Fortis Bank Nederland

Bekaert

Initiating coverage

Indy - Industrial, Diversified / Belgium

Target Price EUR 75.00

Expected performance (12 mth) 31.4%

BUY EUR 57.09 (Closing price 06-Apr-09)

Well placed to play a cyclical recovery

7 April 2009

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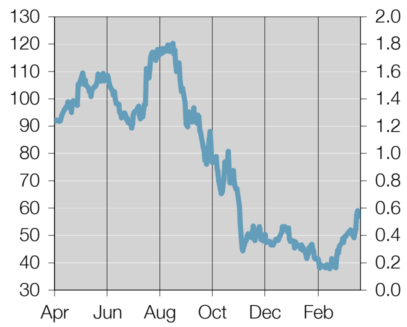
Opinion on qualitative criteria

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 Fortis2009EPS est.



Source: FactSet, Fortis Equity Research

Market capitalisation (EUR m)	1,129.4
No. of shares (m)	19.8
Free float	61.4%
1/3/12 mth perf. (%)	46.4/7.3/(40.0)
High/low 52 weeks (EUR)	120.32/37.88
Next results due	13 May 2009
Price/book value (x)	1.0
Volatility (ß) (5yrs/)	
Reuters symbol	BEKB.BR
Bloomberg symbol	BEKB BB
Website	www.bekaert.com

Initiating coverage with a BUY recommendation and EUR 75 target price

We initiate coverage of the Bekaert stock with a BUY recommendation and a target price of EUR 75. Reassured by Bekaert's solid track record, healthy balance sheet and strong emerging markets exposure, we expect the stock to become a favoured play for cyclical investment strategies.

A stock well placed to play cyclical investment strategies

As a key attraction of the investment case, we highlight the broad spread of Bekaert's operations across many parts of the world and many different industries. This puts the company in an attractive position to take advantage of recovery spots in the economy the moment they arise. As 70% of combined sales are generated from emerging economies, we expect Bekaert to resume on its solid growth path when the global economy picks up. We also highlight Bekaert's healthy balance sheet (end-2009 net debt/EBITDA of 1.6x and gearing of 43%), which should enable the company to weather the current downturn and still make anti-cyclical investments in long-term growth opportunities.

Indications of bottoming out seen as main catalyst to get the stock moving

We consider a returns-based valuation (where EV/CE equals ROCE/WACC) focusing on short-term earnings to be a logical way of assessing the price potential of the Bekaert stock. Based on the forecast returns for 2009 and 2010, this approach gives an outcome of EUR 60 and EUR 91, respectively. Assuming that investors look forward by about one year, we set our price target for the stock at the average, which works out at EUR 75 (31% upside). Indications of an economic bottoming out are in our view the main trigger to this perceived upside.

Year to December	2007	2008	2009e	2010e	2011e
Sales (EUR m)	2,173.6	2,662.4	2,446.6	2,590.7	2,715.3
EBITDA (EUR m)	298.6	412.2	290.8	353.8	408.9
Net profit excl. extr. & amort. (EUR m)	157.2	219.1	85.3	139.4	187.9
Net profit (EUR m)	152.9	174.1	85.3	139.4	187.9
EBITDA margin (%)	13.7	15.5	11.9	13.7	15.1
ROCE (incl. goodwill) (%)	9.5	11.6	5.2	7.7	9.3
Net gearing (%)	45.7	59.5	43.2	38.1	30.2
EPS before extr. & amort. (EUR)	7.84	11.11	4.31	7.04	9.50
EPS (EUR)	7.63	8.83	4.31	7.04	9.50
DPS (EUR)	2.76	2.80	1.72	2.82	3.80
% change sales	8.2	22.5	(8.1)	5.9	4.8
% change EPS (excl. extr. & amort.)	13.7	41.6	(61.2)	63.4	34.8
EV/Sales	0.87	0.51	0.51	0.48	0.44
EV/EBITDA	6.4	3.3	4.3	3.5	2.9
P/E (excl. extr. & amort.)	12.5	7.9	13.2	8.1	6.0
P/E	12.9	10.0	13.2	8.1	6.0
PE/growth (excl. extr.)	1.2	0.5	nmf	nmf	0.1
Free cash flow yield (%)	(0.5)	(2.5)	17.5	3.3	8.1

Contents

1. Investment case

1.1. Initiating coverage with a BUY rating and EUR 75 target price

Highlighting 31% upside to a 12-month forward returns-based valuation, the solid track record, a healthy balance sheet and the strong emerging markets exposure, we expect the Bekaert stock to be a favoured play in cyclical investment strategies – BUY

As a key attraction of the investment case, we highlight the broad spread of Bekaert's operations across many parts of the world and many different industries. This puts Bekaert in an attractive position to take advantage of recovery spots in the economy the moment they arise. As 70% of combined sales is generated from emerging economies, we expect Bekaert to resume on its solid growth path when the global economy picks up. We also highlight Bekaert's healthy balance sheet (end-2009 net debt/EBITDA of 1.6x and gearing of 43%), which should enable the company to weather the current downturn and still grasp growth opportunities. We see 31% upside to a 12-month forward returns-based valuation of EUR 75 per share. Indications of an economic bottoming out are in our view the main trigger to unlock this perceived upside. Given the attractions of its solid track record, healthy balance sheet and strong emerging markets exposure, we expect Bekaert to become a favoured play for cyclical investment strategies. As such, we initiate coverage with a BUY recommendation.

1.2. Cyclical by nature, but less vulnerable than generally thought

The exposure to automotive (31%) and construction (23%) have pushed the Bekaert stock out of vogue, but we stress that the company is not as vulnerable as it seems

Bekaert is the world's leading independent producer of steel wire products, which it sells to a wide range of industries on four continents. It is particularly the company's exposure to the automotive sector (31% of sales) and construction (23%) that have turned the stock out of vogue with investors. It should be borne in mind, however, that Bekaert is less vulnerable to the slump in these sectors as might be feared at first sight.

Automotive exposure is mostly to tyres – 75% of which are destined for the relatively resilient replacement market

The majority of its automotive-related sales consist of steel cord for reinforcing radial tyres. As three out of four tyres are destined for the replacement market, Bekaert is less susceptible to cyclical movements in the (OEM) automotive market. Moreover, the majority of Bekaert's tyre cord sales are generated in China, where tyre output benefits from ongoing strong growth in domestic demand (and the increasing penetration of radial tyres). Global demand for replacement tyres has recently also suffered a hit, but this was largely due to de-stocking by distributors, which is unlikely to continue for long.

The construction exposure is mostly project and infrastructure-related

It is important to note that Bekaert's construction exposure is largely project and infrastructure-related (Dramix), and that these segments are resilient due to sticky government spending (and may in fact be boosted by recent stimulus plans).

1.3. Considerably improved earnings potential through the cycle

Enhanced exposure to emerging markets and innovation-based product mix have improved the earnings potential

The strong development of sales, profitability and returns in recent years leaves no doubt about the success of the strategic changes to Bekaert's business profile. In the mature European and North American markets, the company has closed, sold and/or streamlined operations that were unlikely to meet economic criteria in the long run. The focus has been on aggressive expansion in Asia, Latin America and Eastern Europe, where demand for its traditional products is still growing fast. These higher-growth and higher-margin emerging regions now represent 70% of *combined* sales (up from 40% in 2003). Bekaert continues to invest in projects that will shortly come on stream in China, India, Indonesia and Russia, which we expect to contribute a total EUR 146m to revenue in 2010 (representing 3.6% of 2008 *combined* revenue) and EUR 175m in 2011.

Thanks to its strong commitment to R&D (3% of sales), Bekaert has in recent years enhanced its exposure to niche products with higher margins and robust long-term growth potential. The spearhead for growth is the utilities sector (including the oil & gas, mining, solar energy and telecommunication industries), which increased from 5% of sales in 2003 to 16% in 2008.

These strategic changes have not made Bekaert immune to the current economic downturn, but we are convinced that they have laid the foundation for a solid recovery in a cyclical upturn.

1.4. Main challenges faced by Bekaert

We see the main challenges faced by Bekaert as: 1) the cyclical downturn (estimates by other brokers of short-term earnings may risk being downgraded), 2) difficulties in passing on a potential rise in raw materials prices in the current environment, 3) exchange rate fluctuations (75% of sales are in non-euro currencies, with a particular translation vulnerability related to swings in the US dollar), and 4) increasing competition from low-cost countries.

1.5. Our 2009 EPS forecast of EUR 4.31 is 36% below consensus

Our forecast of trough EPS of EUR 4.31 for 2009 is 36% below the consensus, indicating a risk of earnings downgrades by other brokers

Bekaert has not given a concrete outlook for 2009. We have factored in a severe earnings downturn on the back of declining utilisation rates. We anticipate a 13.4% organic decline in *consolidated* group turnover, which is forecast to drive a 530bps erosion in the operating margin to 5.7% and a 52.4% fall in group EBIT*E*. The margin erosion in our model looks aggressive in the light of the 250bps decline in the previous downturn of 2001 (despite the fact that Bekaert's operations are now in a better shape and its geographic footprint and product mix more diversified). EPS is seen falling by 51.2% to EUR 4.31 in 2009. We would point out that our 2009 forecast is 36% below the consensus (we are at par with the consensus for 2010). We thus can not rule out the risk of additional earnings downgrades by other brokers, which may weigh on trading sentiment in the Bekaert stock.

1.6. Solid balance sheet to weather the downturn unscathed

We expect the balance sheet to remain healthy at 1.6x net debt/EBITDA*E* end-2009, as the drop in earnings should be cushioned by a release of working capital

The steep fall in short-term earnings that we project is not seen as stretching capital ratios to uncomfortable levels. There is significant offset from the scope to reduce working capital in 2009 (the slowdown in 4Q08 hampered Bekaert's ability to reduce the high inventory levels of 3Q08, when growth was still very strong). We forecast healthy end-2009 net debt/EBITDA of 1.6x and gearing of 43%. Bekaert should thus maintain the financial flexibility to make anti-cyclical investments in long-term growth opportunities.

1.7. Short-term earnings downturn looks sufficiently discounted

Valuation multiples on trough 2009 earnings sufficiently de-rated to regain confidence in the solid fundamentals

Based on our consensus-defying forecasts of trough earnings for 2009, the Bekaert stock trades at 13.2x P/E, 4.1x EV/EBITDA and 1.0x P/Book (*excluding goodwill*). At these levels, we consider a severe recession priced in. We expect the market to shift the focus on 2010 multiples, which stand at a 34% discount to the historic average. We see room to become more positive about the mid-term potential of Bekaert's fundamentals (market leadership positions, emerging economies exposure, innovation-based product mix, healthy balance sheet).

1.8. Target price of EUR 75 (31% upside)

Our DCF model indicates a valuation of EUR 100/share, although a through-the-cycle approach is unlikely to lead the way in equities pricing these days

A DCF valuation based on conservative assumptions (2009-2018 CAGR EBIT of 0.3% and 0% terminal growth) indicates a fair through-the-cycle valuation for the Bekaert stock of EUR 100 (including a valuation of EUR 28 per share for the joint ventures, based on a dividend discount model). However, we acknowledge that it would be an illusion to think that a through-the-cycle DCF valuation is likely to lead the way in equities pricing in the current environment.

Target price set at EUR 75 (31% upside), based on a returns-based valuation of short-term earnings

Given the macroeconomic uncertainty, we expect equity markets to remain focused on short-term earnings as the fundamental underpinning of pricing. We thus consider a returns-based valuation of short short-term earnings to be a logical way of assessing the price potential of the Bekaert stock. This approach is founded on the intuitive principle that the EV/Capital Employed valuation should be consistent with the company's capacity to create value as measured by the ROCE/WACC ratio. Based on our forecast returns for 2009 and 2010, this approach gives an outcome of EUR 60 and EUR 91, respectively. Assuming that investors look forward by about one year, we set our price target for the Bekaert stock at the average, which works out at EUR 75 (31% upside).

2. Valuation

Different valuation approaches indicate that the equity market has failed to spot the potential of Bekaert's emerging markets footprint and the shift towards higher-added-value products, which are driving an outperformance in a cyclical upturn

We have assessed Bekaert's valuation by means of a multiples analysis, DCF methodology and a returns-based approach. In the present climate, short-term earnings have become the main pricing driver for the Bekaert stock, while only limited account seems to be taken of the longer-term potential of its strong fundamentals and balance sheet. Even on our forecasts of trough earnings for 2009 that are by far the lowest in the market, Bekaert's valuation multiples stand at an average 17% discount to historic levels. The upside to the outcome of our conservative DCF valuation confirms that the market is no longer willing to price the through-the-cycle earnings potential of the strategic value drivers implemented by Bekaert. The company has proven very successful in recent years with its push towards an enhanced presence in emerging markets and an increased exposure to higher-added-value products in growth sectors. While these strategic initiatives have not made Bekaert immune to a substantial earnings downturn in the present recession, we do expect them to drive continued robust earnings progress on a through-the-cycle view. The longer-term earnings assumptions underlying our DCF model are possibly even a conservative reflection of the likely potential. A returns-based valuation (where the EV/Capital Employed is consistent with ROCE/WACC) confirms the undervaluation, even on depressed 2009 yardsticks.

2.1. Our earnings assumptions underlying the valuation analysis

We summarise the earnings assumptions underlying our assessment of Bekaert's valuation, and show how our forecasts compare to those of the consensus.

Our valuation analysis is based on an expected severe earnings downturn for 2009…

We have factored in a severe earnings downturn for 2009. We anticipate a 13.4% organic decline in *consolidated* group turnover, which is forecast to drive a 530bps erosion in the operating margin to 5.7% and a 52.4% fall in group EBIT*E*. The margin erosion modeled by us looks aggressive in the light of the 250bps decline in the previous downturn of 2001 (despite the fact that Bekaert's operations are now in a better shape and its geographic footprint and product mix more diversified). EPS is seen falling by 51.2% to EUR 4.31 in 2009.

