

Change in recommendation

Engineering & machinery

Belgium

Previously: Hold

Bekaert

Buy

Upgrade to BUY

20/12/07

Maintained

Reuters: BEKB.BR

Price: €87.12

12-mth target: €108.00

- We upgrade Bekaert from a Hold to a BUY recommendation as we believe that its shares have fallen too much in recent weeks in the slipstream of cyclical stocks, although we consider that Bekaert's fundamentals remained intact.

- We maintain our €108 TP on Bekaert, which is backed by our DCF pointing to €112 per share.

Bekaert shares have lost more than 10% since 13 November, whereas the BEL20 has remained nearly unchanged over the same period. This is in our view mainly due to the sell-off in cyclical shares since then.

We consider this market reaction to Bekaert shares to be exaggerated, basically as we do not expect Bekaert's fundamentals to have altered since the company's 3Q07 trading update on 9 November, which we consider reassuring in terms of 3Q07 sales recorded as well as in terms of outlook. Management expected "to maintain its revenue growth in 2007", which appears to us to mean that the 3Q07 YTD sales growth of 5.6% is persisting in 4Q07. The US market conditions remain challenging (as before), notably in the automotive, building and agricultural sectors. In Latin America, the competitive environment should somewhat improve, however.

Moreover, we believe that Bekaert should be able to strengthen its gross margin slightly moving forward, basically as its geographical sales mix moves increasingly towards growth (higher-margin) markets such as China and as the company proactively assesses the need to scale down the capacity in mature (lower-margin) markets such as the US and Western Europe. As such, the company also attains more efficient capacity usage in mature markets.

Bekaert's shares trade at a c.15% discount to the median for Belgian small & mid caps in terms of PER, adj. EV/EBIT and adj. EV/EBITDA 2007-09F (adjusted for the sizeable contribution of the Latin American equity affiliates). A limited discount is understandable as Bekaert's business is to a certain extent cyclical, but the company's orientation to growth markets should be able to almost balance out the adverse cyclical effect. As such, we see the current share price level as a buying opportunity and upgrade the shares from a Hold to a **BUY** recommendation. We leave our DCF-based €108 TP unchanged.

We consider Bekaert a solid long-term investment, backed by its strategy to build, 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 that Bekaert will remain a leading worldwide player thanks to its other fundamental strengths: strong worldwide market shares, leading technology, focus on quality and a geographically well balanced manufacturing platform.

12-month forecast returns (%)	
Share price	24.0
Dividend	3.1
12m f'cst total return	27.1

Forecasts and ratios		
Yr to Dec (€m)	2006	2007F
Turnover	2,009.6	2,125.5
EBITDA	262.2	286.1
Net profit	142.3	135.9
Adj EPS	6.80	6.84
Adj PER (x)	12.8	12.7
Dividend yield (%)	2.9	3.1
EV/EBITDA (x)	8.5	7.9
Price/NAV (x)	1.7	1.7
ROE (%)	13.2	12.8

Share data	
No. of shares (m)	19.9
Daily turnover (shares)	52,359
Free float (%)	53.7
Enterprise value (€m)	2,273.7
Market cap (€m)	1,731.7



Luc Struelens

Brussels +32 2 547 3678

luc.struelens@ing.be

21 December 2007

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.83% of 2006 sales), which groups the 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 2006 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.6% of 2006 sales.

Geographic breakdown of combined sales (2006)

Europe 32%, Latin America 35%, US 18%, Asia 13%, ROW 2%.

