

Target price raised to EUR 250 (implying 12.9x P/E 2010) – BUY reiterated

Based on our raised estimates for 2010, Bekaert trades at a valuation of only 8.6x P/E and 4.6x EV/EBITDA, which does not do justice to the attractive growth profile (>70 of sales in emerging markets), the solid balance sheet and strong track record. Consistent with the earnings upgrade, we raised our returns-based target price from EUR 173 to EUR 250, which implies a realistic 2010 valuation of 12.9x P/E. We expect continuing share price momentum. BUY rating reiterated.

Year to December	2008	2009	2010e	2011e	2012e
Sales (EUR m)	2,662.4	2,437.3	3,189.5	3,417.0	3,630.3
EBITDA (EUR m)	412.2	385.7	706.1	722.1	729.2
Net profit excl. extr. & amort. (EUR m)	209.9	165.4	395.6	388.7	396.8
Net profit (EUR m)	174.1	151.8	383.6	388.7	396.8
EBITDA margin (%)	15.5	15.8	22.1	21.1	20.1
ROCE (incl. goodwill) (%)	11.2	9.9	19.5	16.9	16.1
Net gearing (%)	59.5	36.9	28.7	15.0	3.6
EPS before extr. & amort. (EUR)	10.64	8.38	19.94	19.60	20.01
EPS (EUR)	8.83	7.69	19.34	19.60	20.01
DPS (EUR)	2.80	2.94	6.77	6.86	7.00
% change sales	22.5	(8.5)	30.9	7.1	6.2
% change EPS (excl. extr. & amort.)	35.7	(21.3)	138.0	(1.7)	2.1
EV/Sales	0.49	0.95	1.05	0.94	0.83
EV/EBITDA	3.2	6.0	4.8	4.4	4.1
P/E (excl. extr. & amort.)	8.3	9.0	8.4	8.5	8.3
P/E	10.0	9.8	8.6	8.5	8.3
PE/growth (excl. extr.)	0.5	22.9	0.2	0.1	4.9
Free cash flow yield (%)	(2.5)	18.4	7.4	8.5	9.1

Results stem from well-executed strategy focused on innovation, emerging markets and fast growing industries

Blowout 1H10 results not an incident

Bekaert reported (again) blowout 1H10 results, with EBITE of EUR 262m (+205%) significantly beating our forecast (EUR 195m) and the consensus (EUR 185m). The results improved across the board, with an impressive recovery of profitability for the mature EMEA and North America divisions and ongoing strong growth for the Asia Pacific division. The results are so strong that we can imagine that they are looked at with some scepticism (“too good to be true” ... “must go wrong”). One should realise, though, that they are the fruits of a well-executed strategy focused on innovation (this year, Bekaert spends EUR 80m on R&D), emerging markets and fast growing industries, implemented already since the beginning of this decade.

Bekaert's results (EUR m)

	1H09 realised	2H09 realised	1H10 realised	Y-o-y chg.	1H10E estimated	Realised vs estimated
EMEA	410	417	526	28.3%	489	7.6%
North America	264	210	313	18.8%	286	9.5%
Latin America	160	167	144	-9.9%	135	6.9%
Asia Pacific	367	443	552	50.6%	500	10.4%
Consolidated sales	1,200	1,237	1,535	27.9%	1,409	8.9%
Combined sales (incl. 100% JVs)	1,615	1,728	2,113	30.9%	1,931	9.4%
EBITDAE	152	258	368	141.8%	269	36.5%
margin	12.7%	20.9%	24.0%		19.1%	
EBITE EMEA	(21)	22	54	-362.1%	30	81.1%
margin	-5.0%	5.3%	10.3%		6.1%	
EBITE North America	(5)	(0)	21	-566.7%	9	122.6%
margin	-1.7%	-0.2%	6.7%		3.3%	
EBITE Latin America	8	19	14	66.7%	16	-10.4%
margin	5.3%	11.4%	9.7%		11.6%	
EBITE Asia Pacific	128	160	206	60.9%	169	21.6%
margin	34.9%	36.1%	37.3%		33.9%	
Other	(25)	(30)	(33)	29.5%	(29)	13.2%
Total EBITE	86	171	262	205.2%	195	34.3%
margin	7.2%	13.8%	17.1%		13.8%	
Non-recurring items	(7)	(17)	(19)	160.3%	(13)	48.4%
EBIT	79	153	243	209.3%	183	33.3%
Net financial charges	(31)	(35)	(16)	-48.9%	(31)	-49.9%
EBT	48	118	228	372.8%	152	50.4%
Taxes	(13)	(21)	(51)	286.9%	(42)	21.0%
as % of EBT	27.5%	17.4%	22.5%		28.0%	
Share in results joint ventures	17	20	19	7.7%	19	-1.5%
Result discontinued operations	0	0	0	nfm	0	nfm
Minority interests	(8)	(10)	(14)	75.2%	(15)	-2.7%
Net profit continuing operations	44	108	181	309.6%	113	59.6%
EPS basic (EUR)	2.24	5.45	9.15	308.3%	5.73	59.6%

Source: company data and ABN AMRO estimates

Revenue accelerated in 2Q10, also for the mature EMEA and North America divisions

Strong volume growth is the main driver behind profitability

The main driver of the strong profitability was top-line growth, which has a leveraged impact through a higher capacity utilisation rate. In 1H10, consolidated revenue increased organically by 29% (combined revenue by 26%). According to management, the bulk of this was volume driven, while the impact of pricing (pass through of higher wire rod prices) was said to be less than 5%. The table below shows that the revenue trend was positive in 1H10, accelerating from EUR 694m (+24% y-o-y organically) in 1Q10 to EUR 841m (+34% y-o-y organically) in 2Q10. It is encouraging that also the mature EMEA and North America division saw a strong pick up in revenue. Note that the y-o-y decline in

consolidated revenue of the Latin America division (-10%) is attributable to the shift to the parallel exchange rate of the Bolivar in Venezuela, which created a negative impact on revenue of EUR 52m (organic growth in revenue was 17% in 1H10).

