

Bekaert

Indy - Industrial, Diversified / Belgium

Target Price EUR 134.00

Expected performance (12 mth) 14.8%

BUY EUR 116.70 (Closing price 07-Jan-10)

Emerging growth complemented by mature recovery

8 January 2010

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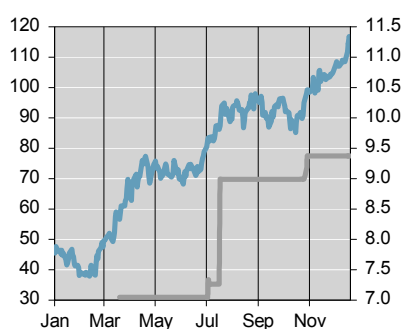
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Opinion on qualitative criteria

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 Fortis EPS est. 2010



Source: FactSet, Fortis Equity Research

Market capitalisation (EUR m)	2,308.7
No. of shares (m)	19.8
Free float	62.0%
1/3/12 mth perf. (%)	11.9/29.3/121.5
High/low 52 weeks (EUR)	116.70/37.88
Next results due	26 February 2010
Price/book value (x)	1.7
Volatility (β) (5yrs/)	
Reuters symbol	BEKB.BR
Bloomberg symbol	BEKB BB
Website	www.bekaert.com

Investment case

We highlight the Bekaert stock as a play on emerging markets, where >70% of revenue is generated (with dominant positions in China (tyre cord) and several Latin American countries). The emerging market operations have proven to be surprisingly resilient during the economic downturn, and their growth potential will be a differentiating factor in the years to come. We expect that the emerging markets appeal will be underscored by more news flow about capacity expansion plans. For example, industry watcher Steel Business Briefing reported that Bekaert and Ansteel have signed a memorandum of understanding to co-invest in the longer run in 500K tonnes of capacity in China (to put this in perspective, we note that Bekaert currently has ~325K tonnes capacity in China). Bekaert will likely confirm it once more details are known. A next success story could very well be Bekaert's foothold in India, which will prosper from the take off of the automotive industry. We mind not to sneeze at the mature EMEA and North America divisions, as they will contribute significantly to Bekaert's earnings with a cyclical recovery from 2010 (if only for the fading out of the EUR 40m inventory write down in 1H09). The market underestimates in our view Bekaert's earnings potential. Our EPS forecasts for 2009/2010/2011 are 10/12/10 percent ahead of the consensus. As such, we believe that earnings upgrades from other brokers will be a positive catalyst for the Bekaert stock. Following a strong performance, the Bekaert stock still trades at a compelling 2010/2011 valuation of 12.5/10.9x P/E, which does not fully reflect the aforementioned attractions. Our price target of EUR 134 is the average of a returns based valuation (EV/CE = ROCE/WACC) on our forecasts for 2010 (EUR 127) and 2011 (EUR 141).

Year to December	2007	2008	2009e	2010e	2011e
Sales (EUR m)	2,173.6	2,662.4	2,438.7	2,616.5	2,803.6
EBITDA (EUR m)	298.6	412.2	352.1	409.0	441.1
Net profit excl. extr. & amort. (EUR m)	157.2	209.9	140.8	185.4	211.2
Net profit (EUR m)	152.9	174.1	140.8	185.4	211.2
EBITDA margin (%)	13.7	15.5	14.4	15.6	15.7
ROCE (incl. goodwill) (%)	9.5	11.2	8.6	10.6	11.1
Net gearing (%)	45.7	59.5	39.7	33.6	25.2
EPS before extr. & amort. (EUR)	7.84	10.64	7.12	9.37	10.68
EPS (EUR)	7.63	8.83	7.12	9.37	10.68
DPS (EUR)	2.76	2.80	2.85	3.75	4.27
% change sales	8.2	22.5	(8.4)	7.3	7.2
% change EPS (excl. extr. & amort.)	13.7	35.7	(33.1)	31.7	13.9
EV/Sales	0.86	0.50	0.93	0.92	0.84
EV/EBITDA	6.3	3.2	6.4	5.9	5.3
P/E (excl. extr. & amort.)	12.5	8.3	10.6	12.5	10.9
P/E	12.9	10.0	10.6	12.5	10.9
PE/growth (excl. extr.)	1.2	0.5	nmf	4.1	0.5
Free cash flow yield (%)	(0.5)	(2.5)	19.7	3.2	5.9

