

**Preview**  
28 July 2010

**Buy** (maintained)

Price (27/07/10)  
€150.55

Target price (12-mth)  
€155.00 (maintained)

Forecast total return  
5.0%

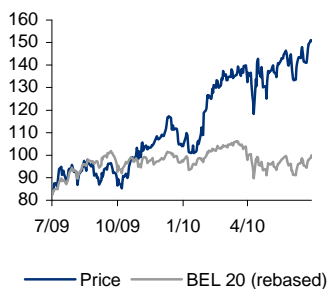
**Industrial Goods & Services**  
**Belgium**  
**Bloomberg: BEKB BB**  
**Reuters: BEKB.BR**

Share data

Avg daily volume (3-mth)	55,561
Free float (%)	60.9
Market cap (€m)	2,986.1
Net debt (1F, €m)	490
Enterprise value (1F, €m)	3,700
Dividend yield (1F, %)	2.1

Source: Company data, ING estimates

Share price performance



Source: ING

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## Bekaert

### 1H10 preview: the risk seems to be to the upside

**Bekaert reports 1H10 results on 30 July before market opening. Earnings growth should be strong, compared with a lacklustre 1H09, driven by Chinese demand and a recovery in the mature markets. The risk is in our view even to the upside after Xingda's positive profit alert, while Bekaert management had warned earlier this year that the 2009 Chinese margins were unsustainable over time, which has led to some cautiousness in our/consensus estimates.**

**We expect 1H sales up 17.1%** to €1,405m, which implies a 17.1% growth in 2Q, in line with consensus (€1,408m). In terms of regions, we expect 33% sales growth in Asia Pacific, driven by volume growth in Chinese tyre cord demand, capacity expansion and the acquisition of the Bridgestone plant. Further, we expect volume recovery in EMEA (+21%) and North America (+9%). Latin America sales are expected to be down 16%, impacted by the exchange rate evolution in Venezuela.

**1H REBIT should increase 115%** to €184.5m, which implies a 13.1% margin. Consensus amounts to €185m. The increase should come on the back of continued strong growth and high capacity utilisation in Asia Pacific, a rebound in EMEA and North America and easy comps (1H09 was impacted by €40m by adverse raw material prices). We assume the following regional breakdown of margins: 33% in Asia Pacific, 10% in Latin America, 6% in EMEA and 3.5% in North America. Bottom line, we expect reported EPS at €5.75 with consensus at €5.77 (please see page 2 for more details). The risk is, in our view, to the upside after Xingda's positive profit alert (1H sales +60%, profit +130%), while Bekaert management had warned earlier this year that the 2009 Chinese margins were unsustainable over time, which has led to some cautiousness in our/consensus estimates (recall that Asia Pacific REBIT margin was 36.1% in 2H09).

**Outlook** is most likely to remain vague/not quantified. At the end of 1Q, management remained cautious about market developments for 2H.

**Valuation/conclusion:** our estimates seem in line with consensus, but our TP, which is based on 6.0x adj. EV/EBITDA 2011F, is at the low end, suggesting limited upside. Bekaert trades at 5.7x adj. EV/EBITDA, which is no longer cheap, but perhaps too low for a company with a unique exposure to China. Potential triggers include: (1) broadening the product offer in Asia Pacific; (2) expansion in Russia, India and Indonesia; (3) more captive tyre producers 'outsourcing' tyre cord production to Bekaert; and (4) product innovation (R&D amounts to 3% of sales). We will review our recommendation/TP after the results.

Forecasts and ratios

Year end Dec (€m)	2008	2009	2010F	2011F
Revenues	2,663	2,438	2,833	2,973
Normalised EBITDA	496	410	514	531
Normalised net profit	228	163	254	261
Normalised EPS (€)	11.58	8.23	12.85	13.25
Normalised PER (x)	13.0	18.3	11.7	11.4
EV/normalised EBITDA (x)	7.8	9.0	7.2	6.7
FCF yield (%)	n/a	9.0	3.2	6.2
Dividend yield (%)	1.9	2.0	2.1	2.1
Price/book (x)	2.6	2.3	2.0	1.8
Normalised ROE (%)	20.5	13.5	18.4	16.6

Source: Company data, ING estimates

Fig 1 Bekaert: key estimates (€m)

