

## Investment Research

### Accumulate

Recommendation unchanged

**Share price: EUR 166.70**

closing price as of 02/08/2010

**Target price: EUR 190.00**

vs Target Price: EUR **175.00**

Reuters/Bloomberg

BEKB.BR/BEKB.BB

Daily avg. no. trad. sh. 12 mth	57,786
Daily avg. trad. vol. 12 mth (m)	6.66
Price high 12 mth (EUR)	166.90
Price low 12 mth (EUR)	85.22
Abs. perf. 1 mth	25.1%
Abs. perf. 3 mth	23.3%
Abs. perf. 12 mth	90.6%

Market capitalisation (EURm)	3,317
Current N° of shares (m)	20
Free float	61%

Key financials (EUR)	12/09	12/10e	12/11e
Sales (m)	2,437	2,947	3,175
EBITDA (m)	387	615	625
EBITDA margin	15.9%	20.9%	19.7%
EBIT (m)	232	455	463
EBIT margin	9.5%	15.4%	14.6%
Net Profit (adj.)(m)	170	343	350
ROCE	8.7%	14.9%	14.5%
Net debt/(cash) (m)	429	423	275
Net Debt Equity	0.3	0.3	0.1
Net Debt/EBITDA	1.1	0.7	0.4
Int. cover(EBITDA/Fin.int)	6.8	16.0	21.7
EV/Sales	1.3	1.4	1.3
EV/EBITDA	7.9	6.9	6.5
EV/EBITDA (adj.)	7.9	6.9	6.5
EV/EBIT	13.2	9.3	8.8
P/E (adj.)	12.6	9.7	9.5
P/BV	1.7	2.2	1.9
OpFCF yield	18.0%	6.1%	11.3%
Dividend yield	1.8%	3.0%	3.1%
EPS (adj.)	8.58	17.22	17.57
BVPS	64.78	77.52	88.78
DPS	2.94	4.94	5.20



Source: Factset

Shareholders: Bekaert Fam. & Rel. 39%;

## Earnings and TP revisions post blow-out 1H10 results

**The facts:** We have reviewed our estimates following the stronger than forecasted 1H10 results.

**Our analysis:** At EUR 162m, the 1H10 Rebit came in 36% and 42% above our and the consensus estimates, respectively. Approximately one-third of the out-performance is due to a faster than expected recovery in Europe and in the USA. Another third is due to a continued strong profitability in Asia (Rebit margin of 36.4% vs. 34.1% expected). The balance is due to windfall gains on inventories for an amount of EUR 20m.

Overall, the gross margin stands at 28.3% vs. 20% on average the past years. This strong margin is due to very high capacity utilisation rates in most markets (volume sold was up 29% y-o-y) and to a favourable product and geographical mix.

Bekaert remains relatively prudent for 2H10 due to the high volatility of the markets, the uncertain trend of the currencies and of the raw material costs. However, the company will continue to increase its capacity in 2H10, starting in China where steel cord capacity will be raised from the current 400kt to 425-435kt by year-end.

Moreover, management increased its medium EBIT margin target to at least 10% for the next three years. This is to be compared with the 7-9% long term margin target disclosed up to now. This could be seen as rather conservative when compared with the 15.9% EBIT margin achieved in 1H10. However, we consider this new target as a clear indication of the management confidence for the coming years due to, in our view, to the limited risk of price war between the two main players on the Chinese steel cord market as long as capacity utilisation rate remain at a high level.

Based on the stronger than expected 1H10 results, FY10-12 adjusted EPS were raised by 44%, 31% and 24% to EUR 17.22, EUR 17.95 and EUR 18.83, respectively. EPS for the subsequent years were raised by 9% on average (see table on the back page for more details)

Consistently with the earnings revisions, our Target Price on Bekaert is raised to EUR 190 (from EUR 175). This DCF-based price target was established assuming a long term EBIT margin of 9%, a WACC of 8.2% and a zero terminal growth.

**Conclusion & Action:** The growth pattern of the BRIC countries will stay high in the foreseeable future. Therefore, we still estimate that Bekaert's strategic decision to reposition its businesses towards emerging markets (more than 70% of 1H10 combined sales) is favourable for future value creation.

Hence, despite the impressive share price trend over the recent months we maintain our positive view on the company.

At our new Target Price Bekaert would be traded at 11x the 2010-11 earnings and at 7.5x the EBITDA2010-11.