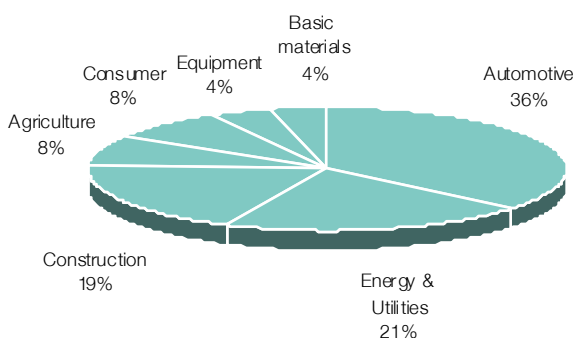
Bekaert's sales growth accelerated in 2Q10 (EUR m)

	1Q09	2Q09	3Q09	4Q09	2009	1Q10	2Q10
Consolidated sales:							
EMEA	210	200	198	219	827	244	282
North America	142	122	106	104	473	141	172
Latin America	81	79	87	80	327	67	77
Asia Pacific	159	207	228	215	809	242	310
Total	592	608	619	618	2,437	694	841
% chg.	-0.1%	-14.5%	-16.8%	0.6%	-8.5%	17.2%	38.4%
Organic	-14.3%	-25.9%	-23.6%	-0.9%	-16.9%	23.9%	34.4%
foreign exchange	7.7%	6.2%	1.4%	-5.5%	2.5%	-6.7%	1.4%
consolidation	6.5%	5.2%	5.5%	6.6%	5.9%	0.0%	2.6%
EMEA % chg.	-27.6%	-37.9%	-34.5%	-13.4%	-29.2%	16.0%	41.2%
North America % chg.	5.8%	-21.5%	-38.5%	-27.6%	-21.7%	-0.6%	41.4%
Latin America % chg.	113.8%	71.3%	77.9%	84.0%	85.3%	-16.9%	-2.9%
Asia Pacific % chg.	22.1%	10.5%	3.4%	23.2%	13.5%	51.9%	49.6%
Combined sales:							
EMEA	209	198	197	219	823	243	280
North America	139	120	105	105	469	139	171
Latin America	280	299	326	332	1,237	329	398
Asia Pacific	160	209	229	216	814	242	311
Total	788	826	857	871	3,343	953	1,160
EMEA % chg.	-27.5%	-38.1%	-34.1%	-12.3%	-28.8%	16.2%	41.5%
North America % chg.	4.2%	-21.9%	-38.6%	-26.3%	-21.9%	-0.1%	42.4%
Latin America % chg.	-19.5%	-25.7%	-28.0%	3.0%	-18.9%	17.5%	32.9%
Asia Pacific % chg.	20.4%	8.6%	1.5%	22.3%	11.9%	51.1%	48.9%
Total % chg.	-12.7%	-22.7%	-25.4%	-2.1%	-16.6%	20.9%	40.4%

Source: company data

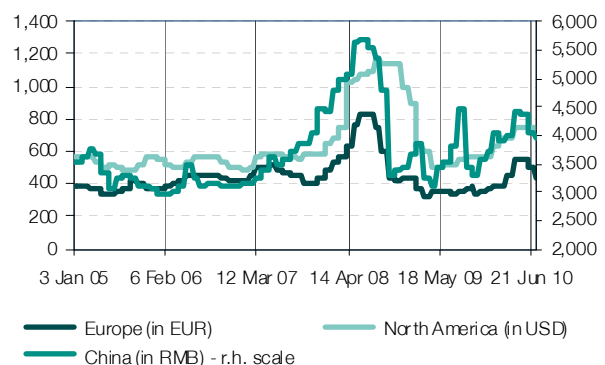
In the automotive sector (the largest segment accounting for 36% of combined revenue, of which 65% is generated in emerging markets and 75% is characterised as being a replacement market), demand developed positively in all markets, a trend that Bekaert sees continuing for the remainder of the year). Also the energy & utilities segment (21% of revenue) performed well, driven by a host of new products that were developed in recent years. The construction segment (19% of revenue, of which 60% is realised in Latin America) remained under pressure, particularly in EMEA (where the main product is Dramix steel fibres used for concrete reinforcement).

2009 breakdown Bekaert's combined sales by sector



Source: company data

Wire rod prices trended upwards in 1H10



Source: Steel BB

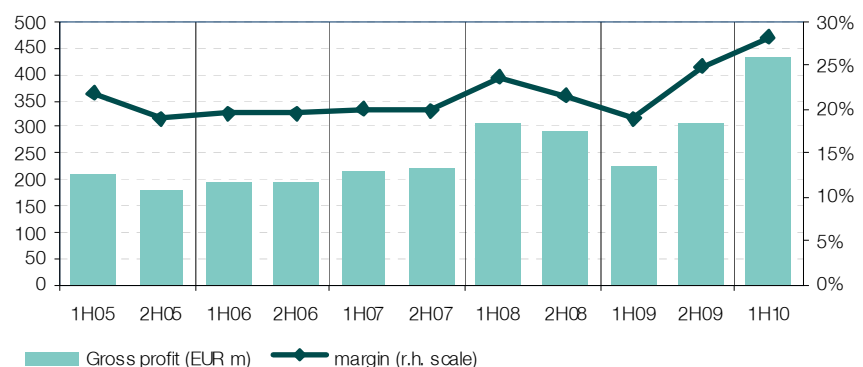
The EMEA division saw its factories operate at high capacity utilisation levels, driven by a recovery of volumes in all segments except building products. Also the North America division experienced an improvement of capacity utilisation, fuelled by a strong pick up in the automotive sector. In Latin America, market conditions are challenging in Venezuela, but the operations in Ecuador and Peru experienced robust sales growth. The joint venture operations in Brazil and Chile thrive well on the back of increased market demand. Although the strong Brazilian real attracts competition from imported products, which Bekaert seeks to fend off through a policy of competitive pricing (as management believes that “when you let them in, you do not get out again”). The Asia Pacific division continued on its path of strong growth, driven by the automotive and energy related sectors and by ongoing expansion of capacity. In China, tire cord capacity is lifted from 350K tonnes to 400K tonnes by the end of this year. Bekaert also invests aggressively in expansion in non-tire cord products in China.

Record-high gross profit margin reflects high capacity utilisation and favourable product and geographic mix ...

Record gross profit margin reflects high capacity utilisation (only limited contribution from windfall gains on inventories)

In 1H10, gross profit surged even by 91% to EUR 434m, which reflects a record high margin of 28.3%, compared with 24.8% in 2H09 and 18.9% in 1H09 (note that the prior-year period was impacted by the EUR 40m FIFO hit on inventories). Bekaert attributes the high margin to the very high capacity utilisation rate and a favourable product and geographic mix.

