EQUITY RESEARCH

Company update
21 December 2010

Bekaert

Investment case intact. TP upgrade to €97.0

Buy (maintained)

Price (20/12/10)
€83.94

Target price (12-mth)
€97.00 (previously €84.00)

Forecast total return
17.5%

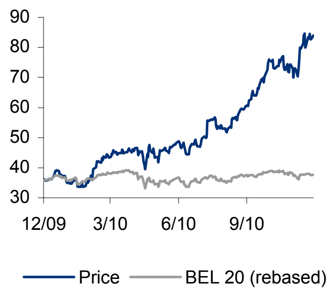
Industrial Goods & Services
Belgium
Bloomberg: BEKB BB
Reuters: BEKB.BR

Share data

Avg daily volume (3-mth)	195,580
Free float (%)	60.9
Market cap (€m)	4,994.7
Net debt (1F, €m)	475
Enterprise value (1F, €m)	5,694
Dividend yield (1F, %)	2.0

Source: Company data, ING estimates

Share price performance



Source: ING

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We continue to believe that Bekaert ticks all the boxes: strong (emerging markets) growth, at least in the medium term, sustainable high ROCEs and a solid balance sheet. Meanwhile, valuation is merely in line with the European capital goods sector. Bekaert remains a Benelux top pick.

We expect continued strong top-line growth of 9% and 7% in 2011-12F, respectively, driven by 19% and 13% growth in Asia Pacific (mainly China), which accounts for 37% of consolidated sales. Asia Pacific growth has three drivers: (1) 8-9% GDP growth in China and India; (2) The acquisition of a Bridgestone steel cord (for tyre reinforcement) plant (and a long-term supply agreement); and (3) the acquisition of Xinyu's Steel spring wire and overhead conductor business in China, which adds another 5% to growth. The rest of the growth comes from two Chinese government plans: (1) the aim to boost the radialisation rate of truck tyres from 60% to 85-90% by 2015, which suggests a 7% CAGR. Remember that Automotive sales are c.65% of Asia Pac sales, and we estimate that the split between trucks and cars sales is c.80/20; (2) China aims to increase installed photovoltaic power capacity from 6GW to 20GW by 2020, suggesting a 13% CAGR. Note that Energy sales are now c.27% of Asia Pac sales, and we estimate that 70% stems from sawing wire, which is used to cut polysilicon ingots into wafers, for the PV market.

We expect REBIT margins and ROCE in 2011-12F to remain at the high 2010F levels of 16.5% and 23%, respectively. While we expect the extremely high REBIT margins for Energy (we estimate 66% in 1H10) and Automotive (we estimate 27.5% in 1H10) in Asia Pac to come down significantly (INGF 22.5% and 50%, respectively, in 2012F), this should be compensated by their higher weight in total sales. Furthermore, Bekaert enjoys the benefits of global market leadership in steel cord for tyre reinforcement and sawing wire. We estimate the market share for the former at 30-35%, including the captive producers, and 70-80% for the latter. Lastly, we see high entry barriers. We understand that qualification for tyre cord deliveries to major tyre producers takes two years and that the thinness of Bekaert's sawing wire (as low as 60μm), which has a large impact on the cost per watt of the PV industry, is not matched by competitors.

Bekaert has a solid balance sheet, with net debt/EBITDA at 0.7x 2010F. This should allow for investments/higher shareholder remuneration. Assuming Bekaert leverages up to 2.0x EBITDA, the company has a €850m war chest (c.€14 per share). Adjusted for JV's, Bekaert trades at 6.5x 2011F EV/EBITDA. We increase our target price to €97.0, targeting 7.5x adj. 2011F EV/EBITDA, in line with the European capital goods sector.