… followed by a recovery that looks conservative in a historic context

In line with our economists' view, we have modeled a cyclical earnings recovery from 2010 onwards. The recovery will be strengthened by Bekaert's strong exposure to emerging economies (70% of *combined* sales) and its innovation efforts aimed at product segments with higher long-term growth potential. We have nevertheless taken a prudent stance with our assumption of a gradual recovery of the EBIT*E* margin to a peak level of 9.8% by 2012, which compares to 11.1% realised in 2008 (even 12.5% in 1H08).

Our forecast of trough EPS for 2009 is 36% below the consensus

The table below shows that our forecast of trough EPS for 2009 is 36% below the consensus. Our forecasts for 2010 are more or less in line with the consensus, and we forecast a stronger earnings recovery in 2011.

Fortis Bank Nederland forecasts versus consensus

	Sales (EUR m)			Sales growth			EBIT (EUR m)			EBIT margin			EPS (EUR)		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Fortis Bank Nederland	2,447	2,591	2,715	-8.1%	5.9%	4.8%	125	188	242	5.1%	7.3%	8.9%	4.31	7.04	9.50
Relative to consensus	**-3%**	**1%**	**4%**				**-35%**	**-4%**	**16%**				**-36%**	**-1%**	**27%**
Consensus (JCF)[1]:															
average	2,520	2,574	2,610	-5.4%	2.1%	1.4%	191	196	209	7.6%	7.6%	8.0%	6.77	7.10	7.48
high	2,699	2,826	2,752	1.4%	4.7%	-2.6%	206	216	220	7.6%	7.6%	8.0%	7.17	7.93	8.48
low	2,428	2,403	2,499	-8.8%	-1.0%	4.0%	171	178	191	7.0%	7.4%	7.7%	6.24	6.04	6.34
no. of estimates	7	7	5				7	7	5				7	7	5

[1] The consensus data exclude Fortis Bank Nederland estimates.

Source: Fortis Bank Nederland estimates and JCF consensus data

2.2. Valuation multiples

Even on 2009 trough earnings, Bekaert's valuation multiples are undemanding

The table below puts Bekaert's forward valuation multiples in a historical perspective. We characterise our earnings forecasts as "trough" for 2009, as "moderately recovered" for 2010 and as "normalised" for 2011. Even on 2009 depressed earnings, Bekaert's valuation stands at a reasonable 13.2x P/E and 4.1x EV/EBITDA[1]. We draw attention to the pricing relative to asset value at 1.0x P/Book (*excluding goodwill*) and 0.7x EV/Capital Employed, which is not consistent with the forecast capital returns, even those generated in a recession year (see also our discussion in section 2.4).

Historic valuation multiples

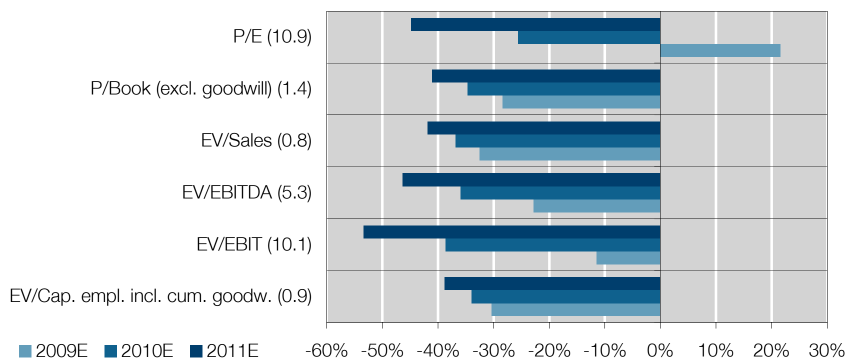
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average '99-'08	2009E	2010E	2011E
Share price eoy	55.10	49.85	43.27	43.15	50.50	58.75	78.95	94.70	92.00	48.32		57.09	57.09	57.09
Share price avg.	43.17	50.46	40.51	45.57	41.22	50.06	65.13	81.99	98.19	88.25		57.09	57.09	57.09
P/E	12.1	11.2	18.8	(21.8)	10.5	7.8	10.4	12.3	12.9	10.0	10.9	13.2	8.1	6.0
FCF yield (geared)	12.1%	2.8%	3.7%	16.2%	3.4%	-4.1%	8.4%	2.2%	2.7%	-1.4%	3.3%	19.7%	6.1%	11.7%
Dividend yield	3.7%	3.3%	4.1%	3.7%	4.2%	4.0%	4.6%	3.0%	2.8%	3.2%	3.7%	3.0%	4.9%	6.7%
P/Book (excl. goodw.)	1.3	1.1	1.0	1.4	1.5	1.5	1.7	2.0	1.8	0.9	1.4	1.0	0.9	0.8
EV/Sales[1]	0.9	0.8	0.8	0.7	0.7	0.8	0.8	0.9	0.9	0.5	0.8	0.5	0.5	0.4
EV/EBITDA[1]	6.5	5.5	6.2	4.3	4.9	5.0	5.3	6.7	6.1	2.8	5.3	4.1	3.4	2.9
EV/EBIT[1]	15.1	11.8	18.8	9.9	10.0	9.0	9.1	11.5	10.2	4.6	10.1	9.0	6.2	4.7
EV/Capital Employed[1]	1.1	0.9	0.8	0.9	0.9	0.9	1.0	1.2	1.1	0.7	0.9	0.7	0.6	0.6

[1] Our calculation of EV includes the estimated market value of Bekaert's JVs and associates.

Source: Fortis Bank Nederland

The chart below shows that Bekaert's 2009 and 2010 valuation multiples stand at an average discount of 26% to the average valuation during the 1999-2008 period. In view of Bekaert's improved growth profile and its solid balance sheet (1.5x net debt/EBITDA), we see no justification for this discount. The discount pencils in a safety margin for earnings forecast error on the downside. It comforts us to draw attention to a more fundamentally-oriented assessment of Bekaert's valuation as outlined in the following sections.

Discount to average 1999-2007 valuation



Source: Fortis Bank Nederland

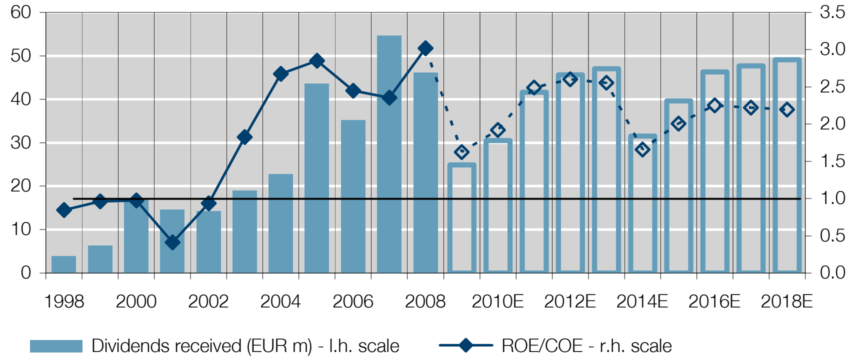
[1] Our calculation of EV includes the estimated market value of Bekaert's JVs and associates.

2.3. DCF valuation (including DDM valuation JVs/associates)

Our through-the-cycle valuation of Bekaert consists of two elements: a dividend discount model (DDM) for the joint ventures consolidated via the equity method and a DCF approach for the *consolidated* business.

As Bekaert has no access to the cash flows generated by its joint ventures and participations, we assess their valuation by means of a dividend discount model (DDM). Typically contributing some 30-40% to Bekaert's net profit, the dividends received from joint ventures are a meaningful element of the valuation. The end-2007 book value of Bekaert's joint ventures amounted to EUR 216m, which implies a valuation of only 4.6x P/E and 2.6x EV/EBITDA (note that the joint ventures hardly have any debt on their balance sheets). Given that the joint ventures have turned in an average ROE of 22% since 2003, it seems reasonable to expect that their market value significantly exceeds the book value. Our assessment of the market value is based on the estimated dividend payments shown in the chart below (our valuation includes a second downturn assumed for 2014).

Long-term forecasts of dividends received as used in DDM valuation of JVs/associates



Source: Fortis Bank Nederland

JVs valued at EUR 28/share, which implies a P/B valuation of 2.5x that is consistent with the ROE/COE ratio

We discounted the dividends at a cost of equity of 9.3% and applied a 0% terminal growth rate, which leads us to value Bekaert's joint ventures and associates at EUR 555m, or EUR 28 per share (see table below). This valuation implies a P/Book multiple of 2.5x on normalised 2011 numbers, which is consistent with the historic ROE/COE ratio of 2.5x.

Dividend discount model valuation joint ventures and associates (EUR m)

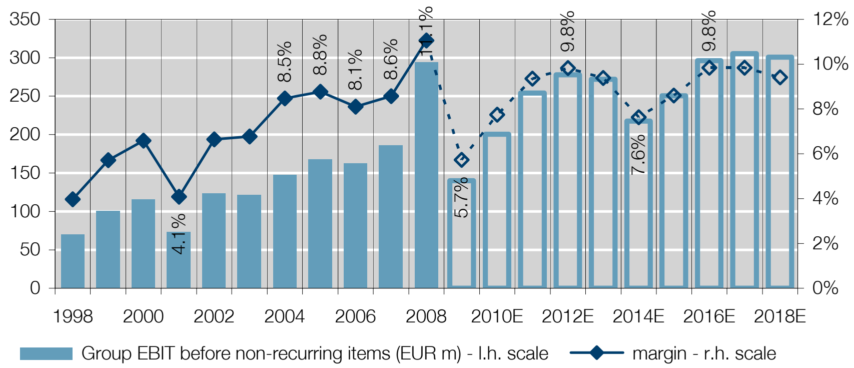
	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Terminal value	CAGR '09 - '18
Share in results JVs and associates	**31**	**38**	**52**	**57**	**59**	**39**	**49**	**58**	**60**	**61**		**0.9%**
% chg.	-44.5%	22.5%	36.3%	9.8%	3.0%	-32.9%	25.5%	17.0%	3.0%	3.0%		
ROE	15.1%	17.8%	23.2%	24.2%	23.8%	15.4%	18.7%	20.9%	20.7%	20.4%		
Dividends received / Terminal value	**25**	**31**	**42**	**46**	**47**	**32**	**42**	**52**	**57**	**61**	**660**	**2.9%**
Pay-out ratio	80%	80%	80%	80%	80%	80%	85%	90%	95%	100%		
COE	9.3%											
Terminal growth	0.0%											
Present value dividend / Terminal value	**24**	**27**	**33**	**33**	**32**	**19**	**24**	**27**	**27**	**26**	**283**	
Sum PV dividends	271											
PV Terminal value	283											
Equity value	**555**											
Number of shares ('000s)	19,784											
Value per share (EUR)	**28.04**											
Implied valuation:												
Dividend yield	4.5%	5.5%	7.5%									
P/E	17.8	14.5	10.7									
P/B	2.7	2.6	2.5									

Source: Fortis Bank Nederland

Including a DCF valuation of the consolidated business based on conservative assumptions (2009-2018 CAGR EBIT of 0.2% and 0% terminal growth)…

Our DCF model of Bekaert's consolidated business is based on an explicit forecast period until 2018, which includes a second downcycle assumed for 2014. We assume the EBIT*E* margin during the forecast period to range from a low of 5.7% in 2009 to a peak level of 9.8% in 2012 (see the chart below). Our peak margin assumption looks conservative against the 2008 peak of 11.1% (even 12.5% in 1H08). Our DCF model is based on a CAGR of 1.8% for revenue and 0.2% for EBIT*E* during the 2009-2018 period, which we deem conservative in view of the strategic initiatives of recent years that have proven successful at structurally improving Bekaert's growth potential and profitability through the cycle (the success culminated in a strong profit improvement in 2008, shortly before the economic downturn set in).

Graphical illustration long-term EBIT*E* (margin) forecasts used in DCF valuation Bekaert



Source: Fortis Bank Nederland

… we arrive at a through-the-cycle valuation of EUR 100

Our DCF model furthermore assumes a 0% terminal growth rate and 8.6% WACC. Based on these assumptions, we arrive at a fair value for the *consolidated* business of EUR 2,268m. Including the valuation of Bekaert's joint ventures as discussed above (EUR 555m, or EUR 28 per share) and net of debt and pension deficit (EUR 150m), we reach an equity valuation of EUR 1,976m, or EUR 100 per share (see the table on the following page for more detail). The left-hand table below shows the sensitivity of our DCF calculation to changes in our WACC and terminal growth assumptions.

Sensitivity analysis DCF valuation per share (EUR)

	Terminal growth rate		
WACC	**0.0%**	1.0%	2.0%
8.1%	107.55	116.92	129.34
8.6%	**99.87**	107.76	118.03
9.1%	93.07	99.77	108.35

Source: Fortis estimates

Valuation multiples implied by DCF outcome

	2009E	2010E	2011E
P/E	23.2	14.2	10.5
P/B (excl. goodw.)	1.8	1.6	1.5
EV/Sales	0.9	0.9	0.8
EV/EBITDA	7.4	6.2	5.4
EV/EBIT	16.2	11.3	8.9

Source: Fortis estimates

The right-hand table above shows that the outcome of our DCF calculation implies demanding valuation multiples when based on our forecasts of recession earnings for 2009. However, based on our forecasts of normalised earnings for 2011, the implied multiples come down to 10.5x P/E and 5.4x EV/EBITDA, which is consistent with Bekaert's average valuation during the last ten years (10.9 and 5.3 respectively).