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Sales by segment 2008 (%)

Automotive	31.0
Construction	23.0
Utilities & Energy	16.0
Agriculture	9.0
Consumer	9.0
Mechanical engineering	7.0
Basic materials	5.0

Source: Company, Fortis Equity Research

Sales by region 2008 (%)

EMEA	28.8
North America	15.0
Latin America	38.0
Asia Pacific	18.1

Source: Company, Fortis Equity Research

Capital ownership (%)

Stichting Administratiekantoor Bekaert	38.3
Founding family	0.7
BlackRock	3.3
AXA S.A.	3.0

Source: Company, Fortis Equity Research

Peer group**Management**

Bert De Graeve (CEO)
Bruno Humblet (CFO)

Investor relations

Jacques Anckaert (tel: +32 (0)56 230 572)

Next dividend date

19 May 2010

Profile and strategy

Bekaert is the world leader in transforming metal wire products, with plants in 35 countries and customers in over 120 countries. The basic raw material is wire rod (steel wire with a diameter of about 0.6-1.0 centimetres), 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, 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, such as automotive (tyre cord, suspension and valve spring wire, windshield wiper wire), construction (steel fibre to reinforce concrete, elevator belts and cables, road reinforcement products), utility & energy (photovoltaic and silicon sawing wire, galvanised armouring wire for submarine cables), agriculture (fencing) and consumer (champagne cork wire, bra wire). The company is the market leader in about 60% of the end-markets that it serves.

Bekaert has a particularly strong exposure to the automotive sector (31% of sales). Note, however, that two-thirds of its automotive-related sales consist of steel cord for reinforcing radial car and truck tyres, which it supplies to practically all the world's major tyre manufacturers (in the non-captive segment, Bekaert boasts a global market share of 25%). It is important to realise that three out of four tyres are destined for the replacement market, which reduces Bekaert's vulnerability to cyclical movements in the (OEM) automotive market.

Since 2000, Bekaert has successfully adapted the company's geographic footprint to changing industrial developments (such as the relocation of manufacturing activity to low-cost countries). It invested aggressively in expansion in Asia, Latin America and Eastern Europe. Over 70% of sales is now generated in emerging markets (up from 40% in 2003). Bekaert has a dominant position in the Chinese market of tyre cord (~35% markets share). In Latin America (38% of sales), Bekaert has a share of over 50% in many of the markets served by it. The company continues to make Greenfield investments in China, India, Indonesia and Russia, which will come on steam over the next few years. Bekaert's emerging markets operations have proven remarkably resilient in the downturn and they offer promising growth opportunities in the years to come.

Bekaert is strongly committed to R&D, in which >EUR 70m is invested annually (or 3% of sales). It limits the risk of commoditisation and it enables Bekaert to enhance 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.

SWOT analysis**Strengths**

- >70% of sales generated from emerging markets
- Strong track record management
- Dominant position tyre cord (25% global share)
- Robust balance sheet (1.3x net debt/EBITDA)
- Focus on R&D

Opportunities

- Further capacity expansion in BRIC countries
- Market-driven innovation and R&D to further shift focus on higher added value and higher-growth products

Weaknesses

- The customer base in tyre cord (tyre manufacturers) is highly concentrated outside China
- Part of revenue still derived from commodity products

Threats

- Significant exposure to currency translation risk (75% of sales in non-euro currencies)
- Sharp fluctuations in prices for the key raw material wire rod (although these are generally passed on)
- Increasing competition for commodity products
- Pressure on high margin (>30%) Asia Pacific division

