

**Company results**  
 30 July 2010

**Buy** (maintained)

**Price (29/07/10)**  
 €150.50

**Target price (12-mth)**  
 €190.00 (previously €155.00)

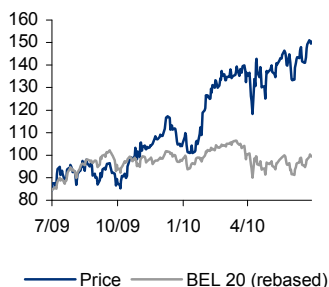
**Forecast total return**  
 29.2%

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

**Share data**

Avg daily volume (3-mth)	55,355
Free float (%)	60.9
Market cap (€m)	2,985.1
Net debt (1F, €m)	523
Enterprise value (1F, €m)	3,732
Dividend yield (1F, %)	3.0

Source: Company data, ING estimates

**Share price performance**


Source: ING

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# Bekaert

## Strategy delivers record performance

**1H10 reported EPS of €9.15 was 60% above already high expectations. We think this underlines that Bekaert is making the right strategic choices, but also indicates that ST visibility on Bekaert's emerging markets and growing industries is limited. Stripping out 1H raw material revaluation effects and given that 2H typically is seasonally weaker, we increased 2010F reported EPS 40% to €16.2 and 2011F reported EPS by 29% to €16.0. We increase our TP by 23% to €190.0 from €155.0 and maintain our BUY rating.**

**Strategy delivers record performance.** Bekaert's strategy is based on 4 pillars: (1) Innovation: 1H R&D expenses increased 13% to €40m. (2) Emerging markets: 60% of 1H combined sales (incl. JVs). (3) Fast-growing industries: 1H alternative energy solutions performed well on a global level. (4) Focus on cost: 1H results in mature markets recovered due to timely implemented restructuring measures. The result: sales increased 28% to €1,535m, 11% more than expected, and importantly, entirely organic (volume-driven) and geographically broad-based (with Venezuela as exception). Asia Pacific sales growth excelled (+51%). REBIT amounted to €262m, which implies a 17.1% margin, roughly 400bp above expectations, due to very high capacity utilization, a favourable product and geographical mix (Asia Pacific REBIT went up to 37.4%) and SG&A expenses reduced to 11.3% from 12.1%. This resulted in a reported EPS of €9.15, 60% above expectations. CF from operating activities was held back to €75m, due to €232m working capital increase, but working capital as % of sales declined to 26% from 22%.

**TP increase to €190.0 from €155.0.** Bekaert raised its EBIT margin target for the next three years from 7%-9% to to  $\geq 10\%$ , obviously cautious versus 1H margins. In practice, Bekaert steams ahead with strategy execution. The tire cord capacity expansion in China to 400kt is already in place (was planned for end 2010) and the 2010F capex budget was raised to €200m. We have set our 2H10 REBIT estimate at €223m, after stripping out €20m in inventory revaluation effects from 1H REBIT and taking out another €20m for seasonal effects. As the tax rate is guided at 27-28% in 2H, we increase our FY10F reported EPS by 40% to €16.2. We increase 2011F reported EPS by 29% to €16.0, assuming 6% sales growth and a REBIT margin decline from 16.1% to 15.2%. We increase our TP to €190.0, targeting adj. 6.0x 2011F EV/EBITDA (adjusted for LT pension provisions and adjusted for JVs). After the proposed intermediate dividend of €2.0 per share, we estimate FY dividend at €4.50 (28% pay-out). BUY maintained. Largest risk to our investment case is a sudden slowdown in the Chinese economy.

**Forecasts and ratios**

Year end Dec (€m)	2008	2009	2010F	2011F
Revenues	2,663	2,438	3,019	3,193
Normalised EBITDA	496	410	671	645
Normalised net profit	228	163	350	331
Normalised EPS (€)	11.58	8.23	17.69	16.75
Normalised PER (x)	13.0	18.3	8.5	9.0
EV/normalised EBITDA (x)	7.7	9.0	5.6	5.4
FCF yield (%)	n/a	9.0	2.9	9.5
Dividend yield (%)	1.9	2.0	3.0	3.2
Price/book (x)	2.6	2.3	1.9	1.6
Normalised ROE (%)	20.5	13.5	24.5	19.5

