

3Q10F results preview
8 November 2010

Buy (maintained)

Price (05/11/10)
€225.2

Target price (12-mth)
€240.0 (previously €225.0)

Forecast total return
8.8%

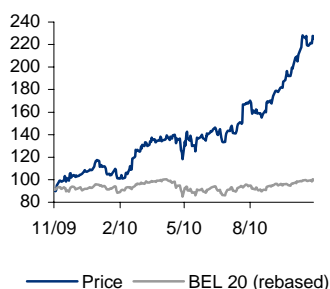
Industrial Goods & Services
Belgium
Bloomberg: BEKB BB
Reuters: BEKB.BR

Share data

Avg daily volume (3-mth)	60,075
Free float (%)	60.9
Market cap (€m)	4,465.7
Net debt (1F, €m)	547
Enterprise value (1F, €m)	5,237
Dividend yield (1F, %)	2.2

Source: Company data, ING estimates

Share price performance



Source: ING

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Bekaert

Another solid 3Q trading update expected

Bekaert is most likely much more exposed to the photovoltaic's markets than we anticipated previously. Since we believe the short-term growth for the latter is higher than the expected growth for tyre cord, we raise our 2010F and 2011F EPS by 4-7% and increase our TP to €240. In the long-term, competition in sawing wire and substitution for polysilicon become significant risks.

Bekaert is set to publish its 3Q10 trading update on 10 November, which is the same day of the 3-for-1 share split. Let's recall that Bekaert generated €552m in sales in 1H10 in Asia-Pacific, of which 65% stemmed from Automotive (mainly tyre cord), 27% from Energy & Utilities and 8% from Other. We previously assumed the breakdown of REBIT (€206m, ie, 37% margin) was in line with the sales breakdown. We now revise this view, after our channel checks in Asia-Pacific suggest gross margin of c.80% in sawing wire, which is a key product for Bekaert. The latter is used to cut polysilicon into wafers, for the photovoltaic's market (Energy). We understand that Bekaert is currently the clear market leader in sawing wire, with few significant competitors. Bekaert does not confirm or deny our assumptions, but if we assume that the 'Other' activities in Asia-Pacific have a 10% REBIT margin and assume the Automotive activities have a 25-30% margin (ie, c.5% above tyre cord peer Xingda, to take into account Bekaert's superior process technology and better product mix), Energy & Utilities accounted for the remainder of REBIT, being c.50%, at a 65-70% margin.

In the short term, we raise our forecasts for Asia-Pacific as we expect faster organic growth in sawing wire vs automotive (c.20% vs c.10% for Automotive) in 2011F. 3Q10F consolidated sales should be up 31% YoY and down 4% QoQ to €810m (vs consensus at €802m). Sales should be mainly driven by a 38% increase to €316m in Asia-Pacific (consensus at €321m), a 32% rise to €261m EMEA (consensus at €255m) and a 43% growth to €151m in North America (consensus at €147m). We forecast Lat-Am sales to fall 7% to €81m (consensus at €79m), due to continued fx problems in Venezuela.

Bekaert trades at a 2011F PER of 12.2x, which still does not seem too expensive given its: (1) 60% exposure to emerging markets; (2) focus on growing activities (Energy was up from 8% of sales in 2008 to 27%) and resilience (radial tyres are 75% replacement); (3) market leadership in key products; (4) internal engineering, ensuring cost-competitive equipment and (5) ongoing recovery in mature markets and construction. We raise our TP to €240 (a stable target multiple of 13.0x). We will review our TP and BUY rating after the 3Q10 results are released.

Forecasts and ratios

Year end Dec (€m)	2008	2009	2010F	2011F	2012F
Revenues	2,663	2,438	3,094	3,342	3,532
Normalised EBITDA	496	410	691	717	736
Normalised net profit	228	163	365	366	391
Normalised EPS (€)	11.58	8.23	18.43	18.49	19.76
Normalised PER (x)	19.5	27.3	12.2	12.2	11.4
EV/normalised EBITDA (x)	10.7	12.6	7.6	7.0	6.5
FCF yield (%)	n/a	6.4	1.9	6.6	6.8
Dividend yield (%)	1.2	1.3	2.2	2.3	2.4
Price/book (x)	3.9	3.5	2.8	2.4	2.1
Normalised ROE (%)	20.5	13.5	25.4	21.1	19.3

Source: Company data, ING estimates

Risks. Going forward, substitution for polysilicon (by thin film) and increased competition in sawing wire become important risks. Xingda is expected to enter the market in 2011F, and in view of the margins, smaller players should follow. Financial and technology barriers remain high in the short term, however.