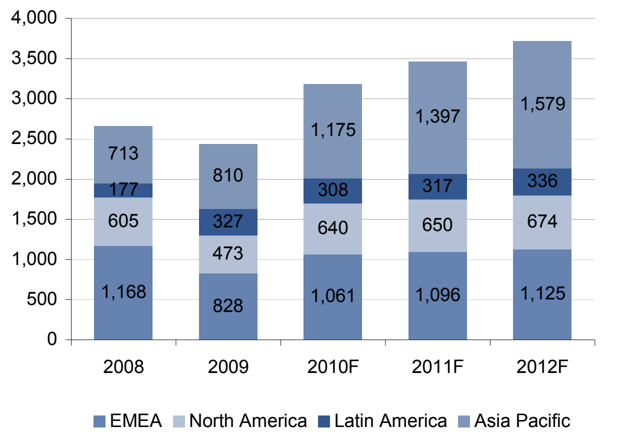
Forecasts and ratios

Year end Dec (€m)	2008	2009	2010F	2011F	2012F
Revenues	2,663	2,438	3,185	3,461	3,714
Normalised EBITDA	496	410	712	758	793
Normalised net profit	228	163	381	395	430
Normalised EPS (€)	3.86	2.74	6.42	6.66	7.25
Normalised PER (x)	21.8	30.6	13.1	12.6	11.6
EV/normalised EBITDA (x)	11.8	13.9	8.0	7.2	6.6
FCF yield (%)	n/a	5.8	3.0	5.9	6.8
Dividend yield (%)	1.1	1.2	2.0	2.1	2.2
Price/book (x)	4.4	3.9	3.1	2.6	2.2
Normalised ROE (%)	20.5	13.5	26.4	22.4	20.6

Source: Company data, ING estimates

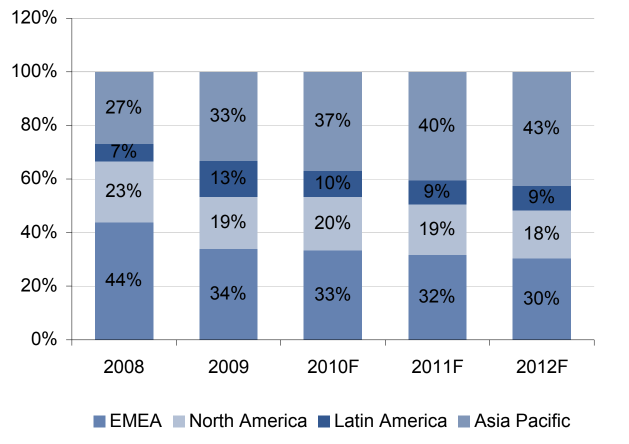
Top-line growth driven by Asia Pacific

Fig 1 Bekaert geographic sales breakdown (€m)



Source: Company data, ING estimates

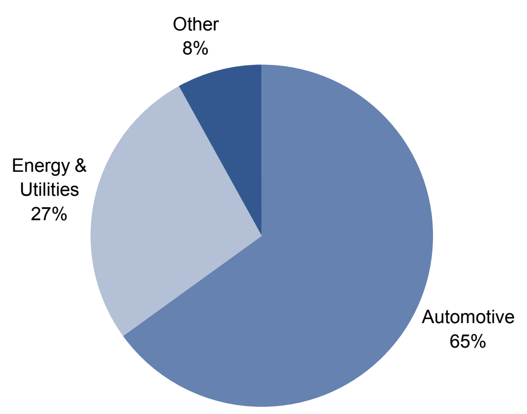
Fig 2 Bekaert geographic sales breakdown (%)