Gross profit (EUR m) and margin reached at record-high in 1H10



Source: company data

... while windfall gains on inventories contributed only EUR 20m

The gross profit margin was so high that we raised the question whether it also reflected gains on inventory positions related to higher prices for the raw material wire rod (see chart on page 3). Management replied that windfall gains on inventories amounted only to EUR 20m (EUR 10m for EMEA, EUR 5m for Asia Pacific and EUR 2-3m for North America and Latin America). This represents only 130bps of the gross profit margin. As such, we conclude that the quality of the profitability is good (not inflated by one offs).

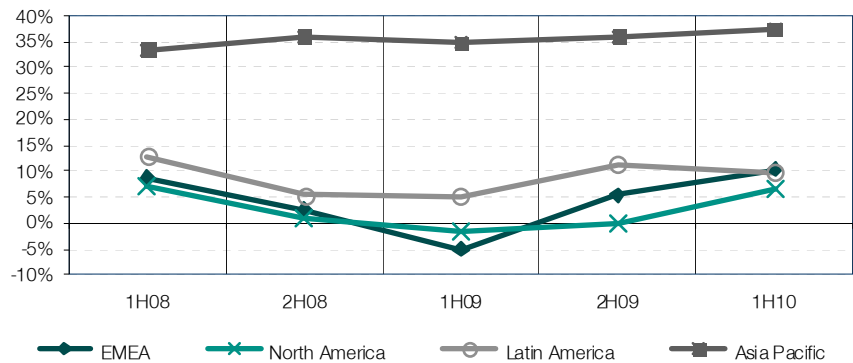
1H10 shows that a 9-10% operating margin should be realistic for EMEA in coming years

EMEA and North America operating margins back on track

The EMEA division is back on track with an EBITE margin that recovered to 10.3% in 1H10 (6.1% estimated), from 5.3% in 2H09 and -5.0% in 1H09 (or around 0% when adjusted for the FIFO hit). If we strip out the EUR 10m windfall profit on inventories, the 1H10 margin would still have been a healthy 8.4%. As numbers based on this segment reporting are only available from 2008 onwards, we can not really judge whether the 1H10 margin is exceptionally high in a historic context. Yet, this does not look to be the case, as a margin of 8.6% was achieved in 1H08. Bekaert explains that the healthy profitability in 1H10 has been achieved on the back of a high capacity utilisation level, investments in

a shift of the mix towards products with higher added value (energy and utility sector) and the timely implementation of restructuring measures in Belgium¹. As such, we consider the 1H10 profitability sustainable, making us count on a 9-10% margin for the EMEA division in the coming years.

Development divisional EBITE margins



Source: company data

North America back on track

The North America division saw its margin recover from a break even level in FY09 to 6.7% in 1H10 (3.3% estimated), driven by a higher capacity utilisation rate. This margin compares to a previous high of 7.3% achieved in 1H08 (remember that we have no numbers available before 2008). Management noted that a relatively high share of low-margin bead wire products in the mix had weighed somewhat on the divisional margin. For the coming years, we have modelled a divisional margin of 6.5-7.5%

Further margin improvement Asia Pacific division makes often-heard concerns look overdone for time being

No, we do not believe that the very high margin of the Asia Pacific division is sustainable. But, the much-anticipated erosion of profitability just did not set in yet, as the divisional EBITE margin actually showed a further improvement (from 34.9% in 1H09 and 36.1% in 2H09) to even 37.3% in 1H10 (33.9% estimated). It makes the often-heard concerns look somewhat overdone, at least for the time being. Capacity utilisation continues to be very high, also for newly installed capacity. The most important activity is the production of tyre cord in China. This is an attractive market with an oligopolistic structure on the supply side, where Bekaert and main rival Xingda (listed on Hong Kong exchange) together control about 70% of the market (the third largest player with a c. 10% share is Shougang, in which Bekaert holds a 13% stake). While the tyre cord market is still growing strongly, this market structure should ensure a certain discipline against irrational (pricing) behaviour (there is cake for everyone). All players have significant capacity expansion plans. Xingda started the construction of a new factory (No. 9) with potential capacity to produce 150K-180K tonnes of tyre cord (the expansion is a phased approach to add about 50K tonnes of capacity per annum). It lifts Xingda's capacity from 345K tonnes at the end of 2009 to over 500K tonnes in 2012, representing a CAGR of 15%. In order to defend their market share, we would expect the others to expand capacity at the same pace. The market should be able to absorb this c. 15% annual growth in capacity, as automotive is a structural growth market in China (outpacing GDP growth) and there still is upside to the radialisation rate of tyres (currently only around 70% for truck tyres). Nonetheless, we do anticipate the margin of the Asia Pacific division to come down, if only it were for the fact that Bekaert is seeking to expand in (lower-margin) non-tyre cord products. But, we expect any margin erosion to be compensated by sales growth. In our model, we assume that the operating margin deteriorates by 300-500bps in the coming 5

¹ In December of 2008, Bekaert announced the closure of the plant in Hemiksen (the steel wire activities are now concentrated in Zwevegem). In June of last year, Bekaert also started the reorganisation of the steel cord activities through the closure of the plant in Lanklaar.

years (and to 28% in 2012). We believe that this assumption risks being on the conservative side.