DCF valuation Bekaert, including DDM valuation JVs/associates (EUR m)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Terminal value	CAGR '09 - '18
Revenue	**2,447**	**2,591**	**2,715**	**2,831**	**2,902**	**2,849**	**2,912**	**3,012**	**3,106**	**3,193**		**1.8%**
% chg.	-8.1%	5.9%	4.8%	4.3%	2.5%	-1.8%	2.2%	3.4%	3.1%	2.8%		
EBIT (recurring)	**140**	**200**	**254**	**278**	**272**	**217**	**250**	**296**	**306**	**301**		**0.2%**
margin	5.7%	7.7%	9.4%	9.8%	9.4%	7.6%	8.6%	9.8%	9.8%	9.4%		
% chg.	-52.4%	43.0%	26.7%	9.5%	-2.1%	-20.1%	15.1%	18.4%	3.1%	-1.6%		
Taxes	(25)	(40)	(56)	(70)	(68)	(54)	(63)	(74)	(76)	(75)		
effective tax rate	18.0%	20.0%	22.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%		
NOPAT	**115**	**160**	**198**	**209**	**204**	**163**	**188**	**222**	**229**	**226**		**-0.9%**
% chg.	-53.6%	39.5%	23.6%	5.3%	-2.1%	-20.1%	15.1%	18.4%	3.1%	-1.6%		
Depreciation and amortisation	166	165	167	169	170	171	170	172	175	176		
Change in provisions	0	0	0	0	0	0	0	0	0	0		
Change in net working capital	120	(58)	(28)	(38)	(19)	13	(17)	(28)	(27)	(26)		
Net CAPEX	(160)	(196)	(215)	(186)	(185)	(155)	(199)	(233)	(208)	(176)		
Free cash flow / Terminal value	**240**	**72**	**122**	**155**	**170**	**193**	**142**	**133**	**168**	**200**	**2,614**	
% chg.	255.6%	-70.0%	69.8%	27.0%	9.9%	13.1%	-26.4%	-6.4%	27.0%	18.7%		
WACC	8.6%											
Terminal growth	0.0%											
Discount factor	95.9%	88.3%	81.3%	74.9%	68.9%	63.4%	58.4%	53.8%	49.5%	45.6%	45.6%	
Present value FCFs/Terminal value	**230**	**63**	**99**	**116**	**117**	**122**	**83**	**71**	**83**	**91**	**1,191**	
Sum PV FCFs	1,077											
PV Terminal value	1,191											
Value consolidated business	**2,268**											
DDM valuation JVs/associates	**555**											
Financial fixed assets	18											
Minority interests	(42)											
Pension deficit	(150)											
Net cash/(interest-bearing debt)	(673)											
Equity value	**1,976**											
Number of shares ('000s)	19,784											
DCF value per share (EUR)	**99.87**											
Share price (EUR)	57.09											
Upside / downside	74.9%											

Source: Fortis Bank Nederland

2.4. Returns-based valuation

Relative Economic Performance: determining a valuation consistent with the actual level of value creation, both on depressed and normalised earnings

A valuation by means of our Relative Economic Performance returns-based valuation approach is founded on the intuitive principle that the EV/Capital Employed valuation should be consistent with the company's capacity to create value as measured by the ROCE/WACC ratio. In a case where ROCE equals WACC, the theory claims that Enterprise Value should equal Capital Employed. If there is a difference between ROCE and WACC, the difference should apply to the same degree to the EV/CE valuation (in order for investors to pay a price whereby the investment returns the required hurdle-rate WACC).

- ROCE/WACC * Capital Employed = Enterprise Value
- Enterprise Value -/- net debt -/- pension deficit -/- minority interests + financial fixed assets + market value JVs & associates = Equity Value

Bekaert has built a good track record, with strategic initiatives driving positive shareholder value-creation during last five years

Since the installation of a new management team at Bekaert in 2002, the creation of value for shareholders has truly become the key criterion in the way that the company is managed. Strategic initiatives to rationalise commodity-oriented activities, seek promising geographic diversification and develop new products with higher added value and growth prospects have successfully lifted the creation of shareholder value into positive territory during the last five years (see the table below). Management aims at positive shareholder value-creation throughout the cycle, but that looks too ambitious to us in the present downturn.

The market only just prices the valuation implied by the trough 2009 returns of EUR 60 …

The table below shows the market to be just pricing the Bekaert stock at the valuation implied by the trough returns achieved in 2009 (and note again that our forecasts are the lowest in the market). In this down year, we estimate that Bekaert is generating a return on capital employed (ROCE) of 0.7 times the cost of capital (WACC), which is consistent with the EV/CE valuation of 0.7 times. This approach indicates an equity value for the Bekaert stock of EUR 60 on depressed 2009 numbers. Note that the valuation outcome of this methodology is based on the theoretical assumption that the economic profits will remain static for ever – which is overly pessimistic, particularly in respect of 2009 profits.

… while no account is taken of the valuation of EUR 91/115 implied by recovering returns for 2010/2011

The market takes no account of the valuation implied by recovering returns. Based on 2010/2011 earnings, the returns-based approach indicates a valuation of EUR 91/115 per share (compared to an implied peak valuation of EUR 138m on 2008 numbers).

Relative Economic Performance returns-based valuation Bekaert (EUR)

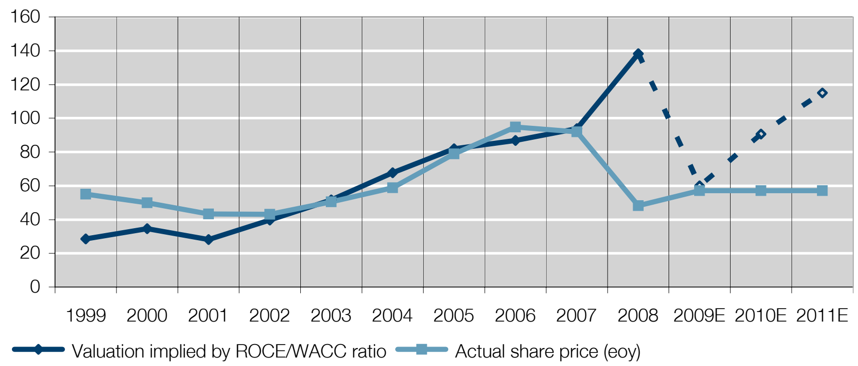
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
ROCE (incl. cum. goodwill)	6.1%	5.2%	7.2%	7.9%	8.7%	8.4%	9.1%	10.0%	13.5%	6.0%	8.3%	9.9%
WACC	9.0%	8.4%	8.7%	8.7%	8.7%	7.9%	8.3%	8.7%	8.7%	8.6%	8.7%	8.7%
ROCE (incl. cum. goodwill)/WACC	0.7	0.6	0.8	0.9	1.0	1.1	1.1	1.2	1.6	0.7	1.0	1.1
Actual EV/Capital Employed valuation	0.9	0.8	0.9	0.9	0.9	1.0	1.2	1.1	0.7	0.7	0.6	0.6
Valuation implied by ROCE/WACC (EUR)	**34.63**	**28.15**	**39.69**	**51.60**	**67.72**	**81.98**	**86.90**	**93.89**	**138.25**	**59.99**	**90.59**	**114.90**
Actual eoy share price (EUR)	49.85	43.27	43.15	50.50	58.75	78.95	94.70	92.00	48.32	57.09	57.09	57.09

Source: Fortis Bank Nederland

Back-testing validates the returns-based valuation methodology

Back-testing validates the returns-based valuation methodology, as Bekaert's historical share price development has tracked the outcome closely (see the chart below). The steep fall in the share price since 2H08 rightly anticipated the earnings downturn projected by us for 2009 (although it overreacted initially). Going forward, we would expect the market to gradually price the valuation implied by the projected returns for 2010 and 2011. Bekaert's track record, sound strategy and healthy balance sheet would justify doing so.

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



Source: Fortis Bank Nederland

2.5. 12-month target price set at EUR 75

Highlighting 31% upside to a 12-month forward returns-based valuation, the solid track record, a healthy balance sheet and the strong emerging markets exposure, we expect the Bekaert stock to be a favoured play in cyclical investment strategies – BUY

In the current environment, dominated as it is by cyclical concerns, we acknowledge that it would be an illusion to think that a through-the-cycle DCF valuation is likely to lead the way in equities pricing. Today's markets seem more focused on short-term earnings as the basis for pricing. However, as the de-rating of Bekaert's multiples has reached at a point at which the cyclical downside to short-term earnings looks sufficiently discounted, we would expect a growing interest among investors to start pricing the stock on a more fundamental view of short-term earnings. We consider a returns-based valuation approach to be a logical way to do so.

Assuming that investors look forward by about one year, we set our price target for the Bekaert stock at the average of a returns-based valuation for 2009 (EUR 60) and 2010 (EUR 91), which works out at EUR 75. The c. 31% upside leads us to rate the stock BUY. We see indications of an economic bottoming out as the main trigger to unlock the perceived upside. Given the attractions of a solid track record, a healthy balance sheet and a strong emerging markets exposure, we expect the Bekaert stock to become a favoured play for cyclical investment strategies.

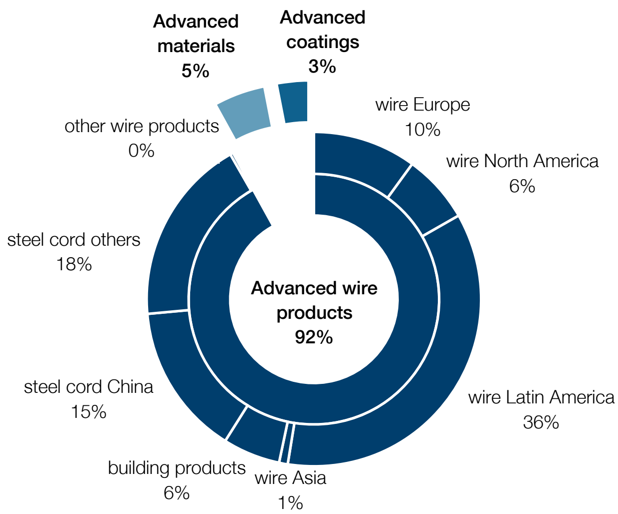
3. Company profile

The world's leading independent manufacturer of steel cord and steel wire products

Bekaert is an internationally active business-to-business company built on two core competences: advanced metal transformation and advanced materials and coatings. Its activities are grouped in the following business segments:

- **Advanced wire products** accounts for 92% of *combined* sales[2]. The basic raw material is wire rod – steel wire about the thickness of a finger, which Bekaert converts by mechanical deformation and heat treatment into wires that can be as fine as 1/50th of the thickness of a human hair. These wires are then turned into cable or cord (often used for polymer reinforcement, in radial tyres for example), woven or knitted into cloth or processed into ultra-fine filters and fibres. The products are used in a wide range of industrial applications across virtually all sectors of the economy. Bekaert ranks as the world's largest independent manufacturer of products made from steel cord and steel wire, and is the market leader in about 60% of the end-markets that it serves.
- The **advanced materials** segment (5%), based on stainless steel, covers applications such as fibre and combustion technologies. Bekaert uses ultra-thin metal fibres to produce environmentally friendly filters, gas burners and combustion systems for both residential and industrial applications. It also develops products for other applications in textiles and in conductive plastics.
- The **advanced coatings** segment (3%) covers industrial coatings and specialised films. Within the industrial coatings activity platform, Bekaert deploys its expertise in the application of coatings to various materials, mainly glass and metal. The company manufactures a range of window films for vehicles and buildings to keep out the sun's heat, filter out ultraviolet radiation and hold glass together in the event of breakage.

Divisional breakdown *combined* sales of EUR 4,010m



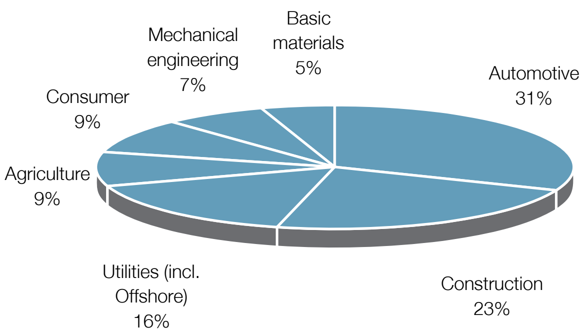
Source: company data

Significant exposure to automotive and construction not as cyclical as might be feared at first sight

Serving a wide range of industries around the world, Bekaert's growth profile is closely linked to GDP. The left-hand chart on the following page shows that Bekaert has a particularly strong exposure to the automotive sector (31% of *combined* sales), construction (23%) and the utilities industry (16%). The first two sectors in particular do not seem the most favourable ones to be active in these days. However, a closer look reveals that Bekaert's specific presence in these sectors is not as vulnerable to a slump as might be feared at first sight.

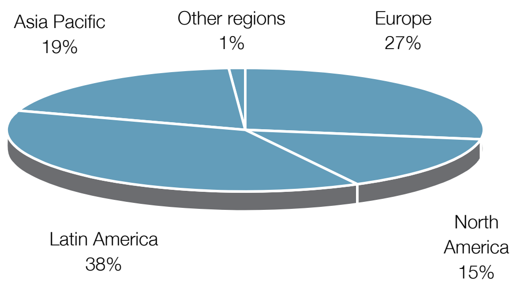
[2] Combined sales include 100% of sales from equity-accounted JVs and associates.

2008 breakdown Bekaert's *combined* sales by sector



Source: company data

2008 breakdown Bekaert's *combined* sales by geography



Source: company data

3.1. Automotive exposure relates predominantly to replacement tyres

With 40-45% of automotive sales generated from steel cord for tyres destined for the replacement market, Bekaert is less susceptible to cyclical movements in the automotive sector than often thought

Bekaert products supplied to the automotive industry include – among many others – fine cord for side-window systems, windshield wiper wire and valve spring and suspension spring wire (an average car may contain up to 30 kg of Bekaert products). Note, however, that two-thirds of its automotive-related sales consist of steel cord for reinforcing radial car and truck tyres[3], which it supplies to practically all the world's major tyre manufacturers (in the non-captive segment, Bekaert boasts a global market share of 20-25%). It is important to realise that three out of four tyres are destined for the replacement market (65% for car tyres and 80% for truck tyres), which reduces Bekaert's vulnerability to cyclical movements in the (OEM) automotive market. Demand for replacement tyres has recently also suffered a hit, but this was largely due to de-stocking by distributors (which is unlikely to continue for long). We estimate that 40-45% of Bekaert's automotive related sales consists of steel cord for tyres destined for the replacement market. Moreover, the majority of Bekaert's tyre cord sales is generated in China, where tyre output benefits from ongoing strong development of domestic demand (demand for tyre cord is also strengthened by the rapidly increasing penetration of radial tyres). We conclude that Bekaert's automotive exposure is not as adverse as it seems at first sight.

