

## Investment Research

### Hold

Recommendation unchanged

**Share price: EUR 29.76**

closing price as of 07/05/2014

**Target price: EUR 29.00**

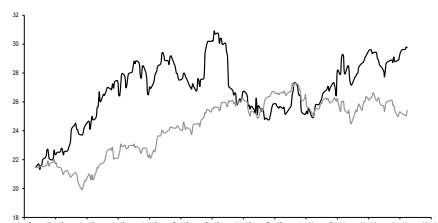
Target Price unchanged

Reuters/Bloomberg

BEKB.BR/BEKB.BB

Daily avg. no. trad. sh. 12 mth	39,195
Daily avg. trad. vol. 12 mth (m)	1,166.91
Price high 12 mth (EUR)	30.91
Price low 12 mth (EUR)	21.33
Abs. perf. 1 mth	1.1%
Abs. perf. 3 mth	15.3%
Abs. perf. 12 mth	24.4%
Market capitalisation (EURm)	1,787
Current N° of shares (m)	60
Free float	61%

Key financials (EUR)	12/13	12/14e	12/15e
Sales (m)	3,186	3,397	3,756
EBITDA (m)	297	351	414
EBITDA margin	9.3%	10.3%	11.0%
EBIT (m)	137	172	219
EBIT margin	4.3%	5.1%	5.8%
Net Profit (adj.)(m)	45	76	120
ROCE	4.3%	4.7%	5.9%
Net debt/(cash) (m)	574	824	799
Net Debt Equity	0.4	0.5	0.5
Net Debt/EBITDA	1.9	2.4	1.9
Int. cover(EBITDA/Fin.int)	4.7	5.1	6.4
EV/Sales	0.7	0.8	0.7
EV/EBITDA	7.6	7.9	6.6
EV/EBITDA (adj.)	7.5	7.9	6.6
EV/EBIT	16.5	16.0	12.5
P/E (adj.)	34.0	23.5	14.9
P/BV	1.1	1.3	1.3
OpFCF yield	12.6%	-10.9%	4.6%
Dividend yield	2.9%	2.9%	3.0%
EPS (adj.)	0.76	1.27	1.99
BVPS	22.41	22.50	23.37
DPS	0.85	0.85	0.90



Shareholders: Bekaert Fam. & Rel. 39%;

For company description please see summary table footnote

## Preview on the 1Q14 trading update

**The facts:** Bekaert will release its 1Q14 trading update on Wednesday 14<sup>th</sup> of May, before market, followed by the AGM at 10:30 am CET.

**Our analysis:** As customary, Bekaert will only disclose the quarterly consolidated sales per geographical area as well as the combined sales (consolidated sales + sales of the associates).

Although we expect the 1Q14 trading update to confirm the turnaround in most regions observed last year, we also anticipate significant negative FX impacts, mainly for the Latin American operations.

Sales (EURm)	1Q13	2Q13	3Q13	4Q13	FY13	1Q14e
<b>EMEA</b>	<b>260.0</b>	<b>272.0</b>	<b>259.0</b>	<b>248.6</b>	<b>1,039.6</b>	<b>269.4</b>
% change	-10.3%	1.9%	2.4%	6.3%	-0.4%	3.6%
<b>North America</b>	<b>146.0</b>	<b>149.0</b>	<b>129.0</b>	<b>124.0</b>	<b>548.0</b>	<b>142.3</b>
% change	-17.0%	-14.9%	-22.3%	-12.7%	-16.8%	-2.5%
<b>Latin America</b>	<b>176.0</b>	<b>176.0</b>	<b>144.0</b>	<b>149.0</b>	<b>645.0</b>	<b>149.4</b>
% change	-10.7%	-12.0%	-32.1%	-26.6%	-20.6%	-15.1%
<b>Asia Pacific</b>	<b>216.0</b>	<b>254.0</b>	<b>241.0</b>	<b>242.0</b>	<b>953.0</b>	<b>228.5</b>
% change	-6.9%	3.3%	3.0%	3.9%	0.8%	5.8%
<b>Consolidated sales</b>	<b>798.0</b>	<b>851.0</b>	<b>773.0</b>	<b>763.6</b>	<b>3,185.6</b>	<b>789.6</b>
% change	-10.8%	-4.2%	-10.6%	-6.0%	-7.9%	-1.1%
<b>Combined sales</b>	<b>1,035.0</b>	<b>1,104.0</b>	<b>1,003.0</b>	<b>969.0</b>	<b>4,111.0</b>	<b>992.6</b>
% change	-8.8%	-2.7%	-9.3%	-5.6%	-6.3%	-4.1%