P&L Bekaert (EUR m)									
	2008	1H09	2H09	2009	1H10	2H10E	2010E	2011E	2012E
EMEA	1,168	410	417	827	526	536	1,062	1,109	1,153
North America	605	264	210	473	313	317	630	655	688
Latin America	177	160	167	327	144	154	298	316	331
Asia Pacific	713	367	443	809	552	648	1,200	1,338	1,458
Consolidated sales	2,662	1,200	1,237	2,437	1,535	1,654	3,189	3,417	3,630
% chg.	22.5%	-7.9%	-9.0%	-8.5%	27.9%	33.7%	30.9%	7.1%	6.2%
organic	17.7%	-20.6%	-13.4%	-16.9%	29.2%	30.8%	30.0%	6.8%	6.2%
fx	-1.0%	6.9%	-1.7%	2.5%	-2.6%	1.8%	-0.4%	0.0%	0.0%
consolidation	5.8%	5.8%	6.0%	5.9%	1.3%	1.2%	1.2%	0.3%	0.0%
EBITDAE	496	152	258	410	368	367	735	737	744
margin	18.6%	12.7%	20.9%	16.8%	24.0%	22.2%	23.0%	21.6%	20.5%
% chg.	59.8%	-37.4%	2.0%	-17.3%	141.8%	42.3%	79.2%	0.3%	1.0%
EBITE EMEA	68	(21)	22	2	54	52	106	114	120
margin	5.8%	-5.0%	5.3%	0.2%	10.3%	9.7%	10.0%	10.3%	10.4%
% chg	0.0%	-139.1%	47.4%	-97.6%	nmf	134.5%	6384.7%	7.6%	5.0%
EBITE North America	25	(5)	(0)	(5)	21	21	42	45	51
margin	4.1%	-1.7%	-0.2%	-1.1%	6.7%	6.5%	6.6%	6.9%	7.4%
% chg	0.0%	-121.4%	-113.3%	-120.2%	nmf	nmf	nmf	8.7%	12.6%
EBITE Latin America	16	8	19	28	14	19	33	38	40
margin	8.9%	5.3%	11.4%	8.4%	9.7%	12.2%	11.0%	12.0%	12.0%
% chg	0.0%	-22.2%	287.5%	75.0%	66.7%	-2.1%	18.9%	15.6%	5.0%
EBITE Asia Pacific	249	128	160	288	206	214	420	415	408
margin	34.9%	34.9%	36.1%	35.6%	37.3%	33.0%	35.0%	31.0%	28.0%
% chg	0.0%	20.2%	12.1%	15.6%	60.9%	34.0%	46.0%	-1.3%	-1.5%
Other	(63)	(25)	(30)	(55)	(33)	(36)	(69)	(67)	(68)
Total EBITE	294	86	171	257	262	270	532	545	551
margin	11.1%	7.2%	13.8%	10.5%	17.1%	16.3%	16.7%	15.9%	15.2%
% chg.	57.9%	-47.3%	30.1%	-12.7%	205.2%	57.7%	107.0%	2.5%	1.1%
Non-recurring items	(84)	(7)	(17)	(25)	(19)	(10)	(29)	(15)	(15)
EBIT	210	79	153	232	243	259	503	530	536
Net financial charges	(49)	(31)	(35)	(66)	(16)	(24)	(40)	(36)	(20)
EBT	161	48	118	167	228	235	463	494	516
Taxes	(26)	(13)	(21)	(34)	(51)	(41)	(93)	(124)	(139)
as % of EBT	15.8%	27.5%	17.4%	20.4%	22.5%	17.6%	20.0%	25.0%	27.0%
Share in results joint ventures	56	17	20	38	19	25	44	49	52
Result discontinued operations	0	0	0	0	0	0	0	0	0
Minority interests	(18)	(8)	(10)	(19)	(14)	(16)	(31)	(31)	(32)
Net profit continuing operations	174	44	108	152	181	203	384	389	397
% chg.	13.9%	-65.1%	124.0%	-12.8%	309.6%	88.2%	152.7%	1.3%	2.1%
EPS basic (EUR)	8.83	2.24	5.45	7.69	9.15	10.21	19.34	19.60	20.01
% chg.	15.7%	-65.2%	123.8%	-12.9%	308.3%	87.3%	151.5%	1.3%	2.1%
DPS (EUR)	2.80			2.94	2.00		6.77	6.86	7.00
pay out	31.8%			38.4%	21.9%		35.0%	35.0%	35.0%

Source: company data and ABN AMRO estimates

Words of caution for 2H10 merely reflect lack of visibility on the macro environment

Focus on innovation and emerging markets seen creating further value, irrespective of macro environment

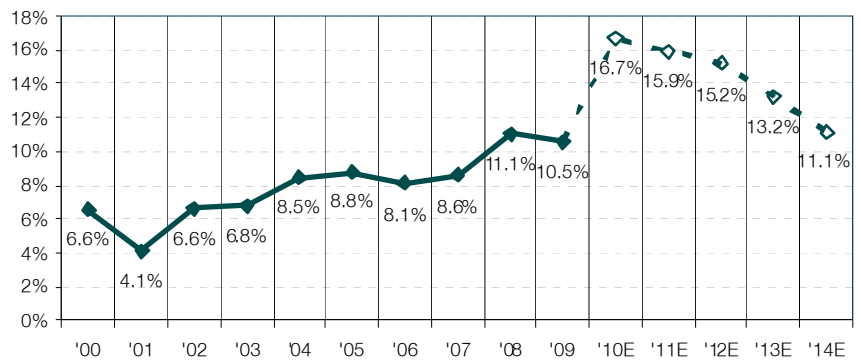
>10% EBITE margin target looks on the conservative side

Cautious words in outlook merely reflect lack of macro visibility

As usual, Bekaert refrained from giving a concrete outlook for the remainder of the year. The company did comment, however, being prudent for 2H10 in light of volatility of markets, exchange rates and raw materials prices. Note that the cautiousness is not related to company specific issues. Management explained at the analyst meeting that there is simply a lack of visibility on the macro economic front, making it impossible for them to say anything meaningful about the future. At the same time, however, management expressed its firm believe in the strategy focused on innovation and further expansion in emerging markets (c. 80% of the EUR 200m capex budget for 2010 is destined to emerging markets). We expect this strategy to continue to create value in the years ahead, irrespective of economic circumstances.

The strong performance in recent years has led many to ask Bekaert whether or not the time has come to revise their long-term EBITE margin target of 7-9% (which was target introduced at the beginning of this decade). The company has responded by indicating now that they feel comfortable to raise the EBITE margin target to >10% for the coming three years. We do not see this as very ambitious nor inspiring, however, as it has been achieved already since 2008 (even in the challenging year 2009), and we expect it to be amply exceeded in the years ahead (see chart below).

Development group EBITE margin



Source: company data and ABN AMRO estimates

EPS forecasts 2010-2012 upgraded by EUR 7.27/6.62/6.52 (or c. 50-60%) to EUR 19.34/19.60/20.01

EPS estimates raised by >50% for 2010 and beyond

The 1H10 results have changed our view of a sustainable level of profitability for Bekaert for the better, particularly in respect of the EMEA and North America divisions. This (and the significant beat in 1H10) prompted us to raise our group EBITE forecasts by 35-40% for the coming years. As a result, our EPS forecasts for 2010 through 2012 have been upgraded by EUR 7.27/6.62/6.52 (or 60/51/48%) to EUR 19.34/19.60/20.01. Note that the limited increase in EPS in 2011 and 2012 is due to our assumption of a return of the tax rate to a more normalised level (from 20% in 2010 to 27% in 2012) and also reflects our assumption of a considerable margin deterioration for the Asia Pacific division (which may prove to be on the conservative side). We refer to the table on page 6 for the detail behind our forecasts.