Risks

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

Financials

Yr to Dec (€m)	2006	2007F	2008F	2009F
Income statement				
Turnover	2,009.6	2,125.5	2,423.1	2,501.1
EBITDA	262.2	286.1	322.0	325.5
Net financial charges	(31.7)	(33.8)	(34.8)	(35.6)
Operating exceptionals	0.0	0.0	0.0	0.0
Adj pre-tax profit	165.2	177.6	194.0	192.8
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	165.2	177.6	194.0	192.8
Taxes	(18.1)	(30.9)	(39.6)	(39.9)
Extraordinary items (net)	0.0	0.0	0.0	0.0
Minorities	(4.8)	(10.9)	(11.8)	(12.2)
Preference dividend	0.0	0.0	0.0	0.0
Net profit	142.3	135.9	142.6	140.7
Balance sheet				
Total fixed assets and L/T investments	1,302.6	1,407.9	1,494.6	1,532.5
Working capital	409.4	417.7	471.6	480.3
L/T non-interest-bearing liabilities	175.6	175.6	175.6	175.6
Enterprise net assets	1,536.4	1,650.0	1,790.6	1,837.2
Group equity	1,121.3	1,107.9	1,208.6	1,305.8
Net debt	415.0	542.1	582.0	531.4
Capital employed	1,536.4	1,650.0	1,790.6	1,837.2
Cash flow				
Operating cash flow	312.6	321.8	306.3	353.0
Cash taxes	(18.1)	(30.9)	(39.6)	(39.9)
Net financial charges (CF)	(31.7)	(33.8)	(34.8)	(35.6)
Gross cash flow	262.8	257.2	231.9	277.5
Capital expenditures (net of disposals)	(252.6)	(180.0)	(180.0)	(135.0)
Free cash flow	10.2	77.2	51.9	142.5
Ratios (%)				
EBITDA margin	13.0	13.5	13.3	13.0
Operating margin	7.3	7.8	7.9	7.6
Net debt/equity	37.0	48.9	48.2	40.7
ROACE	9.6	9.1	8.8	8.3
ROE	13.2	12.8	13.1	11.9
Growth (%)				
Turnover	5.0	5.8	14.0	3.2
EBITDA	1.8	9.1	12.5	1.1
Net profit	4.9	(4.5)	5.0	(1.4)
Valuation				
EV/EBITDA (x)	8.5	7.9	7.2	7.0
Adj EPS	6.80	6.84	7.17	7.08
Adj PER (x)	12.8	12.7	12.1	12.3
Price/NAV (x)	1.7	1.7	1.5	1.4
DPS	2.50	2.70	2.70	2.80
Dividend yield (%)	2.9	3.1	3.1	3.2

Source: Company data, ING estimates

Disclosures Appendix

ANALYST CERTIFICATION

The analyst(s) who prepared this report hereby certifies that the views expressed in this report accurately reflect his/her personal views about the subject securities or issuers and no part of his/her compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this report.

IMPORTANT DISCLOSURES

For disclosures on companies other than the subject companies of this report visit our disclosures page at <http://research.ing.com> or write to The Compliance Department, ING Financial Markets LLC, 1325 Avenue of the Americas, New York, USA, 10019.

US regulatory disclosures

Valuation & risks: For details of the methodologies used to determine our price targets and risks related to the achievement of these targets refer to main body of report and/or the most recent company report at <http://research.ing.com>.

European regulatory disclosures

The remuneration of research analysts is not tied to specific investment banking transactions performed by ING Group although it is based in part on overall revenues, to which investment banking contribute.

Financial interests: One of more members of ING Group may hold financial interests in the companies covered in this report other than those disclosed above.

Securities prices: Prices are taken as of the previous day's close on the home market unless otherwise stated.

Job titles. The functional job title of the person/s responsible for the recommendations contained in this report is equity research analyst unless otherwise stated. Corporate titles may differ from functional job titles.

Conflicts of interest policy. ING manages conflicts of interest arising as a result of the preparation and publication of research through its use of internal databases, notifications by the relevant employees and Chinese walls as monitored by ING Compliance. For further details see our research policies page at <http://research.ing.com>.

FOREIGN AFFILIATES DISCLOSURES

Each ING legal entity which produces research is a subsidiary, branch or affiliate of ING Bank N.V. See back page for the addresses and primary securities regulator for each of these entities.

RATING DISTRIBUTION (as of end 3Q07)

	Equity coverage	Investment Banking clients*
Buy	49%	28%
Hold	43%	26%
Sell	8%	24%
	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.

