Bekaert

Change in recommendation

Indy - Industrial, Diversified / Belgium

Target Price EUR 112.00
Expected performance (12 mth) 28.1%
BUY EUR 87.40 (Closing price 05-Aug-09)

* 1H09 reveals recipe for renewed share price momentum
* Upgraded to BUY

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1H09 results underscore Bekaert's appeal as an emerging markets play

Bekaert reported remarkably resilient 1H09 results, owing to its strong foothold in China. The first-time disclosure of the geographic segment accounting revealed an EBIT*E* contribution from the Asia Pacific division of EUR 128m (to the group total of EUR 86m), which represented a far higher than expected margin of 35%. We can imagine that this raises questions about the sustainability of the divisional earnings. Having taken a closer look, we conclude that one need not be concerned for the next couple of years.

Indications of marked earnings recovery from 2H09 – EPS estimates raised

The 1H09 results showed us indications to expect a marked recovery of earnings from 2H09, driven by the fading out of the EUR 40m FIFO hit from lower wire rod prices, the fading out of de-stocking pressure, a stronger contribution from recent restructuring measures in Belgium, improving momentum in Latin America from 2Q09 and a continuation of the strong momentum in Asia. It prompted us to raise our 2009/2010 EPS estimates by 43/24% to EUR 6.56/8.99.

Recommendation upgraded to BUY, as ample catalysts identified

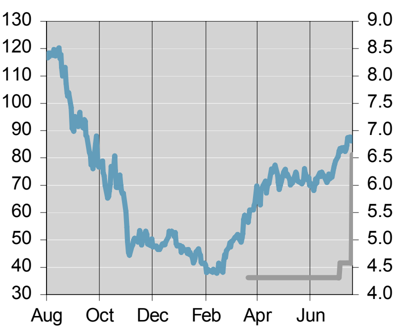
The 1H09 results provided comfort to upgrade our recommendation (from HOLD) to BUY, as we expect positive momentum in the share price on the back of 1) the appeal as a China play (the first-time disclosure of the geographic reporting will raise investors' awareness of this), 2) marked earnings recovery from 2H09, 3) the solid balance sheet (1.7x net debt/EBITDA end 2009) and 4) the compelling valuation (9.7x 2010 P/E). Our price target has been raised to EUR 112.

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   Fortis EPS est. 2009



Source: FactSet, Fortis Equity Research

Market capitalisation (EUR m)	1,729.1
No. of shares (m)	19.8
Free float	60.9%
1/3/12 mth perf. (%)	18.6/17.0/(21.3)
High/low 52 weeks (EUR)	120.32/37.88
Next results due	13 November 2009
Price/book value (x)	1.4
Volatility (ß) (5yrs/)	
Reuters symbol	BEKB.BR
Bloomberg symbol	BEKB BB
Website	www.bekaert.com

Year to December	2007	2008	2009e	2010e	2011e
Sales (EUR m)	2,173.6	2,662.4	2,471.0	2,647.8	2,835.6
EBITDA (EUR m)	298.6	412.2	340.0	403.8	434.2
Net profit excl. extr. & amort. (EUR m)	157.2	209.9	129.8	177.8	202.5
Net profit (EUR m)	152.9	174.1	129.8	177.8	202.5
EBITDA margin (%)	13.7	15.5	13.8	15.3	15.3
ROCE (incl. goodwill) (%)	9.5	11.2	7.9	10.0	10.5
Net gearing (%)	45.7	59.5	49.0	41.2	32.9
EPS before extr. & amort. (EUR)	7.84	10.64	6.56	8.99	10.24
EPS (EUR)	7.63	8.83	6.56	8.99	10.24
DPS (EUR)	2.76	2.80	2.62	3.60	4.09
% change sales	8.2	22.5	(7.2)	7.2	7.1
% change EPS (excl. extr. & amort.)	13.7	35.7	(38.3)	37.0	13.9
EV/Sales	0.86	0.50	0.79	0.73	0.66
EV/EBITDA	6.3	3.2	5.7	4.8	4.3
P/E (excl. extr. & amort.)	12.5	8.3	13.3	9.7	8.5
P/E	12.9	10.0	13.3	9.7	8.5
PE/growth (excl. extr.)	1.2	0.5	nmf	10.7	0.3
Free cash flow yield (%)	(0.5)	(2.5)	11.9	3.5	7.0

Review 1H09 results

Admirably resilient 1H09 results, but strong dependence on high profitability in China may give rise to questions about sustainability

Bekaert reported solid 1H09 results, which underscored the company's admirable strategic decisions during the last five years to expand operations in emerging economies (where over 70% of *combined* turnover is generated). On the other hand, the newly introduced geographic segment reporting (see table below) also revealed how strongly the results have become geared towards emerging markets (while the operating results in Europe and North America moved into negative territory, although partly to be blamed on the impact of lower wire rod prices on the margin). The results are in particular boosted by the tyre cord activity in China, which generates estimated operating margins in excess of 40%. This may raise questions about the sustainability of Bekaert's results, which we address in the following section.

Results based on newly introduced geographic segment reporting (EUR m)

	1H08	2H08	2008	1H09	chg.
Revenue (consolidated)	1,303	1,359	2,662	1,200	-7.9%
EMEA	612	556	1,168	410	-33.0%
North America	289	316	605	264	-8.8%
Latin America	84	93	177	160	90.4%
Asia Pacific	318	395	713	367	15.3%
EBIT*E*	163	131	294	86	-47.3%
EMEA	53	15	68	(21)	-139.1%
North America	21	4	25	(5)	-121.4%
Latin America	11	5	16	8	-22.2%
Asia Pacific	107	143	249	128	20.2%
Other	(28)	(35)	(63)	(26)	
margin	12.5%	9.7%	11.1%	7.2%	-540bps
EMEA	8.6%	2.7%	5.8%	-5.0%	-1,360bps
North America	7.3%	1.1%	4.1%	-1.7%	-900bps
Latin America	12.9%	5.3%	8.9%	5.3%	-760bps
Asia Pacific	33.5%	36.1%	34.9%	34.9%	140bps

Source: company data

1H09 group EBIT*E* declined by 47% to EUR 85.8m (representing a 530bps lower margin of 7.2%), which is an admirable performance compared to an exceptionally strong prior-year result (which is also how management looks at the 1H08 results). The result beat our (far-below-average) forecast of EUR 57m, but it matched the consensus of EUR 85m.