Sources : Bekaert / Bank Degroof estimates

**In EMEA,** we expect that Bekaert continued to benefit from the regain of activity observed already in 2H13, driven by the tire cords and the construction activity. The comparison base is also favourable ((volume were down 7.6% y-o-y in 1Q13).

**In North America,** we expect that most businesses remained under pressure. Tough, the comparison base is more supportive than a year ago and in tire cord and bead wire we foresee some progresses as the trucks tires saw signs of improvement in 1Q14 (volume up 6% of the OE and up 8% for the replacement tire, according to Michelin).

**In Latin America,** the currency of most of the countries where Bekaert operates were very weak versus EUR, with among other the BRL down 18.6% (mainly affected the sales of associates); CLP down 17.5%; PEN down 12% and the VEF down 21%. The negative FX impact is expected to be only partially compensated by higher volume. Note that it seems that the Venezuelan operations (10% of the consolidated sales in Latin America) again suffered from weak availability of raw materials (wire rod).

**In Asia Pacific,** we anticipate a good quarter, taking into account the seasonality (Chinese new year in February). The steel cord demand remained strong, particularly in March, but prices are still under pressure, due to the pass on of lower wire rod prices but also because Bekaert is still fitting to regain the market share lost in 2Q & 3Q13. We also observed that the silicon wafers volume continued to regain ground, which is supportive for the sawing wire activity.

**Conclusion & Action:** Additional savings will be less important this year. Hence, the expected improvement in profitability should be mainly driven by the volume growth. In that respect, 1Q14 must confirm the underlying improvement observed in 2H13. Nevertheless, we believe the north and south American markets will still be difficult this year. We stick to our rating and TP ahead of the 1Q14 trading update.

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For important disclosure information, please refer to the disclaimer page of this report