3.2. Construction exposure mainly to more resilient infrastructure

Bekaert's construction exposure largely stems from its presence in the more resilient markets in Latin America…

Road reinforcement products, plastering mesh and corner beads, masonry reinforcement products, window film, elevator belts and cables, and fibre products for gas burners are just a few of the products supplied by Bekaert to the construction sector. It is important to note that Bekaert's exposure to this sector is largely attributable to its joint venture activities in Latin America. The 23% share of construction-related products in total sales is broken down into 19% from Latin America and only 4% from North America and Europe. Construction activity looks to be more robust in the developing Latin American region than in North America and Europe.

[3] Tyre cord is the skeletal material used in radial tyre production. Radial tyres are built with parallel steel cord wires that run perpendicular to the direction of motion. Invented in the 1940s, this is now the dominant tyre construction technology in developed countries and is gaining popularity in developing countries. Radialisation is the process of transition from bias tyres to radial tyres.

... while its exposure in the mature North American and European construction markets is mainly project and infrastructure related

It is also worth noting that Bekaert's construction exposure in North America and Europe largely comprises of sales of Dramix[4] to the more resilient infrastructure segment (which is driven by sticky government spending, and it may in fact be boosted by recent stimulus plans). We expect ongoing penetration gains for Dramix in this relatively resilient segment to drive growth in excess of that for construction activity in general.

3.3. Strategic changes to the cyclical profile

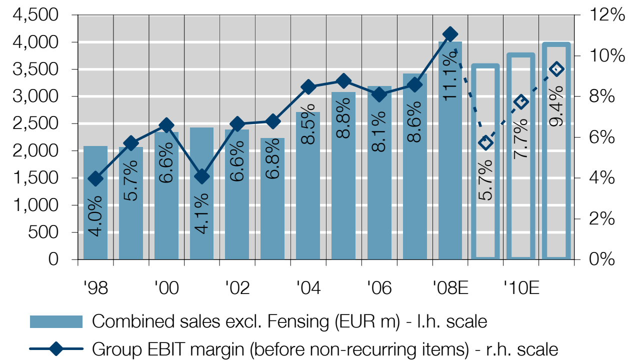
Bekaert's vulnerability to the economic downturn must be seen in the light of strategic steps that have drastically changed its cyclical profile

Bekaert's results will not escape the global economic downturn. However, its vulnerability needs to be assessed in the light of strategic steps that have considerably changed the company's cyclical profile in recent years. Since 2003, a new management team has effected a step change from the rather family-oriented ethos of before, truly focusing Bekaert on the creation of value for shareholders through:

- Closure, disposal and restructuring of commodity-oriented activities in the mature markets of Europe and the US that were unlikely to meet economic criteria (ROCE>WACC);
- Promising geographic diversification through investments in emerging economies, which now represent 70% of *combined* turnover (and generate above-average margins); and
- Development of new products and applications with higher long-term growth rates and margins, supported by an embedded focus on R&D.

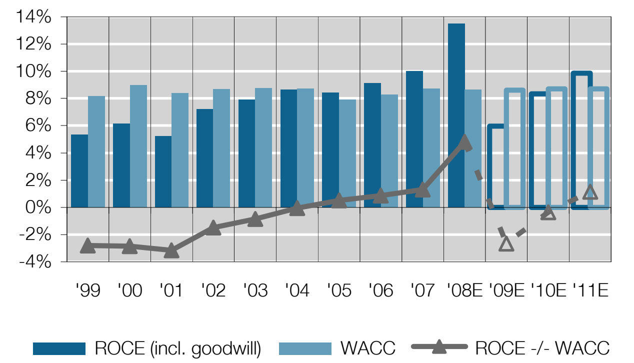
While also supported by an economic upturn since 2005, these initiatives have structurally improved the company's growth profile, profitability and shareholder value creation, as the charts below illustrate.

Development Bekaert's *combined* sales and EBIT*E* margin



Source: company data, Fortis Bank Nederland estimates

Development Bekaert's shareholder value creation



Source: company data, Fortis Bank Nederland estimates

In the following sections, we discuss these strategic initiatives against the background of the present downturn, assessing their potential to drive earnings on a through-the-cycle horizon.

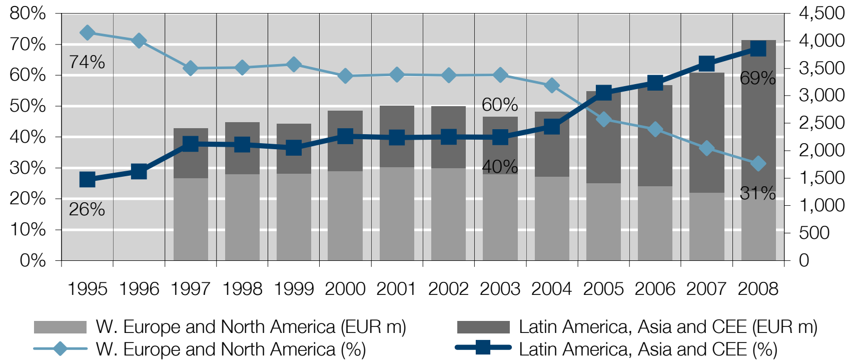
[4] Dramix fibres are steel filaments that replace the traditional mesh reinforcement in concrete. Created in 1989, Dramix has gradually gained market share in the conservative construction industry (a cubic metre of concrete reinforced with Dramix contains less steel than concrete reinforced with traditional mesh, and time is saved on placing the mesh).

4. Emerging markets footprint will become a differentiating factor again

Close to 70% of sales now generated from emerging markets

In recent years, Bekaert has adapted the company's geographic footprint to changing industrial developments (such as the relocation of manufacturing activity to low-cost countries). Bekaert's free cash flow has been aggressively invested in expansion in Asia, Latin America and Eastern Europe, where demand for its traditional products is still growing fast. As a result, the share of *combined* sales (thus including equity-consolidated companies) from Asia and Latin America increased from 36% in 2003 to 58% in 2008. If we consider that a further 11% of sales is generated from Central and Eastern Europe (reported under the 'Europe' heading), emerging markets represent as much as nearly 70% of sales (see the chart below). As the profitability in the emerging markets is above average, this growth has had a positive mix effect as well. Bekaert continues to make greenfield investments in China, India, Indonesia and Russia, which will come on steam over the next few years.

Evolution of sales from developed versus emerging regions



Source: company date and Fortis Bank Nederland

Emerging markets' appeal should once again become a differentiating element of the investment case when investors' cyclical concerns ease

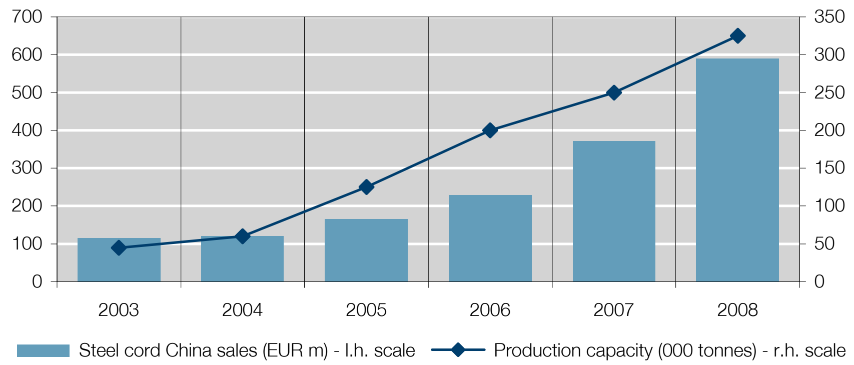
As they are not decoupled from the slowdown of demand in Europe and North America, the emerging economies have lost their previous appeal to investors. However, ongoing development of internal and local markets will likely drive a resumption of higher economic growth in emerging markets than can be expected for more developed markets.

4.1. 'Steel cord China', the growth success story

Capitalising on China's booming tyre industry

The 'Steel cord China' unit exemplifies Bekaert's success in emerging markets. Revenue from 'Steel cord China' has grown at a CAGR of 39% from c. EUR 115m in 2003 to c. EUR 590m in 2008 (see chart below), and now represents 15% of group total. This growth has been realised on the back of …

Development 'Steel cord China' revenue (EUR m) and production capacity



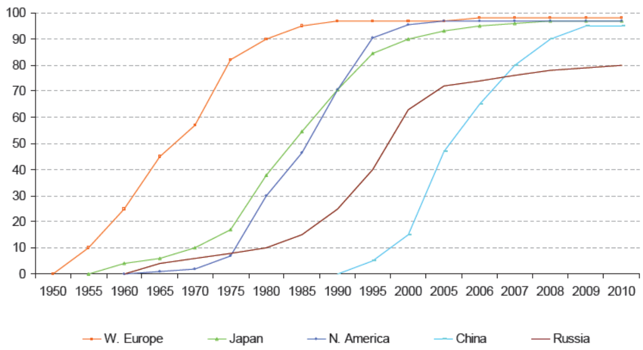
Source: company date and Fortis Bank Nederland

… the booming tyre industry in China (note that c. 70% of 'Steel cord China' revenue is generated from production of tyre cord to reinforce radial tyres).

China has taken over as the world's largest tyre production base. During the last five years, China's tyre output has staged a CAGR of 20% (radial tyre output grew by as much as 33% on average), fuelled by:

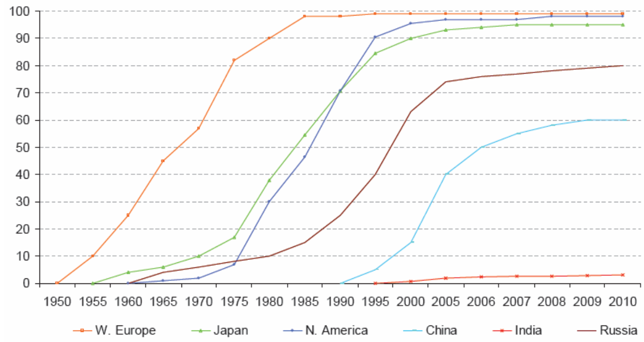
- **Growing exports.** Chinese tyre makers have expanded strongly in regional markets. Their relatively low production costs have also enabled them to gain a strong foothold in North America and they are beginning to penetrate Europe. The export market accounts for a substantial 40-45% of Chinese tyre production.
- **Mushrooming domestic demand for tyres.** China's GDP growth, growing freight traffic, rapid road infrastructure expansion and increasing disposable income are strong drivers of demand for transportation and vehicles (both trucks and passenger cars). In 2007, China became the world's second largest consumer and third largest automobiles producer (vehicle production has grown at a CAGR of 23% since 2000). China still holds lots of growth potential, which is exemplified by the low penetration of only 16 vehicles per 1,000 inhabitants, compared with 359 in Europe, 647 in North America and 112 in South America (source: Michelin). To stimulate auto sales in rural areas, the Chinese government recently cut taxes on some models.
- **Radialisation trend.** The rapidly increasing penetration of radial tyres is giving an extra impulse to demand for steel cord. The radialisation rate has reached 70% in China (90% for passenger cars but still only 60% for trucks – see charts below), compared to almost 100% in developed countries. The ongoing development of the road infrastructure looks set to stimulate a further rise in the radialisation rate to 80-90% by 2010, and the government aims to raise it to nearly 100% by 2015 (the comparative advantage of radial tyres over bias tyres includes safety, fuel efficiency and greater loading capacity).

Radialisation tyres passenger cars



Source: Bekaert capital market presentation February 2008

Radialisation tyres trucks and buses



Source: Bekaert capital market presentation February 2008

40% of Chinese tyre output destined for export market (mainly US), but impact of automotive slump mitigated by ongoing replacement demand

Going forward, China's exported tyre volumes (c. 40-45% of total output) will undoubtedly suffer from the global economic slowdown and the slump in automotive production. We would remind readers, however, that three out of four tyres are replacement tyres, for which demand should be relatively resilient. In the face of economic uncertainty, demand for replacement tyres has suffered from de-stocking activity by tyre distributors, but this correction should not last for long.

Domestic tyre demand and ongoing radialisation should fuel continued strong growth of demand for tyre cord

A slowdown in exported volumes is seen to be offset by ongoing growth of domestic demand for tyres (driven by the prospering automobile and road transportation sectors). In combination with the persistent radialisation trend, this should drive continued growth of demand for tyre cord, which industry researchers forecast to grow by 20% on average during the coming four years.

Bekaert is well-placed to capitalise on this development. It entered the Chinese market for tyre cord as early as the 1980s with products that were imported from its facilities in Europe. In 1995, Bekaert commissioned its first local production facility. This was followed a few years later by the acquisition of an existing steel cord facility. A third production plant was built at the start of this decade. When the Chinese tyre market started to really take off, Bekaert invested aggressively in expanding the capacity of its three production facilities. Some EUR 450m was spent on lifting its Chinese capacity from 60,000 tonnes in 2004 to 325,000 by end-2008 (see chart on page 15).

Having grown faster than its competitors in recent years, Bekaert has regained its number-one position with a 34% market share in tyre cord. It is closely followed by Xingda (listed on the Hong Kong exchange), which holds a 30% market share (284,000 tonnes capacity as at June 2008). China's tyre cord industry is thus fairly concentrated, with relatively small runners-up each having less than 100,000 tonnes capacity: Qingdao Kiswire (8%), Hubei Fuxing (8%), Shandong Shengtong (5%) and Jiaxing Eastern (5%). The economies of scale of Bekaert and Xingda are a competitive advantage, given the continuous pressure from tyre manufacturing customers to cut prices.