1H09 results (EUR m)

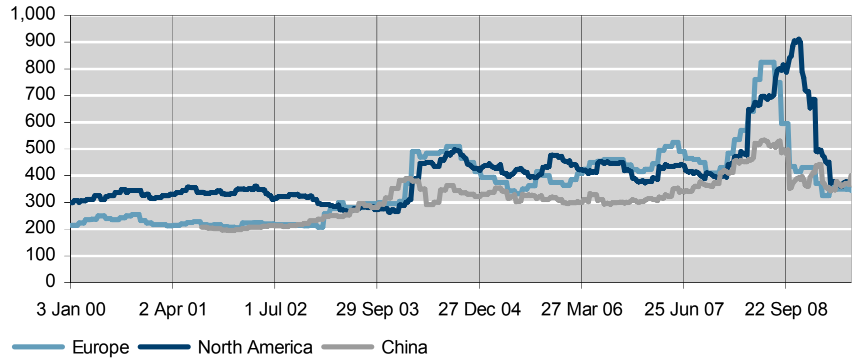
	1H08	1H09 realised	Y-o-y chg.	1H09E estimated by FBN	Realised vs estimated	1H09E estimated by consensus	Realised vs estimated
Consolidated sales	1,303.1	1,200.0	-7.9%	1,290.1	-7.0%	1,254.0	-4.3%
Gross profit	308.0	227.0	-26.3%	238.7	-4.9%	na	
margin	23.6%	18.9%		18.5%			
EBITDA*E*	242.8	152.1	-37.4%	147.5	3.1%	143.0	6.3%
margin	18.6%	12.7%		11.4%			
EBIT*E*	162.9	85.8	-47.3%	56.8	51.2%	85.0	1.0%
margin	12.5%	7.2%		4.4%		6.8%	
Non-recurring items	(18.6)	(7.6)		(7.5)	1.7%	(8.0)	-4.6%
EBIT	145.3	78.7	-45.8%	49.3	59.8%	77.0	2.2%
margin	11.2%	6.6%		3.8%		6.1%	
Net financial charges	(22.4)	(30.5)	36.4%	(23.3)	31.0%	(24.0)	27.1%
EBT	123.0	48.2	-60.8%	26.0	85.6%	53.0	-9.1%
margin	9.4%	4.0%		2.0%			
Taxes	(25.5)	(13.3)	-48.0%	(5.2)	155.4%	(12.0)	10.6%
as % of EBT	20.7%	27.5%		20.0%		22.6%	
Share in results joint ventures	35.7	17.4	-51.2%	15.5	12.6%	19.0	-8.2%
Result discontinued operations	0.0	0.0		0.0	#DIV/0!		
Minority interests	(7.1)	(8.2)	14.7%	(3.6)	125.6%	na	
Net profit continuing operations	126.0	44.2	-64.9%	32.6	35.4%	51.0	-13.3%
EPS basic (EUR)	6.40	2.24	-65.0%	1.65	35.6%	2.58	-13.1%
EPS fully diluted (EUR)	6.35	2.24	-64.8%	1.65	36.0%	na	

Source: company data and Fortis Bank Nederland

Results were hit by a EUR 40m FIFO adjustment to the value of inventories, which effect fades out in 2H09

We highlight that the 1H09 group EBIT*E* of EUR 86m includes a negative FIFO adjustment of EUR 40m to the value of inventories, which is attributable to the declined prices of wire rod (see chart below). To show the magnitude of this impact in perspective, we remind that the FIFO impact was EUR 15m positive in 1H08 and EUR 10m negative in 2H08. Adjusted for the FIFO effect, the group margin would have been 330bps higher at an admirable 10.5% in 1H09. The impact was particularly strong in the EMEA division and to a lesser degree the North America division. Bekaert notes that the profitability of the EMEA and North America divisions would have been break even when adjusted for the …

Development wire rod prices (all in *EUR*/mt)



Source: Steel BB

… FIFO impact (as opposed to the reported operating losses of EUR 21m and EUR 5m, respectively). On a positive note, Bekaert sees wire rod prices stabilising, meaning that no further negative impact is expected in the coming months.

We remind that wire rod prices peaked in the third quarter of last year, which thus creates a challenging comparison base for as far as the top line is concerned in 3Q09. Bekaert's 3Q09 sales trading update (due 13 November) will thus show a continued negative trend. However, we point out that it should not lead to negative conclusions about the earnings development (not disclosed at the quarterly updates), as they need not be affected by the passing through of raw materials price swings (which must not to be confused with the aforementioned FIFO effect on earnings).

Last year's measures to restructure the operations in Belgium expected to contribute to an earnings recovery of the Europe division from 2H09 onwards

Due to an underutilisation of capacity, the EMEA division saw an erosion of EBIT*E* from EUR 53m (8.6% margin) in 1H08 to EUR 15m (2.7%) in 2H08 and -/-EUR 21m (-5.0%) in 1H09 (it would have been break even when adjusted for the raw materials price impact). This development supports the restructuring measures implemented by Bekaert in Belgium during the last twelve months. In December of 2008, Bekaert announced the closure of the plant in Hemiksen (the steel wire activities are now concentrated in Zwevegem). In June of last year, Bekaert also started the reorganisation of the steel cord activities through the closure of the plant in Lanklaar. Management commented at the analyst meeting that it does not foresee a need for additional measures. We were told that last year's restructuring measures are expected to start contributing from 2H09 onwards.