Research published prior to 15/12/05: EMEA equities' ratings were based on US dollar total returns; Western Europe's were based on: absolute return +25%, Strong Buy; greater than +10%, Buy; +10% to -10%, HOLD; lower than -10%, Sell.

PRICE & RATINGS HISTORY TO 03/12/07: BEKAERT (BEKB.BR)



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

Chart shows ING coverage: current analyst may or may not have covered the stock for the entire period shown
Where ING coverage is longer than three years, chart shows recommendation current at start of the share price history

Source: ING

AMSTERDAM Tel: 31 20 563 84 17	BRUSSELS Tel: 32 2 547 75 34	LONDON Tel: 44 20 7767 1000	NEW YORK Tel: 1 646 424 6000	SINGAPORE Tel: 65 6535 3688
Bratislava Tel: 421 2 5934 61 11	Edinburgh Tel: 44 131 527 3000	Madrid Tel: 34 91 789 8880	Paris Tel: 33 1 56 39 31 41	Shanghai Tel: 86 21 6841 3355
Bucharest Tel: 40 21 222 1600	Geneva Tel: 41 22 593 8050	Manila Tel: 632 479 8888	Prague Tel: 420 2 5747 1111	Sofia Tel: 359 2 917 6400
Budapest Tel: 36 1 268 0140	Hong Kong Tel: 852 2848 8488	Mexico City Tel: 52 55 5258 2000	Santiago Tel: 562 452 2700	Taipei Tel: 886 2 2734 7600
Buenos Aires Tel: 54 11 4310 4700	Istanbul Tel: 90 212 258 8770	Milan Tel: 39 02 89629 3660	Sao Paulo Tel: 55 11 4504 6000	Tokyo Tel: 813 5210 0100
Dubai Tel: 971 4 365 3430	Kiev Tel: 380 44 230 3030	Moscow Tel: 7495 755 5400	Seoul Tel: 822 317 1800	Warsaw Tel: 48 22 820 5018