Fig 1 3Q10 sales estimates (€m)

	3Q10	YoY chg (%)	QoQ chg (%)	3Q10F
	INGF			consensus
EMEA	261	32	-7	255
North America	151	43	-12	147
Latin America	81	-7	5	79
Asia-Pacific	316	38	2	321
Sales	810	31	-4	802

Source: ING estimates

Fig 2 Bekaert: change in key estimates (€m)

	2010F old	2010F new	% ch.	% YoY	2011F old	2011F new	% ch.	% YoY	2012F old	2012F new	% ch.	% YoY
EMEA	1033.8	1033.8	0.0%	24.9%	1074.5	1074.5	0.0%	3.9%	1096.0	1096.0	0.0%	2.0%
North America	601.4	597.9	-0.6%	26.3%	616.4	583.7	-5.3%	-2.4%	628.7	595.4	-5.3%	2.0%
Latin America	290.8	296.6	2.0%	-9.3%	307.8	305.9	-0.6%	3.1%	326.2	324.2	-0.6%	6.0%
Asia Pacific	1090.4	1166.0	6.9%	44.0%	1259.7	1378.2	9.4%	18.2%	1385.7	1516.0	9.4%	10.0%
Consolidated sales	3,016.3	3,094.2	2.6%	26.9%	3,258.4	3,342.3	2.6%	8.0%	3,436.7	3,531.7	2.8%	5.7%
EMEA	94.1	94.1	0.0%		86.0	86.0	0.0%		87.7	87.7	0.0%	
REBIT margin	9.1%	9.1%			8.0%	8.0%			8.0%	8.0%		
North America	37.0	36.8	-0.6%		43.1	40.9	-5.3%		50.3	47.6	-5.3%	
REBIT margin	6.2%	6.2%			7.0%	7.0%			8.0%	8.0%		
Latin America	25.4	26.0	2.0%		30.8	30.6	-0.6%		35.9	35.7	-0.6%	
REBIT margin	8.8%	8.8%			10.0%	10.0%			11.0%	11.0%		
Asia Pacific	394.7	413.9	4.9%		403.1	441.0	9.4%		408.8	447.2	9.4%	
REBIT margin	36.2%	35.5%			32.0%	32.0%			29.5%	29.5%		
Other	-66.0	-66.0	0.0%		-67.0	-67.0	0.0%		-68.0	-68.0	0.0%	
REBIT	485.2	504.7	4.0%	96.5%	496.0	531.4	7.1%	5.3%	514.6	550.2	6.9%	3.5%
REBIT margin	16.1%	16.3%			15.2%	15.9%			15.0%	15.6%		
Non-recurring	-30.0	-30.0	0.0%		-15.0	-15.0	0.0%		-15.0	-15.0	0.0%	
EBIT	455.2	474.7	4.3%	104.4%	481.0	516.4	7.4%	8.8%	499.6	535.2	7.1%	3.6%
EBIT margin	15.1%	15.3%			14.8%	15.5%			14.5%	15.2%		
Net financing charges	-40.1	-40.1	0.0%		-40.0	-40.0	0.0%		-26.0	-26.0	0.0%	
Taxes	-106.8	-111.5	4.4%		-127.7	-137.6	7.8%		-136.8	-146.8	7.3%	
Share in the JV's	39.6	39.6	0.0%		41.9	42.1	0.4%		44.5	44.6	0.4%	
Minorities	-28.0	-28.0	0.0%		-30.0	-30.0	0.0%		-31.0	-31.0	0.0%	
Net profit	319.9	334.7	4.6%	120.4%	325.3	350.9	7.9%	4.8%	350.3	376.1	7.4%	7.2%
EPS (€)	16.17	16.92	4.6%		16.44	17.74	7.9%		17.70	19.01	7.4%	
Adj. EPS (€)	17.68	18.43	4.2%	123.8%	17.20	18.49	7.5%	0.3%	18.46	19.76	7.1%	6.9%