Outlook remains vague, but management's comments sound positive about emerging markets

The outlook statement was – as we are used to from Bekaert – rather vague, as the earlier wording was reiterated that "notwithstanding the economic circumstances, Bekaert is confident that its broad geographical coverage with a strong presence in emerging markets, as well as its growing portfolio of product innovations and strong balance sheet, will continue to be of strategic importance". At the analyst meeting, management commented that the visibility in Europe and North America remains limited, while expressing hope that the de-stocking effect has come to an end. In order to drive up the capacity utilisation in Europe and North America, Bekaert entered the market with additional volumes of some basic products from 2Q09 onwards. The Latin America operations faced a severe slowdown in 1Q09, but a gradual recovery was experienced for the joint ventures in Brazil from April onwards. Management aired a positive tone about the sustainable growth potential in Asia.

EPS estimates 2009/2010 raised by 43/24% to EUR 6.56/8.99

1H09 results contain indications to expect earnings recovery from 2H09

We take from the 1H09 results a number of indications to an earnings recovery from 2H09 onwards:

- Fading out of the EUR 40m FIFO hit in 1H09 from declined wire rod prices (which particularly weighed on Europe and North America profitability). Remember the downturn in wire rod prices already affected the 2H08 result by EUR 10m.
- Stronger offset from recent restructuring measures in Belgium.
- Fading out of de-stocking pressure (which started end-2008 and continued in 1H09).
- Improving momentum in Latin America from 2Q09.
- Continuation of strong momentum in Asia.

EPS estimates 2009/2010 raised by 43/24% to EUR 6.56/8.99

We upgraded our earnings forecasts to take account of these drivers and Bekaert's outperformance in 1H09 (relative to our below-consensus forecasts). We raised our FY2009 group EBIT*E* forecast from EUR 150m to EUR 217m, which implies group EBIT*E* of EUR 131m for 2H09, compared with the EUR 86m realised in 1H09 and EUR131m in the prior-year period. It made us raise our 2009 EPS forecast by EUR 1.98 (43%) to EUR 6.56 (representing a 25% decline on 2008).

For 2010, we raised our EPS forecast by EUR 1.72 (24%) to EUR 8.99. We refer to the table below for the detail behind our forecasts.

P&L Bekaert (EUR m)

	2007	1H08	2H08	2008	1H09	2H09E	2009E	2010E	2011E
EMEA		612	556	1,168	410	419	829	871	923
North America		289	316	605	264	275	539	574	608
Latin America		84	93	177	160	173	333	357	382
Asia Pacific		318	395	713	367	403	770	847	923
Consolidated sales	2,174	1,303	1,359	2,662	1,200	1,271	2,471	2,648	2,836
% chg.	8.2%	22.3%	22.6%	22.5%	-7.9%	-6.5%	-7.2%	7.2%	7.1%
organic	8.0%	20.0%	15.5%	17.7%	-20.6%	-11.6%	-16.0%	7.2%	7.1%
fx	-2.3%	-5.3%	3.1%	-1.0%	6.9%	-0.7%	3.0%	0.0%	0.0%
consolidation	2.5%	7.6%	4.1%	5.8%	5.8%	5.8%	5.8%	0.0%	0.0%
EBITDA*E*	310	243	253	496	152	203	355	419	449
margin	14.3%	18.6%	18.6%	18.6%	12.7%	16.0%	14.4%	15.8%	15.8%
% chg.	11.2%	63.3%	56.6%	59.8%	-37.4%	-19.8%	-28.4%	18.0%	7.3%
EBIT*E* EMEA		53	15	68	(21)	8	(12)	24	51
margin		8.6%	2.7%	5.8%	-5.0%	1.9%	-1.5%	2.7%	5.5%
% chg			0.0%	0.0%	-139.1%	-45.9%	-118.3%	nmf	115.9%
EBIT*E* North America		21	4	25	(5)	9	4	26	36
margin		7.3%	1.1%	4.1%	-1.7%	3.2%	0.8%	4.5%	6.0%
% chg			0.0%	0.0%	-121.4%	144.7%	-82.5%	499.1%	41.3%
EBIT*E* Latin America		11	5	16	8	11	19	29	38
margin		12.9%	5.3%	8.9%	5.3%	6.3%	5.8%	8.0%	10.0%
% chg			0.0%	0.0%	-22.2%	123.2%	23.2%	47.6%	33.8%
EBIT*E* Asia Pacific		107	143	249	128	134	262	263	249
margin		33.5%	36.1%	34.9%	34.9%	33.2%	34.0%	31.0%	27.0%
% chg			0.0%	0.0%	20.2%	-6.2%	5.1%	0.3%	-5.1%
Other		(28)	(35)	(63)	(25)	(31)	(56)	(61)	(67)
Total EBIT*E*	186	163	131	294	86	131	217	279	307
margin	8.6%	12.5%	9.7%	11.1%	7.2%	10.3%	8.8%	10.5%	10.8%
% chg.	14.5%	80.3%	36.8%	57.9%	-47.3%	-0.2%	-26.3%	28.6%	10.1%
Non-recurring items	(12)	(18)	(66)	(84)	(8)	(7)	(15)	(12)	(12)
EBIT	175	146	65	210	79	123	202	264	292
Net financial charges	(41)	(22)	(27)	(49)	(31)	(27)	(58)	(51)	(47)
EBT	134	124	38	161	48	96	144	213	245
Taxes	(19)	(26)	(0)	(26)	(13)	(17)	(30)	(47)	(56)
as % of EBT	14.3%	20.6%	0.1%	15.8%	27.5%	17.7%	21.0%	22.0%	23.0%
Share in results joint ventures	47	36	20	56	17	20	37	41	47
Result discontinued operations	0	0	0	0	0	0	0	0	0
Minority interests	(9)	(7)	(11)	(18)	(8)	(13)	(21)	(29)	(33)
Net profit continuing operations	153	127	48	174	44	86	130	178	203
% chg.	7.1%	73.9%	-40.0%	13.9%	-65.1%	78.3%	-25.4%	37.0%	13.9%
EPS basic (EUR)	7.63	6.44	2.44	8.83	2.24	4.33	6.56	8.99	10.24
% chg.	14.8%	78.4%	-39.0%	15.7%	-65.2%	77.7%	-25.7%	37.0%	13.9%
EPS fully diluted (EUR)	7.58	6.38	2.43	8.79	2.24	4.32	6.56	8.98	10.23
% chg.	14.6%	78.2%	-38.8%	16.0%	-64.9%	78.2%	-25.4%	37.0%	13.9%
DPS	2.76			2.80			2.62	3.60	4.09
pay out	35.8%			31.8%			40.0%	40.0%	40.0%