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For company description please see summary table footnote

Bekaert: estimates review (in EUR m)	2009	2010		2011		2012	
		old	new	old	new	old	new
<b>Sales</b>	<b>2,437</b>	2,754	<b>2,947</b>	2,964	<b>3,175</b>	3,173	<b>3,393</b>
% change			7.0%		7.1%		6.9%
<b>Rebit</b>	<b>256.8</b>	355.8	<b>479.7</b>	399.5	<b>487.8</b>	420.6	<b>502.9</b>
margin (%)	10.5%	12.9%	16.3%	13.5%	15.4%	13.3%	14.8%
% change			34.8%		22.1%		19.6%
<b>-EMEA<sup>1</sup></b>	<b>2.0</b>	41.2	<b>90.8</b>	47.9	<b>93.4</b>	56.2	<b>96.6</b>
% change			120.6%		94.8%		71.8%
<b>-North America</b>	<b>-5.0</b>	15.1	<b>37.2</b>	22.1	<b>37.2</b>	25.6	<b>36.9</b>
% change			146.0%		68.6%		44.1%
<b>-Latin America</b>	<b>28.0</b>	21.6	<b>28.1</b>	22.9	<b>26.8</b>	25.8	<b>28.4</b>
% change			30.3%		17.3%		10.4%
<b>-Asia Pacific</b>	<b>288.0</b>	335.9	<b>383.6</b>	364.6	<b>388.4</b>	372.4	<b>400.4</b>
% change			14.2%		6.5%		7.5%
<b>- Corporate</b>	<b>-56.2</b>	-58.0	<b>-60.0</b>	-58.0	<b>-58.0</b>	-59.5	<b>-59.5</b>
% change			3.4%		0.0%		0.0%
<b>EBIT</b>	<b>232</b>	331	<b>455</b>	379	<b>463</b>	401	<b>478</b>
margin (%)	9.5%	12.0%	15.4%	12.8%	14.6%	12.6%	14.1%
<b>Financial results</b>	<b>-66</b>	-56	<b>-48</b>	-50	<b>-39</b>	-36	<b>-25</b>
Associates	<b>38</b>	39	<b>39</b>	42	<b>44</b>	47	<b>49</b>
<b>Net result (group)</b>	<b>152</b>	219	<b>324</b>	259	<b>331</b>	287	<b>348</b>
% change			48.1%		28.0%		21.2%
<b>Net current result (group)</b>	<b>170</b>	237	<b>343</b>	274	<b>350</b>	302	<b>366</b>
% change			44.3%		27.8%		21.4%
<b>Adj. EPS (in EUR)</b>	<b>8.58</b>	11.93	<b>17.22</b>	13.75	<b>17.57</b>	15.17	<b>18.42</b>
% change			44.3%		27.8%		21.4%