## Bekaert: Summary tables

PROFIT & LOSS (EURm)	12/2011	12/2012	12/2013	12/2014e	12/2015e	12/2016e
<b>Sales</b>	<b>3,340</b>	<b>3,460</b>	<b>3,186</b>	<b>3,397</b>	<b>3,756</b>	<b>3,895</b>
Cost of Sales & Operating Costs	-2,863	-3,185	-2,889	-3,046	-3,342	-3,449
Non Recurrent Expenses/Income	0.0	-73.1	-3.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>477</b>	<b>275</b>	<b>297</b>	<b>351</b>	<b>414</b>	<b>446</b>
<b>EBITDA (adj.)*</b>	<b>477</b>	<b>348</b>	<b>300</b>	<b>351</b>	<b>414</b>	<b>446</b>
Depreciation	-208	-230	-160	-178	-195	-195
<b>EBITA</b>	<b>268</b>	<b>44.7</b>	<b>137</b>	<b>172</b>	<b>219</b>	<b>251</b>
<b>EBITA (adj.)*</b>	<b>268</b>	<b>118</b>	<b>140</b>	<b>172</b>	<b>219</b>	<b>251</b>
Amortisations and Write Downs	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>268</b>	<b>-49.3</b>	<b>137</b>	<b>172</b>	<b>219</b>	<b>251</b>
<b>EBIT (adj.)*</b>	<b>268</b>	<b>23.8</b>	<b>140</b>	<b>172</b>	<b>219</b>	<b>251</b>
Net Financial Interest	-65.8	-79.1	-63.7	-68.4	-64.2	-58.5
Other Financials	47.3	-2.9	-19.8	-10.0	-10.0	0.0
Associates	25.4	10.4	30.2	22.3	25.4	28.7
Other Non Recurrent Items	0.0	0.0	0.0	0.0	0.0	0.0
<b>Earnings Before Tax (EBT)</b>	<b>275</b>	<b>-121</b>	<b>84.0</b>	<b>116</b>	<b>170</b>	<b>221</b>
Tax	-68.1	-67.7	-47.9	-35.3	-43.4	-57.6
<i>Tax rate</i>	<i>24.7%</i>	<i>n.m.</i>	<i>57.1%</i>	<i>30.3%</i>	<i>25.5%</i>	<i>26.1%</i>
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	-14.6	-6.4	-11.5	-16.0	-18.0	-23.2
<b>Net Profit (reported)</b>	<b>193</b>	<b>-195</b>	<b>24.6</b>	<b>65.1</b>	<b>109</b>	<b>140</b>
<b>Net Profit (adj.)</b>	<b>202</b>	<b>-73.0</b>	<b>45.5</b>	<b>76.0</b>	<b>120</b>	<b>151</b>
<b>CASH FLOW (EURm)</b>	<b>12/2011</b>	<b>12/2012</b>	<b>12/2013</b>	<b>12/2014e</b>	<b>12/2015e</b>	<b>12/2016e</b>
Cash Flow from Operations before change in NWC	398	321	227	250	317	352
Change in Net Working Capital	-175	118	78.5	-75.4	-92.5	-13.1
<b>Cash Flow from Operations</b>	<b>223</b>	<b>439</b>	<b>306</b>	<b>175</b>	<b>224</b>	<b>339</b>
Capex	-276	-146	-110	-370	-143	-153
Net Financial Investments	0.0	64.8	0.0	0.0	0.0	0.0
<b>Free Cash Flow</b>	<b>-53.2</b>	<b>358</b>	<b>195</b>	<b>-195</b>	<b>81.5</b>	<b>187</b>
Dividends	-109	-76.7	-55.7	-55.8	-55.8	-59.1
Other (incl. Capital Increase & share buy backs)	-175	-121	-13.3	0.0	0.0	0.0
<b>Change in Net Debt</b>	<b>-337</b>	<b>160</b>	<b>126</b>	<b>-250</b>	<b>25.7</b>	<b>128</b>