Source: company data and Fortis Bank Nederland estimates

A closer look at Asia Pacific profitability

In Asia Pacific, Bekaert has (production) activities in China, Indonesia and India. The new segment reporting revealed strikingly high divisional operating margins in the mid-30s during the period 1H08 through 1H09. This achievement is particularly attributable to Bekaert's production in China of steel cord for reinforcement of radial tyres (which accounts for about 60% of divisional turnover). We can imagine that the strong performance raises questions about the sustainability and the risk of future disappointments. In this section we take a closer look to assess whether the performance should be considered one off or sustainable.

The year was off to a slow start for the Asia Pacific division. Contrary to its main competitors (in tyre cord), Bekaert had not reduced capacity (laid off personnel) during the slow period at the turn of the year (key tyre cord competitor Xingda, for example, had fired about half of its workforce). Consequently, Bekaert was better positioned than competitors to benefit from the strong pick that occurred in the months following the Chinese New Year (end January). It enabled Bekaert to achieve record volumes and very high capacity utilisation levels from April onwards (according to management, the utilisation rate continued to improve during June and July).

In April of this year, Bekaert opened a new tyre cord production plant in China, which it built in partnership (50/50 joint venture) with Ansteel (China's second largest steel company). The capacity expansion is needed to live up to the expected growth of tyre production in China. To capitalise on the westward development of industrial activities (promoted by the Chinese government), the site chosen for the new plant is in the Chongqing province in the centre of China, which is transforming into a new automobile metropolis (Bekaert's other three tyre cord plants are located along the East coast). The initial phase of the plant encompasses c. 35,000 tonnes capacity (out of the 100,000 tonnes capacity planned ultimately, and compared with Bekaert's existing capacity of 325,000 tonnes). Management commented at the analyst meeting that the initial phase of the Chongqing facility will only make a limited contribution to profitability this year. Management furthermore highlighted once more that the capacity expansion in Chongqing is a phased approach that will be in line with market developments.

From the results of the key tyre cord competitor Xingda (listed on the Hong Kong exchange), we already knew that Bekaert would likely earn above-average margins from its tyre cord activity in China. However, the new segment reporting revealed an even higher profitability than we dared to dream of. Given the 35% EBIT*E* margin for the Asia Pacific division as a whole, we believe that the Chinese tyre cord activity turns in an operating margin in excess of 40%, double the margin of c. 20% generated by Xingda (see table below). While this is an admirable achievement, it raises at the same time questions about the longer-term sustainability of Bekaert's performance.

Xinda results (RMB m)

	2004	2005	2006	2007	2008
Revenue	1,683	2,357	2,516	2,778	3,489
% chg.	74.8%	40.1%	6.7%	10.4%	25.6%
Gross profit	663	709	732	702	921
margin	39.4%	30.1%	29.1%	25.3%	26.4%
% chg.		7.0%	3.2%	-4.1%	31.2%
EBIT[1]	587	562	551	474	684
margin	34.9%	23.8%	21.9%	17.1%	19.6%
% chg.		-4.2%	-2.0%	-13.9%	44.3%
Investment grants in EBIT	57	47	10	11	66
EBIT excluding investment grants	530	515	541	463	618
margin	31.5%	21.9%	21.5%	16.7%	17.7%
% chg.		-2.7%	5.0%	-14.4%	33.6%

[1] Note that we made adjustments to arrive at an EBIT result for Xingda that is more comparable to how it is reported by Bekaert.

Source: Fortis Bank Nederland

For a better understanding of the sustainability of Bekaert's Asia Pacific result, we will first shed a light on the structure of the Chinese tyre cord market. We also discuss a number of distinct differences between Xingda and Bekaert that help explain the profitability gap.

On the supply side, the tyre cord market is practically a duopoly in China. Bekaert leads the market with a 34% market share, closely followed by Xingda with a 30% market share (284,000 tonnes tyre cord capacity). The runners-up are relatively small, each having less than 100,000 tonnes capacity: Qingdao Kiswire (8%), Hubei Fuxing (8%), Shandong Shengtong (5%) and Jiaxing Eastern (5%). 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.

The demand side, on the other hand, is rather fragmented in China (the world's largest tyre production base), with 577 tyre manufacturers (source: National Bureau of Statistics). The fragmentation in China is shown by the fact that the ten largest tyre manufacturers hold a combined market share of less than 40%. This is in sharp contrast to the western world, where the three largest players – Michelin, Bridgestone and Goodyear – dominate more than half of the market. Another important notion is that the Chinese manufacturers focus on tyre production, whereas the global tyre manufacturers also produce part of their tyre cord needs in house.

The high fragmentation limits the buying power of Chinese tyre manufacturers, benefiting the tyre cord suppliers. In the longer run, consolidation among tyre manufacturers could put pressure on tyre cord profitability. As long as this does not materialise, we consider the supply side itself as the main source of potential risk to profitability. By this, we particularly mean vulnerability to pricing pressure, as expansions in production capacity could create temporary mismatches between supply and demand. All the major players have plans to expand capacity in anticipation of the expected growth in demand for tyre cords. Xingda, for example, 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. We highlight market share ambitions and irrational behaviour as a risk factor, although one that is limited by the high concentration among the manufacturers.