	1H09	2H09	1H10F ING	1H10F Consensus
EMEA	410.0	418.0	495.6	487.0
<i>% ch YoY</i>			20.9%	
North America	263.4	210.0	286.5	281.0
<i>% ch YoY</i>			8.8%	
Latin America	159.9	167.0	134.3	138.0
<i>% ch YoY</i>			-16.0%	
Asia Pacific	366.5	443.0	488.9	502.0
<i>% ch YoY</i>			33.4%	
<b>Consolidated sales</b>	<b>1,199.8</b>	<b>1,238.0</b>	<b>1,405.3</b>	<b>1,408.0</b>
<i>% ch YoY</i>			17.1%	17.4%
EMEA	-21.0	22.0	29.7	
<i>REBIT margin</i>	-5.1%	5.3%	6.0%	
North America	-5.0	0.0	10.0	
<i>REBIT margin</i>	-1.9%	0.0%	3.5%	
Latin America	9.0	19.0	13.4	
<i>REBIT margin</i>	5.6%	11.4%	10.0%	
Asia Pacific	128.0	160.0	161.4	
<i>REBIT margin</i>	34.9%	36.1%	33.0%	
Other	-25.2	-30.0	-30.0	
<b>REBIT</b>	<b>85.8</b>	<b>171.0</b>	<b>184.5</b>	<b>185.0</b>
<b>REBIT margin</b>	<b>7.2%</b>	<b>13.8%</b>	<b>13.1%</b>	<b>13.1%</b>
Non-recurring	-7.1	-17.5	-12.5	-10.0
<b>EBIT</b>	<b>78.7</b>	<b>153.5</b>	<b>172.0</b>	<b>175.0</b>
<i>EBIT margin</i>	6.6%	12.4%	12.2%	12.4%
Net financing charges	-30.5	-35.1	-29.2	-31.0
Taxes	-13.3	-20.6	-40.4	-38.0
Share in the JV's	17.4	20.3	21.7	20.0
Minorities	-8.2	-10.5	-10.0	-14.0
<b>Net profit</b>	<b>44.2</b>	<b>107.7</b>	<b>114.1</b>	<b>115.0</b>
<b>EPS (€)</b>	<b>2.23</b>	<b>5.42</b>	<b>5.75</b>	<b>5.77</b>
<i>% change</i>			157.8%	158.7%

Source: Company data, ING estimates

### Risk statement

Key risks for Bekaert are: (1) short-term visibility; (2) raw material prices (during 2008, Bekaert was able to pass on higher raw material prices. We would not rule out the possibility of Bekaert facing difficulties if raw material prices increase during the economic downturn. That said, raw material prices and the economy tend to move in the same direction); (3) exchange rates (Bekaert has important sales and production facilities outside Europe and therefore has a natural currency hedge. Still, the company faces translation risk, which is not hedged); and (4) the need to streamline operations (since 2002, Bekaert has been constantly downsizing operations in mature markets and investing in emerging markets. The company is expected to continue to do so for the foreseeable future. As the latter entails restructuring charges, we expect the company to report €15m in non-recurring charges on an annual basis).