Source: Company data, ING estimates

Financials

Year end Dec (€m)	2005	2006	2007	2008	2009	2010F	2011F	2012F
Income statement								
Revenues	1,914	2,010	2,174	2,663	2,438	3,094	3,342	3,532
Cost of goods sold	(1,522)	(1,615)	(1,740)	(2,061)	(1,904)	(2,251)	(2,466)	(2,629)
Gross profit	392	395	434	602	534	843	877	902
Operating costs	(135)	(133)	(135)	(190)	(149)	(182)	(174)	(181)
EBITDA	257	262	299	412	385	661	702	721
Depreciation & amortisation	(121)	(116)	(124)	(202)	(153)	(186)	(186)	(186)
Impairments	0	0	0	0	0	0	0	0
EBIT	136	146	175	210	232	475	516	535
Net interest	(15)	(31)	(41)	(49)	(66)	(40)	(40)	(26)
Associates	57	51	47	56	38	40	42	45
Other pre-tax items	0	0	0	0	0	0	0	0
Pre-tax profit	178	166	181	217	204	474	519	554
Tax	(30)	(18)	(19)	(26)	(34)	(112)	(138)	(147)
Minorities	(12)	(5)	(9)	(18)	(19)	(28)	(30)	(31)
Other post-tax items	54	0	0	0	0	0	0	0
Net profit	190	143	153	174	152	335	351	376
Normalised EBITDA	289	279	310	496	410	691	717	736
Normalised EBIT	168	163	186	294	257	505	531	550
Normalised net profit	218	148	151	228	163	365	366	391
Balance sheet								
Tangible fixed assets	1,038	1,062	1,133	1,271	1,346	1,448	1,462	1,476
Intangible fixed assets	125	134	122	111	105	105	105	105
Other non-current assets	84	110	80	27	84	84	84	84
Cash & equivalents	223	81	73	118	276	203	236	277
Other current assets	769	833	904	1,140	1,018	1,360	1,420	1,489
Total assets	2,239	2,220	2,313	2,667	2,830	3,201	3,308	3,431
Short-term debt	246	218	253	503	151	151	151	151
Other current liabilities	321	377	388	478	484	550	575	594
Long-term debt	288	274	322	288	598	598	398	198
Other long-term liabilities	274	242	203	226	223	223	223	223
Total liabilities	1,129	1,111	1,166	1,495	1,456	1,522	1,348	1,167
Total equity	1,109	1,109	1,147	1,172	1,374	1,678	1,960	2,263
Total liabilities & equity	2,238	2,220	2,313	2,667	2,830	3,201	3,308	3,430
Capital employed	1,643	1,601	1,722	1,964	2,123	2,428	2,510	2,613
Net working capital	569	593	644	793	640	896	930	980
Net debt (cash)	311	411	502	673	474	547	313	73
Cash flow								
Cash flow EBITDA	312	301	333	425	401	708	745	766
Change in working capital	(32)	(32)	(42)	(162)	196	(256)	(34)	(50)
Other non-cash items	(76)	(59)	(45)	(13)	(66)	(40)	(42)	(45)
Operating cash flow	204	209	246	250	531	413	668	671
Cash interest paid	(15)	(22)	(31)	(32)	(39)	(48)	(40)	(26)
Cash taxes paid	(26)	(17)	(25)	(28)	(33)	(112)	(138)	(147)
Net cash from operating activities	164	171	191	191	458	253	490	499
Capex	(152)	(161)	(200)	(251)	(167)	(200)	(200)	(200)
Net acquisitions	65	(43)	(11)	(44)	(4)	(88)	0	0
Other net investing cash flows	50	47	58	51	43	40	42	0
Cash from investing activities	(36)	(157)	(152)	(243)	(127)	(248)	(158)	(200)
Increase (decrease) in equity	0	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)	(99)	(104)
Other financing cash flow	(4)	(17)	25	(4)	(204)	(20)	0	1
Cash from financing activities	(56)	(91)	(32)	98	(301)	(78)	(99)	(103)
Forex & discontinued operations	3	(2)	(1)	0.8	(13)			
Net change in cash & equivalents	75	(80)	6	47	16	(73)	234	196
FCF	27	31	22	(29)	331	101	330	325