NOPLAT	188	16.7	98.2	121	153	175
<b>BALANCE SHEET &amp; OTHER ITEMS (EURm)</b>	<b>12/2011</b>	<b>12/2012</b>	<b>12/2013</b>	<b>12/2014e</b>	<b>12/2015e</b>	<b>12/2016e</b>
Net Tangible Assets	1,406	1,346	1,195	1,387	1,334	1,292
Net Intangible Assets (incl. Goodwill)	131	131	131	131	131	131
Net Financial Assets & Other	338	255	245	245	245	245
<b>Total Fixed Assets</b>	<b>1,875</b>	<b>1,732</b>	<b>1,572</b>	<b>1,763</b>	<b>1,711</b>	<b>1,668</b>
Inventories	578	568	539	560	620	643
Trade receivables	828	752	777	773	845	857
Other current assets	182	119	53.3	53.3	53.3	53.3
Cash (-)	-706	-498	-439	-188	-214	-342
<b>Total Current Assets</b>	<b>2,294</b>	<b>1,936</b>	<b>1,809</b>	<b>1,575</b>	<b>1,732</b>	<b>1,895</b>
<b>Total Assets</b>	<b>4,169</b>	<b>3,668</b>	<b>3,380</b>	<b>3,338</b>	<b>3,443</b>	<b>3,563</b>
Shareholders Equity	1,694	1,422	1,346	1,351	1,404	1,484
Minority	72.5	182	158	169	182	200
Total Equity	1,766	1,604	1,504	1,520	1,586	1,684
Long term interest bearing debt	918	856	691	691	691	691
Provisions	341	397	359	359	359	359
Other long term liabilities	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Long Term Liabilities</b>	<b>1,259</b>	<b>1,252</b>	<b>1,050</b>	<b>1,050</b>	<b>1,050</b>	<b>1,050</b>
Short term interest bearing debt	648	343	322	322	322	322
Trade payables	291	322	339	280	319	341
Other current liabilities	204	147	166	166	166	166
<b>Total Current Liabilities</b>	<b>1,143</b>	<b>812</b>	<b>827</b>	<b>768</b>	<b>807</b>	<b>829</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>4,169</b>	<b>3,668</b>	<b>3,380</b>	<b>3,338</b>	<b>3,443</b>	<b>3,563</b>
<b>Net Capital Employed</b>	<b>2,968</b>	<b>2,701</b>	<b>2,437</b>	<b>2,704</b>	<b>2,744</b>	<b>2,715</b>
<b>Net Working Capital</b>	<b>1,116</b>	<b>998</b>	<b>978</b>	<b>1,053</b>	<b>1,146</b>	<b>1,159</b>
<b>GROWTH &amp; MARGINS</b>	<b>12/2011</b>	<b>12/2012</b>	<b>12/2013</b>	<b>12/2014e</b>	<b>12/2015e</b>	<b>12/2016e</b>
<i>Sales growth</i>	<i>2.4%</i>	<i>3.6%</i>	<i>-7.9%</i>	<i>6.6%</i>	<i>10.6%</i>	<i>3.7%</i>
<b>EBITDA (adj.)* growth</b>	<b>-34.3%</b>	<b>-27.0%</b>	<b>-13.8%</b>	<b>16.9%</b>	<b>18.0%</b>	<b>7.7%</b>
<i>EBITA (adj.)* growth</i>	<i>-49.8%</i>	<i>-56.1%</i>	<i>19.1%</i>	<i>22.9%</i>	<i>26.9%</i>	<i>14.5%</i>
<i>EBIT (adj.)* growth</i>	<i>-49.8%</i>	<i>-91.1%</i>	<i>488.9%</i>	<i>22.9%</i>	<i>26.9%</i>	<i>14.5%</i>