Source: Company data, ING estimates

**Fig 1 Bekaert: 1H10 results & changes in key estimates**

	1H09	2H09	1H10F	1H10	1H10F	2009	2010F	2010F	% ch vs old	2011F	2011F	% ch vs old
			INGF	Actual	Cons.		old	new		old	new	
EMEA	410.0	418.0	495.6	526.0	487.0	828.0	997.9	1033.8	3.6	1037.6	1074.5	3.6
% ch YoY			20.9	28.3		-29.1		24.9			3.9	
North America	263.4	210.0	286.5	313.0	281.0	473.4	570.3	604.2	5.9	590.5	636.9	7.9
% ch YoY			8.8	18.8		-21.8		27.6			5.4	
Latin America	159.9	167.0	134.3	144.0	138.0	326.9	274.1	290.8	6.1	288.5	307.8	6.7
% ch YoY			-16.0	-9.9		85.1		-11.1			5.8	
Asia Pacific	366.5	443.0	488.9	552.0	502.0	809.5	990.6	1090.4	10.1	1056.4	1174.3	11.2
% ch YoY			33.4	50.6		13.5		34.7			7.7	
<b>Consolidated sales</b>	<b>1,199.8</b>	<b>1,238.0</b>	<b>1,405.3</b>	<b>1,535.0</b>	<b>1,408.0</b>	<b>2,437.8</b>	<b>2,833.0</b>	<b>3,019.1</b>	<b>6.6</b>	<b>2,973.0</b>	<b>3,193.4</b>	<b>7.4</b>
% ch YoY			17.1	27.9	17.4	-8.5		23.8			5.8	
EMEA	-21.0	22.0	29.7	53.7		1.0	59.9	94.1	57.0	67.4	86.0	27.5
REBIT margin (%)	-5.1	5.3	6.0	10.2		0.1	6.0	9.1		6.5	8.0	
North America	-5.0	0.0	10.0	21.0		-5.0	20.0	37.2	85.8	23.6	41.4	75.4
REBIT margin (%)	-1.9	0.0	3.5	6.7		-1.1	3.5	6.2		4.0	6.5	
Latin America	9.0	19.0	13.4	13.7		28.0	27.4	25.4	-7.1	28.9	24.6	-14.8
REBIT margin (%)	5.6	11.4	10.0	9.5		8.6	10.0	8.8		10.0	8.0	
Asia Pacific	128.0	160.0	161.4	206.4		288.0	321.9	394.7	22.6	322.2	399.3	23.9
REBIT margin (%)	34.9	36.1	33.0	37.4		35.6	32.5	36.2		30.5	34.0	
Other	-25.2	-30.0	-30.0	-32.8		-55.2	-60.0	-66.0	10.0	-61.0	-66.0	8.2
<b>REBIT</b>	<b>85.8</b>	<b>171.0</b>	<b>184.5</b>	<b>262.0</b>	<b>185.0</b>	<b>256.8</b>	<b>369.2</b>	<b>485.4</b>	<b>31.5</b>	<b>381.1</b>	<b>485.2</b>	<b>27.3</b>
<b>REBIT margin (%)</b>	<b>7.2</b>	<b>13.8</b>	<b>13.1</b>	<b>17.1</b>	<b>13.1</b>	<b>10.5</b>	<b>13.0</b>	<b>16.1</b>		<b>12.8</b>	<b>15.2</b>	
Non-recurring	-7.1	-17.5	-12.5	-18.6	-10.0	-24.6	-25.0	-30.0	20.0	-15.0	-15.0	0.0
<b>EBIT</b>	<b>78.7</b>	<b>153.5</b>	<b>172.0</b>	<b>243.5</b>	<b>175.0</b>	<b>232.2</b>	<b>344.2</b>	<b>455.4</b>	<b>32.3</b>	<b>366.1</b>	<b>470.2</b>	<b>28.4</b>
EBIT margin (%)	6.6	12.4	12.2	15.9	12.4	9.5	12.1	15.1		12.3	14.7	
Net financing charges	-30.5	-35.1	-29.2	-15.6	-31.0	-65.6	-58.3	-40.1	-31.2	-53.5	-41.0	-23.4
Taxes	-13.3	-20.6	-40.4	-51.3	-38.0	-33.9	-80.8	-106.9	32.3	-91.7	-124.4	35.6
Share in the JV's	17.4	20.3	21.7	18.8	20.0	37.8	43.5	39.6	-9.0	45.7	41.6	-9.0
Minorities	-8.2	-10.5	-10.0	-14.3	-14.0	-18.6	-20.0	-28.0	40.0	-21.0	-30.0	42.9
<b>Net profit</b>	<b>44.2</b>	<b>107.7</b>	<b>114.1</b>	<b>181.0</b>	<b>115.0</b>	<b>151.9</b>	<b>228.6</b>	<b>320.0</b>	<b>40.0</b>	<b>245.6</b>	<b>316.4</b>	<b>28.8</b>
<b>EPS</b>	<b>2.23</b>	<b>5.42</b>	<b>5.75</b>	<b>9.15</b>	<b>5.77</b>	7.69	11.58	16.17	39.7	12.44	15.99	28.6
% change			157.8	310.3	158.7	-12.9		110.2			-1.1	