Source: Company data, ING estimates

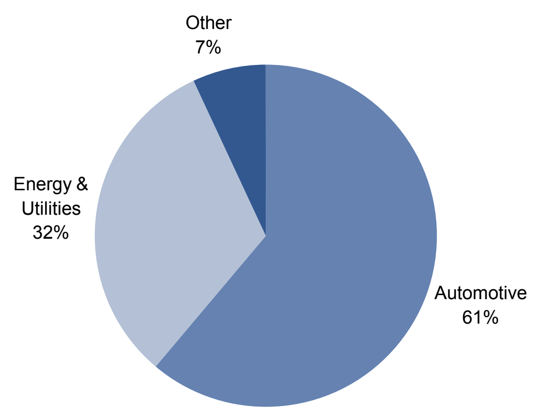
We expect continued strong 9% and 7% top-line growth in 2011-12F, respectively, driven by 19% and 13% growth in Asia Pacific (mainly China), which accounts for 37% of consolidated sales. Asia Pacific growth has three driver: (1) 8% and 9% GDP growth in China and India, respectively; (2) the acquisition of a Bridgestone steel cord (for tyre reinforcement) plant (and long-term supply agreement), and the acquisition of Xinyu's Steel spring wire and overhead conductor business in China, which adds another 5% to growth.

Fig 3 Asia Pacific sales breakdown 1H10



Source: Company data, ING estimates

Fig 4 Asia Pacific sales breakdown 2012F



Source: ING estimates

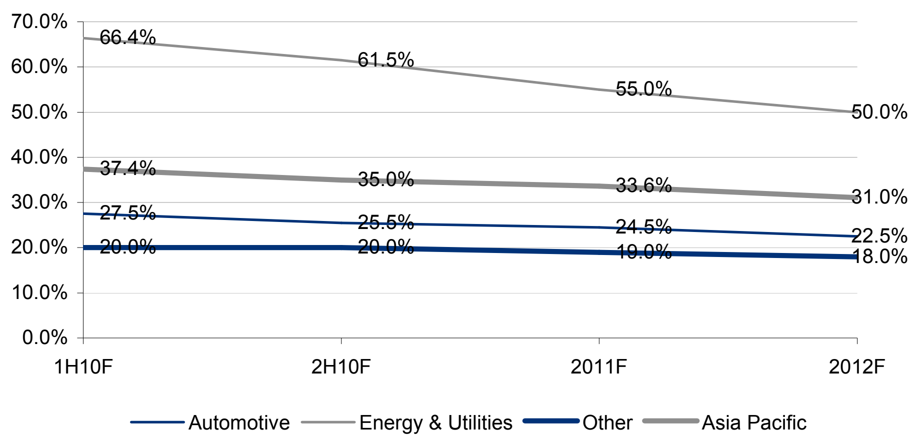
The rest of the growth comes from two Chinese government plans. First, the aim to boost the radialisation rate of truck tyres from 60% to 85-90% by 2015, which suggests a 7% CAGR. Remember that Automotive sales are c.65% of Asia Pacific sales, and we estimate that the split between trucks and cars sales is c.80/20. Second, China aims to raise its installed photovoltaic power capacity from 6GW to 20GW by 2020, suggesting a 13% CAGR. Note that Energy sales are now c.27% of Asia Pacific sales, and we estimate that 70% stems from sawing wire, which is used to cut polysilicon ingots into wafers, for the PV market.

In our estimates we do not model in significant sales in India (and Indonesia) before 2012. We acknowledge, however, that Bekaert is currently the only tyre cord producer active in India and that Michelin, for instance, announced significant expansion in the country. We would be surprised if part of Michelin's tyre cord needs were not sourced from Bekaert. If this were to happen before 2012, it would imply upside to our short-term estimates. We also do not model in significant sales from 'other' activities such as construction, agriculture, consumer goods, engineering and basic materials. Lastly, our growth assumptions for Latin America remain modest (3% in 2011F), given the uncertainty in Venezuela. We estimate that sales in Venezuela fell from c.25% of Lat-Am sales in 2009 to c.8% in 2010F, due to currency issues, which could continue in 2011F.

High ROCE sustainable in the medium term

We expect REBIT margins and ROCE in 2011-12F to remain at the high 2010F levels of 16.5% and 23%, respectively.