High entry barriers in the steel cord industry due to capital-intensive nature and stringent approval processes

Barriers to enter the tyre cord market are high, given the capital-intensive nature of the industry and the imposition of stringent approval processes. As tyre cord quality relates closely to the performance and safety of radial tyres, tyre manufacturers usually produce tyre cord in-house or purchase it from a small number of approved suppliers. The process of becoming an approved supplier is also stringent, taking six to 18 months for Chinese tyre manufacturers and two to three years for global tyre manufacturers. Separate approval processes are also required for different tyre cord specifications after becoming an approved supplier.

Capacity expansions increase risk of pricing pressure related to temporary supply-demand mismatches

In our view, a risk for the tyre cord manufacturers is vulnerability to pricing pressure, as expansions in production capacity may create temporary mismatches between supply and demand. All the major players have market share ambitions and plans to expand capacity in anticipation of the expected growth in demand for tyre cords. Xingda aims to lift its production capacity by 40-50,000 tonnes annually to reach 400,000 tonnes by 2011 (from 284,000 tonnes now), in order to "satisfy domestic and overseas market demands and prepare for full-scale radialisation, of tyres in the country". Jiaxing Eastern – a subsidiary of listed Shougang, in which Bekaert holds a 13% stake – doubled its capacity to 60,000 in 2008, and the company intends to build another 100,000-tonne plant to be completed in phases by 2012. Its cost leadership should make Bekaert relatively more resilient to potential pressure on pricing.

Bekaert's expansion plan in partnership with Ansteel expected to add c. EUR 53m revenue in the initial phase

Bekaert too has plans to further expand steel cord production capacity, but it stresses that it will adopt a phased approach in line with market developments. Last year, it announced a 50/50 joint venture with China's second largest steel company Ansteel, which intends to gradually invest up to EUR 150m in a new steel cord plant of up to 100,000 tons capacity. Consistent with the shift towards inland location of industrial activities (promoted by the Chinese government), the site chosen for the new plant is in the centre of China (Bekaert's three existing steel cord plants are located along the East coast). The first phase of 30-40,000 tonnes capacity (EUR 40m capex) will come on stream later this year or in early 2010. Assuming an average selling price per tonne of EUR 1,500 (which is consistent with data disclosed by Xingda and Shougang), we assume that the joint venture will generate sales of EUR 53m in 2010 (representing 9% of 'Steel cord China' revenue in 2008).

'Steel cord China' revenue assumed to contract in 2009, followed by a resumption of robust growth from 2010

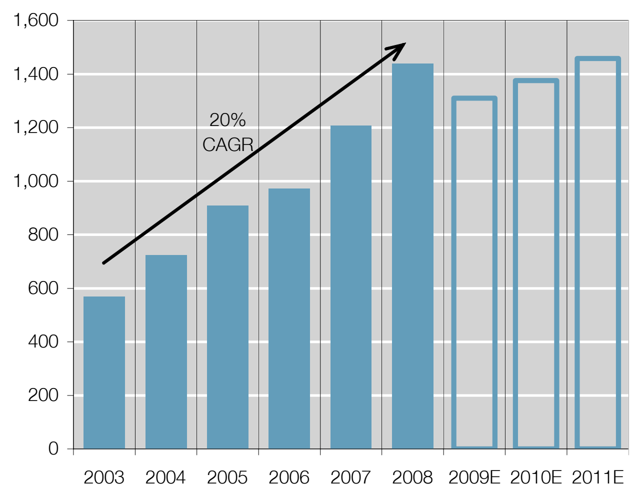
We have modeled 'Steel cord China' at a 8.0% decline of revenue in 2009, which reflects our expectation of the net impact of lower tyre exports, ongoing domestic growth of demand for radial tyres and the pass-through of lower raw materials prices. We assume that revenue resumes its growth path from 2010 (+14.8%), driven by cyclical recovery and the coming on steam of the capacity expansion discussed above.

4.2. 'Wire Latin America', the second growth leg

Highly successful joint ventures in Latin America – the strongest contributor to Bekaert's recent growth

The 'Wire Latin America' unit has been the strongest contributor to Bekaert's growth. The unit achieved a 20% CAGR in *combined* revenue in the 2003-2008 period (see left-hand chart below), and accounted for 36% of group total in 2008. Bekaert offers its complete range of products in Latin America, with a relatively strong emphasis on construction and agriculture-related markets. Its business model in Latin America is based on joint ventures with local industrial families and steel companies such as ArcelorMittal (Brazil). This combines Bekaert's technological expertise with the market knowledge of local partners. The Latin American markets offer better growth potential for Bekaert's commodity products than the mature Western markets. Bekaert's strategy is to increase the geographic overlap by introducing more products from its portfolio in Latin America.

Development *combined* sales 'Wire Latin America' (EUR m)



Source: company data and Fortis Bank Nederland estimates

Bekaert's presence in Latin America

Source: Bekaert

Profitability of Latin American joint ventures significantly above that of Bekaert's *consolidated* operations

The Latin American operations have largely been consolidated through the equity method, which means that their contribution shows up at the bottom of Bekaert's P&L (to show its real exposure to the different regions, Bekaert gives the *combined* sales, which include 100% of sales at companies consolidated by the equity method). The net profit from associates has contributed c. 30% to …

Results joint ventures and associates (EUR m)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	CAGR '99 - '07
Sales	723	970	1,019	947	821	969	1,171	1,185	1,245	7.0%
% chg	-4.0%	34.2%	5.1%	-7.1%	-13.3%	18.0%	20.8%	1.2%	5.1%	
EBITDA	127	164	143	155	150	208	204	191	179	4.4%
margin	17.6%	16.9%	14.0%	16.4%	18.3%	21.5%	17.4%	16.1%	14.4%	
EBIT	82	112	96	106	111	171	165	151	139	6.8%
margin	11.3%	11.5%	9.4%	11.2%	13.5%	17.6%	14.1%	12.7%	11.2%	
Net result	51	72	40	55	82	126	128	118	102	9.1%
Bekaert's share in net result	**22**	**30**	**12**	**19**	**33**	**53**	**57**	**51**	**47**	**9.8%**
Dividend received by Bekaert	**6**	**17**	**15**	**14**	**19**	**23**	**44**	**35**	**55**	**31.0%**
pay-out	28.2%	57.3%	116.7%	75.0%	56.5%	42.6%	76.6%	69.0%	116.2%	
Book value (Bekaert's share)	**239**	**288**	**301**	**205**	**201**	**220**	**238**	**238**	**216**	
ROE	**9.4%**	**10.3%**	**4.2%**	**9.3%**	**16.7%**	**24.3%**	**23.9%**	**21.4%**	**21.9%**	

Source: company data

… Bekaert's total net result in recent years. The main operations are in Brazil (three joint ventures with ArcelorMittal), where some 70-80% of net profit from associates is generated. The table on the previous page shows that the sales and results of Bekaert's associates have developed healthily in recent years (note that the numbers also include limited results of joint ventures outside of Latin America). The EBIT margin of the joint ventures averaged 13.7% in the 2003-2007 period, which significantly exceeded the 8.2% average margin of Bekaert's *consolidated* operations. Over the same period, the joint ventures' net profit yielded an average ROE of 21.8%, which confirms our earlier notion that the joint ventures are capitalised at an overly conservative book value in Bekaert's balance sheet.

Merger of activities in four northern Latin American countries drives cost and capex optimisation and improved market approach

In October 2008, Bekaert agreed with its Ecuadorean partner (the Kohn family) to merge their wire operations covering four northern countries of Latin America: Venezuela (100% owned by Bekaert), Colombia (87.5% owned by Bekaert and 12.5% by the partner), Ecuador (50/50 joint venture between Bekaert and the partner) and Peru (previously a 39.9% investment held 50/50 by Bekaert and the partner). Bekaert holds 80% of the shares in the newly established holding company. While the profitability of these businesses was already good, Bekaert expects the merger to drive cost synergies (centralising SG&A) and better coordination of investment programmes. The move should also support Bekaert's strategy of selling more of its product portfolio from other parts of the world in Latin America. The financial implication of the merger is a shift of c. EUR 140m of revenue from equity-consolidated joint ventures (those in Ecuador and Peru) to Bekaert's *consolidated* revenue line (representing 5.3% of 2008 revenue).

Cyclical contraction modelled for Latin American in 2009

Outperformance seen resuming thereafter, driven by internal strategic initiatives

The Latin American markets are likely to cool down too as a result of the global economic slump, the lower oil price (relevant for Venezuela, Ecuador, Brazil) and the lower price of copper and other ores (affecting Chile and Peru in particular). For 2009, we have modelled a 9.0% revenue decline for 'Wire Latin America', which also reflects the effect of lower prices for raw materials (wire rod). We expect sales to resume its robust growth path in the medium term, as the relatively immature Latin American markets offer considerable growth potential (steel consumption per capita is only one-fifth of that in Western Europe). Supported by the strategic measures outlined above and the potential to increase the geographic overlap of the product portfolio, Bekaert's Latin American operations are likely to continue to outperform the markets they are active in.

4.3. Greenfield investments in future growth in India, Indonesia and Russia

Greenfield investments in India, Indonesia and Russia underpin Bekaert's emerging markets profile

In recent years, Bekaert has announced plans to further expand its capacity in India, Indonesia and Russia, which will contribute to medium-term growth as the projects come on stream in the coming years:

- Bekaert's presence in **India** is currently limited to a 10,000-tonne steel cord plant for the production of carding products for the textile industry. It has also embarked upon two projects that will come on stream in the next few years. Firstly, it has set up a 50/50 joint venture with Indian steel company Mukand, which is investing EUR 36m in a new facility for the production of stainless steel wires (to be used globally in components for the automotive industry and other industrial applications). This facility was commissioned in early 2009, and targets revenue of EUR 30m (accounted for under the equity method). Secondly, Bekaert is investing EUR 15m in the production of flat and shaped wires for the local automotive industry (spring wire, clutch and valves wires, wiper components and many more) and for the offshore industry (wire for flexible pipes supplied to the Technip Group). This facility is expected to gradually build up to EUR 20m revenue by 2012. Bekaert is capitalising on India's booming car production, which is projected to triple by 2015 (up to 3m cars annually). The Automotive Mission Plan 2006-2016 aims at doubling the contribution of the automotive sector in Indian GDP (from 5 to 10%) by taking turnover to USD 145bn in 2016 (which would place India as the world's seventh largest car producer). Tyre radialisation has been slow to develop in India (less than 10% penetration for truck tyres), but Bekaert is also ready to expand in production of tyre cord when the market takes off.

- In **Indonesia**, Bekaert is investing EUR 22m in a 40,000-tonne facility for Dramix steel fibres (for concrete reinforcement). Revenue is projected to build up gradually to EUR 35m in 2010.
- In **Russia**, Bekaert will build its own facility to produce tyre cord for the Russian market (the decision to go greenfield followed a failed attempt to acquire ZAO Uralkord in 2007). EUR 97m is to be invested in phases until 2013. The first phase of 15,000 tonnes capacity is planned for 2010. In phase two, the production of semi-finished products is seen as starting from 2011 (imported in the meantime). Phase three is the doubling of capacity to 30,000 tonnes by 2013. Bekaert wants to capitalise on the booming local automotive industry, which should drive robust growth in demand for steel cord products in coming years (note that the tyre radialisation rate in Russia still stands at only 70-80%, which underscores the growth potential). We note that Bekaert already has a sizeable customer base in Russia, which it has been supplying for many years from its plants in Eastern Europe.

Investment projects in emerging markets estimated to contribute revenue of EUR 146/175m in 2010/2011

We estimate that the investment projects in China (the initial phase of the joint venture with Ansteel), India, Indonesia and Russia will contribute a total EUR 146m to revenue in 2010 (representing 3.6% of 2008 *combined* revenue) and EUR 175m in 2011 (see table below).

Estimated revenue impact investment projects China, India, Indonesia and Russia (EUR m)

					Estimated phasing revenue		
	Project	CAPEX	Revenue impact	Timing	2009	2010	2011
China	Steel cord plant in 50/50 JV with Ansteel	75.0	na	na	0	53	60
India	Investment in flat and shaped wire capacity	15.0	20.0	Built up to 2012	0	10	15
	50/50 JV with Mukand in stainless steel	18.0	30.0	end-2009	5	30	30
Indonesia	Galvanising and Dramix capacity	22.0	35.0	Built up to 2010	20	35	35
Russia	Greenfield steel cord plant	97.0	na	Built up to 2013	0	18	35
Total est. revenue impact					**25**	**146**	**175**
% of *combined* sales 2008					**0.6%**	**3.6%**	**4.4%**

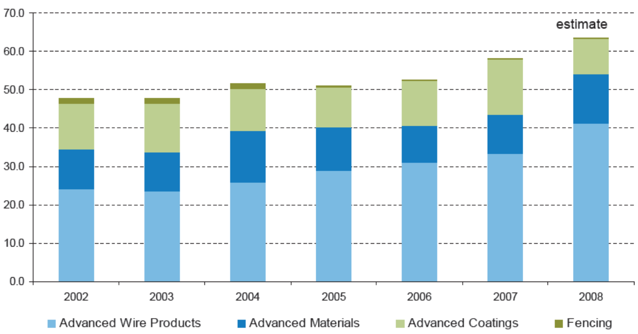
Source: company data and Fortis Bank Nederland estimates

5. Strategic commitment to innovation fuels growth and margins

EUR 69m invested in R&D in 2008, resulting in enhanced share of products with higher margins and long-term growth potential

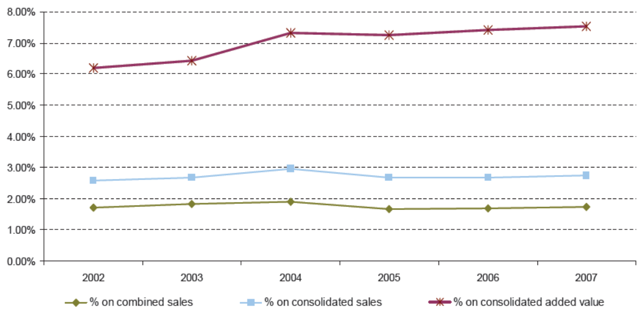
For a number of years, Bekaert has been involved in a process of shifting from high-volume commodity products towards new products and applications with higher margins and long-term growth rates. This process is supported by a commitment to market-driven innovation and R&D. Bekaert's spending on R&D increased from EUR 48m in 2002 to EUR 69m in 2008 (or 3% on *consolidated* sales and 7-8% on *consolidated* added value), and it is budgeted at an even higher level for 2009. Over 500 FTEs are employed in R&D, of whom 300 are in Belgium and 200 in China (where a new R&D centre was opened in 2007). Bekaert has over 2,200 patent rights (of which 380 are real inventions), with some 40 new ones being added annually.