There are a number distinct differences between Xingda and Bekaert that help explain the latter's higher profitability. Firstly, Xingda is more exposed to bead wire, which generates relatively lower margins (moreover, in this segment, its capacity utilisation of 77% is short of the 84% it realises in tyre cord manufacturing). In tyre cord manufacturing, Bekaert's technology and products are superior to that of Xingda (acknowledged by the latter), which enables it to position itself better for the high-end tyre segment (Xingda is, for example, not qualified supply Goodyear). And lastly, Bekaert has build a strong position in higher-margin tyre cord for OTR tyres.

It is reasonable to expect that Xingda will be able to catch up with Bekaert in due course, eroding some of the latter's profitability. However, that will likely be a gradual process over the course of years. In the meantime Bekaert continues to invest significantly in R&D to maintain its lead as much as possible. During 1H09, the R&D expenditures rose again (by 6%) to EUR 35m (3% of consolidated sales), with a further increase of the efforts in China. In 2007, Bekaert had opened an R&D centre in China, where it employed 200 researchers in 2008 (besides the 300 people in the Belgian R&D centre).

Another driver of the high profitability of Bekaert's Asia Pacific division is the successful expansion in high-margin and higher-growth steel cord products for the utilities segment. The offshore and other energy-related product segments are spearheads for growth. 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.

Given the market dynamics (consolidated manufacturing base and fragmented customer base), Bekaert's technological lead and its positioning in the utilities segment, we consider the +30% margins of the Asia Pacific unit sustainable for the coming two years. The margin will likely ease-off gradually in the longer run, but levels in the region of 20-25% should still be feasible in 3 to 5 years.

We are convinced that Asia will continue to be a sustainable growth region for Bekaert. The phenomenal growth of Chinese new car sales drive in first instance high demand for OEM tyres, but, more importantly, it subsequently creates a large pool of vehicles that need replacement tyres (in the western world, three out of four tyres are destined for the relatively resilient replacement market). Bekaert has started the first phase of the new production facility in Chongqing (a 50/50 JV with Ansteel) in anticipation of further growth. It is furthermore making a number Greenfield investments in India and Indonesia to capitalise on the growth potential in the automotive, offshore and construction (Dramix steel fibres) industries. We highlight Bekaert's strong foothold in the Asia region and the sustainable growth potential as a differentiating of appeal the investment case.

Investment opinion

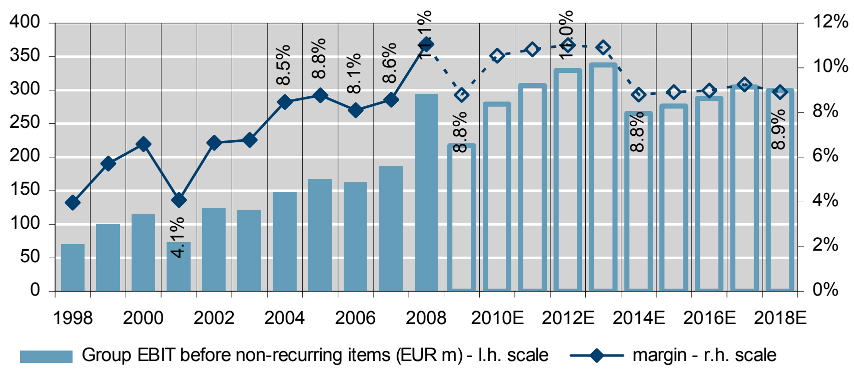
1H09 results provide comfort to let the longer-term potential lead the way in investment decisions concerning the Bekaert stock

In our preview, we expressed hope that the 1H09 results would give a sense for the development of Bekaert's share price. We expressed a concern that the 2009 results might not live up to consensus forecasts, which the 1H09 results proved unfounded. It eliminates the potential short-term downside risk to the Bekaert stock previously highlighted by us. By contrast, the 1H09 results underscored the appeal of Bekaert's emerging markets exposure, which we highlighted previously as a driver of further upside to the Bekaert stock on a longer-term horizon. The 1H09 results make us feel more comfortable to let the longer-term normalised potential prevail as the basis of our recommendation on the Bekaert stock.

DCF methodology indicates a through-the-cycle valuation of EUR 112 per share

By means of a DCF on conservative input (2009-2018 CAGR EBIT of 0.2% and 0% terminal growth) we estimate a fair through-the-cycle valuation for the Bekaert stock of EUR 112 per share (including a valuation of EUR 27 per share for the joint ventures, based on a dividend discount model).

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

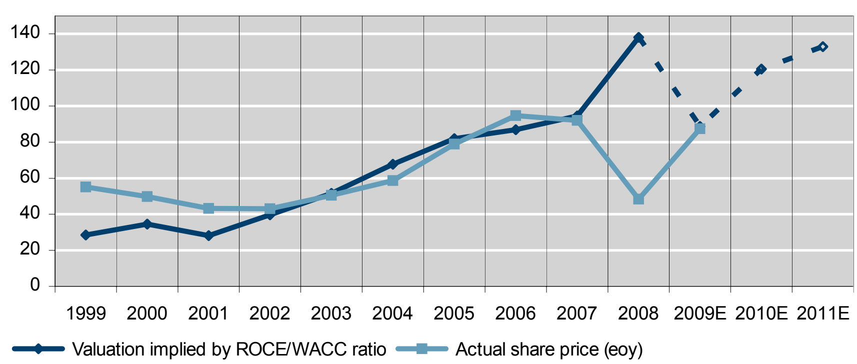


Source: company data and Fortis Bank Nederland estimates

A returns-based valuation yields EUR 121/133 per share on 2010/2011 forecasts

Our returns-based valuation approach (where the EV/CE valuation is consistent with ROCE/WACC[1]) even yields an outcome of EUR 121 per share (38% upside) on 2010 forecasts and EUR 133 per share (52% upside) on 2011 forecasts. Back-testing validates the returns-based valuation methodology, as Bekaert's historical share price development has tracked the outcome closely (see the chart below).