Fig 5 Bekaert Asia Pacific REBIT margin evolution (%)

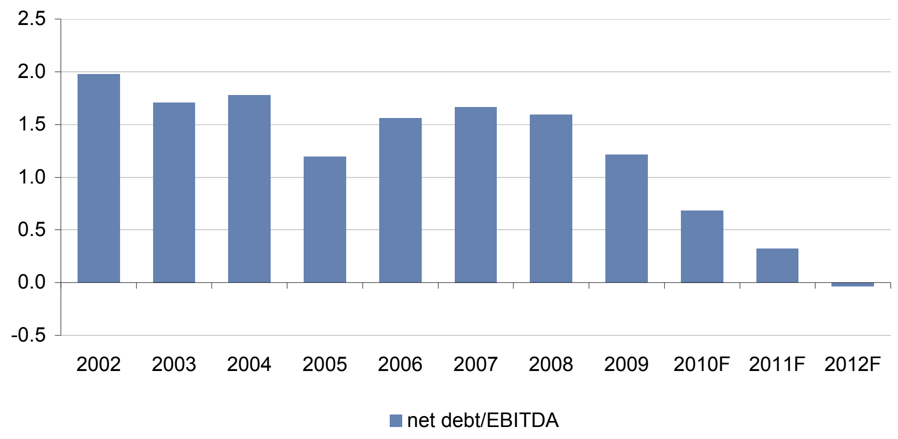


Source: ING estimates

While we forecast the very high REBIT margins for Energy (we estimate 66% in 1H10) and Automotive (we estimate 27.5% in 1H10) in Asia Pac to come down significantly (INGF 22.5% and 50%, respectively, in 2012F), this should be compensated by their higher weight in total sales. Second, Bekaert enjoys the benefits of global market leadership in steel cord for tyre reinforcement and sawing wire. We estimate the market share for the former at 30-35%, including captive producers, and 70-80% for the latter. Third, we see high entry barriers. We understand that qualification for tyre cord deliveries to major tyre producers takes two years. Concerning the sawing wire, the entry barrier lies in the thinness of the wire. Bekaert produces sawing wire as thin as 60μm, while Xingda, for instance, is entering the market in 2011 with 150μm sawing wire. These ultra thin wires result in lower kerf loss in cutting silicon ingots and hence in more wafers per cut, and also reduce slurry (abrasive substance) consumption for wafer producers. As such, the thinness of sawing wire has a large impact on the cost per watt of the PV industry and provides Bekaert with a clear competitive advantage.

Solid balance sheet

Fig 6 Bekaert net debt/EBITDA evolution



Source: Company data, ING estimates

Bekaert has a solid balance sheet, with 2010F net debt/EBITDA at 0.7x. In fact, Figure 6 demonstrates that the balance sheet leverage is at its lowest in a decade, and that Bekaert becomes net cash in 2012F. This definitely allows for further investments/higher shareholder remuneration. Assuming Bekaert leverages up to 2.0x EBITDA, the company has a €850m war chest (c.€14 per share or 17% of the current share price).

Change in estimates

We keep our 2010F normalised EPS estimate unchanged at €6.42, at the high end of the consensus range and 6% above the €6.04 consensus estimate. We revise up our 2011-12F normalised EPS estimates by 3.3% to €6.66, and 5.4% to €7.25€, respectively. Our estimates are now 2.5% and 5%, respectively, above consensus.