Development R&D spending (EUR m)



Source: Bekaert capital market presentation February 2008

R&D spending as percentage of sales and added value



Source: Bekaert capital market presentation February 2008

Upgrading the product mix

Bekaert strives to continuously expand its technological leadership through development of new materials, manufacturing processes and manufacturing equipment (Bekaert develops its machinery in-house). Extension and renewal of the product portfolio and market applications have contributed convincingly to profit growth in recent years. Often in cooperation with lead customers, Bekaert's innovation efforts focus on high-tech niche products with greater added value. R&D has enlarged Bekaert's exposure towards industries with robust long-term growth prospects, such as the oil & gas, mining, (solar) energy and telecommunication industries. Examples of new products and market applications include:

- **Steel cord reinforced thermoplastics**: Together with Quadrant and Voestalpine, Bekaert has developed plastic impact beams reinforced by steel cord as a replacement for steel beams in passenger cars. Necessary approvals have been obtained and serial production starts in 2010.
- **Wire-armoured flexible pipes**: Bekaert has developed high-tensile flat and profiled wires to armour flexible pipes through which oil and gas are brought to the surface from offshore fields. As such pipes become ever-longer (and thus heavier) for exploration in deeper waters, Bekaert's R&D is focused on overcoming the risk of fracture. Bekaert has a c. 50% global market share in this segment and longer-term growth prospects remain buoyant. EUR 15m is being invested in expansion of flat and profiled wire capacity in Pune (India).
- **Diesel particulate filters**: In 2005, Bekaert joined forces with a German company (Emitec) that had developed a maintenance-free diesel particulate filter for diesel truck engines based on metal fibres (as opposed to ceramic material). Since Bekaert started deliveries in 2007, the output of metal fibres has grown six-fold compared to 2004. Around 5% of trucks worldwide are now fitted with metal-fibre filters. To prepare for the future, Bekaert has invested EUR 18m in expansion of its fibre production capacity.
- **Steel cord for reinforcing and heating of rubber hoses for diesel engines.**

- **Wire coatings that are bio-degradable, reflective, high temperature resistant and anti-fouling.**

The spearhead for growth is the utilities sector, which increased from 5% of sales in 2003 to 16% in 2008

Bekaert management indicates that there are many more innovations in the pipeline. The spearheads for growth are the offshore and other energy-related product segments. Examples of successful expansion in these segments include profiled wires to reinforce flexible pipes (through which oil and gas are brought to the surface from offshore oil fields), galvanised armouring wire for submarine cables (for telecommunications and energy transmission) and sawing wire for manufacture of photovoltaic cells. These have helped to lift the share of sales generated from the utilities sector from 5% in 2003 to 16% in 2008.

According to Bekaert's management, part of the expansion in the EBIT*E* margin from 8.6% in 2007 to 11.1% in 2008 (12.5% in 1H08) can be attributed to the improved product mix (although they do not indicate how much).

6. Risks

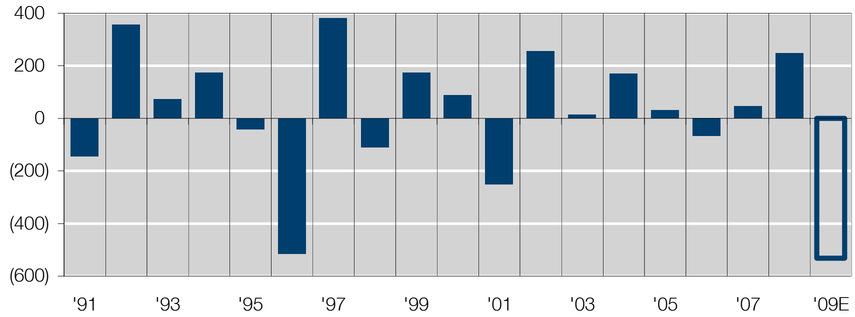
The main challenges faced by Bekaert are 1) the cyclical downturn, 2) rising prices of raw materials, 3) exchange rate fluctuations, and 4) competition from low-cost countries.

6.1. Limited earnings visibility and earnings downgrades

Earnings will suffer from lower utilisation rates in the economic downturn, perhaps even more than currently factored in by consensus forecasts

Needless to say, Bekaert's main immediate challenge is the cyclical weakness of end-markets that it serves. Margins will come under pressure from lower utilisation rates and the possible effect of competitive pressure on pricing in certain areas. There is limited visibility on the development of short-term earnings. To be on the safe side, we have modelled an unprecedented 530bps fall in the EBIT*E* margin for 2009 (see chart below), albeit from a record high in 2008. Our forecast is more pessimistic than the 350bps margin erosion anticipated by the consensus (see also section 2.1 for a comparison of our estimates with the consensus). We thus observe a risk of earnings downgrades by brokers, which may affect trading sentiment on the Bekaert stock.

Year-on-year change in EBIT margin (in basis points)[1]



[1] *Note that the EBIT numbers prior to 2001 are not corrected for the impact of non-recurring items*

Source: company date and Fortis Bank Nederland estimates

Having further diversified its geographic footprint and broadened its product portfolio, Bekaert does not expect the current slowdown in its activities to last on a company-wide scale. The company is well positioned to respond to economic developments and opportunities around the world, which we highlight as a distinguishing feature of the investment case.

6.2. Rising prices of raw materials

In a recession environment, Bekaert may find it hard to fully pass on a potential rise in raw materials prices

Bekaert's key raw material is wire rod, a steel wire with a diameter of about 0.6-1.0 centimetres, which it sources from local steel producers. We estimate that wire rod accounts for c. 80% of Bekaert's expenditures on raw materials. In 2007, the raw materials bill amounted to roughly EUR 1.4bn, as the value-added margin was 35.6%. Most of Bekaert's markets are served on a cost-plus basis, which means that it should be able to cope well with swings in wire rod prices (it negotiates wire rod prices with suppliers on a quarterly basis). This was evidenced in 2008, when the company successfully dealt with the strong rise in wire rod prices that took place in 1H08 (prices came off thereafter). In 2004, Bekaert also proved successful at passing on the steep spike in raw materials prices. In a recessionary environment, however, there may be a risk that the company will not be able to fully pass on potential hikes in prices of wire rod. We consider this a particular risk in the case of steel cord for tyres, as the customer base in this segment is rather concentrated (and is itself faced by challenging conditions). On a positive note, raw materials prices and economic activity tend to correlate in the same direction.

6.3. Exchange rate fluctuations

Significant exposure to currency translation risk, particularly to the US dollar

We estimate that Bekaert generates about 75% of *consolidated* sales in non-euro currencies. Note, however, that operating costs are mostly in the same currency as sales and that financing in local currency also provides a natural hedge. This being so, Bekaert's currency exposure is limited to transaction risk, which it does not hedge. The company is particularly exposed to the US dollar, Chinese renminbi, Czech koruna, Brazilian real and Chilean peso (the latter two currencies impact the share in results of joint ventures at the bottom of the P&L). As many currencies in Asia and Latin America are linked to the US dollar (although these links have been increasingly relaxed recently), Bekaert is most vulnerable to the EUR/USD exchange rate. Currencies had a limited negative impact of 1.0% on *consolidated* sales in FY2008 (-5.3% impact in 1H08).

6.4. Competition from low-cost countries

Competitive pressures from low-cost countries, mitigated by the fact that Bekaert has itself shifted capacity towards Asia and Eastern Europe

In some commodity product fields, Bekaert has signalled increasing competition in the shape of cheap imports from low-wage countries (the 2007 annual report made mention of a rising tide of cheap Chinese imports in Chile). Moreover, some of the company's customers are themselves relocating production to low-wage countries, forcing Bekaert to streamline its capacity in western markets (as seen, for instance, in last year's announcement of a restructuring of the steel wire activities in Belgium). On a positive note, this risk is mitigated by the fact that Bekaert has positioned itself strongly in low-cost countries in Eastern Europe and Asia. In our view Bekaert may actually face the biggest competitive pressure in China, where Xingda has market leadership ambitions in the field of tyre cord production (see also our discussion in section 4.1).

7. Financials

In this section, we briefly look back at the record results of 2008 and give our assessment of how steeply earnings are likely to fall in the downturn of 2009. We also show that the consensus-defying earnings drop we forecast does not stretch capital ratios to uncomfortable levels. Bekaert's balance sheet is very healthy, and the scope to squeeze cash from working capital keeps financial flexibility high in the downturn. We even see potential for renewed share buybacks beyond the downturn.

7.1. Record results in 2008

Record 2008 results reflect strong organic growth in emerging markets, innovation-based product mix and successful pass-through of higher raw materials prices

Bekaert turned in record results in 2008, which reflected strong growth of its operations in higher-margin emerging markets and an increased share of innovations in the product mix (particularly in the utilities segment, which increased to 16% of *combined* sales, from 9% the year before). The company also proved very successful at passing on the increased prices of raw materials (wire rod), which was the main driver of the 17.7% organic increase in *consolidated* revenue in FY2008. Positive product and geographical mix effects and the high utilisation rate boosted the *underlying* operating margin by 250bps to a record high of 11.1% in FY2008, driving a 57.9% jump of EBIT*E* to EUR 294.2m (excluding the negative impact from non-recurring items of EUR 83.8m).

Resilient EBIT*E* margin 2H08, despite a considerable revenue growth slowdown from 4Q08

Bekaert experienced a considerable slowdown of its end markets from mid-October of last year. In addition, the prices for raw materials came down sharply towards the end of the year. As a result, organic revenue growth dropped from 34.3% in 3Q08 to zero in 4Q08. This slowed down the y-o-y improvement in the EBIT*E* margin to 100bps (9.7%) in 2H08, from a stellar 400bps improvement (12.5%) in 1H08 (note, however, that inventory revaluations had an estimated positive impact of c. 120bps on the margin in 1H08, whereas it depressed the margin by c. 70bps in 2H08).

WC and capex drive marked increase in end-2008 net debt, which still represents a comfortable 1.4x EBITDA*E*

A slight negative surprise was the stronger-than-expected increase in net debt from EUR 502m at end-2007 to EUR 673m by end-2008 (which still represented a very healthy ratio to EBITDA*E* of only 1.4x). The rise particularly reflects the high cash outflow related to working capital (EUR 162m) and capex (EUR 251m). Bekaert blamed very strong revenue growth until 3Q08 for the increase in working capital (high inventory levels), which proved challenging to reduce in the slowing business environment of 4Q08. The company is prioritising an improvement in working capital ratios in 2009.

7.2. P&L estimates 2009 and beyond

We have modelled a sharp contraction of earnings for 2009, followed by a recovery in 2010.

2009 forecasts: -13.4% organic fall revenue, -530bps EBIT*E* margin to 5.7%, -51.2% EPS to EUR 4.31

For 2009, we are looking for a 13.4% organic fall in *consolidated* revenue, reflecting the estimated impact of the global economic slowdown and somewhat lower average prices of wire rod. The merger of activities in four northern Latin American countries is estimated to contribute 5.3% to *consolidated* sales (refer also to section 4.2). We assume that a lower utilisation rate erodes the group operating margin by an unprecedented 530bps to 5.7%, driving a 52.4% fall in EBIT*E* to EUR 140.2m. The "share in results of joint ventures" is estimated to drop by 44.5% to EUR 31.1m. This is forecast to drive a 51.0% drop in net profit to EUR 85.3m, or EUR 4.31 per share (as discussed in section 2.1, our bottom line forecast is 36% below the consensus).

2010 forecasts: +5.9% organic rise revenue, +200bps EBIT*E* margin to 7.7%, +63.0% EPS to EUR 7.08

Thanks to the broad geographic and functional spread of its activities, Bekaert is well placed to capitalise on the modest economic recovery that we anticipate from 2010. With c. 70% of *combined* sales generated in emerging markets, we would expect above-average growth. We have pencilled in a 5.9% organic increase in *consolidated* turnover and a 200bps recovery in the EBIT*E* margin to

7.7%, which is seen driving a 63.4% jump in EPS to EUR 7.04 (a hair below consensus).

To stay on the conservative side, we have modelled an earnings recovery beyond 2010 that is shy of the performance in 2008.