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



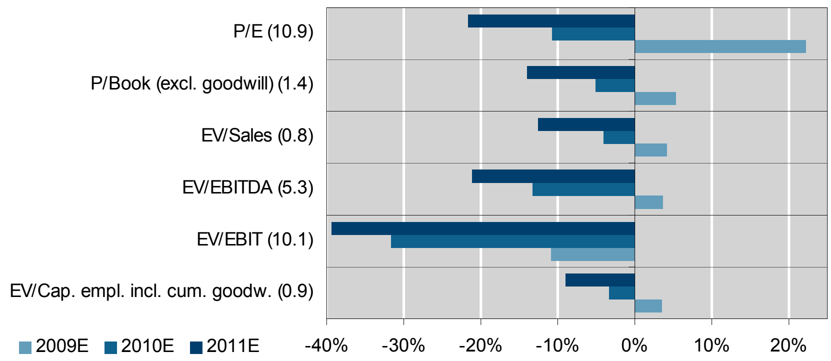
Source: Fortis Bank Nederland

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

2010 valuation multiples stand at a discount to historic average, while the structurally improved earnings profile warrants a premium

Based on our forecasts for 2010, the Bekaert stock trades at an attractive valuation of 9.7x P/E, 4.6x EV/EBITDA[2] and 6.9x EV/EBIT. The chart below shows that Bekaert's 2010 multiples stand at a discount (of 11% on average) to the average valuation during the 1999-2008 period. Bekaert deserves to trade at a premium, however, given that its growth profile and profitability have structurally improved on the back the enhanced emerging markets exposure and increased focus on products with more value added.

Discount to average 1999-2008 valuation



Source: Fortis Bank Nederland

Target price raised to EUR 112 and recommendation upgraded to BUY, as we see good reason for positive momentum in the share price

We raise our price target to the DCF outcome of EUR 112. We furthermore upgrade our recommendation (from HOLD) to BUY, highlighting the following attractions as support to momentum in the share price:

- The Bekaert stock as an emerging markets play, thanks to its formidable position in China (the first-time disclosure of the geographic segment accounting at the 1H09 results will raise investors' awareness of Bekaert's China foothold).
- Recovering earnings in Europe and North America from 2H09, driven by the fading out of the EUR 40m hit from wire rod prices, the fading out of the de-stocking pressure and the stronger offset from recent restructuring measures.
- Solid balance sheet (1.7x net debt/EBITDA end-2009) to continue to invest in growth.
- The compelling valuation.

[2] Our calculation of EV includes the market value of Bekaert's JVs and associates as estimated by us.

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	2,471.0	2,647.8	2,835.6
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)	(524.2)	(527.1)	(549.5)	(572.7)
Other operating costs										
EBITDA	225.8	239.1	255.6	257.4	262.2	298.6	412.2	340.0	403.8	434.2
Depreciation	(149.4)	(127.3)	(107.6)	(107.4)	(110.7)	(119.7)	(165.9)	(138.0)	(139.7)	(142.0)
EBITA	76.3	111.8	148.0	150.0	151.4	178.9	246.3	202.0	264.1	292.2
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)	(35.8)	0.0	0.0	0.0
EBIT	64.2	111.8	139.0	136.3	145.9	174.6	210.5	202.0	264.1	292.2
Net financials	(130.1)	(43.0)	(20.5)	(15.3)	(31.0)	(41.0)	(49.2)	(58.0)	(51.3)	(47.5)
Profit Before Taxes (PBT)	(65.9)	68.8	118.5	121.0	114.9	133.6	161.2	144.0	212.8	244.8
Taxes	7.2	(8.2)	(18.4)	(30.3)	(18.4)	(19.1)	(25.5)	(30.2)	(46.8)	(56.3)
Income from associates	19.1	33.5	53.5	56.9	51.0	47.1	56.1	37.2	40.8	47.0
Minorities	(6.7)	(7.5)	(12.3)	(12.0)	(4.8)	(8.7)	(17.7)	(21.1)	(29.0)	(33.0)
Net profit before extraordinaries	(46.3)	86.7	141.3	135.7	142.8	152.9	174.1	129.8	177.8	202.5
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	129.8	177.8	202.5
% change in Sales	3.8	(3.6)	(3.1)	9.9	5.0	8.2	22.5	(7.2)	7.2	7.1
% change in EBITDA	8.8	5.9	6.9	0.7	1.8	13.9	38.0	(17.5)	18.8	7.5
% change in EBITA	22.5	46.5	32.4	1.3	1.0	18.1	37.7	(18.0)	30.8	10.6
% change in PBT	ns	ns	72.1	2.1	(5.0)	16.3	20.7	(10.7)	47.8	15.0
% change in Net profit before extraordinaries	ns	ns	63.0	(3.9)	5.2	7.1	13.9	(25.4)	37.0	13.9