Fig 7 Bekaert: change in key estimates

	2010F old	2010F new	%ch.	*%YoY*	2011F old	2011F new	*%ch.*	%YoY	2012F old	2012F new	*%ch.*	%YoY
EMEA	1,061.0	1,061.0	0.0	*28.1*	1,102.6	1,096.2	*-0.6*	3.3	1,124.6	1,124.7	*0.0*	2.6
North America	640.5	640.2	0.0	*35.2*	626.0	650.4	*3.9*	1.6	638.5	673.8	*5.5*	3.6
Latin America	308.1	308.1	0.0	*-5.7*	317.4	317.4	*0.0*	3.0	336.4	336.4	*0.0*	6.0
Asia Pacific	1,175.6	1,175.3	0.0	*45.2*	1,388.1	1,397.4	*0.7*	18.9	1,526.9	1,579.1	*3.4*	13.0
Consolidated sales	**3,185.2**	**3,184.5**	**0.0**	***30.6***	**3,434.1**	**3,461.4**	***0.8***	**8.7**	**3,626.5**	**3,714.0**	***2.4***	**7.3**
EMEA	99.2	99.2	0.0		93.7	93.2	*-0.6*		95.6	95.6	*0.0*	
REBIT margin (%)	9.3	9.3			8.5	8.5			8.5	8.5		
North America	40.6	40.6	0.0		43.8	45.5	*3.9*		51.1	53.9	*5.5*	
REBIT margin (%)	6.3	6.3			7.0	7.0			8.0	8.0		
Latin America	27.6	27.6	0.0		31.7	31.7	*0.0*		37.0	37.0	*0.0*	
REBIT margin (%)	9.0	9.0			10.0	10.0			11.0	11.0		
Asia Pacific	424.6	424.3	-0.1		451.1	469.3	*4.0*		458.1	490.2	*7.0*	
REBIT margin (%)	36.1	36.1			32.5	33.6			30.0	31.0		
Other	(66.0)	(66.0)	0.0		(67.0)	(68.0)	*1.5*		(68.0)	(70.0)	*2.9*	
REBIT	**526.1**	**525.8**	**-0.1**	***104.7***	**553.4**	**571.8**	***3.3***	**8.8**	**573.8**	**606.7**	***5.7***	**6.1**
REBIT margin (%)	**16.6**	**16.5**			**16.3**	**16.5**			**16.0**	**16.3**		
Non-recurring	(30.0)	(30.0)	0.0		(15.0)	(15.0)	*0.0*		(15.0)	(15.0)	*0.0*	
EBIT	**496.1**	**495.8**	**-0.1**	***113.5***	**538.4**	**556.8**	***3.4***	**12.3**	**558.8**	**591.7**	***5.9***	**6.3**
EBIT margin (%)	15.6	15.6			15.9	16.1			15.6	15.9		
Net financing charges	(40.1)	(40.1)	0.0		(40.0)	(40.0)	*0.0*		(26.0)	(26.0)	*0.0*	
Taxes	(116.6)	(116.6)	0.0		(143.8)	(148.9)	*3.5*		(153.4)	(162.6)	*6.0*	
Share in the JV's	40.2	40.2	0.0		42.7	42.7	*0.0*		45.3	45.3	*0.0*	
Minorities	(28.0)	(28.0)	0.0		(30.0)	(30.5)	*1.7*		(31.0)	(33.0)	*6.5*	
Net profit	**351.6**	**351.3**	**-0.1**	***131.4***	**367.4**	**380.1**	***3.5***	**8.2**	**393.7**	**415.4**	***5.5***	**9.3**
EPS (€)	5.96	5.92	-0.8		6.36	6.40	*0.6*		6.81	7.00	*2.8*	
Normalised EPS	**6.43**	**6.42**	**-0.1**	***134.0***	**6.44**	**6.66**	***3.3***	**3.6**	**6.88**	**7.25**	***5.4***	**8.9**

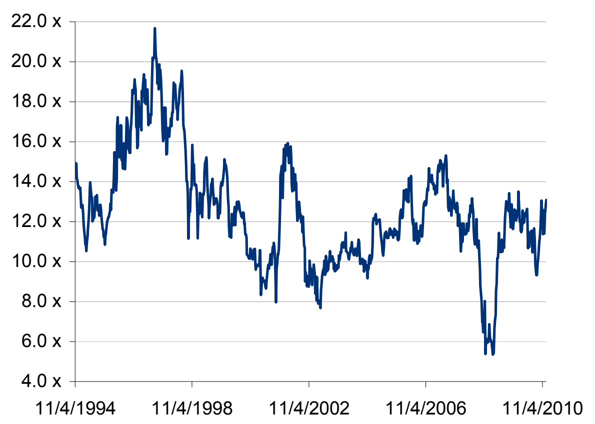
Source: Company data, ING estimates

Valuation

Bekaert currently trades at 12.6x 2011F PER and 7.2x 2011F EV/EBITDA.