P&L (EUR m)

	2005	2006	2007	1H08	2H08	2008	2009E	2010E	2011E
***Consolidated* sales**	**1,914.3**	**2,009.6**	**2,173.6**	**1,303.1**	**1,359.3**	**2,662.4**	**2,446.6**	**2,590.7**	**2,715.3**
% chg.	9.9%	5.0%	8.2%	22.3%	22.6%	22.5%	-8.1%	5.9%	4.8%
organic		0.9%	8.0%	20.0%	15.5%	17.7%	-13.4%	5.9%	4.8%
fx		0.7%	-2.3%	-5.3%	3.1%	-1.0%	0.0%	0.0%	0.0%
consolidation		3.4%	2.5%	7.6%	4.1%	5.8%	5.3%	0.0%	0.0%
Gross profit	**392.3**	**394.9**	**433.9**	**308.0**	**293.7**	**601.8**	**479.5**	**531.1**	**556.6**
margin	20.5%	19.7%	20.0%	23.6%	21.6%	22.6%	19.6%	20.5%	20.5%
EBITDA*E*	**289.0**	**279.0**	**310.3**	**242.8**	**253.1**	**495.9**	**305.8**	**365.8**	**420.9**
margin	15.1%	13.9%	14.3%	18.6%	18.6%	18.6%	12.5%	14.1%	15.5%
% chg.	9.4%	-3.5%	11.2%	63.3%	56.6%	59.8%	-38.3%	19.6%	15.1%
EBIT*E*	**167.9**	**162.7**	**186.3**	**162.9**	**131.4**	**294.2**	**140.2**	**200.4**	**254.0**
margin	8.8%	8.1%	8.6%	12.5%	9.7%	11.1%	5.7%	7.7%	9.4%
% chg.	13.7%	-3.1%	14.5%	80.3%	36.8%	57.9%	-52.4%	43.0%	26.7%
Non-recurring items	(31.6)	(16.8)	(11.7)	(17.6)	(66.2)	(83.8)	(15.0)	(12.0)	(12.0)
EBIT	**136.3**	**145.9**	**174.6**	**145.3**	**65.2**	**210.5**	**125.2**	**188.4**	**242.0**
margin	7.1%	7.3%	8.0%	11.2%	4.8%	7.9%	5.1%	7.3%	8.9%
% chg.	-2.0%	7.1%	19.6%	67.9%	-26.0%	20.5%	-40.5%	50.5%	28.4%
Net financial charges	(15.3)	(31.0)	(41.0)	(22.4)	(26.9)	(49.2)	(46.2)	(40.3)	(37.9)
EBT	**121.0**	**114.9**	**133.6**	**123.0**	**38.3**	**161.2**	**78.9**	**148.1**	**204.1**
margin	6.3%	5.7%	6.1%	9.4%	2.8%	6.1%	3.2%	5.7%	7.5%
% chg.	2.1%	-5.0%	16.3%	75.1%	-39.6%	20.7%	-51.1%	87.7%	37.8%
Taxes	(30.3)	(18.4)	(19.1)	(25.5)	(0.0)	(25.5)	(14.2)	(29.6)	(44.9)
as % of EBT	25.0%	16.0%	14.3%	20.7%	0.1%	15.8%	18.0%	20.0%	22.0%
Share in results of joint ventures	56.9	51.0	47.1	35.7	20.4	56.1	31.1	38.1	52.0
Result discontinued operations	54.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	(12.0)	(4.8)	(8.7)	(7.1)	(10.6)	(17.7)	(10.5)	(17.2)	(23.2)
Net profit continuing operations	**135.7**	**142.8**	**152.9**	**126.0**	**48.0**	**174.1**	**85.3**	**139.4**	**187.9**
% chg.	-3.9%	5.2%	7.1%	73.0%	-40.0%	13.9%	-51.0%	63.4%	34.8%
EPS basic (EUR)	**6.27**	**6.64**	**7.63**	**6.40**	**2.44**	**8.83**	**4.31**	**7.04**	**9.50**
% chg.	-2.7%	5.9%	14.8%	77.4%	-39.0%	15.7%	-51.2%	63.4%	34.8%
EPS fully diluted (EUR)	**6.25**	**6.61**	**7.58**	**6.35**	**2.43**	**8.79**	**4.29**	**7.02**	**9.46**
% chg.	-2.9%	5.8%	14.6%	77.3%	-38.8%	16.0%	-51.2%	63.4%	34.8%
DPS	**3.00**	**2.50**	**2.76**			**2.80**	**1.72**	**2.82**	**3.80**
pay out	34.0%	36.7%	35.8%			31.8%	40.0%	40.0%	40.0%

Source: company data and Fortis Bank Nederland estimates

7.3. Capital structure

Despite aggressive investments in China and substantial capital returns to shareholders in recent years, Bekaert's balance sheet is healthy at 1.4x end-2008 net debt/EBITDA*E*

Bekaert has proven capable of managing its balance sheet efficiently, yet prudently. The cash flow from its operations and the proceeds from the disposal of the European Fencing business (EUR 86m) have in recent years been reinvested in aggressive capacity expansion in China (c. EUR 450m) and in the buyout of minority interests in some joint ventures. Moreover, Bekaert has repurchased EUR 222m-worth of its own shares since 2005 (or 12% of shares outstanding). High capex (EUR 251m) and strong working capital investments

(EUR 162m) caused an increase of net debt from EUR 502m at end-2007 to EUR 673m by end-2008. Nonetheless, the liquidity ratios remained at a solid 1.4x net debt/EBITDA*E* and 60% gearing. These ratios are consistent with the company's internal targets of net debt/EBITDA <2.0x and gearing of around 50%.

We expect the balance sheet to remain at a healthy 1.6x net debt/EBITDA*E*, as the drop in earnings should be cushioned by a release of working capital

Despite the fall in earnings projected by us (EBITDA*E* dropping 38.3% to EUR 305.8m), we expect the balance sheet to remain robust in 2009, based on the potential to release cash from working capital. The slowdown in 4Q08 hampered Bekaert from reducing the high inventory levels of 3Q08, when growth was still very strong (working capital as a percentage of sales increased to 29.8% in 2008 from an average of 27.5% in the years from 2005 through 2007). We have modelled a EUR 120m reduction in working capital in 2009 (back to the average of 27.5% of sales). The company also indicates that it will be scaling back capex to EUR 150-170m in 2009 (compared with maintenance capex of c. EUR 80m). Based on these expectations, we forecast healthy end-2009 net debt/EBITDA*E* of 1.6x and gearing of 43%. Bekaert should thus maintain the financial flexibility to invest in long-term growth opportunities.

Potential for further share buybacks in the future

The table below shows the modest earnings recovery modelled by us driving a strong de-leveraging of the balance sheet beyond 2009, which suggests potential for renewed share buyback programmes in the future.

Capital structure (EUR m)

	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
EBIT (*including* non-recurring items)	111.8	139.0	136.3	145.9	174.6	210.5	125.2	188.4	242.0
Depreciation and amortisation	127.3	131.6	121.2	116.2	124.0	201.7	165.6	165.4	167.0
Other operational cash flow	(51.9)	(11.5)	(20.8)	(20.7)	(10.4)	(0.1)	0.0	0.0	0.0
Dividends received	18.9	22.8	43.6	35.2	54.7	46.1	24.9	30.5	41.6
Taxes paid	(18.5)	(32.9)	(25.5)	(16.8)	(24.9)	(27.5)	(14.2)	(29.6)	(44.9)
Working capital	(18.6)	(112.6)	(32.3)	(31.9)	(41.9)	(162.4)	119.7	(57.7)	(28.3)
Net capex	(112.4)	(172.8)	(65.2)	(161.3)	(195.6)	(250.3)	(160.5)	(196.2)	(214.7)
Net interest	(18.2)	(16.0)	(14.8)	(22.0)	(30.8)	(31.5)	(38.4)	(32.5)	(30.1)
Geared free cash flow	**38.3**	**(52.4)**	**142.5**	**44.5**	**49.7**	**(13.6)**	**222.3**	**68.3**	**132.5**
Net debt as at 1/1	398.8	407.9	455.4	311.2	411.2	502.2	672.9	501.6	482.1
Geared free cash flow	(38.3)	52.4	(142.5)	(44.5)	(49.7)	13.6	(222.3)	(68.3)	(132.5)
Dividends paid	44.9	45.3	52.2	74.1	57.2	62.2	55.4	34.1	55.7
Share buybacks	2.2	10.0	35.2	56.1	111.0	19.7	0.0	0.0	0.0
Other	0.4	(60.2)	(89.1)	14.2	(27.4)	75.2	(4.4)	14.7	17.1
Net debt as at 31/12	**407.9**	**455.4**	**311.2**	**411.2**	**502.2**	**672.9**	**501.6**	**482.1**	**422.5**
Net debt / EBITDA*E*	1.6	1.7	1.1	1.5	1.6	1.4	1.6	1.3	1.0
Gearing	52%	50%	29%	39%	46%	60%	43%	38%	30%
Shareholders' equity / total assets	41%	42%	47%	48%	47%	42%	46%	48%	51%
Interest cover (based on EBITDA)	7.0	10.7	8.8	9.9	8.9	10.7	7.0	9.7	11.9

Source: company data and Fortis Bank Nederland estimates

Issue of two new bonds eliminates refinancing issues

In March of this year, Bekaert announced the issue of two bonds for a minimum total amount of EUR 150m and a maximum of EUR 300m, in the form of a public offering. The subscription period ended on 9 April, which is beyond the publication date of this report. However, it is already known that both bonds were fully subscribed for an amount of EUR 150m within a matter of hours. The 3-year bond (due 16 April 2012) returns a coupon of 5.75% and the 5-year bond (due 16 April 2014) yields 6.75%. The issue fits in with a debt restructuring aimed at providing a better balance between short and long-term debts. At the end of 2008, the proportion of short-term debt (<1 year) to long-term debt (>1 year) amounted to EUR 503.1m to EUR 288.1m. The successful issue eliminates refinancing issues.

P & L Statement (EUR m) Year to December	2002	2003	2004	2005	2006	2007	2008	2009e	2010e	2011e
Net sales	1,863.5	1,797.0	1,741.9	1,914.3	2,009.6	2,173.6	2,662.4	2,446.6	2,590.7	2,715.3
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Personnel costs	(548.7)	(506.9)	(450.3)	(449.9)	(462.0)	(472.6)	(507.7)	(509.2)	(529.3)	(548.8)
Other operating costs										
EBITDA	**225.8**	**239.1**	**255.6**	**257.4**	**262.2**	**298.6**	**412.2**	**290.8**	**353.8**	**408.9**
Depreciation	(149.4)	(127.3)	(107.6)	(107.4)	(110.7)	(119.7)	(156.7)	(165.6)	(165.4)	(167.0)
EBITA	**76.3**	**111.8**	**148.0**	**150.0**	**151.4**	**178.9**	**255.4**	**125.2**	**188.4**	**242.0**
Reported provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation	(12.1)	0.0	(9.0)	(13.7)	(5.5)	(4.3)	(45.0)	0.0	0.0	0.0
EBIT	64.2	111.8	139.0	136.3	145.9	174.6	210.5	125.2	188.4	242.0
Net financials	(130.1)	(43.0)	(20.5)	(15.3)	(31.0)	(41.0)	(49.2)	(46.2)	(40.3)	(37.9)
Profit Before Taxes (PBT)	**(65.9)**	**68.8**	**118.5**	**121.0**	**114.9**	**133.6**	**161.2**	**78.9**	**148.1**	**204.1**
Taxes	7.2	(8.2)	(18.4)	(30.3)	(18.4)	(19.1)	(25.5)	(14.2)	(29.6)	(44.9)
Income from associates	19.1	33.5	53.5	56.9	51.0	47.1	56.1	31.1	38.1	52.0
Minorities	(6.7)	(7.5)	(12.3)	(12.0)	(4.8)	(8.7)	(17.7)	(10.5)	(17.2)	(23.2)
Net profit before extraordinaries	**(46.3)**	**86.7**	**141.3**	**135.7**	**142.8**	**152.9**	**174.1**	**85.3**	**139.4**	**187.9**
Extraordinary items	0.0	0.0	26.3	54.2	0.0	0.0	0.0	0.0	0.0	0.0
Net reported profit	(46.3)	86.7	167.6	189.9	142.8	152.9	174.1	85.3	139.4	187.9
% change in Sales	3.8	(3.6)	(3.1)	9.9	5.0	8.2	22.5	(8.1)	5.9	4.8
% change in EBITDA	8.8	5.9	6.9	0.7	1.8	13.9	38.0	(29.4)	21.7	15.6
% change in EBITA	22.5	46.5	32.4	1.3	1.0	18.1	42.8	(51.0)	50.5	28.4
% change in PBT	ns	ns	72.1	2.1	(5.0)	16.3	20.7	(51.1)	87.7	37.8
% change in Net profit before extraordinaries	ns	ns	63.0	(3.9)	5.2	7.1	13.9	(51.0)	63.4	34.8

Cash Flow Statement (EUR m)	2002	2003	2004	2005	2006	2007	2008	2009e	2010e	2011e
EBITDA	**225.8**	**239.1**	**255.6**	**257.4**	**262.2**	**298.6**	**412.2**	**290.8**	**353.8**	**408.9**
Change in provisions excluding tax provisions	5.3	(31.2)	(0.6)	(15.4)	(12.3)	(8.9)	26.2	0.0	0.0	0.0
Change in net working capital	39.5	(18.6)	(112.6)	(32.3)	(31.9)	(41.9)	(162.4)	119.7	(57.7)	(28.3)
Gross operating cash flow	270.5	189.3	142.4	209.8	217.9	247.8	276.0	410.5	296.1	380.6
Taxes paid	(13.1)	(18.5)	(32.9)	(25.5)	(16.8)	(24.9)	(27.5)	(14.2)	(29.6)	(44.9)
Capex	(84.9)	(118.1)	(172.9)	(151.6)	(161.3)	(199.8)	(251.0)	(160.5)	(196.2)	(214.7)
Free cash flow	**172.5**	**52.7**	**(63.3)**	**32.7**	**39.8**	**23.1**	**(2.5)**	**235.8**	**70.3**	**121.0**
Net interest received	(26.7)	(18.2)	(16.0)	(14.8)	(22.0)	(30.8)	(31.5)	(38.4)	(32.5)	(30.1)
Other	19.7	17.2	75.5	96.6	(25.4)	42.1	24.2	29.3	15.8	24.5
Acquisitions	(5.5)	(33.9)	(16.9)	(21.2)	(42.7)	(14.7)	(44.2)	0.0	0.0	0.0
Divestments	3.1	5.7	0.1	86.5	0.0	4.2	0.7	0.0	0.0	0.0
Share issues/buybacks	0.0	(2.2)	(8.8)	(24.3)	(56.1)	(111.0)	(19.7)	0.0	0.0	0.0
Dividend (adj. stock dividend)	(43.1)	(44.9)	(45.3)	(52.2)	(74.1)	(57.2)	(62.2)	(55.4)	(34.1)	(55.7)
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	(120.9)	32.5	77.4	20.6	39.1	136.4	180.4	(171.3)	(19.5)	(59.6)
Change in cash & cash equivalents	**(0.9)**	**8.8**	**2.7**	**123.8**	**(141.5)**	**(7.9)**	**45.1**	**0.0**	**0.0**	**0.0**