Sources of change in FY2010 estimates (EUR m)

	Previous estimates	New estimates	Change	Change per share (EUR)
EBITE EMEA	57	106	49	2.45
Margin	6.0%	10.0%		
EBITE North America	19	42	23	1.16
margin	3.3%	6.6%		
EBITE Latin America	32	33	0	0.02
margin	11.8%	11.0%		
EBITE Asia Pacific	344	420	76	3.85
margin	33.5%	35.0%		
Other	(63)	(69)	(6)	(0.29)
Total EBITE	389	532	143	7.19
margin	13.8%	16.7%		
Non-recurring items	(25)	(29)	(4)	(0.20)
Net financial charges	(59)	(40)	20	1.00
Taxes	(79)	(93)	(13)	(0.68)
as % of EBT	26.0%	20.0%		
Share in results joint ventures	43	44	1	0.03
Result discontinued operations	0	0	0	0.00
Minority interests	(29)	(31)	(1)	(0.06)
Net profit continuing operations	239	384	144	7.27
EPS basic (EUR)	12.07	19.34	7.27	

Source: ABN AMRO estimates

Trading at a 2010 valuation of only 8.6x P/E and 4.6x EV/EBITDA

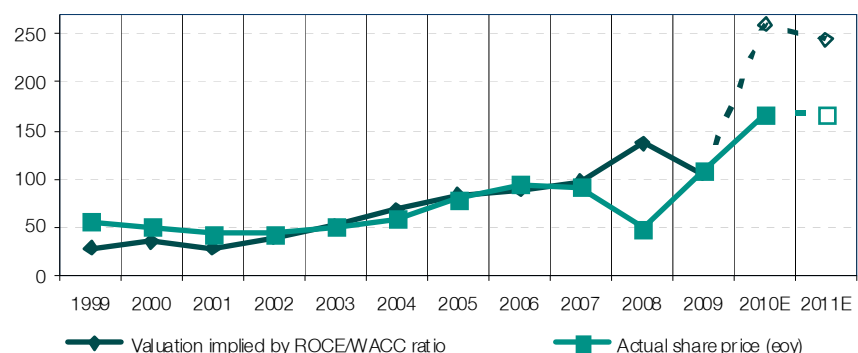
Compelling valuation on new estimates – target price raised

Based on our raised estimates for 2010/2011, the Bekaert stock trades at a valuation of only 8.6/8.5x P/E and 4.6/4.3x EV/EBITDA (EV adjusted for the estimated value of JVs). These multiples do not do justice to the attractive growth profile (>70 of sales in emerging markets), the strong balance sheet to continue to make value creating investments (0.5x net debt/EBITDA and 24% net gearing end 2010) and the strong track record.

Price target raised to EUR 250 from EUR 173

Consistent with the earnings upgrade, we raised our target price from EUR 173 to EUR 250, which is the outcome of a returns based valuation (where EV/CE = ROCE/WACC) on our 2010 forecasts. Back-testing validates the returns-based valuation methodology, as Bekaert's historical share price development has tracked the outcome closely (see the chart below).

Development Bekaert's valuation implied by ROCE/WACC ratio versus actual eoy share price (EUR)



Source: ABN AMRO

EUR 250 target price implies a realistic valuation of 12.9x P/E 2010

Our price target implies a valuation of 12.9x P/E and 6.8x EV/EBITDA on 2010 earnings, which does not look far-fetched in view of Bekaert's growth profile.

P & L Statement (EUR m) Year to December	2003	2004	2005	2006	2007	2008	2009	2010e	2011e	2012e
Net sales	1,797.0	1,741.9	1,914.3	2,009.6	2,173.6	2,662.4	2,437.3	3,189.5	3,417.0	3,630.3
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Personnel costs	(506.9)	(450.3)	(449.9)	(462.0)	(472.6)	(524.2)	(499.1)	(543.6)	(566.6)	(589.4)
Other operating costs										
EBITDA	239.1	255.6	257.4	262.2	298.6	412.2	385.7	706.1	722.1	729.2
Depreciation	(127.3)	(107.6)	(107.4)	(110.7)	(119.7)	(165.9)	(139.8)	(191.5)	(192.5)	(193.5)
EBITA	111.8	148.0	150.0	151.4	178.9	246.3	245.8	514.6	529.6	535.7
Reported provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	(9.0)	(13.7)	(5.5)	(4.3)	(35.8)	(13.6)	(12.0)	0.0	0.0
EBIT	111.8	139.0	136.3	145.9	174.6	210.5	232.2	502.6	529.6	535.7
Net financials	(43.0)	(20.5)	(15.3)	(31.0)	(41.0)	(49.2)	(65.6)	(39.7)	(35.6)	(19.5)
Profit Before Taxes (PBT)	68.8	118.5	121.0	114.9	133.6	161.2	166.6	462.9	494.0	516.2
Taxes	(8.2)	(18.4)	(30.3)	(18.4)	(19.1)	(25.5)	(33.9)	(92.6)	(123.5)	(139.4)
Income from associates	33.5	53.5	56.9	51.0	47.1	56.1	37.8	43.9	49.2	51.7
Minorities	(7.9)	(12.3)	(12.0)	(4.8)	(8.7)	(17.7)	(18.6)	(30.7)	(31.1)	(31.7)
Net profit before extraordinary	86.7	141.3	135.7	142.8	152.9	174.1	151.8	383.6	388.7	396.8
Extraordinary items	0.0	26.3	54.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net reported profit	86.7	167.6	189.9	142.8	152.9	174.1	151.8	383.6	388.7	396.8
% change in Sales	(3.6)	(3.1)	9.9	5.0	8.2	22.5	(8.5)	30.9	7.1	6.2
% change in EBITDA	5.9	6.9	0.7	1.8	13.9	38.0	(6.4)	83.1	2.3	1.0
% change in EBITA	46.5	32.4	1.3	1.0	18.1	37.7	(0.2)	109.3	2.9	1.2
% change in PBT	ns	72.1	2.1	(5.0)	16.3	20.7	3.3	177.9	6.7	4.5
% change in Net profit before extraordinary	ns	63.0	(3.9)	5.2	7.1	13.9	(12.8)	152.7	1.3	2.1