Source: Company data, ING estimates

**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	3,019	3,193
Cost of goods sold	(1,522)	(1,615)	(1,740)	(2,061)	(1,904)	(2,195)	(2,363)
<b>Gross profit</b>	<b>392</b>	<b>395</b>	<b>434</b>	<b>602</b>	<b>534</b>	<b>824</b>	<b>830</b>
Operating costs	(135)	(133)	(135)	(190)	(149)	(182)	(200)
<b>EBITDA</b>	<b>257</b>	<b>262</b>	<b>299</b>	<b>412</b>	<b>385</b>	<b>641</b>	<b>630</b>
Depreciation & amortisation	(121)	(116)	(124)	(202)	(153)	(186)	(160)
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>455</b>	<b>470</b>
Net interest	(15)	(31)	(41)	(49)	(66)	(40)	(41)
Associates	57	51	47	56	38	40	42
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>455</b>	<b>471</b>
Tax	(30)	(18)	(19)	(26)	(34)	(107)	(124)
Minorities	(12)	(5)	(9)	(18)	(19)	(28)	(30)
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>320</b>	<b>316</b>
<b>Normalised EBITDA</b>	<b>289</b>	<b>279</b>	<b>310</b>	<b>496</b>	<b>410</b>	<b>671</b>	<b>645</b>
<b>Normalised EBIT</b>	<b>168</b>	<b>163</b>	<b>186</b>	<b>294</b>	<b>257</b>	<b>485</b>	<b>485</b>
<b>Normalised net profit</b>	<b>218</b>	<b>148</b>	<b>151</b>	<b>228</b>	<b>163</b>	<b>350</b>	<b>331</b>
<b>Balance sheet</b>							
Tangible fixed assets	1,038	1,062	1,133	1,271	1,346	1,430	1,430
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	227	268
Other current assets	769	833	904	1,140	1,018	1,332	1,366
<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>3,178</b>	<b>3,253</b>
Short-term debt	246	218	253	503	151	151	151
Other current liabilities	321	377	388	478	484	543	560
Long-term debt	288	274	322	288	598	598	398
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>1,515</b>	<b>1,333</b>
Total equity	1,109	1,109	1,147	1,172	1,374	1,664	1,921
<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>3,178</b>	<b>3,253</b>
Capital employed	1,643	1,601	1,722	1,964	2,123	2,413	2,470
Net working capital	569	593	644	793	640	875	891
Net debt (cash)	311	411	502	673	474	523	281
<b>Cash flow</b>							
Cash flow EBITDA	312	301	333	425	401	689	672
Change in working capital	(32)	(32)	(42)	(162)	196	(235)	(16)
Other non-cash items	(76)	(59)	(45)	(13)	(66)	(40)	(42)
<b>Operating cash flow</b>	<b>204</b>	<b>209</b>	<b>246</b>	<b>250</b>	<b>531</b>	<b>414</b>	<b>614</b>
Cash interest paid	(15)	(22)	(31)	(32)	(39)	(48)	(41)
Cash taxes paid	(26)	(17)	(25)	(28)	(33)	(107)	(124)
<b>Net cash from operating activities</b>	<b>164</b>	<b>171</b>	<b>191</b>	<b>191</b>	<b>458</b>	<b>259</b>	<b>449</b>
Capex	(152)	(161)	(200)	(251)	(167)	(200)	(160)
Net acquisitions	65	(43)	(11)	(44)	(4)	(70)	0
Other net investing cash flows	50	47	58	51	43	40	42
<b>Cash from investing activities</b>	<b>(36)</b>	<b>(157)</b>	<b>(152)</b>	<b>(243)</b>	<b>(127)</b>	<b>(230)</b>	<b>(118)</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)	(89)
Other financing cash flow	(4)	(17)	25	(4)	(204)	(20)	0
<b>Cash from financing activities</b>	<b>(56)</b>	<b>(91)</b>	<b>(32)</b>	<b>98</b>	<b>(301)</b>	<b>(78)</b>	<b>(89)</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>(49)</b>	<b>242</b>
FCF	27	31	22	(29)	331	107	330