Source: Fortis Equity Research

Bekaert

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	2,438.7	2,616.5	2,803.6
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)	(525.3)	(547.7)	(570.9)
Other operating costs										
EBITDA	225.8	239.1	255.6	257.4	262.2	298.6	412.2	352.1	409.0	441.1
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	214.1	269.3	299.1
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	214.1	269.3	299.1
Net financials	(130.1)	(43.0)	(20.5)	(15.3)	(31.0)	(41.0)	(49.2)	(54.0)	(45.3)	(41.2)
Profit Before Taxes (PBT)	(65.9)	68.8	118.5	121.0	114.9	133.6	161.2	160.1	224.1	257.9
Taxes	7.2	(8.2)	(18.4)	(30.3)	(18.4)	(19.1)	(25.5)	(33.6)	(49.3)	(59.3)
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)	(22.9)	(30.2)	(34.4)
Net profit before extraordinary	(46.3)	86.7	141.3	135.7	142.8	152.9	174.1	140.8	185.4	211.2
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	140.8	185.4	211.2
% change in Sales	3.8	(3.6)	(3.1)	9.9	5.0	8.2	22.5	(8.4)	7.3	7.2
% change in EBITDA	8.8	5.9	6.9	0.7	1.8	13.9	38.0	(14.6)	16.2	7.8
% change in EBITA	22.5	46.5	32.4	1.3	1.0	18.1	37.7	(13.0)	25.8	11.1
% change in PBT	ns	ns	72.1	2.1	(5.0)	16.3	20.7	(0.7)	39.9	15.1
% change in Net profit before extraordinary	ns	ns	63.0	(3.9)	5.2	7.1	13.9	(19.1)	31.7	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	352.1	409.0	441.1
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)	195.4	(61.8)	(40.2)
Gross operating cash flow	270.5	189.3	142.4	209.8	217.9	247.8	276.0	546.2	347.3	400.9
Taxes paid	(13.1)	(18.5)	(32.9)	(25.5)	(16.8)	(24.9)	(27.5)	(33.6)	(49.3)	(59.3)
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)	340.4	112.5	170.4
Net interest received	(26.7)	(18.2)	(16.0)	(14.8)	(22.0)	(30.8)	(31.5)	(46.2)	(37.4)	(33.4)
Other	19.7	17.2	75.5	96.6	(25.4)	42.1	24.2	(49.1)	12.7	16.0
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)	(56.3)	(74.2)
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	(189.7)	(31.5)	(78.8)
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	252.3	260.5	269.9
Inventories	311.8	322.6	419.3	348.3	368.8	385.4	510.5	387.5	422.9	453.2
Trade debtors	311.4	307.7	385.2	354.2	398.9	437.7	483.2	427.6	466.0	499.3
Other debtors	52.1	45.5	44.9	63.4	63.7	73.1	125.3	106.0	124.8	125.8
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	2,568.1	2,714.6	2,817.8
Shareholder's equity	758.4	790.8	909.7	1,057.5	1,060.1	1,098.2	1,130.6	1,216.0	1,345.1	1,482.1
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	55.5	73.6	94.2
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	186.6	155.1	76.3
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	253.9	279.6	299.6
Other non-interest bearing liabilities	49.5	61.6	52.7	52.0	59.3	60.0	76.4	69.1	74.2	78.5
Total Liabilities & Capital	1,922.1	1,937.6	2,189.3	2,239.3	2,219.8	2,312.6	2,667.2	2,568.1	2,714.6	2,817.8
Enterprise Value (EV)	1,225.1	1,220.3	1,330.5	1,525.9	1,863.3	1,875.6	1,333.8	2,265.8	2,414.7	2,356.5
Net debt/(Net cash)	398.8	407.9	455.4	311.2	411.2	502.2	672.9	483.2	451.8	372.9
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	1,970.8	1,976.4	2,067.0
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	1,896.2	1,901.8	1,992.4
Net working capital	440.9	422.9	545.9	526.6	544.3	604.6	788.8	598.1	659.9	700.1
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	1,290.6	1,419.6	1,556.7

Bekaert

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	114.53	122.06	119.11
Net debt less FFA plus minorities	7.83	6.68	7.92	1.71	5.32	12.47	23.60	14.48	13.39	9.97
Sales	84.13	81.27	79.46	88.49	93.51	108.47	135.02	123.27	132.26	141.71
EBITDA	10.19	10.81	11.66	11.90	12.20	14.90	20.90	17.80	20.68	22.30
EBITA	3.45	5.06	6.75	6.93	7.05	8.93	12.49	10.82	13.61	15.12
EBIT	2.90	5.06	6.34	6.30	6.79	8.71	10.67	10.82	13.61	15.12
Net profit before extr. & amort. (EUR)	(1.54)	3.92	6.86	6.91	6.90	7.84	10.64	7.12	9.37	10.68
Net profit before extraordinary (EUR)	(2.09)	3.92	6.44	6.27	6.64	7.63	8.83	7.12	9.37	10.68
Cash Flow (EUR)	5.20	9.68	11.76	11.87	12.05	13.82	19.06	14.09	16.43	17.85
Gross Dividend (EUR)	1.68	1.75	2.00	3.00	2.50	2.76	2.80	2.85	3.75	4.27
Book value (EUR)	34.28	35.83	41.59	49.12	50.61	55.38	57.15	61.46	67.99	74.92
Adjusted equity	39.39	41.32	47.59	53.08	54.54	59.17	60.92	65.23	71.76	78.69
Free Cash Flow	7.79	2.38	(2.89)	1.51	1.85	1.15	(0.13)	17.20	5.68	8.61
% change in EPS before extr. & amort.	ns	ns	74.88	0.76	(0.11)	13.68	35.68	(33.14)	31.70	13.92