Cash Flow Statement (EUR m)	2003	2004	2005	2006	2007	2008	2009	2010e	2011e	2012e
EBITDA	239.1	255.6	257.4	262.2	298.6	412.2	385.7	706.1	722.1	729.2
Change in provisions excluding tax provisions	(31.2)	(0.6)	(15.4)	(12.3)	(8.9)	26.2	(44.5)	61.2	0.0	0.0
Change in net working capital	(18.6)	(112.6)	(32.3)	(31.9)	(41.9)	(162.4)	195.6	(172.9)	(72.2)	(57.0)
Gross operating cash flow	189.3	142.4	209.8	217.9	247.8	276.0	536.8	594.3	649.9	672.2
Taxes paid	(18.5)	(32.9)	(25.5)	(16.8)	(24.9)	(27.5)	(31.1)	(92.6)	(123.5)	(139.4)
Capex	(118.1)	(172.9)	(151.6)	(161.3)	(199.8)	(251.1)	(173.8)	(209.1)	(210.4)	(212.8)
Free cash flow	52.7	(63.3)	32.7	39.8	23.1	(26)	331.9	292.6	316.0	320.0
Net interest received	(18.2)	(16.0)	(14.8)	(22.0)	(30.8)	(31.5)	(39.2)	(47.6)	(35.6)	(19.5)
Other	17.2	75.5	96.6	(25.4)	42.1	24.2	172.3	(105.2)	36.8	39.0
Acquisitions	(33.9)	(16.9)	(21.2)	(42.7)	(14.7)	(44.2)	(3.4)	(70.0)	0.0	0.0
Divestments	5.7	0.1	86.5	0.0	4.2	0.7	(0.5)	0.0	0.0	0.0
Share issues/buybacks	(2.2)	(8.8)	(24.3)	(56.1)	(111.0)	(19.7)	(0.5)	0.0	0.0	0.0
Dividend (adj. stock dividend)	(44.9)	(45.3)	(52.2)	(74.1)	(57.2)	(62.2)	(50.6)	(58.3)	(134.2)	(136.1)
Extraordinary items (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in interest-bearing debt	32.5	77.4	20.6	39.1	136.4	180.4	(252.5)	(187.3)	(183.0)	(203.5)
Change in cash & cash equivalents	8.8	2.7	123.8	(141.5)	(7.9)	45.1	157.5	(175.8)	0.0	0.0

Balance Sheet (EUR m)	2003	2004	2005	2006	2007	2008	2009	2010e	2011e	2012e
Net intangible fixed assets	119.5	118.4	125.4	134.5	122.0	111.5	105.0	133.4	132.6	132.4
Net tangible fixed assets	757.6	791.6	799.8	824.2	917.6	1,070.7	1,127.7	1,305.0	1,323.6	1,343.2
Financials fixed assets (FFA)	303.7	331.1	325.5	348.6	303.4	247.7	311.7	354.2	354.2	354.2
Inventories	322.6	419.3	348.3	368.8	385.4	510.5	358.4	460.3	493.1	523.9
Trade debtors	307.7	385.2	354.2	398.9	437.7	483.2	479.6	627.6	672.4	714.4
Other debtors	45.5	44.9	63.4	63.7	73.1	125.3	171.2	195.0	226.5	253.8
Cash & securities	81.1	98.9	222.7	81.2	73.2	118.3	275.8	100.0	100.0	100.0
Total Assets	1,937.6	2,189.3	2,239.3	2,219.8	2,312.6	2,667.2	2,829.5	3,175.5	3,302.4	3,421.8
Shareholder's equity	790.8	909.7	1,057.5	1,060.1	1,098.2	1,130.6	1,284.8	1,610.1	1,864.6	2,125.3
Other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	43.3	48.8	51.1	48.9	48.4	41.8	88.7	137.1	155.8	174.8
Provisions	361.5	373.0	357.5	331.4	298.8	373.4	329.9	391.1	391.1	391.1
Long-term interest bearing debt	312.3	242.3	288.3	274.4	322.5	288.1	598.1	410.8	227.8	24.3
Short-term interest bearing debt	176.6	312.0	245.6	218.0	253.0	503.1	151.4	151.4	151.4	151.4
Trade creditors	191.4	250.8	187.4	227.8	231.7	253.8	247.1	332.1	355.8	378.0
Other non-interest bearing liabilities	61.6	52.7	52.0	59.3	60.0	76.4	129.4	142.9	156.0	176.9
Total Liabilities & Capital	1,937.6	2,189.3	2,239.3	2,219.8	2,312.6	2,667.2	2,829.5	3,175.5	3,302.4	3,421.8
Enterprise Value (EV)	1,220.3	1,330.5	1,503.0	1,827.0	1,829.4	1,307.3	2,310.4	3,364.3	3,199.9	3,015.5
Net debt/(Net cash)	407.9	455.4	311.2	411.2	502.2	672.9	473.7	462.2	279.2	75.7
Capital Employed incl. goodwill (avg.)	1,383.0	1,458.6	1,515.7	1,517.1	1,610.5	1,850.3	1,969.4	2,110.2	2,347.7	2,433.2
Cumulative goodwill (as of 1991)	121.1	131.3	85.3	82.2	75.2	74.6	76.6	96.6	96.6	96.6
Capital Employed (avg.)	1,266.0	1,332.4	1,407.4	1,433.3	1,531.8	1,775.5	1,893.9	2,023.7	2,251.2	2,336.7
Net working capital	422.9	545.9	526.6	544.3	604.6	788.8	632.7	807.9	880.2	937.2
Discounted value of leases	29.6	26.3	36.6	32.2	28.6	28.9	28.9	33.0	35.3	37.5
Adjusted equity	911.9	1,041.0	1,142.9	1,142.3	1,173.3	1,205.2	1,361.4	1,706.6	1,961.1	2,221.9