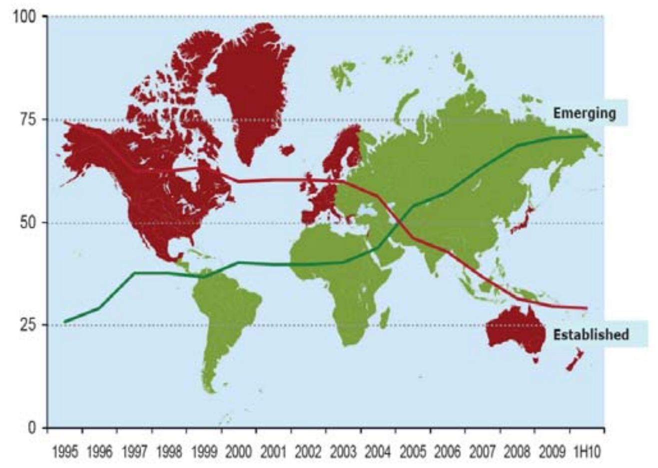
On PER, valuation seems in line with the historical average of 12.5x since 1994 (Figure 8). Hence, despite the very strong performance of the shares in 2010, further multiple expansion would not come as a surprise, in our view. Since 1994, the geographic profile of total sales (including joint ventures) from Bekaert shifted from c.75% of mature markets and c.25% of emerging markets to exactly the opposite in 1H10. Hence, the larger current exposure to higher growth emerging markets suggests that a valuation above the historical average seems justified.

Fig 8 Bekaert 1-year-forward PER evolution



Source: Factset

Fig 9 Bekaert evolution of sales per geography



Source: Company data

Given Bekaert's high ROCE of 23%, we argue that the company should trade between 7.0x and 8.0x 1-year-forward EV/EBITDA. Current valuation (7.2x) suggests Bekaert is no longer that cheap. Bear in mind, however, that Bekaert has significant joint ventures (mainly in Latin-America) that generated €0.6bn in sales in 1H10. Adjusted for JVs, Bekaert trades at 6.5x 2011F EV/EBITDA.

We increase our target price to €97.0, targeting 7.5x adj. 2011F EV/EBITDA, in line with the average for the European capital goods sector.

Fig 10 European capital goods valuation

(x)	Rating	TP	Price (€)	2011F EV/EBITDA	2012F EV/EBITDA	2011F PER	2012F PER
ABB	Buy	SFr21	16.61	7.2	6.3	14.6	12.9
Alstom	Buy	€54	36.16	6.0	5.3	11.0	10.3
Philips Electronics	Buy	€28	22.56	5.3	4.6	11.1	10.0
MAN	Not rated	-	92.30	7.7	6.4	15.3	12.5
Orkla	Not rated	-	7.13	9.0	8.1	10.0	8.8
Siemens	Hold	€76	94.26	7.6	6.7	13.5	12.1
Smiths Group	Not rated	-	14.80	9.0	8.1	13.7	12.2
Sulzer	Not rated	-	110.75	7.6	6.6	16.2	14.7
ThyssenKrupp	Not rated	-	31.53	5.1	4.0	13.4	8.8
Median				7.6	6.4	13.5	12.1

Pricing date: 20 December 2010

Source: Factset

Risks

A significant increase in competition in tyre cord could impact margins faster than we anticipate. The latter seems unlikely given the current oligopolistic market situation and high entry barriers. 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 2011 and, in view of the high margins, smaller players are likely to follow. Financial and technology barriers remain high in the short term, however.