## Financials

Year end Dec (€m)	2005	2006	2007	2008	2009	2010F	2011F
<b>Income statement</b>							
Revenues	1,914	2,010	2,174	2,663	2,438	2,833	2,973
Cost of goods sold	(1,522)	(1,615)	(1,740)	(2,061)	(1,904)	(2,181)	(2,303)
<b>Gross profit</b>	<b>392</b>	<b>395</b>	<b>434</b>	<b>602</b>	<b>534</b>	<b>652</b>	<b>670</b>
Operating costs	(135)	(133)	(135)	(190)	(149)	(163)	(154)
<b>EBITDA</b>	<b>257</b>	<b>262</b>	<b>299</b>	<b>412</b>	<b>385</b>	<b>489</b>	<b>516</b>
Depreciation & amortisation	(121)	(116)	(124)	(202)	(153)	(145)	(150)
Impairments	0	0	0	0	0	0	0
<b>EBIT</b>	<b>136</b>	<b>146</b>	<b>175</b>	<b>210</b>	<b>232</b>	<b>344</b>	<b>366</b>
Net interest	(15)	(31)	(41)	(49)	(66)	(58)	(52)
Associates	57	51	47	56	38	44	46
Other pre-tax items	0	0	0	0	0	0	0
<b>Pre-tax profit</b>	<b>178</b>	<b>166</b>	<b>181</b>	<b>217</b>	<b>204</b>	<b>329</b>	<b>360</b>
Tax	(30)	(18)	(19)	(26)	(34)	(81)	(92)
Minorities	(12)	(5)	(9)	(18)	(19)	(20)	(21)
Other post-tax items	54	0	0	0	0	0	0
<b>Net profit</b>	<b>190</b>	<b>143</b>	<b>153</b>	<b>174</b>	<b>152</b>	<b>229</b>	<b>246</b>
<b>Normalised EBITDA</b>	<b>289</b>	<b>279</b>	<b>310</b>	<b>496</b>	<b>410</b>	<b>514</b>	<b>531</b>
<b>Normalised EBIT</b>	<b>168</b>	<b>163</b>	<b>186</b>	<b>294</b>	<b>257</b>	<b>369</b>	<b>381</b>
<b>Normalised net profit</b>	<b>218</b>	<b>148</b>	<b>151</b>	<b>228</b>	<b>163</b>	<b>254</b>	<b>261</b>
<b>Balance sheet</b>							
Tangible fixed assets	1,038	1,062	1,133	1,271	1,346	1,456	1,466
Intangible fixed assets	125	134	122	111	105	105	105
Other non-current assets	84	110	80	27	84	84	84
Cash & equivalents	223	81	73	118	276	160	272
Other current assets	769	833	904	1,140	1,018	1,155	1,203
<b>Total assets</b>	<b>2,239</b>	<b>2,220</b>	<b>2,313</b>	<b>2,667</b>	<b>2,830</b>	<b>2,960</b>	<b>3,131</b>
Short-term debt	246	218	253	503	151	51	1
Other current liabilities	321	377	388	478	484	524	538
Long-term debt	288	274	322	288	598	598	598
Other long-term liabilities	274	242	203	226	223	223	223
<b>Total liabilities</b>	<b>1,129</b>	<b>1,111</b>	<b>1,166</b>	<b>1,495</b>	<b>1,456</b>	<b>1,396</b>	<b>1,360</b>
Total equity	1,109	1,109	1,147	1,172	1,374	1,564	1,770
<b>Total liabilities &amp; equity</b>	<b>2,238</b>	<b>2,220</b>	<b>2,313</b>	<b>2,667</b>	<b>2,830</b>	<b>2,960</b>	<b>3,131</b>
Capital employed	1,643	1,601	1,722	1,964	2,123	2,214	2,370
Net working capital	569	593	644	793	640	737	771
Net debt (cash)	311	411	502	673	474	490	327
<b>Cash flow</b>							
Cash flow EBITDA	312	301	333	425	401	524	553
Change in working capital	(32)	(32)	(42)	(162)	196	(96)	(34)
Other non-cash items	(76)	(59)	(45)	(13)	(66)	(44)	(46)
<b>Operating cash flow</b>	<b>204</b>	<b>209</b>	<b>246</b>	<b>250</b>	<b>531</b>	<b>384</b>	<b>473</b>
Cash interest paid	(15)	(22)	(31)	(32)	(39)	(49)	(43)
Cash taxes paid	(26)	(17)	(25)	(28)	(33)	(81)	(92)
<b>Net cash from operating activities</b>	<b>164</b>	<b>171</b>	<b>191</b>	<b>191</b>	<b>458</b>	<b>254</b>	<b>338</b>
Capex	(152)	(161)	(200)	(251)	(167)	(185)	(160)
Net acquisitions	65	(43)	(11)	(44)	(4)	(70)	0
Other net investing cash flows	50	47	58	51	43	44	46
<b>Cash from investing activities</b>	<b>(36)</b>	<b>(157)</b>	<b>(152)</b>	<b>(243)</b>	<b>(127)</b>	<b>(211)</b>	<b>(114)</b>
Increase (decrease) in equity	0	0	0	0	0	0	0
Increase (decrease) in debt	0	0	0	165	(46)		
Dividends & minority distribution	(52)	(74)	(57)	(62)	(51)	(58)	(61)
Other financing cash flow	(4)	(17)	25	(4)	(204)	0	0
<b>Cash from financing activities</b>	<b>(56)</b>	<b>(91)</b>	<b>(32)</b>	<b>98</b>	<b>(301)</b>	<b>(58)</b>	<b>(61)</b>
Forex & discontinued operations	3	(2)	(1)	0.8	(13)		
<b>Net change in cash &amp; equivalents</b>	<b>75</b>	<b>(80)</b>	<b>6</b>	<b>47</b>	<b>16</b>	<b>(16)</b>	<b>162</b>
FCF	27	31	22	(29)	331	118	221

Normalised earnings (eg, EBITDA, EBIT, net income and other sector-specific line items) are in the opinion of the analyst the best representation of a company's underlying and sustainable earnings derived from its regular operating activities.