Sources : Bekaert / Bank Degroof estimates

<sup>1</sup> EMEA= Europe, the Middle East and Africa

## Bekaert: Summary tables

PROFIT & LOSS (EURm)	2007	2008	2009	2010e	2011e	2012e
<b>Sales</b>	<b>2,174</b>	<b>2,662</b>	<b>2,437</b>	<b>2,947</b>	<b>3,175</b>	<b>3,393</b>
Cost of Sales & Operating Costs	1,830	2,250	2,050	2,332	2,550	2,755
Non Recurrent Expenses/Income	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>344</b>	<b>412</b>	<b>387</b>	<b>615</b>	<b>625</b>	<b>638</b>
<b>EBITDA (adj.)*</b>	<b>344</b>	<b>412</b>	<b>387</b>	<b>615</b>	<b>625</b>	<b>638</b>
Depreciation	-169	-202	-155	-160	-162	-160
<b>EBITA</b>	<b>175</b>	<b>210</b>	<b>232</b>	<b>455</b>	<b>463</b>	<b>478</b>
<b>EBITA (adj)*</b>	<b>175</b>	<b>210</b>	<b>232</b>	<b>455</b>	<b>463</b>	<b>478</b>
Amortisations and Write Downs	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>175</b>	<b>210</b>	<b>232</b>	<b>455</b>	<b>463</b>	<b>478</b>
<b>EBIT (adj.)*</b>	<b>175</b>	<b>210</b>	<b>232</b>	<b>455</b>	<b>463</b>	<b>478</b>
Net Financial Interest	-32.5	-41.4	-56.7	-38.4	-28.8	-14.7
Other Financials	-8.5	-7.8	-8.9	-10.0	-10.0	-10.0
Associates	47.1	56.1	37.8	39.3	43.7	49.3
Other Non Recurrent Items	0.0	0.0	0.0	0.0	0.0	0.0
<b>Earnings Before Tax (EBT)</b>	<b>181</b>	<b>217</b>	<b>204</b>	<b>446</b>	<b>468</b>	<b>502</b>
Tax	-19.1	-25.5	-33.9	-95.9	-110	-127
<i>Tax rate</i>	<i>10.6%</i>	<i>11.7%</i>	<i>16.6%</i>	<i>21.5%</i>	<i>23.6%</i>	<i>25.3%</i>
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	-8.7	-17.7	-18.6	-26.0	-26.6	-27.9
<b>Net Profit (reported)</b>	<b>153</b>	<b>174</b>	<b>152</b>	<b>324</b>	<b>331</b>	<b>348</b>
<b>Net Profit (adj.)</b>	<b>161</b>	<b>237</b>	<b>170</b>	<b>343</b>	<b>350</b>	<b>366</b>
<b>CASH FLOW (EURm)</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
Cash Flow from Operations before change in NWC	338	384	283	502	511	526
Change in Net Working Capital	-41.9	-162	196	-210	-44.4	-44.2
<b>Cash Flow from Operations</b>	<b>297</b>	<b>221</b>	<b>478</b>	<b>292</b>	<b>466</b>	<b>482</b>
Capex	-200	-244	-164	-222	-211	-211
Net Financial Investments	3.7	20.0	0.0	0.0	0.0	0.0
<b>Free Cash Flow</b>	<b>100</b>	<b>-2.3</b>	<b>314</b>	<b>69.9</b>	<b>256</b>	<b>271</b>
Dividends	-57.2	-59.3	-60.5	-63.7	-107	-113
Other (incl. Capital Increase & share buy backs)	-132	-118	0.4	0.0	0.0	0.0
<b>Change in Net Debt</b>	<b>-89</b>	<b>-179</b>	<b>254</b>	<b>6</b>	<b>148</b>	<b>158</b>
NOPLAT	122	147	163	318	324	335
<b>BALANCE SHEET &amp; OTHER ITEMS (EURm)</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
Net Tangible Assets	918	1,071	1,121	1,183	1,232	1,283
Net Intangible Assets (incl. Goodwill)	122	111	111	111	111	111
Net Financial Assets & Other	290	218	259	259	259	259
<b>Total Fixed Assets</b>	<b>1,330</b>	<b>1,400</b>	<b>1,492</b>	<b>1,554</b>	<b>1,603</b>	<b>1,653</b>
Net Working Capital	618	819	636	846	891	935
<b>Net Capital Invested</b>	<b>1,948</b>	<b>2,219</b>	<b>2,128</b>	<b>2,400</b>	<b>2,493</b>	<b>2,588</b>
<b>Group Shareholders Equity</b>	<b>1,147</b>	<b>1,172</b>	<b>1,374</b>	<b>1,652</b>	<b>1,893</b>	<b>2,146</b>
<i>o/w own Shareholders Equity</i>	<i>1,098</i>	<i>1,131</i>	<i>1,285</i>	<i>1,542</i>	<i>1,766</i>	<i>2,001</i>
<b>Net Debt</b>	<b>504</b>	<b>684</b>	<b>429</b>	<b>423</b>	<b>275</b>	<b>117</b>
Provisions	297	363	325	325	325	325
Other Net Liabilities or Assets	0	0	0	0	0	0
<b>Net Capital Employed</b>	<b>1,948</b>	<b>2,219</b>	<b>2,128</b>	<b>2,400</b>	<b>2,493</b>	<b>2,588</b>
<b>GROWTH &amp; MARGINS</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
<i>Sales growth</i>	<i>8.5%</i>	<i>22.5%</i>	<i>-8.5%</i>	<i>20.9%</i>	<i>7.7%</i>	<i>6.9%</i>
<b>EBITDA (adj.)* growth</b>	<b>31.2%</b>	<b>19.9%</b>	<b>-6.2%</b>	<b>58.9%</b>	<b>1.6%</b>	<b>2.1%</b>
<i>EBITA (adj.)* growth</i>	<i>19.6%</i>	<i>20.5%</i>	<i>10.3%</i>	<i>95.8%</i>	<i>1.8%</i>	<i>3.3%</i>
<i>EBIT (adj)*growth</i>	<i>19.6%</i>	<i>20.5%</i>	<i>10.3%</i>	<i>95.8%</i>	<i>1.8%</i>	<i>3.3%</i>
<i>Net Profit growth</i>	<i>1.4%</i>	<i>46.8%</i>	<i>-28.1%</i>	<i>101.2%</i>	<i>2.1%</i>	<i>4.8%</i>
<b>EPS adj. growth</b>	<b>8.0%</b>	<b>46.0%</b>	<b>-28.3%</b>	<b>100.6%</b>	<b>2.1%</b>	<b>4.8%</b>
<i>DPS adj. growth</i>	<i>10.4%</i>	<i>1.4%</i>	<i>5.0%</i>	<i>68.0%</i>	<i>5.3%</i>	<i>5.8%</i>
<b>EBITDA margin</b>	<b>15.8%</b>	<b>15.5%</b>	<b>15.9%</b>	<b>20.9%</b>	<b>19.7%</b>	<b>18.8%</b>
<i>EBITDA (adj)* margin</i>	<i>15.8%</i>	<i>15.5%</i>	<i>15.9%</i>	<i>20.9%</i>	<i>19.7%</i>	<i>18.8%</i>
<i>EBITA margin</i>	<i>8.0%</i>	<i>7.9%</i>	<i>9.5%</i>	<i>15.4%</i>	<i>14.6%</i>	<i>14.1%</i>
<i>EBITA (adj)* margin</i>	<i>8.0%</i>	<i>7.9%</i>	<i>9.5%</i>	<i>15.4%</i>	<i>14.6%</i>	<i>14.1%</i>
<i>EBIT margin</i>	<i>8.0%</i>	<i>7.9%</i>	<i>9.5%</i>	<i>15.4%</i>	<i>14.6%</i>	<i>14.1%</i>
<i>EBIT (adj)* margin</i>	<i>8.0%</i>	<i>7.9%</i>	<i>9.5%</i>	<i>15.4%</i>	<i>14.6%</i>	<i>14.1%</i>