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	3,185	3,461	3,714
Cost of goods sold	(1,522)	(1,615)	(1,740)	(2,061)	(1,904)	(2,320)	(2,544)	(2,755)
Gross profit	**392**	**395**	**434**	**602**	**534**	**864**	**917**	**959**
Operating costs	(135)	(133)	(135)	(190)	(149)	(182)	(174)	(181)
EBITDA	**257**	**262**	**299**	**412**	**385**	**682**	**743**	**778**
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**	**496**	**557**	**592**
Net interest	(15)	(31)	(41)	(49)	(66)	(40)	(40)	(26)
Associates	57	51	47	56	38	40	43	45
Other pre-tax items	0	0	0	0	0	0	0	0
Pre-tax profit	**178**	**166**	**181**	**217**	**204**	**496**	**559**	**611**
Tax	(30)	(18)	(19)	(26)	(34)	(117)	(149)	(163)
Minorities	(12)	(5)	(9)	(18)	(19)	(28)	(31)	(33)
Other post-tax items	54	0	0	0	0	0	0	0
Net profit	**190**	**143**	**153**	**174**	**152**	**351**	**380**	**415**
Normalised EBITDA	**289**	**279**	**310**	**496**	**410**	**712**	**758**	**793**
Normalised EBIT	**168**	**163**	**186**	**294**	**257**	**526**	**572**	**607**
Normalised net profit	**218**	**148**	**151**	**228**	**163**	**381**	**395**	**430**
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	274	303	372
Other current assets	769	833	904	1,140	1,018	1,315	1,412	1,500
Total assets	**2,239**	**2,220**	**2,313**	**2,667**	**2,830**	**3,226**	**3,366**	**3,537**
Short-term debt	246	218	253	503	151	151	151	151
Other current liabilities	321	377	388	478	484	559	587	613
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**	**1,532**	**1,360**	**1,185**
Total equity	1,109	1,109	1,147	1,172	1,374	1,695	2,006	2,351
Total liabilities & equity	**2,238**	**2,220**	**2,313**	**2,667**	**2,830**	**3,226**	**3,366**	**3,536**
Capital employed	1,643	1,601	1,722	1,964	2,123	2,444	2,556	2,701
Net working capital	569	593	644	793	640	841	910	973
Net debt (cash)	311	411	502	673	474	475	246	(22)
Cash flow								
Cash flow EBITDA	312	301	333	425	401	730	785	823
Change in working capital	(32)	(32)	(42)	(162)	196	(201)	(69)	(63)
Other non-cash items	(76)	(59)	(45)	(13)	(66)	(40)	(43)	(45)
Operating cash flow	**204**	**209**	**246**	**250**	**531**	**489**	**674**	**715**
Cash interest paid	(15)	(22)	(31)	(32)	(39)	(48)	(40)	(26)
Cash taxes paid	(26)	(17)	(25)	(28)	(33)	(117)	(149)	(163)
Net cash from operating activities	**164**	**171**	**191**	**191**	**458**	**324**	**485**	**526**
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	43	0
Cash from investing activities	**(36)**	**(157)**	**(152)**	**(243)**	**(127)**	**(248)**	**(157)**	**(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**	**(2)**	**229**	**223**
FCF	27	31	22	(29)	331	172	325	352