Per Share Data (EUR)	2003	2004	2005	2006	2007	2008	2009	2010e	2011e	2012e
Avg. no. of shares (m)	22.1	21.9	21.6	21.5	20.0	19.7	19.7	19.8	19.8	19.8
Eoy. no. of shares (m)	22.1	21.9	21.5	20.9	19.8	19.8	19.8	19.8	19.8	19.8
Avg. no. of shares fully diluted (m)	22.1	22.0	21.7	21.6	20.2	19.8	19.8	19.9	19.9	19.9
Enterprise Value (EV)	55.29	60.83	69.81	87.22	92.25	66.08	116.48	169.62	161.33	152.03
Net debt less FFA plus minorities	6.68	7.92	1.71	5.32	12.47	23.60	12.64	12.36	4.07	(5.23)
Sales	81.27	79.46	88.49	93.51	108.47	135.02	123.47	160.80	172.28	183.03
EBITDA	10.81	11.66	11.90	12.20	14.90	20.90	19.54	35.60	36.41	36.77
EBITA	5.06	6.75	6.93	7.05	8.93	12.49	12.45	25.94	26.70	27.01
EBIT	5.06	6.34	6.30	6.79	8.71	10.67	11.76	25.34	26.70	27.01
Net profit before extr. & amort. (EUR)	3.92	6.86	6.91	6.90	7.84	10.64	8.38	19.94	19.60	20.01
Net profit before extraordinary (EUR)	3.92	6.44	6.27	6.64	7.63	8.83	7.69	19.34	19.60	20.01
Cash Flow (EUR)	9.68	11.76	11.87	12.05	13.82	19.06	15.46	29.60	29.30	29.76
Gross Dividend (EUR)	1.75	2.00	3.00	2.50	2.76	2.80	2.94	6.77	6.86	7.00
Book value (EUR)	35.83	41.59	49.12	50.61	55.38	57.15	64.78	81.18	94.01	107.15
Adjusted equity	41.32	47.59	53.08	54.54	59.17	60.92	68.64	86.04	98.87	112.02
Free Cash Flow	2.38	(2.89)	1.51	1.85	1.15	(0.13)	16.81	14.75	15.93	16.13
% change in EPS before extr. & amort.	ns	74.88	0.76	(0.11)	13.68	35.68	(21.26)	138.00	(1.73)	2.09

Valuation	2003	2004	2005	2006	2007	2008	2009	2010e	2011e	2012e
P/E (excl. extr. & amort.)	10.6	7.3	9.4	11.9	12.5	8.3	9.0	8.4	8.5	8.3
P/CF (x)	4.3	4.3	5.5	6.8	7.1	4.6	4.9	5.6	5.7	5.6
P/Book (x)	1.4	1.4	1.6	1.9	1.7	0.8	1.7	2.1	1.8	1.6
Dividend yield (%)	4.2	4.0	4.6	3.0	2.8	3.2	3.9	4.1	4.1	4.2
Free cash flow yield (%)	2.2	(7.2)	0.4	0.9	(0.5)	(2.5)	18.4	7.4	8.5	9.1
EV/Sales (x)	0.7	0.8	0.8	0.9	0.8	0.5	0.9	1.1	0.9	0.8
EV/EBITDA (x)	5.1	5.2	5.8	7.0	6.1	3.2	6.0	4.8	4.4	4.1
EV/EBITA (x)	10.9	9.0	10.0	12.1	10.2	5.3	9.4	6.5	6.0	5.6
EV/EBIT (x)	10.9	9.6	11.0	12.5	10.5	6.2	10.0	6.7	6.0	5.6
EV/Capital Employed (x)	1.0	1.0	1.1	1.3	1.2	0.7	1.2	1.7	1.4	1.3
EV/CE (incl. goodwill) (x)	0.9	0.9	1.0	1.2	1.1	0.7	1.2	1.6	1.4	1.2
Share price : High (EUR)	50.70	59.75	78.95	99.60	113.40	120.32	109.05	166.90		
Share price : Low (EUR)	31.00	43.50	55.40	69.35	84.46	44.47	37.88	101.00		
Share price : Average (EUR)	41.40	50.13	65.17	82.18	98.18	88.25	75.32	166.90	166.90	166.90
Share price : Year end (EUR)	50.50	58.75	78.95	94.70	92.00	48.32	108.50	166.90	166.90	166.90

Capital Efficiency/Solvability	2003	2004	2005	2006	2007	2008	2009	2010e	2011e	2012e
Sales/CE (incl. goodwill)	1.3	1.2	1.3	1.3	1.3	1.4	1.2	1.5	1.5	1.5
Sales/Fixed assets (x)	2.4	2.2	2.4	2.4	2.4	2.5	2.2	2.4	2.6	2.7
Sales/Net working capital (x)	4.2	3.2	3.6	3.7	3.6	3.4	3.9	3.9	3.9	3.9
Inventories/Sales (days)	65.5	87.9	66.4	67.0	64.7	70.0	53.7	52.7	52.7	52.7
Trade debtors/Sales (days)	62.5	80.7	67.5	72.5	73.5	66.2	71.8	71.8	71.8	71.8
Trade creditors/Sales (days)	38.9	52.6	35.7	41.4	38.9	34.8	37.0	38.0	38.0	38.0
CAPEX/Depreciation (%)	92.8	160.7	141.1	145.7	166.9	151.3	124.3	109.2	109.3	110.0
Equity/Total assets (%)	40.8	41.6	47.2	47.8	47.5	42.4	45.4	50.7	56.5	62.1
Net debt/Equity (%)	51.6	50.1	29.4	38.8	45.7	59.5	36.9	28.7	15.0	3.6
Interest cover (x)	3.2	6.3	4.8	5.5	5.2	5.4	4.0	9.5	13.6	23.4
Dividend payout (%)	44.6	29.1	43.2	35.3	34.8	26.4	35.3	33.9	35.0	35.0
ROCE (average) (%)	7.8	9.4	8.0	8.9	10.0	11.7	10.3	20.3	17.6	16.7
ROCE (incl. goodwill) (average) (%)	7.1	8.6	7.4	8.4	9.5	11.2	9.9	19.5	16.9	16.1

Operating Efficiency & Profitability ratios	2003	2004	2005	2006	2007	2008	2009	2010e	2011e	2012e
Sales per FTE employee ('000s)	168.9	161.4	178.9	169.2	155.4	165.3	139.0	171.1	180.3	188.7
Wage costs per FTE employee ('000s)	47.6	41.7	42.0	38.9	33.8	32.5	28.5	29.2	29.9	30.6
EBIT per FTE employee ('000s)	10.5	12.9	12.7	12.3	12.5	13.1	13.2	27.0	27.9	27.9
Gross margin (%)										
EBITDA margin (%)	13.3	14.7	13.4	13.0	13.7	15.5	15.8	22.1	21.1	20.1
Operating margin (%)	6.2	8.0	7.1	7.3	8.0	7.9	9.5	15.8	15.5	14.8
Net margin (%)	3.4	6.3	5.5	5.1	5.5	6.4	6.0	12.0	10.8	10.4
Tax rate (%)	11.9	15.5	25.0	16.0	14.3	15.8	20.4	20.0	25.0	27.0

Important disclosures

Issuer	Ticker	Price (EUR)
Bekaert	BEKB.BR	166.90

ABN AMRO Bank N.V. adopted a Research Policy for the purpose of ensuring that research produced by its analysts is impartial, independent, fair, clear and not misleading. In particular the Policy identifies policies intended to promote the integrity of research including those designed to ensure the identification and avoidance, management or disclosure of conflicts of interest in connection with the production of research, including information barriers.