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	10.6	12.5	10.9
P/CF (x)	8.5	4.3	4.3	5.5	6.8	7.1	4.6	5.3	7.1	6.5
P/Book (x)	1.3	1.4	1.4	1.6	1.9	1.7	0.8	1.8	1.7	1.6
Dividend yield (%)	3.8	4.2	4.0	4.6	3.0	2.8	3.2	3.8	3.2	3.7
Free cash flow yield (%)	14.6	2.2	(7.2)	0.4	0.9	(0.5)	(2.5)	19.7	3.2	5.9
EV/Sales (x)	0.7	0.7	0.8	0.8	0.9	0.9	0.5	0.9	0.9	0.8
EV/EBITDA (x)	5.4	5.1	5.2	5.9	7.1	6.3	3.2	6.4	5.9	5.3
EV/EBITA (x)	16.0	10.9	9.0	10.2	12.3	10.5	5.4	10.6	9.0	7.9
EV/EBIT (x)	19.1	10.9	9.6	11.2	12.8	10.7	6.3	10.6	9.0	7.9
EV/Capital Employed (x)	0.9	1.0	1.0	1.1	1.3	1.2	0.8	1.2	1.3	1.2
EV/CE (incl. goodwill) (x)	0.8	0.9	0.9	1.0	1.2	1.2	0.7	1.1	1.2	1.1
Share price : High (EUR)	50.90	50.70	59.75	78.95	99.60	113.40	120.32	109.05	116.70	
Share price : Low (EUR)	35.76	31.00	43.50	55.40	69.35	84.46	44.47	37.88	108.50	
Share price : Average (EUR)	44.32	41.40	50.13	65.17	82.18	98.18	88.25	75.32	116.70	116.70
Share price : Year end (EUR)	43.15	50.50	58.75	78.95	94.70	92.00	48.32	108.50	116.70	116.70

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	1.4
Sales/Fixed assets (x)	2.4	2.4	2.2	2.4	2.4	2.4	2.5	2.1	2.1	2.2
Sales/Net working capital (x)	4.2	4.2	3.2	3.6	3.7	3.6	3.4	4.1	4.0	4.0
Inventories/Sales (days)	61.1	65.5	87.9	66.4	67.0	64.7	70.0	58.0	59.0	59.0
Trade debtors/Sales (days)	61.0	62.5	80.7	67.5	72.5	73.5	66.2	64.0	65.0	65.0
Trade creditors/Sales (days)	36.2	38.9	52.6	35.7	41.4	38.9	34.8	38.0	39.0	39.0
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	47.3	49.5	52.6
Net debt/Equity (%)	52.6	51.6	50.1	29.4	38.8	45.7	59.5	39.7	33.6	25.2
Interest cover (x)	2.4	3.2	6.3	4.8	5.5	5.2	5.4	4.3	6.4	7.9
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	8.9	11.0	11.6
ROCE (incl. goodwill) (average) (%)	4.4	7.1	8.6	7.4	8.4	9.5	11.2	8.6	10.6	11.1

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	154.9	163.4	172.1
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	13.6	16.8	18.4
Gross margin (%)										
EBITDA margin (%)	12.1	13.3	14.7	13.4	13.0	13.7	15.5	14.4	15.6	15.7
Operating margin (%)	3.4	6.2	8.0	7.1	7.3	8.0	7.9	8.8	10.3	10.7
Net margin (%)	(2.5)	3.4	6.3	5.5	5.1	5.5	6.4	5.2	6.7	7.1
Tax rate (%)	11.0	11.9	15.5	25.0	16.0	14.3	15.8	21.0	22.0	23.0