## Bekaert: Summary tables

<b>GROWTH &amp; MARGINS</b>	<b>12/2011</b>	<b>12/2012</b>	<b>12/2013</b>	<b>12/2014e</b>	<b>12/2015e</b>	<b>12/2016e</b>
Net Profit growth	-48.1%	n.m.	n.m.	67.2%	57.2%	26.2%
EPS adj. growth	-48.1%	n.m.	n.m.	67.2%	57.2%	26.2%
DPS adj. growth	-29.6%	-27.4%	0.0%	0.0%	5.9%	5.0%
EBITDA (adj)* margin	14.3%	10.1%	9.4%	10.3%	11.0%	11.4%
EBITA (adj)* margin	8.0%	3.4%	4.4%	5.1%	5.8%	6.4%
EBIT (adj)* margin	8.0%	0.7%	4.4%	5.1%	5.8%	6.4%
<b>RATIOS</b>	<b>12/2011</b>	<b>12/2012</b>	<b>12/2013</b>	<b>12/2014e</b>	<b>12/2015e</b>	<b>12/2016e</b>
Net Debt/Equity	0.5	0.4	0.4	0.5	0.5	0.4
Net Debt/EBITDA	1.8	2.5	1.9	2.4	1.9	1.5
Interest cover (EBITDA/Fin.interest)	7.2	3.5	4.7	5.1	6.4	7.6
Capex/D&A	132.4%	45.0%	69.0%	207.4%	73.1%	78.2%
Capex/Sales	8.3%	4.2%	3.5%	10.9%	3.8%	3.9%
NWC/Sales	33.4%	28.8%	30.7%	31.0%	30.5%	29.7%
ROE (average)	12.2%	-4.7%	3.3%	5.6%	8.7%	10.5%
ROCE (adj.)	7.1%	0.7%	4.3%	4.7%	5.9%	6.8%
WACC	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%
ROCE (adj.)/WACC	0.8	0.1	0.5	0.5	0.6	0.7
<b>PER SHARE DATA (EUR)**</b>	<b>12/2011</b>	<b>12/2012</b>	<b>12/2013</b>	<b>12/2014e</b>	<b>12/2015e</b>	<b>12/2016e</b>
Average diluted number of shares	60.0	60.0	60.1	60.1	60.1	60.1
EPS (reported)	3.21	-3.25	0.41	1.08	1.81	2.33
EPS (adj.)	3.36	-1.22	0.76	1.27	1.99	2.51
BVPS	28.24	23.70	22.41	22.50	23.37	24.71
DPS	1.17	0.85	0.85	0.85	0.90	0.95
<b>VALUATION</b>	<b>12/2011</b>	<b>12/2012</b>	<b>12/2013</b>	<b>12/2014e</b>	<b>12/2015e</b>	<b>12/2016e</b>
EV/Sales	0.7	0.6	0.7	0.8	0.7	0.7
EV/EBITDA	4.9	7.9	7.6	7.9	6.6	5.9
<b>EV/EBITDA (adj.)*</b>	<b>4.9</b>	<b>6.2</b>	<b>7.5</b>	<b>7.9</b>	<b>6.6</b>	<b>5.9</b>
EV/EBITA	8.8	48.6	16.5	16.0	12.5	10.5
<b>EV/EBITA (adj.)*</b>	<b>8.8</b>	<b>18.4</b>	<b>16.1</b>	<b>16.0</b>	<b>12.5</b>	<b>10.5</b>
EV/EBIT	8.8	n.m.	16.5	16.0	12.5	10.5
<b>EV/EBIT (adj.)*</b>	<b>8.8</b>	<b>91.2</b>	<b>16.1</b>	<b>16.0</b>	<b>12.5</b>	<b>10.5</b>
<b>P/E (adj.)</b>	<b>7.4</b>	<b>n.m.</b>	<b>34.0</b>	<b>23.5</b>	<b>14.9</b>	<b>11.8</b>
P/BV	0.9	0.9	1.1	1.3	1.3	1.2
Total Yield Ratio	5.2%	4.2%	3.1%	3.1%	3.3%	
EV/CE	0.9	0.9	1.0	1.1	1.1	1.0
OpFCF yield	-3.6%	22.3%	12.6%	-10.9%	4.6%	10.5%
OpFCF/EV	-2.3%	13.5%	8.6%	-7.0%	3.0%	7.1%
Payout ratio	36.4%	-26.2%	n.m.	78.4%	49.8%	40.6%
Dividend yield (gross)	4.7%	3.9%	2.9%	2.9%	3.0%	3.2%
<b>EV AND MKT CAP (EURm)</b>	<b>12/2011</b>	<b>12/2012</b>	<b>12/2013</b>	<b>12/2014e</b>	<b>12/2015e</b>	<b>12/2016e</b>
Price** (EUR)	24.79	21.88	25.72	29.76	29.76	29.76
Outstanding number of shares for main stock	60.0	60.0	60.1	60.1	60.1	60.1
<b>Total Market Cap</b>	<b>1,487</b>	<b>1,313</b>	<b>1,545</b>	<b>1,787</b>	<b>1,787</b>	<b>1,787</b>
<b>Net Debt</b>	<b>860</b>	<b>700</b>	<b>574</b>	<b>824</b>	<b>799</b>	<b>671</b>
<i>o/w Cash &amp; Marketable Securities (-)</i>	<i>-706</i>	<i>-498</i>	<i>-439</i>	<i>-188</i>	<i>-214</i>	<i>-342</i>
<i>o/w Gross Debt (+)</i>	<i>1566</i>	<i>1,198</i>	<i>1,013</i>	<i>1,013</i>	<i>1,013</i>	<i>1,013</i>
<b>Other EV components</b>	<b>6</b>	<b>159</b>	<b>140</b>	<b>153</b>	<b>161</b>	<b>169</b>
<b>Enterprise Value (EV adj.)</b>	<b>2,353</b>	<b>2,172</b>	<b>2,259</b>	<b>2,764</b>	<b>2,746</b>	<b>2,627</b>

Source: Company, Bank Degroof estimates.

### Notes

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

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

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 almost 80% of the "combined" 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**.