Analyst certification

The persons named as the authors of this research report certify that:

1. all of the views expressed in the research report accurately reflect the personal views of the authors about the subject financial instruments and issuers; and
2. no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report.

Maarten Bakker - Equity Research Analyst

Analysts' compensation is determined based upon activities and services intended to benefit the clients of ABNAMRO Bank N.V. and its affiliates. Like all ABN AMRO and affiliate employees, analysts receive compensation that is impacted by overall ABN AMRO Bank N.V. profitability, which includes revenues from other business units.

ABN AMRO Bank N.V. and affiliates equity research ratings distribution (primary covered stocks)

Category	ABN AMRO Rating	Definition	% companies under coverage with this rating	% companies for which ABN AMRO has provided Investment Banking services
BUY	BUY	The stock belongs to the favourites of the local ABNAMRO Bank N.V. universe. Expected performance: > +15%	56%	56%
HOLD	HOLD	The stock does not belong to the current favourites. The investment case is not appealing for the time being. However, it's worth to keep the stock. Expected performance: > +5%, < +20%	39%	33%
	REDUCE	The stock belongs to the less attractive ones within the ABN AMRO Bank N.V. local universe. While the outlook is uncertain, the stock does not deserve an outright Sell. Expected performance: > -5%, < +10%	3%	6%
SELL	SELL	The investment case is definitively negative. Investors should sell the stock at any conditions. Expected performance: negative	2%	6%

2 August 2010

ABN AMRO Bank N.V. Primary Equity Research Coverage: 95

Historical equity recommendations and target price for Bekaert (EUR)



History of Target Prices

Date	Recommendation	Target Price
7/26/2010	BUY	EUR 173.00
7/23/2010	BUY	EUR 172.00
6/2/2010	BUY	EUR 166.00
5/12/2010	BUY	EUR 165.00
3/9/2010	BUY	EUR 155.00
1/7/2010	BUY	EUR 134.00
11/17/2009	BUY	EUR 127.00
11/16/2009	BUY	EUR 125.00
8/5/2009	BUY	EUR 112.00
4/7/2009	BUY	EUR 75.00

History of Recommendations

Date	Recommendation	Target Price
8/5/2009	BUY	EUR 112.00
5/8/2009	HOLD	EUR 75.00
4/7/2009	BUY	EUR 75.00

Source: ABN AMRO Equity Research, FactSet

ABN AMRO Bank

Gustav Mahlerlaan 10 (visiting address)
P.O. Box 283
1000 EA Amsterdam
The Netherlands
Tel: +31 20 628 9393

Each research analyst primarily responsible for the content of this research report certifies that with respect to each security or issuer that the analyst covered in this report: 1) all of the expressed views 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 recommendation or views contained in this report.

Production of the document

ABN AMRO Bank N.V., with registered office at Gustav Mahlerlaan 10, 1082 PP Amsterdam, Netherlands ("**ABN AMRO**"), is responsible for the production and the dissemination of this document, which has been prepared by the individual(s) working for ABN AMRO or any of its affiliates and whose respective identity is disclosed in this document (the "**persons involved**") (together the "**producers of the document**"). This document can be distributed (i) by an affiliate of ABN AMRO Bank N.V. that is not registered as a U.S. broker-dealer to major U.S. institutional investors only.

No public offer or financial promotion

This document does not constitute an offer or solicitation for the sale, purchase or subscription of any financial instrument in any jurisdiction. It is not directed to, or intended for distribution to, any person or entity who is a citizen or resident of or incorporated or located in any jurisdiction where such distribution would be contrary to local law or regulation and/or where ABN AMRO would infringe any registration or licensing requirement within such jurisdiction. This document has been provided to you for your personal use only and should not be communicated to any other person without the prior written consent of ABN AMRO. Should you have received this document by mistake, please delete or destroy it, and notify the sender immediately.

Sources and disclosure

ABN AMRO believes that the information and/or the interpretations, estimates and/or opinions regarding the financial instrument(s) and/or issuer(s) to which this document relates (respectively, the "**financial instrument(s) concerned**" and/or the "**issuer(s) concerned**") are based on reliable sources. ABN AMRO makes no representation as to the accuracy or completeness of those sources and, in any case, the recipients of this document should not exclusively rely on it before making an investment decision. The interpretations, estimates and/or opinions reflect the judgement of ABN AMRO on the date of this document and are subject to changes without notice. This document has not been disclosed to the issuer(s) concerned prior to its dissemination by ABN AMRO.

No investment advice

The information contained herein does not constitute investment advice nor any other advice of whatever nature (including advice on the tax consequences that might result from making any particular investment decision). Investments in the financial instrument(s) to which this document relates may involve significant risks, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any financial instrument(s) concerned may fluctuate and/or be affected by external factors such as exchange rates fluctuations. Past performance is not indicative of future results. This document is intended for general circulation and does not take into account the recipient's particular financial knowledge and experience, investment objectives and financial situation or needs, and is not intended as a personal recommendation to invest in the financial instrument(s) concerned. Before making an investment decision on the basis of this document, an investor should consider whether such investment is suitable in light of, amongst others, its particular financial knowledge and experience, investment objectives and financial situation and, if necessary, should seek appropriate professional advice. Neither ABN AMRO nor any of its group companies (including any subsidiary, affiliate or holding company), directors, officers and employees shall in any way be liable or responsible (whether directly or indirectly) for any costs, claims, damages, liabilities and other expenses, including any consequential loss, arising from any use of this document, except in the event of wilful misconduct or gross negligence on their part.

Supervision

ABN AMRO Bank N.V. has a full banking license from the Dutch National Bank (DNB) and is overseen, as all Dutch banks, by the Autoriteit Financiële Markten (Authority Financial Markets, AFM) and DNB.

Copyright

This document contains information, text, images, logos, and/or other material that is protected by copyrights, database rights, trademarks, or other proprietary rights. It may not be reproduced, distributed, published or used in any way by any person for any purpose without the prior written consent of ABN AMRO or in the case of third party materials, the owner of that content.

To check the occurrence of possible (conflicts of) interests please send an email to: equities.nl@nl.abnamro.com