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	30.6	8.7	7.3
Normalised EBITDA growth (%)	n/a	-3.5	11.2	59.8	-17.4	73.7	6.5	4.6
Normalised EBIT growth (%)	n/a	-3.0	14.3	57.9	-12.7	104.7	8.8	6.1
Normalised EPS growth (%)	n/a	-31.4	9.2	53.6	-28.9	134.1	3.6	8.9
Gross margin (%)	20.5	19.7	20.0	22.6	21.9	27.1	26.5	25.8
Normalised EBITDA margin (%)	15.1	13.9	14.3	18.6	16.8	22.4	21.9	21.3
Normalised EBIT margin (%)	8.8	8.1	8.6	11.0	10.5	16.5	16.5	16.3
Reported net margin (%)	9.9	7.1	7.0	6.5	6.2	11.0	11.0	11.2
Reported ROE (%)	n/a	13.5	14.2	15.6	12.6	24.3	21.6	19.9
Normalised ROA (%)	n/a	7.3	8.2	11.8	9.3	17.4	17.3	17.6
ROAIC (%)	n/a	6.9	7.9	8.9	8.8	15.1	15.0	15.0
ROACE (%)	n/a	10.0	11.2	16.0	12.6	23.0	22.9	23.1
ROACE - WACC (%)	n/a	2.0	2.9	7.3	4.0	14.5	14.4	14.6
Leverage & solvency								
Working capital as % of sales	29.7	29.5	29.6	29.8	26.3	26.4	26.3	26.2
Net debt (cash)/EBITDA (x)	1.2	1.6	1.7	1.6	1.2	0.70	0.33	(0.03)
Net debt (cash)/equity (%)	28.0	37.1	43.8	57.4	34.5	28.0	12.3	-0.95
EBITDA net interest coverage (x)	17.1	8.5	7.3	8.4	5.9	17.0	18.6	29.9
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	3.1	3.9	4.1
Valuation								
EV/revenue (x)	2.9	2.8	2.6	2.2	2.3	1.8	1.6	1.4
EV/normalised EBITDA (x)	19.1	20.1	18.3	11.8	13.9	8.0	7.2	6.6
EV/normalised EBIT (x)	32.9	34.4	30.4	19.9	22.2	10.8	9.6	8.6
EV/capital employed (x)	3.4	3.5	3.3	3.0	2.7	2.3	2.1	1.9
EV/invested capital (x)	2.9	3.0	2.9	2.7	2.4	2.1	2.0	1.8
Normalised PER (x)	25.0	36.5	33.4	21.8	30.6	13.1	12.6	11.6
Price/book (x)	5.1	5.0	4.5	4.4	3.9	3.1	2.6	2.2
Dividend yield (%)	1.2	0.99	1.1	1.1	1.2	2.0	2.1	2.2
FCF yield (%)	0.49	0.56	0.38	n/a	5.8	3.0	5.9	6.8
Per share data								
Reported EPS (€)	2.93	2.22	2.54	2.94	2.56	5.92	6.40	7.00
Normalised EPS (€)	3.35	2.30	2.51	3.86	2.74	6.42	6.66	7.25
Dividend per share (€)	1.00	0.83	0.92	0.93	0.98	1.67	1.75	1.83
Equity FCFPS (€)	0.19	0.14	(0.15)	(1.02)	4.93	2.09	4.80	5.50
BV/share (€)	16.38	16.87	18.46	19.05	21.59	26.99	32.23	38.02

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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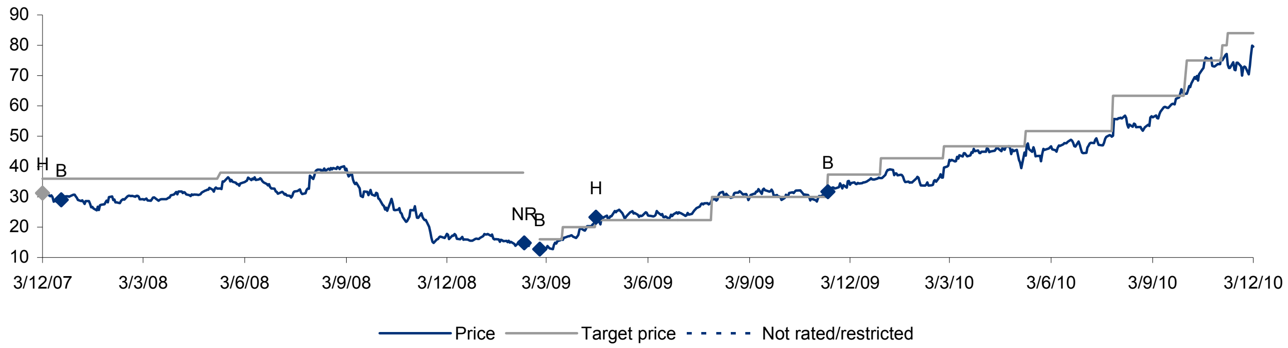

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