Research offices: legal entity/address/primary securities regulator

Almaty	Representative office, ING Bank N.V. in Kazakhstan, 85a, Dostyk Avenue, Office 510, 050010, Almaty, Kazakhstan. <i>Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market & Financial Organizations</i>
Amsterdam	ING Bank N.V., Foppingadreef 7, Amsterdam, Netherlands, 1102BD. <i>Netherlands Authority for the Financial Markets</i>
Bratislava	ING Bank N.V., pobočka zahraničnej banky, Jesenskeho 4/C, 811 02 Bratislava, Slovak Republic. <i>National Bank of Slovakia</i>
Brussels	ING Belgium S.A./N.V., Avenue Marnix 24, Brussels, Belgium, B-1000. <i>Banking Finance and Insurance Commission</i>
Bucharest	ING Bank N.V. Bucharest Branch, 11-13 Kiseleff Avenue, Sector 1, Bucharest, Romania, 71268. <i>Romanian National Securities and Exchange Commission</i>
Budapest	ING Bank Zrt, Dozsa Gyorgy ut 84/B, H - 1068 Budapest, Hungary. <i>Hungarian Financial Supervisory Authority</i>
Dubai	ING Bank N.V. Dubai Branch, Level 2, Gate Village 05, Dubai International Financial Center (DIFC), PO Box 121208. <i>Dubai Financial Services Authority</i>
Edinburgh	ING Bank N.V. London Branch (Edinburgh office), 2 Canning Street Lane, Edinburgh, United Kingdom, EH3 8ER. <i>Financial Services Authority</i>
Hong Kong	ING Bank N.V. Hong Kong Branch, 39/F, One International Finance Centre, Central Hong Kong. <i>Hong Kong Monetary Authority</i>
Kiev	ING Bank Ukraine JSC, 30-a, Spaska Street, Kiev, Ukraine, 04070 <i>Ukrainian Securities and Stock Commission</i>
London	ING Bank N.V. London Branch, 60 London Wall, London EC2M 5TQ, United Kingdom. <i>Financial Services Authority</i>
Madrid	ING Bank NV, Sucursal en Espana, C/Genova, 27. 4th Floor, Madrid, Spain, 28004. <i>Comisión Nacional del Mercado de Valores</i>
Manila	ING Bank N.V. Manila Branch, 21/F Tower I, Ayala Avenue, 1226 Makati City, Philippines. <i>Philippine Securities and Exchange Commission</i>
Mexico City	ING Grupo Financiero (Mexico) S.A. de C.V., Bosques de Alisos 45-B, Piso 4, Bosques de Las Lomas, 05120, Mexico City, Mexico. <i>Comisión Nacional Bancaria y de Valores</i>
Milan	ING Bank N.V. Milano, Via Paleocapa, 5, Milano, Italy, 20121. <i>Commissione Nazionale per le Società e la Borsa</i>
Moscow	ING Bank (Eurasia) ZAO, 36, Krasnoproletarskaya ulitsa, 127473 Moscow, Russia. <i>Federal Financial Markets Service</i>
Mumbai	ING Vysya Bank Limited, A Wing, Shivsagar Estate, 2nd Floor, South Wing, Dr. Annie Besant Road, Worli, Mumbai, 400 018. <i>India Securities and Exchange Board of India</i>
New York	ING Financial Markets LLC, 1325 Avenue of the Americas, New York, United States, 10019. <i>Securities and Exchange Commission</i>
Paris	ING Belgium S.A., Succursale en France, Coeur Défense, Tour A, La Défense 4, 110 Esplanade du Général de Gaulle, Paris La Défense Cedex, 92931. <i>l'Autorité des Marchés Financiers</i>
Prague	ING Bank N.V. Prague Branch, Nadrazni 25, 150 00 Prague 5, Czech Republic. <i>Czech National Bank</i>
Sao Paulo	ING Bank N.V. Sao Paulo, Av. Brigadeiro Faria Lima n. 3.400, 11th Floor, Sao Paulo, Brazil 04538-132. <i>Securities and Exchange Commission of Brazil</i>
Singapore	ING Bank N.V. Singapore Branch, 19/F Republic Plaza, 9 Raffles Place, #19-02, Singapore, 048619. <i>Monetary Authority of Singapore</i>
Sofia	ING Bank N.V. Sofia Branch, 12 Emil Bersinski Str, Ivan Vazov Region, 1408 Sofia, Bulgaria. <i>Bulgarian Central Bank and Financial Supervision Commission</i>
Warsaw	ING Securities S.A., Plac Trzech Krzyzy, 10/14, Warsaw, Poland, 00-499. <i>Polish Financial Supervision Authority</i>

Disclaimer

This report has been prepared on behalf of ING (being for this purpose the wholesale and investment banking business of ING Bank NV and certain of its subsidiary companies) solely for the information of its clients. ING forms part of ING Group (being for this purpose ING Groep NV and its subsidiary and affiliated companies). It is not investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, ING makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. ING Group and any of its officers, employees, related and discretionary accounts may, to the extent not disclosed above and to the extent permitted by law, have long or short positions or may otherwise be interested in any transactions or investments (including derivatives) referred to in this report. In addition, ING Group may provide banking, insurance or asset management services for, or solicit such business from, any company referred to in this report. Neither ING Group nor any of its officers or employees accepts any liability for any direct or consequential loss arising from any use of this report or its contents. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report. This report is issued: 1) in the United Kingdom only to persons described in Articles 19, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and is not intended to be distributed, directly or indirectly, to any other class of persons (including private investors); 2) in Italy only to persons described in Article No. 31 of Consob Regulation No. 11522/98. Clients should contact analysts at, and execute transactions through, an ING entity in their home jurisdiction unless governing law permits otherwise. ING Bank N.V., London branch is authorised by the Dutch Central Bank and regulated by the Financial Services Authority for the conduct of UK business. It is incorporated in the Netherlands and its London branch is registered in the UK (number BR000341) at 60 London Wall, London EC2M 5TQ. ING Financial Markets LLC, which is a member of the NYSE, NASD and SIPC and part of ING, has accepted responsibility for the distribution of this report in the United States under applicable requirements. ING Vysya Bank Ltd is responsible for the distribution of this report in India.