Balance Sheet (EUR m)	2002	2003	2004	2005	2006	2007	2008	2009e	2010e	2011e
Net intangible fixed assets	127.1	119.5	118.4	125.4	134.5	122.0	111.5	107.7	104.5	102.0
Net tangible fixed assets	777.6	757.6	791.6	799.8	824.2	917.6	1,070.7	1,069.3	1,103.2	1,153.5
Financials fixed assets (FFA)	269.9	303.7	331.1	325.5	348.6	303.4	247.7	232.8	240.4	250.8
Inventories	311.8	322.6	419.3	348.3	368.8	385.4	510.5	435.7	468.5	491.0
Trade debtors	311.4	307.7	385.2	354.2	398.9	437.7	483.2	435.7	468.5	491.0
Other debtors	52.1	45.5	44.9	63.4	63.7	73.1	125.3	106.3	123.6	121.6
Cash & securities	72.2	81.1	98.9	222.7	81.2	73.2	118.3	118.3	118.3	118.3
Total Assets	**1,922.1**	**1,937.6**	**2,189.3**	**2,239.3**	**2,219.8**	**2,312.6**	**2,667.2**	**2,505.8**	**2,627.0**	**2,728.3**
Shareholder's equity	758.4	790.8	909.7	1,057.5	1,060.1	1,098.2	1,130.6	1,160.5	1,265.7	1,397.9
Other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	44.3	43.3	48.8	51.1	48.9	48.4	41.8	48.1	58.4	72.3
Provisions	413.9	361.5	373.0	357.5	331.4	298.8	373.4	373.4	373.4	373.4
Long-term interest bearing debt	324.3	312.3	242.3	288.3	274.4	322.5	288.1	116.8	97.3	37.7
Short-term interest bearing debt	146.7	176.6	312.0	245.6	218.0	253.0	503.1	503.1	503.1	503.1
Trade creditors	184.9	191.4	250.8	187.4	227.8	231.7	253.8	234.6	255.5	267.8
Other non-interest bearing liabilities	49.5	61.6	52.7	52.0	59.3	60.0	76.4	69.3	73.5	76.0
Total Liabilities & Capital	**1,922.1**	**1,937.6**	**2,189.3**	**2,239.3**	**2,219.8**	**2,312.6**	**2,667.2**	**2,505.8**	**2,627.0**	**2,728.3**
Enterprise Value (EV)	1,225.1	1,220.3	1,330.5	1,525.9	1,863.3	1,897.6	1,365.7	1,256.4	1,247.3	1,201.6
Net debt/(Net cash)	398.8	407.9	455.4	311.2	411.2	502.2	672.9	501.6	482.1	422.5
Capital Employed incl. goodwill (avg.)	1,529.7	1,383.0	1,458.6	1,515.7	1,517.1	1,610.5	1,852.6	1,963.0	1,947.0	2,031.8
Cumulative goodwill (as of 1991)	113.0	121.1	131.3	85.3	82.2	75.2	75.2	75.2	75.2	75.2
Capital Employed (avg.)	1,410.5	1,266.0	1,332.4	1,407.4	1,433.3	1,531.8	1,777.4	1,887.9	1,871.9	1,956.7
Net working capital	440.9	422.9	545.9	526.6	544.3	604.6	788.8	673.8	731.5	759.8
Discounted value of leases		29.6	26.3	36.6	32.2	28.6	32.8	34.8	37.2	39.8
Adjusted equity	871.4	911.9	1,041.0	1,142.9	1,142.3	1,173.3	1,205.7	1,235.6	1,340.9	1,473.1

Per Share Data (EUR)	2002	2003	2004	2005	2006	2007	2008	2009e	2010e	2011e
Avg. no. of shares (m)	22.1	22.1	21.9	21.6	21.5	20.0	19.7	19.8	19.8	19.8
Eoy. no. of shares (m)	22.1	22.1	21.9	21.5	20.9	19.8	19.8	19.8	19.8	19.8
Avg. no. of shares fully diluted (m)	22.2	22.1	22.0	21.7	21.6	20.2	19.8	19.9	19.9	19.9
Enterprise Value (EV)	55.38	55.29	60.83	70.87	88.95	95.69	69.03	63.51	63.04	60.73
Net debt less FFA plus minorities	7.83	6.68	7.92	1.71	5.32	12.47	23.60	16.02	15.17	12.33
Sales	84.13	81.27	79.46	88.49	93.51	108.47	135.02	123.67	130.95	137.25
EBITDA	10.19	10.81	11.66	11.90	12.20	14.90	20.90	14.70	17.88	20.67
EBITA	3.45	5.06	6.75	6.93	7.05	8.93	12.95	6.33	9.52	12.23
EBIT	2.90	5.06	6.34	6.30	6.79	8.71	10.67	6.33	9.52	12.23
Net profit before extr. & amort. (EUR)	(1.54)	3.92	6.86	6.91	6.90	7.84	11.11	4.31	7.04	9.50
Net profit before extraordinaries (EUR)	(2.09)	3.92	6.44	6.27	6.64	7.63	8.83	4.31	7.04	9.50
Cash Flow (EUR)	5.20	9.68	11.76	11.87	12.05	13.82	19.06	12.68	15.40	17.94
Gross Dividend (EUR)	1.68	1.75	2.00	3.00	2.50	2.76	2.80	1.72	2.82	3.80
Book value (EUR)	34.28	35.83	41.59	49.12	50.61	55.38	57.15	58.66	63.98	70.66
Adjusted equity	39.39	41.32	47.59	53.08	54.54	59.17	60.95	62.46	67.78	74.46
Free Cash Flow	7.79	2.38	(2.89)	1.51	1.85	1.15	(0.13)	11.92	3.56	6.12
% change in EPS before extr. & amort.	ns	ns	74.88	0.76	(0.11)	13.68	41.63	(61.19)	63.41	34.84

Valuation	2002	2003	2004	2005	2006	2007	2008	2009e	2010e	2011e
P/E (excl. extr. & amort.)	nmf	10.6	7.3	9.4	11.9	12.5	7.9	13.2	8.1	6.0
P/CF (x)	8.5	4.3	4.3	5.5	6.8	7.1	4.6	4.5	3.7	3.2
P/Book (x)	1.3	1.4	1.4	1.6	1.9	1.7	0.8	1.0	0.9	0.8
Dividend yield (%)	3.8	4.2	4.0	4.6	3.0	2.8	3.2	3.0	4.9	6.7
Free cash flow yield (%)	14.6	2.2	(7.2)	0.4	0.9	(0.5)	(2.5)	17.5	3.3	8.1
EV/Sales (x)	0.7	0.7	0.8	0.8	0.9	0.9	0.5	0.5	0.5	0.4
EV/EBITDA (x)	5.4	5.1	5.2	5.9	7.1	6.4	3.3	4.3	3.5	2.9
EV/EBITA (x)	16.0	10.9	9.0	10.2	12.3	10.6	5.3	10.0	6.6	5.0
EV/EBIT (x)	19.1	10.9	9.6	11.2	12.8	10.9	6.5	10.0	6.6	5.0
EV/Capital Employed (x)	0.9	1.0	1.0	1.1	1.3	1.2	0.8	0.7	0.7	0.6
EV/CE (incl. goodwill) (x)	0.8	0.9	0.9	1.0	1.2	1.2	0.7	0.6	0.6	0.6
Share price : High (EUR)	50.90	50.70	59.75	78.95	99.60	113.40	120.32	59.04		
Share price : Low (EUR)	35.76	31.00	43.50	55.40	69.35	84.46	44.47	37.88		
Share price : Average (EUR)	44.32	41.40	50.13	65.17	82.18	98.18	88.25	57.09	57.09	57.09
Share price : Year end (EUR)	43.15	50.50	58.75	78.95	94.70	92.00	48.32	57.09	57.09	57.09

Capital Efficiency/Solvability	2002	2003	2004	2005	2006	2007	2008	2009e	2010e	2011e
Sales/CE (incl.goodwill)	1.2	1.3	1.2	1.3	1.3	1.3	1.4	1.2	1.3	1.3
Sales/Fixed assets (x)	2.4	2.4	2.2	2.4	2.4	2.4	2.5	2.3	2.3	2.4
Sales/Net working capital (x)	4.2	4.2	3.2	3.6	3.7	3.6	3.4	3.6	3.5	3.6
Inventories/Sales (days)	61.1	65.5	87.9	66.4	67.0	64.7	70.0	65.0	66.0	66.0
Trade debtors/Sales (days)	61.0	62.5	80.7	67.5	72.5	73.5	66.2	65.0	66.0	66.0
Trade creditors/Sales (days)	36.2	38.9	52.6	35.7	41.4	38.9	34.8	35.0	36.0	36.0
CAPEX/Depreciation (%)	56.8	92.8	160.7	141.1	145.7	166.9	160.2	96.9	118.6	128.6
Equity/Total assets (%)	39.5	40.8	41.6	47.2	47.8	47.5	42.4	46.3	48.2	51.2
Net debt/Equity (%)	52.6	51.6	50.1	29.4	38.8	45.7	59.5	43.2	38.1	30.2
Interest cover (x)	2.4	3.2	6.3	4.8	5.5	5.2	5.6	3.0	5.1	7.0
Dividend payout (%)	(108.8)	44.6	29.1	43.2	35.3	34.8	25.3	40.0	40.0	40.0
ROCE (average) (%)	4.8	7.8	9.4	8.0	8.9	10.0	12.1	5.4	8.1	9.6
ROCE (incl. goodwill) (average) (%)	4.4	7.1	8.6	7.4	8.4	9.5	11.6	5.2	7.7	9.3

Operating Efficiency & Profitability ratios	2002	2003	2004	2005	2006	2007	2008	2009e	2010e	2011e
Sales per FTE employee ('000s)	181.7	168.9	161.4	178.9	169.2	155.4	181.6	170.6	178.1	184.6
Wage costs per FTE employee ('000s)	53.5	47.6	41.7	42.0	38.9	33.8	34.6	35.5	36.4	37.3
EBIT per FTE employee ('000s)	6.3	10.5	12.9	12.7	12.3	12.5	14.4	8.7	13.0	16.4
Gross margin (%)										
EBITDA margin (%)	12.1	13.3	14.7	13.4	13.0	13.7	15.5	11.9	13.7	15.1
Operating margin (%)	3.4	6.2	8.0	7.1	7.3	8.0	7.9	5.1	7.3	8.9
Net margin (%)	(2.5)	3.4	6.3	5.5	5.1	5.5	6.8	2.6	4.6	5.9
Tax rate (%)	11.0	11.9	15.5	25.0	16.0	14.3	15.8	18.0	20.0	22.0

Important disclosures

Issuer	Ticker	Price (EUR)
Bekaert	BEKB.BR	57.09

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Maarten Bakker - Equity Research Analyst

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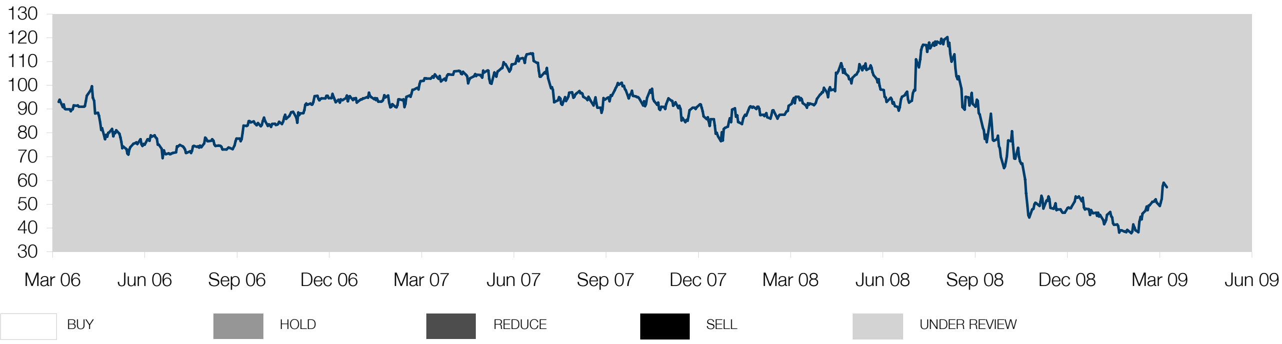
Category	Fortis Rating	Definition	% companies under coverage with this rating	% companies for which Fortis has provided Investment Banking services
BUY	BUY	The stock belongs to the favourites of the local Fortis Bank (Nederland) N.V. univer Expected performance: > +15%	45%	42%
HOLD	HOLD	The stock does 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%	37%	42%
	REDUCE	The stock belongs to the less attractive ones within the Fortis Bank (Nederland) N.' universe. While the outlook is uncertain, the stock does not deserve an outright Sell. Expected performance: > -5%, < +10%	13%	17%
SELL	SELL	The investment case is definitively negative. Investors should sell the stock at any conditions. Expected performance: negative	5%	0%

7 April 2009 **Fortis Bank (Nederland) N.V. Primary Equity Research Coverage: 76**

Historical equity recommendations and target price for Bekaert (EUR)



History of Target Prices		
Date	Recommendation	Target Price

History of Recommendations		
Date	Recommendation	Target Price

Source: Fortis Equity Research, FactSet

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