

Earnings revision

Engineering & machinery

Belgium

Maintained

Bekaert

Hold

Target price raised to €90

09/11/06

Previously: €88.50

Reuters: BERTt.BR

Price: €83.70

12-mth target: €90.00

● We have revised our forecasts following a slightly better-than-expected 3Q06 trading update.

● The resulting increases in EPS for 2006F and 2008F lead us to raise our TP from €88.50 to €90, in line with a 5% discount to our DCF valuation for Bekaert. Our corresponding recommendation is HOLD, as our forecast total return on a 12-month horizon is 10.2%.

Bekaert's 3Q06 sales update highlighted a return to – albeit limited – organic sales growth and came in c.2% ahead of expectations at €495.6m. We believe the organic growth was mainly due to volume growth, at relatively stable prices. European wire sales also reversed 1H06's declining trend, although the c.18% turnover growth in 3Q06 was almost completely due to the change in consolidation scope.

Bekaert did not provide an update on the negotiations with Uralkord (the Russian market leader in steel cord). These talks are still ongoing.

In view of further Bekaert steel cord capacities coming on stream in China (we estimate Bekaert to have used c.85% of the intended 200,000 tonnes of capacity in 3Q06), additional volume growth in China should be on the cards for the upcoming quarters. Moreover, production disruption at Bekaert's client Goodyear should have reduced its inventory levels, which bodes well for recovering demand at Bekaert. As such, we believe Bekaert will be able to post 6.2% YoY sales growth in 4Q06F. We have revised our forecasts on Bekaert to account for its 3Q06 trading update. The resulting earnings revision is positive as our forecasts already attempted to incorporate the continued weakening of Bekaert's European and US markets (which management hinted at in its 1H06 and 3Q06 outlook statements).

Bekaert: Earnings revision

	2006F	2007F	2008F
New EPS (€)	6.50	6.78	6.84
Previous EPS (€)	6.20	6.76	6.50
Revision (%)	4.8	0.4	5.4

Source: ING estimates

We maintain our HOLD recommendation, although we expect Bekaert's shares to capitalise on next week's investor meeting in China and (in a longer run) on its sound long-term strategy of building up, ahead of its competitors, a worldwide platform in (growth) areas such as China, Latin America, Central Europe, India and Russia. Besides this first-mover advantage, we believe Bekaert will remain a leading worldwide player thanks to its other fundamental strengths: strong worldwide market shares, leading technology, focus on quality, etc.

12-month forecast returns (%)

Share price	7.5
Dividend	2.7
12m f'cst total return	10.2

Forecasts and ratios

Yr to Dec (€m)	2005	2006F
Turnover	1,914.3	2,008.9
EBITDA	257.4	247.7
Net profit	189.9	139.6
Adj EPS	6.32	6.50
Adj PER (x)	13.2	12.9
Dividend yield (%)	3.6	2.7
EV/EBITDA (x)	8.2	8.6
Price/NAV (x)	1.7	1.5
ROE (%)	13.6	12.4

Share data

No. of shares (m)	21.5
Daily turnover (shares)	20,120
Free float (%)	60.0
Enterprise value (€m)	2,125.5
Market cap (€m)	1,797.0

Share price performance



Source: ING

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SEE THE DISCLOSURES APPENDIX FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

Company profile

Overview

Bekaert produces and markets a range of products based on metal-forming and coating technologies. Incorporated in 1880, it has evolved from a small manufacturing and trading company into a global group. Internationalisation began in the 1920s in Western Europe, then in Latin America and, since the 1970s, in North America and Asia. In January 2005, it divested from European fencing systems.

Advanced wire products

This is the company's main division (c.85% of sales), which groups wire and steel cord activities. Bekaert produces mainly for the automotive and construction sectors. Its product range includes industrial spring wire, flexible hose reinforcement wire, plastic-coated specialities and champagne cork wire. Bekaert's steel cord activities are mainly linked to tyre reinforcement (tyre cord and bead wire).

Advanced materials

This division (c.7% of sales) is focused on specific innovative industrial products in less cyclical markets (fibre technologies and combustion technologies).

Advanced coatings

Bekaert is specialised in sputtering, a high-end process in which a coating is deposited on a substrate under vacuum. Applications include diamond-like coatings (eg, used in DVD production) and specialised window films (for solar control and safety enhancement). This activity represents c.8% of sales.

Risks

Bekaert's business model is sensitive to economic cycles (at a global level), to US\$ weakness (compared with the euro) and could suffer from raw material (wire rod) price increases when the economic climate weakens as this would lower its pricing power.