Source: Company data, ING estimates

## Valuation, ratios and metrics

Year end Dec	2005	2006	2007	2008	2009	2010F	2011F
<b>Performance &amp; returns</b>							
Revenue growth (%)	n/a	5.0	8.2	22.5	-8.5	16.2	4.9
Normalised EBITDA growth (%)	n/a	-3.5	11.2	59.8	-17.4	25.5	3.3
Normalised EBIT growth (%)	n/a	-3.0	14.3	57.9	-12.7	43.7	3.2
Normalised EPS growth (%)	n/a	-31.4	9.2	53.6	-28.9	56.0	3.1
Gross margin (%)	20.5	19.7	20.0	22.6	21.9	23.0	22.5
Normalised EBITDA margin (%)	15.1	13.9	14.3	18.6	16.8	18.2	17.9
Normalised EBIT margin (%)	8.8	8.1	8.6	11.0	10.5	13.0	12.8
Reported net margin (%)	9.9	7.1	7.0	6.5	6.2	8.1	8.3
Reported ROE (%)	n/a	13.5	14.2	15.6	12.6	16.6	15.6
Normalised ROA (%)	n/a	7.3	8.2	11.8	9.3	12.8	12.5
ROAIC (%)	n/a	6.9	7.9	8.9	8.8	11.0	10.9
ROACE (%)	n/a	10.0	11.2	16.0	12.6	17.0	16.6
ROACE - WACC (%)	n/a	2.0	2.9	7.3	4.0	8.5	8.1
<b>Leverage &amp; solvency</b>							
Working capital as % of sales	29.7	29.5	29.6	29.8	26.3	26.0	25.9
Net debt (cash)/EBITDA (x)	1.2	1.6	1.7	1.6	1.2	1.0	0.63
Net debt (cash)/equity (%)	28.0	37.1	43.8	57.4	34.5	31.3	18.5
EBITDA net interest coverage (x)	17.1	8.5	7.3	8.4	5.9	8.4	9.9
Current ratio (x)	1.7	1.5	1.5	1.3	2.0	2.3	2.7
Dividend cover (cash flow) (x)	1.2	1.1	0.84	0.03	6.8	2.2	3.9
<b>Valuation</b>							
EV/revenue (x)	1.8	1.8	1.7	1.4	1.5	1.3	1.2
EV/normalised EBITDA (x)	12.2	12.9	11.8	7.8	9.0	7.2	6.7
EV/normalised EBIT (x)	20.9	22.1	19.6	13.1	14.3	10.0	9.3
EV/capital employed (x)	2.1	2.2	2.1	2.0	1.7	1.7	1.5
EV/invested capital (x)	1.8	2.0	1.9	1.8	1.6	1.5	1.4
Normalised PER (x)	15.0	21.8	20.0	13.0	18.3	11.7	11.4
Price/book (x)	3.1	3.0	2.7	2.6	2.3	2.0	1.8
Dividend yield (%)	2.0	1.7	1.8	1.9	2.0	2.1	2.1
FCF yield (%)	0.77	0.87	0.59	n/a	9.0	3.2	6.2
<b>Per share data</b>							
Reported EPS (€)	8.78	6.65	7.63	8.83	7.69	11.58	12.49
Normalised EPS (€)	10.06	6.90	7.54	11.58	8.23	12.85	13.25
Dividend per share (€)	3.00	2.50	2.76	2.80	2.94	3.10	3.20
Equity FCFPS (€)	0.574	0.433	(0.460)	(3.06)	14.78	3.48	9.01
BV/share (€)	49.14	50.60	55.38	57.15	64.78	74.39	84.79

Source: Company data, ING estimates

## Company profile

Bekaert is a global technological leader in its two core competences: advanced metal transformation and advanced materials and coatings, and a market leader in drawn wire products and applications. Bekaert is a global company with headquarters in Belgium, employing 23,000 people worldwide. Serving customers in 120 countries, Bekaert pursues sustainable profitable growth in all its activities and generates annual combined sales of €3.3bn.

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Buy	49%	55%
Hold	42%	45%
Sell	10%	46%
	<b>100%</b>	

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

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**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.

## PRICE & RATINGS HISTORY TO 02/07/10: BEKAERT (BEKB.BR)



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

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