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	340.0	403.8	434.2
Change in provisions excluding tax provisions	5.3	(31.2)	(0.6)	(15.4)	(12.3)	(8.9)	26.2	(1.4)	0.0	0.0
Change in net working capital	39.5	(18.6)	(112.6)	(32.3)	(31.9)	(41.9)	(162.4)	119.8	(66.7)	(45.7)
Gross operating cash flow	270.5	189.3	142.4	209.8	217.9	247.8	276.0	458.4	337.2	388.5
Taxes paid	(13.1)	(18.5)	(32.9)	(25.5)	(16.8)	(24.9)	(27.5)	(30.2)	(46.8)	(56.3)
Capex	(84.9)	(118.1)	(172.9)	(151.6)	(161.3)	(199.8)	(251.1)	(172.2)	(185.5)	(171.2)
Free cash flow	172.5	52.7	(63.3)	32.7	39.8	23.1	(2.6)	256.0	104.8	161.0
Net interest received	(26.7)	(18.2)	(16.0)	(14.8)	(22.0)	(30.8)	(31.5)	(50.2)	(43.5)	(39.6)
Other	19.7	17.2	75.5	96.6	(25.4)	42.1	24.2	(67.9)	32.7	16.6
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)	(51.9)	(71.1)
Extraordinary items (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in interest-bearing debt	(120.9)	32.5	77.4	20.6	39.1	136.4	180.4	(82.5)	(42.1)	(66.8)
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	101.7	92.9	85.0
Net tangible fixed assets	777.6	757.6	791.6	799.8	824.2	917.6	1,070.7	1,174.6	1,229.2	1,266.3
Financials fixed assets (FFA)	269.9	303.7	331.1	325.5	348.6	303.4	247.7	271.8	260.5	269.9
Inventories	311.8	322.6	419.3	348.3	368.8	385.4	510.5	399.4	435.2	466.1
Trade debtors	311.4	307.7	385.2	354.2	398.9	437.7	483.2	453.6	493.3	528.3
Other debtors	52.1	45.5	44.9	63.4	63.7	73.1	125.3	107.4	126.5	127.8
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	2,626.8	2,756.0	2,861.8
Shareholder's equity	758.4	790.8	909.7	1,057.5	1,060.1	1,098.2	1,130.6	1,205.0	1,330.9	1,462.3
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	54.4	71.8	91.6
Provisions	413.9	361.5	373.0	357.5	331.4	298.8	373.4	372.1	372.1	372.1
Long-term interest bearing debt	324.3	312.3	242.3	288.3	274.4	322.5	288.1	293.7	251.6	184.7
Short-term interest bearing debt	146.7	176.6	312.0	245.6	218.0	253.0	503.1	415.0	415.0	415.0
Trade creditors	184.9	191.4	250.8	187.4	227.8	231.7	253.8	216.6	239.4	256.4
Other non-interest bearing liabilities	49.5	61.6	52.7	52.0	59.3	60.0	76.4	70.0	75.2	79.8
Total Liabilities & Capital	1,922.1	1,937.6	2,189.3	2,239.3	2,219.8	2,312.6	2,667.2	2,626.8	2,756.0	2,861.8
Enterprise Value (EV)	1,225.1	1,220.3	1,330.5	1,525.9	1,863.3	1,875.6	1,333.8	1,954.4	1,929.7	1,882.6
Net debt/(Net cash)	398.8	407.9	455.4	311.2	411.2	502.2	672.9	590.4	548.2	481.4
Capital Employed incl. goodwill (avg.)	1,529.7	1,383.0	1,458.6	1,515.7	1,517.1	1,610.5	1,850.3	2,008.6	2,054.5	2,150.2
Cumulative goodwill (as of 1991)	113.0	121.1	131.3	85.3	82.2	75.2	74.6	74.6	74.6	74.6
Capital Employed (avg.)	1,410.5	1,266.0	1,332.4	1,407.4	1,433.3	1,531.8	1,775.5	1,934.0	1,979.9	2,075.6
Net working capital	440.9	422.9	545.9	526.6	544.3	604.6	788.8	673.8	740.4	786.1
Discounted value of leases		29.6	26.3	36.6	32.2	28.6	28.9	31.6	33.8	35.8
Adjusted equity	871.4	911.9	1,041.0	1,142.9	1,142.3	1,173.3	1,205.2	1,279.6	1,405.5	1,536.9

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	19.8	19.8	19.8
Enterprise Value (EV)	55.38	55.29	60.83	70.87	88.95	94.58	67.42	98.79	97.54	95.16
Net debt less FFA plus minorities	7.83	6.68	7.92	1.71	5.32	12.47	23.60	18.85	18.17	15.32
Sales	84.13	81.27	79.46	88.49	93.51	108.47	135.02	124.90	133.84	143.33
EBITDA	10.19	10.81	11.66	11.90	12.20	14.90	20.90	17.19	20.41	21.95
EBITA	3.45	5.06	6.75	6.93	7.05	8.93	12.49	10.21	13.35	14.77
EBIT	2.90	5.06	6.34	6.30	6.79	8.71	10.67	10.21	13.35	14.77
Net profit before extr. & amort. (EUR)	(1.54)	3.92	6.86	6.91	6.90	7.84	10.64	6.56	8.99	10.24
Net profit before extraordinaries (EUR)	(2.09)	3.92	6.44	6.27	6.64	7.63	8.83	6.56	8.99	10.24
Cash Flow (EUR)	5.20	9.68	11.76	11.87	12.05	13.82	19.06	13.54	16.05	17.41
Gross Dividend (EUR)	1.68	1.75	2.00	3.00	2.50	2.76	2.80	2.62	3.60	4.09
Book value (EUR)	34.28	35.83	41.59	49.12	50.61	55.38	57.15	60.91	67.27	73.92
Adjusted equity	39.39	41.32	47.59	53.08	54.54	59.17	60.92	64.68	71.04	77.69
Free Cash Flow	7.79	2.38	(2.89)	1.51	1.85	1.15	(0.13)	12.94	5.30	8.14
% change in EPS before extr. & amort.	ns	ns	74.88	0.76	(0.11)	13.68	35.68	(38.34)	36.99	13.88