## Bekaert: Summary tables

RATIOS	2007	2008	2009	2010e	2011e	2012e
Net Debt/Equity	0.4	0.6	0.3	0.3	0.1	0.1
Net Debt/EBITDA	1.5	1.7	1.1	0.7	0.4	0.2
Interest cover (EBITDA/Fin.interest)	10.6	10.0	6.8	16.0	21.7	43.3
Capex/D&A	118.1%	120.7%	106.1%	138.7%	130.1%	131.8%
Capex/Sales	9.2%	9.1%	6.7%	7.5%	6.6%	6.2%
NWC/Sales	28.4%	30.8%	26.1%	28.7%	28.1%	27.6%
ROE (average)	14.9%	21.3%	14.1%	24.2%	21.1%	19.5%
ROCE (adj.)	7.4%	7.4%	8.7%	14.9%	14.5%	14.4%
WACC	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%
ROCE (adj.)/WACC	0.9	0.9	1.1	1.8	1.8	1.8
PER SHARE DATA (EUR)***	2007	2008	2009	2010e	2011e	2012e
Average diluted number of shares	19.7	19.8	19.8	19.9	19.9	19.9
EPS (reported)	7.77	8.80	7.65	16.27	16.63	17.47
EPS (adj.)	8.20	11.97	8.58	17.22	17.57	18.42
BVPS	55.83	57.15	64.78	77.52	88.78	100.55
DPS	2.76	2.80	2.94	4.94	5.20	5.50
VALUATION	2007	2008	2009	2010e	2011e	2012e
EV/Sales	1.2	0.7	1.3	1.4	1.3	1.2
EV/EBITDA	7.5	4.8	7.9	6.9	6.5	6.2
<b>EV/EBITDA (adj.)*</b>	<b>7.5</b>	<b>4.8</b>	<b>7.9</b>	<b>6.9</b>	<b>6.5</b>	<b>6.2</b>
EV/EBITA	14.7	9.4	13.2	9.3	8.8	8.2
<b>EV/EBITA (adj.)*</b>	<b>14.7</b>	<b>9.4</b>	<b>13.2</b>	<b>9.3</b>	<b>8.8</b>	<b>8.2</b>
EV/EBIT	14.7	9.4	13.2	9.3	8.8	8.2
<b>EV/EBIT (adj.)*</b>	<b>14.7</b>	<b>9.4</b>	<b>13.2</b>	<b>9.3</b>	<b>8.8</b>	<b>8.2</b>
<b>P/E (adj.)</b>	<b>11.2</b>	<b>4.0</b>	<b>12.6</b>	<b>9.7</b>	<b>9.5</b>	<b>9.1</b>
P/BV	1.6	0.8	1.7	2.2	1.9	1.7
Total Yield Ratio	9.4%	8.4%	1.9%	3.2%	3.4%	
EV/CE	1.5	1.0	1.6	2.0	1.8	1.7
OpFCF yield	11.7%	13.7%	18.0%	6.1%	11.3%	11.8%
OpFCF/EV	8.3%	6.6%	12.6%	4.8%	9.2%	10.0%
Payout ratio	35.5%	31.8%	38.4%	30.4%	31.3%	31.5%
Dividend yield (gross)	3.0%	5.8%	1.8%	3.0%	3.1%	3.3%
EV AND MKT CAP (EURm)	2007	2008	2009	2010e	2011e	2012e
Price** (EUR)	92.0	48.3	109	167	167	167
Outstanding number of shares for main stock	19.7	19.8	19.8	19.9	19.9	19.9
<b>Total Market Cap</b>	<b>1,810</b>	<b>956</b>	<b>2,152</b>	<b>3,317</b>	<b>3,317</b>	<b>3,317</b>
<b>Net Debt</b>	<b>504</b>	<b>684</b>	<b>429</b>	<b>423</b>	<b>275</b>	<b>117</b>
<i>o/w Cash &amp; Marketable Securities (-)</i>	<i>-73.2</i>	<i>-118</i>	<i>-325</i>	<i>-327</i>	<i>-372</i>	<i>-430</i>
<i>o/w Gross Debt (+)</i>	<i>578</i>	<i>802</i>	<i>755</i>	<i>750</i>	<i>647</i>	<i>547</i>
<b>Other EV components</b>	<b>250</b>	<b>344</b>	<b>490</b>	<b>496</b>	<b>498</b>	<b>500</b>
Enterprise Value (EV adj.)	<b>2,564</b>	<b>1,983</b>	<b>3,071</b>	<b>4,236</b>	<b>4,090</b>	<b>3,934</b>