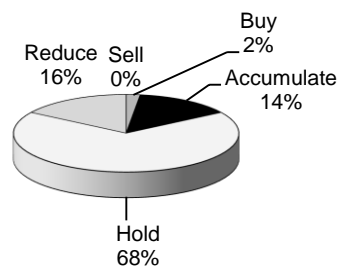
The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: **Buy, Accumulate (or Add), Hold, Reduce and Sell (in short: B, A, H, R, S)**.

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.

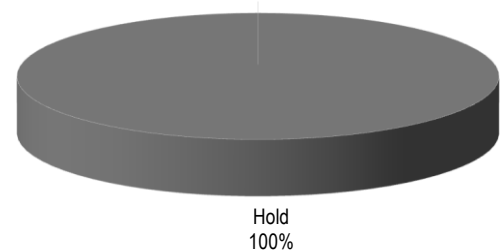
### Meaning of each recommendation or rating:

- **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



### Bank Degroof Ratings Breakdown for companies with conflicts of interest

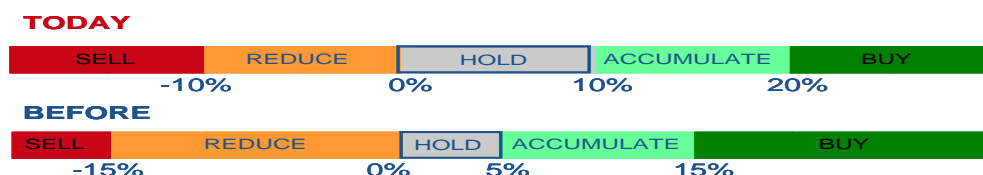


### History of ESN Recommendation System

**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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Laurent Goethals	+32 2 287 91 85
Pascal Magis	+32 2 287 97 81
Fabian De Smet	+32 2 287 99 16

**Institutional & corporate bond desk**

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Fabrice Faccenda	+32 2 287 91 81

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Quentin De Decker	+32 2 287 92 87
Tim Vercammen	+32 2 287 91 83
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Stéphane Everaerts	+32 2 287 97 75

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Preben Bruggeman, CFA	+32 2 287 95 71
Antoni Slawecki	+32 2 287 93 35

**Equity brokerage**

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Bernard Hanssens	+32 2 287 96 89
Bart Jooris, CFA	+32 2 287 92 79
Dirk Peeters	+32 2 287 97 16

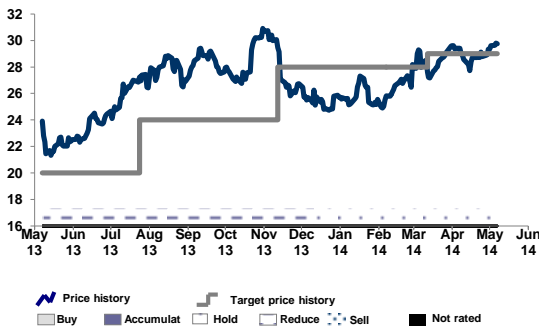
**Mail:** [firstname.lastname@degroof.be](mailto:firstname.lastname@degroof.be)

**Recommendation history for BEKAERT**

Date	Recommendation	Target price	Price at change date
12-Mar-14	Hold	29.00	27.60
25-Feb-14	Hold	28.00	27.26
12-Nov-13	Reduce		29.47
12-Nov-13	Reduce	28.00	29.47
31-Jul-13	Reduce	24.00	26.43
11-Jun-13	Reduce	20.00	22.80
06-May-13	Hold	20.00	24.03
14-Nov-12	Hold	24.00	18.56
20-Jul-12	Hold	25.00	20.85
03-Feb-12	Hold	28.00	27.64

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, Connect Group, D'Ieteren, Eckert-Ziegler, Elia, Gimv, Greenyard Foods, Home Invest Belgium, Kinopolis, Leasinvest Real Estate, Luxempart, Montea, Realco, Resilux, Roularta, Sapec, Ter Beke, Van de Velde and Vastned Retail Belgium.

**Bank Degroof holds a significant stake in:**

Fountain.

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