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	8.3	13.3	9.7	8.5
P/CF (x)	8.5	4.3	4.3	5.5	6.8	7.1	4.6	6.5	5.4	5.0
P/Book (x)	1.3	1.4	1.4	1.6	1.9	1.7	0.8	1.4	1.3	1.2
Dividend yield (%)	3.8	4.2	4.0	4.6	3.0	2.8	3.2	3.0	4.1	4.7
Free cash flow yield (%)	14.6	2.2	(7.2)	0.4	0.9	(0.5)	(2.5)	11.9	3.5	7.0
EV/Sales (x)	0.7	0.7	0.8	0.8	0.9	0.9	0.5	0.8	0.7	0.7
EV/EBITDA (x)	5.4	5.1	5.2	5.9	7.1	6.3	3.2	5.7	4.8	4.3
EV/EBITA (x)	16.0	10.9	9.0	10.2	12.3	10.5	5.4	9.7	7.3	6.4
EV/EBIT (x)	19.1	10.9	9.6	11.2	12.8	10.7	6.3	9.7	7.3	6.4
EV/Capital Employed (x)	0.9	1.0	1.0	1.1	1.3	1.2	0.8	1.0	1.0	0.9
EV/CE (incl. goodwill) (x)	0.8	0.9	0.9	1.0	1.2	1.2	0.7	1.0	0.9	0.9
Share price : High (EUR)	50.90	50.70	59.75	78.95	99.60	113.40	120.32	87.66		
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	87.40	87.40	87.40
Share price : Year end (EUR)	43.15	50.50	58.75	78.95	94.70	92.00	48.32	87.40	87.40	87.40

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	2.1	2.2	2.2
Sales/Net working capital (x)	4.2	4.2	3.2	3.6	3.7	3.6	3.4	3.7	3.6	3.6
Inventories/Sales (days)	61.1	65.5	87.9	66.4	67.0	64.7	70.0	59.0	60.0	60.0
Trade debtors/Sales (days)	61.0	62.5	80.7	67.5	72.5	73.5	66.2	67.0	68.0	68.0
Trade creditors/Sales (days)	36.2	38.9	52.6	35.7	41.4	38.9	34.8	32.0	33.0	33.0
CAPEX/Depreciation (%)	56.8	92.8	160.7	141.1	145.7	166.9	151.3	124.8	132.8	120.6
Equity/Total assets (%)	39.5	40.8	41.6	47.2	47.8	47.5	42.4	45.9	48.3	51.1
Net debt/Equity (%)	52.6	51.6	50.1	29.4	38.8	45.7	59.5	49.0	41.2	32.9
Interest cover (x)	2.4	3.2	6.3	4.8	5.5	5.2	5.4	3.7	5.5	6.6
Dividend payout (%)	(108.8)	44.6	29.1	43.2	35.3	34.8	26.4	40.0	40.0	40.0
ROCE (average) (%)	4.8	7.8	9.4	8.0	8.9	10.0	11.7	8.3	10.4	10.8
ROCE (incl. goodwill) (average) (%)	4.4	7.1	8.6	7.4	8.4	9.5	11.2	7.9	10.0	10.5

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	165.3	156.4	164.8	173.5
Wage costs per FTE employee ('000s)	53.5	47.6	41.7	42.0	38.9	33.8	32.5	33.4	34.2	35.0
EBIT per FTE employee ('000s)	6.3	10.5	12.9	12.7	12.3	12.5	13.1	12.8	16.4	17.9
Gross margin (%)										
EBITDA margin (%)	12.1	13.3	14.7	13.4	13.0	13.7	15.5	13.8	15.3	15.3
Operating margin (%)	3.4	6.2	8.0	7.1	7.3	8.0	7.9	8.2	10.0	10.3
Net margin (%)	(2.5)	3.4	6.3	5.5	5.1	5.5	6.4	4.6	6.3	6.6
Tax rate (%)	11.0	11.9	15.5	25.0	16.0	14.3	15.8	21.0	22.0	23.0

Important disclosures

Issuer	Ticker	Price (EUR)
Bekaert	BEKB.BR	87.40

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Maarten Bakker - Equity Research Analyst

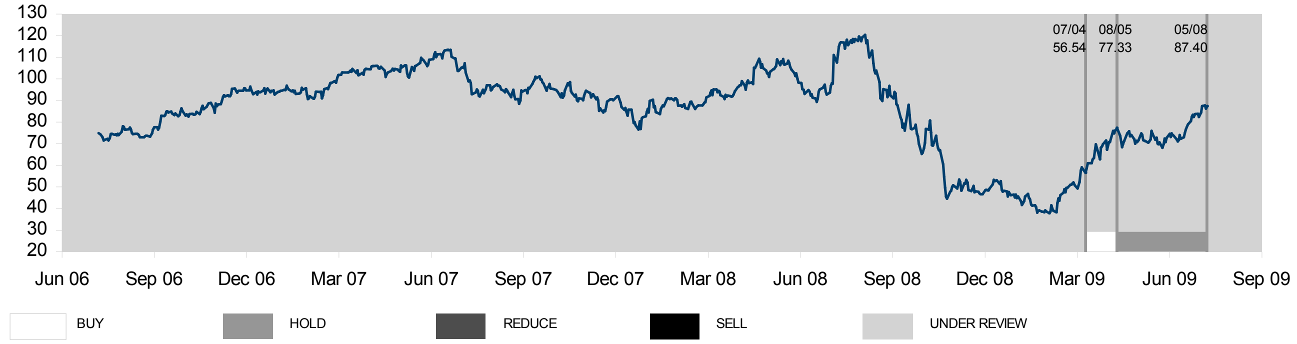
Analysts' compensation is determined based upon activities and services intended to benefit the clients of Fortis Bank (Nederland) N.V. and its affiliates. Like all Fortis (Nederland) N.V. and affiliate employees, analysts receive compensation that is impacted by overall Fortis Bank (Nederland) N.V.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

Fortis Bank (Nederland) N.V. and affiliates equity research ratings distribution (primary covered stocks)

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%	43%	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%	44%	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%	8%	17%
SELL	SELL	The investment case is definitively negative. Investors should sell the stock at any conditions. Expected performance: negative	5%	0%

6 August 2009 Fortis Bank (Nederland) N.V. Primary Equity Research Coverage: 84

Historical equity recommendations and target price for Bekaert (EUR)



History of Target Prices

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

History of Recommendations

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

Source: Fortis Equity Research, FactSet

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