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	2012F
Performance & returns								
Revenue growth (%)	n/a	5.0	8.2	22.5	-8.5	26.9	8.0	5.7
Normalised EBITDA growth (%)	n/a	-3.5	11.2	59.8	-17.4	68.5	3.9	2.6
Normalised EBIT growth (%)	n/a	-3.0	14.3	57.9	-12.7	96.5	5.3	3.5
Normalised EPS growth (%)	n/a	-31.4	9.2	53.6	-28.9	123.8	0.34	6.9
Gross margin (%)	20.5	19.7	20.0	22.6	21.9	27.2	26.2	25.5
Normalised EBITDA margin (%)	15.1	13.9	14.3	18.6	16.8	22.3	21.5	20.8
Normalised EBIT margin (%)	8.8	8.1	8.6	11.0	10.5	16.3	15.9	15.6
Reported net margin (%)	9.9	7.1	7.0	6.5	6.2	10.8	10.5	10.6
Reported ROE (%)	n/a	13.5	14.2	15.6	12.6	23.3	20.3	18.6
Normalised ROA (%)	n/a	7.3	8.2	11.8	9.3	16.7	16.3	16.3
ROAIC (%)	n/a	6.9	7.9	8.9	8.8	14.5	14.1	13.9
ROACE (%)	n/a	10.0	11.2	16.0	12.6	22.2	21.5	21.5
ROACE - WACC (%)	n/a	2.0	2.9	7.3	4.0	13.7	13.0	13.0
Leverage & solvency								
Working capital as % of sales	29.7	29.5	29.6	29.8	26.3	29.0	27.8	27.8
Net debt (cash)/EBITDA (x)	1.2	1.6	1.7	1.6	1.2	0.83	0.45	0.10
Net debt (cash)/equity (%)	28.0	37.1	43.8	57.4	34.5	32.6	16.0	3.2
EBITDA net interest coverage (x)	17.1	8.5	7.3	8.4	5.9	16.5	17.6	27.7
Current ratio (x)	1.7	1.5	1.5	1.3	2.0	2.2	2.3	2.4
Dividend cover (cash flow) (x)	1.2	1.1	0.84	0.03	6.8	1.9	3.9	3.9
Valuation								
EV/revenue (x)	2.6	2.5	2.4	2.0	2.1	1.7	1.5	1.3
EV/normalised EBITDA (x)	17.3	18.2	16.6	10.7	12.6	7.6	7.0	6.5
EV/normalised EBIT (x)	29.7	31.1	27.6	18.1	20.1	10.4	9.4	8.7
EV/capital employed (x)	3.0	3.2	3.0	2.7	2.4	2.2	2.0	1.8
EV/invested capital (x)	2.6	2.8	2.7	2.4	2.2	2.0	1.8	1.7
Normalised PER (x)	22.4	32.6	29.9	19.5	27.3	12.2	12.2	11.4
Price/book (x)	4.6	4.4	4.1	3.9	3.5	2.8	2.4	2.1
Dividend yield (%)	1.3	1.1	1.2	1.2	1.3	2.2	2.3	2.4
FCF yield (%)	0.54	0.62	0.42	n/a	6.4	1.9	6.6	6.8
Per share data								
Reported EPS (€)	8.78	6.65	7.63	8.83	7.69	16.92	17.74	19.01
Normalised EPS (€)	10.06	6.90	7.54	11.58	8.23	18.43	18.49	19.76
Dividend per share (€)	3.00	2.50	2.76	2.80	2.94	5.00	5.25	5.50
Equity FCFPS (€)	0.57	0.43	(0.46)	(3.06)	14.78	2.70	14.67	15.09
BV/share (€)	49.14	50.60	55.38	57.15	64.78	80.14	94.36	109.6

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	47%	54%
Hold	44%	45%
Sell	9%	56%
	100%	

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

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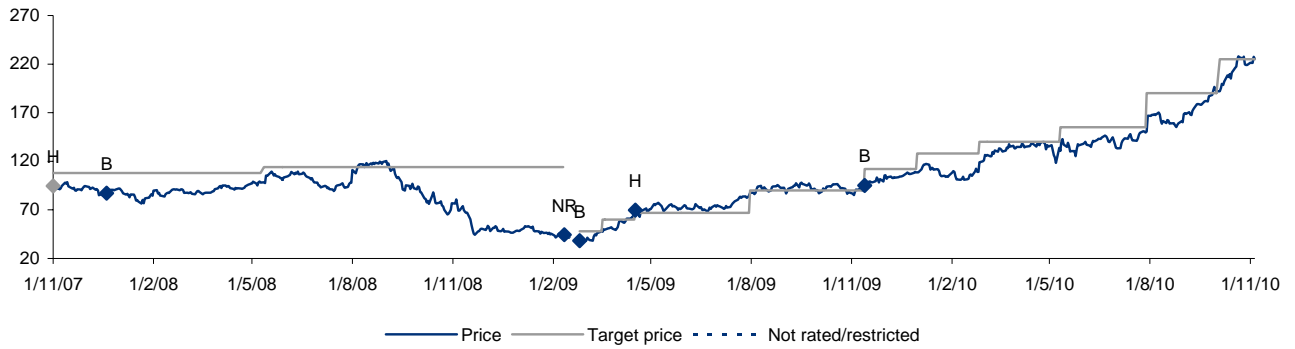
Buy: Forecast 12-mth absolute total return greater than +15%

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 05/11/10: 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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