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	23.8	5.8
Normalised EBITDA growth (%)	n/a	-3.5	11.2	59.8	-17.4	63.8	-3.9
Normalised EBIT growth (%)	n/a	-3.0	14.3	57.9	-12.7	89.0	-0.03
Normalised EPS growth (%)	n/a	-31.4	9.2	53.6	-28.9	114.8	-5.3
Gross margin (%)	20.5	19.7	20.0	22.6	21.9	27.3	26.0
Normalised EBITDA margin (%)	15.1	13.9	14.3	18.6	16.8	22.2	20.2
Normalised EBIT margin (%)	8.8	8.1	8.6	11.0	10.5	16.1	15.2
Reported net margin (%)	9.9	7.1	7.0	6.5	6.2	10.6	9.9
Reported ROE (%)	n/a	13.5	14.2	15.6	12.6	22.4	18.6
Normalised ROA (%)	n/a	7.3	8.2	11.8	9.3	16.2	15.1
ROAIC (%)	n/a	6.9	7.9	8.9	8.8	14.0	13.0
ROACE (%)	n/a	10.0	11.2	16.0	12.6	21.4	19.9
ROACE - WACC (%)	n/a	2.0	2.9	7.3	4.0	12.9	11.4
<b>Leverage &amp; solvency</b>							
Working capital as % of sales	29.7	29.5	29.6	29.8	26.3	29.0	27.9
Net debt (cash)/EBITDA (x)	1.2	1.6	1.7	1.6	1.2	0.82	0.45
Net debt (cash)/equity (%)	28.0	37.1	43.8	57.4	34.5	31.4	14.6
EBITDA net interest coverage (x)	17.1	8.5	7.3	8.4	5.9	16.0	15.4
Current ratio (x)	1.7	1.5	1.5	1.3	2.0	2.2	2.3
Dividend cover (cash flow) (x)	1.2	1.1	0.84	0.03	6.8	2.0	4.2
<b>Valuation</b>							
EV/revenue (x)	1.8	1.8	1.7	1.4	1.5	1.2	1.1
EV/normalised EBITDA (x)	12.2	12.9	11.8	7.7	9.0	5.6	5.4
EV/normalised EBIT (x)	20.9	22.1	19.6	13.1	14.3	7.7	7.2
EV/capital employed (x)	2.1	2.2	2.1	2.0	1.7	1.5	1.4
EV/invested capital (x)	1.8	2.0	1.9	1.8	1.6	1.4	1.3
Normalised PER (x)	15.0	21.8	20.0	13.0	18.3	8.5	9.0
Price/book (x)	3.1	3.0	2.7	2.6	2.3	1.9	1.6
Dividend yield (%)	2.0	1.7	1.8	1.9	2.0	3.0	3.2
FCF yield (%)	0.77	0.87	0.59	n/a	9.0	2.9	9.5
<b>Per share data</b>							
Reported EPS (€)	8.78	6.65	7.63	8.83	7.69	16.17	15.99
Normalised EPS (€)	10.06	6.90	7.54	11.58	8.23	17.69	16.75
Dividend per share (€)	3.00	2.50	2.76	2.80	2.94	4.50	4.75
Equity FCFPS (€)	0.574	0.433	(0.460)	(3.06)	14.78	2.99	14.61
BV/share (€)	49.14	50.60	55.38	57.15	64.78	79.40	92.38

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.

# Disclosures Appendix

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	Equity coverage	Investment Banking clients*
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.

## RATING DEFINITIONS

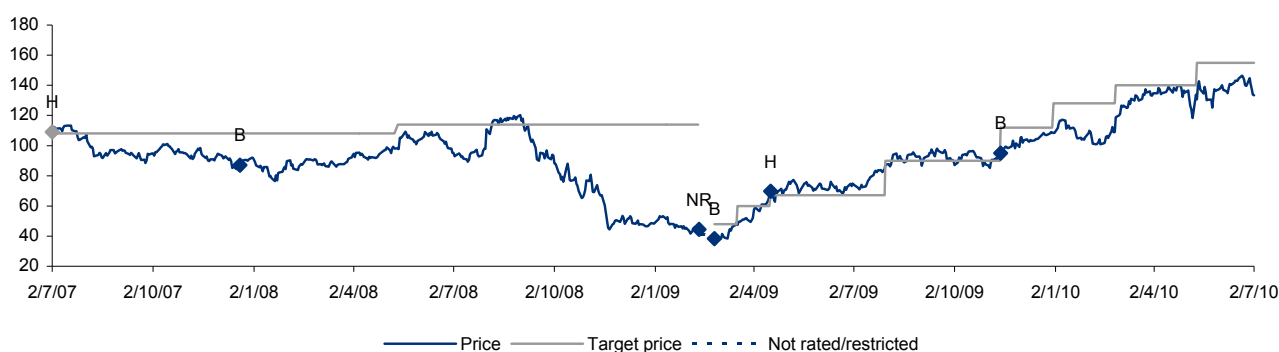
**Buy:** Forecast 12-mth absolute total return greater than +15%

**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.

## 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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