Financials

Yr to Dec (€m)	2005	2006F	2007F	2008F
Income statement				
Turnover	1,914.3	2,008.9	2,148.9	2,262.8
EBITDA	257.4	247.7	268.3	284.0
Net financial charges	(15.3)	(19.4)	(20.0)	(21.5)
Operating exceptionals	0.0	0.0	0.0	0.0
Adj pre-tax profit	177.9	171.3	183.2	187.5
Corporate exceptionals	0.0	0.0	0.0	0.0
Profit/loss on sale of tangible fixed assets	0.0	0.0	0.0	0.0
Amortisation of goodwill	0.0	0.0	0.0	0.0
Pre-tax profit	177.9	171.3	183.2	187.5
Taxes	(30.3)	(29.7)	(35.6)	(38.6)
Extraordinary items (net)	54.2	0.0	0.0	0.0
Minorities	(12.0)	(2.0)	(2.0)	(2.0)
Preference dividend	0.0	0.0	0.0	0.0
Net profit	189.9	139.6	145.6	146.9
Balance sheet				
Total fixed assets and L/T investments	1,239.2	1,342.2	1,442.1	1,537.1
Working capital	396.8	394.3	421.9	444.9
L/T non-interest-bearing liabilities	184.4	184.4	184.4	184.4
Enterprise net assets	1,451.6	1,552.1	1,679.6	1,797.5
Group equity	1,130.3	1,223.6	1,319.6	1,414.9
Net debt	321.3	328.5	360.0	382.6
Capital employed	1,451.6	1,552.1	1,679.6	1,797.5
Cash flow				
Operating cash flow	307.5	319.6	291.8	306.7
Cash taxes	(30.3)	(29.7)	(35.6)	(38.6)
Net financial charges (CF)	(15.3)	(19.4)	(20.0)	(21.5)
Gross cash flow	262.0	270.5	236.2	246.7
Capital expenditures (net of disposals)	(204.5)	(160.0)	(165.0)	(170.0)
Free cash flow	57.5	110.5	71.2	76.7
Ratios (%)				
EBITDA margin	13.4	12.3	12.5	12.6
Operating margin	7.1	6.8	6.9	7.1
Net debt/equity	28.4	26.9	27.3	27.0
ROACE	9.3	8.3	8.1	7.7
ROE	13.6	12.4	12.0	11.2
Growth (%)				
Turnover	(11.9)	4.9	7.0	5.3
EBITDA	(18.7)	(3.8)	8.3	5.9
Net profit	(19.0)	2.9	4.3	0.9
Valuation				
EV/EBITDA (x)	8.2	8.6	8.0	7.7
Adj EPS (€)	6.32	6.50	6.78	6.84
Adj PER (x)	13.2	12.9	12.3	12.2
Price/NAV (x)	1.7	1.5	1.4	1.3
DPS (€)	3.00	2.25	2.40	2.50
Dividend yield (%)	3.6	2.7	2.9	3.0

Source: Company data, ING estimates

Disclosures Appendix

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Buy	47%	19%
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	100%	

* Percentage of companies in each rating category that are Investment Banking clients of ING Financial Markets LLC or an affiliate.

RATING DEFINITIONS

Buy: Forecast 12-mth absolute total return greater than +15%

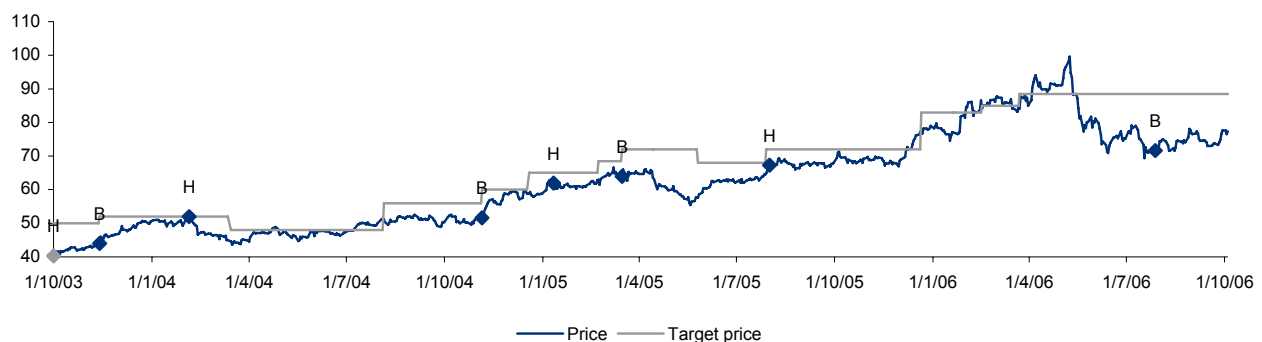
Hold: Forecast 12-mth absolute total return of +15% to -5%

Sell: Forecast 12-mth absolute total return less than -5%

Total return: forecast share price appreciation to target price plus forecast annual dividend. Price volatility and our preference for not changing recommendations too frequently means forecast returns may fall outside of the above ranges at times.

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PRICE AND RATINGS CHART: BEKAERT (BERTT.BR)



Current analyst/s

SB = Strong Buy; B = Buy; H = Hold; S = Sell; NR = Not Rated; R = Restricted

Where ING coverage is longer than three years, chart shows recommendation current at start of the share price history

Source: ING

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