Source: Company, Bank Degroof estimates.

### Notes

\* Where EBITDA (adj.) or EBITA (adj) or EBIT (adj.)= EBITDA (or EBITA or EBIT) +/- Non Recurrent Expenses/Income

\*\*Price (in local currency): Fiscal year end price for Historical Years and Current Price for current and forecasted years

\*\*\*EPS (adj.) diluted= Net Profit (adj.)/Avg DIL. Ord. (+ Ord. equivalent) Shs. EPS (reported) = Net Profit reported/Avg DIL. Ord. (+ Ord. equivalent) Shs.

Sector: General Industrials/Diversified Industrials

Company Description: Bekaert is a company built on two core competences: "advanced metal transformation" and "advanced materials & coatings". Bekaert strives to be a market and technological leader in its niches markets in which it is seeking substantial profitable growth. Bekaert is strongly exposed to BRIC countries and other growing markets, which together represent 70% of the sales.

## ESN Recommendation System

The ESN Recommendation System is **Absolute**. It means that each stock is rated on the basis of a **total return**, measured by the upside potential (including dividends and capital reimbursement) over a **12 month time horizon**.

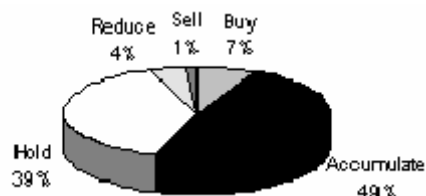
The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: **Buy, Accumulate (or Add), Hold, Reduce and Sell (in short: B, A, H, R, S)**.

Furthermore, in specific cases and for a limited period of time, the analysts are allowed to rate the stocks as **Rating Suspended (RS)** or **Not Rated (NR)**, as explained below.

### Meaning of each recommendation or rating:

- **Buy:** the stock is expected to generate total return of **over 20%** during the next 12 months time horizon
- **Accumulate:** the stock is expected to generate total return of **10% to 20%** during the next 12 months time horizon
- **Hold:** the stock is expected to generate total return of **0% to 10%** during the next 12 months time horizon.
- **Reduce:** the stock is expected to generate total return of **0% to -10%** during the next 12 months time horizon
- **Sell:** the stock is expected to generate total return **under -10%** during the next 12 months time horizon
- **Rating Suspended:** the rating is suspended due to a capital operation (take-over bid, SPO, ...) where the issuer of the document (a partner of ESN) or a related party of the issuer is or could be involved or to a change of analyst covering the stock
- **Not Rated:** there is no rating for a company being floated (IPO) by the issuer of the document (a partner of ESN) or a related party of the issuer

### Bank Degroof Ratings Breakdown

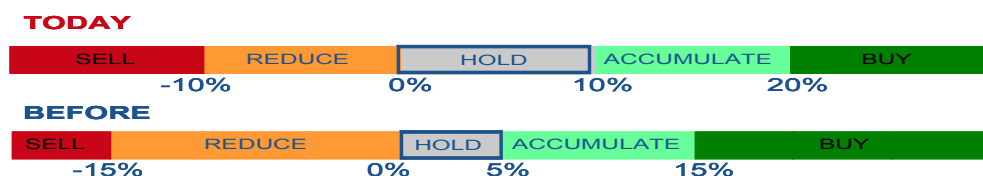


### History of ESN Recommendation System

Since **18 October 2004**, the Members of ESN are using an Absolute Recommendation System (before was a Relative Rec. System) to rate any single stock under coverage.

Since **4 August 2008**, the ESN Rec. System has been amended as follow.

- Time horizon changed to 12 months (it was 6 months)
- Recommendations Total Return Range changed as below:




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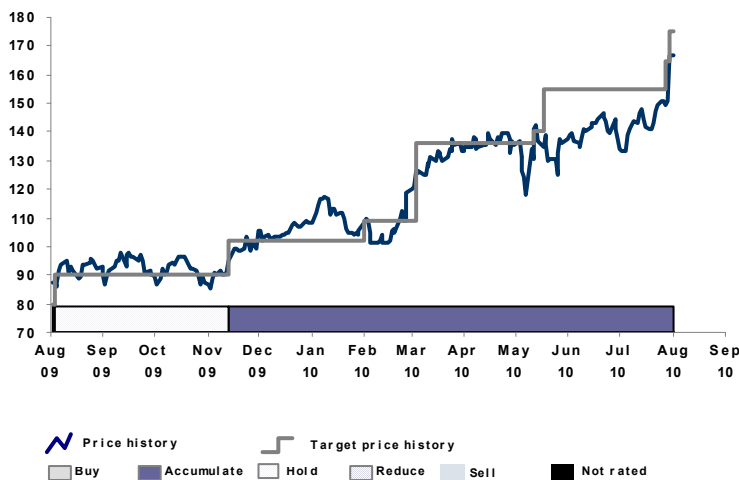
Mail: [firstname.lastname@degroof.be](mailto:firstname.lastname@degroof.be)

## Recommendation history for BEKAERT

Date	Recommendation	Target price	Price at change date
03-Aug-10	Accumulate	190.00	166.70
30-Jul-10	Accumulate	175.00	166.90
28-Jul-10	Accumulate	165.00	149.55
17-May-10	Accumulate	155.00	134.60
11-May-10	Accumulate	140.00	130.60
28-Apr-10	Accumulate	136.00	132.35
23-Feb-10	Accumulate	109.00	112.30
13-Nov-09	Accumulate	102.00	95.04
03-Aug-09	Hold	90.00	87.66
28-Jul-09	Accumulate	80.00	82.40

Source: Factset & ESN, price data adjusted for stock splits.

This chart shows Bank Degroof continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. Current analyst: Bernard Hanssens (since 05/02/1997)



### Bank Degroof acts as liquidity provider for:

Aedifica, Atenor, Banimmo, Bois Sauvage, BSB International, D'leteren, Duvel, Elia, Floridienne, GIMV, IBt, Intervest Retail, IPTE, I.R.I.S., Kinopolis, Leasinvest, Luxempart, Montea, PinguinLutosa, Realco, Resilux, Sapec, Ter Beke and Van de Velde.

### Bank Degroof holds a significant stake in:

Aedifica, Fountain and Proximedia.

### Bois Sauvage holds a significant stake in Bank Degroof

### Bank Degroof board members and employees hold mandates in the following listed companies:

Aedifica, Atenor, Barco, Bois Sauvage, Brederode, Cofinimmo, Deceuninck, D'leteren, Emakina, Floridienne, FuturaGene, Lotus Bakeries, PinguinLutosa, Proximedia, Recticel, Sipef, Ter Beke, Tessenderlo and UCB.

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