

# Bekaert

25 November 2005

Committed to value creation

Engineering & Machinery

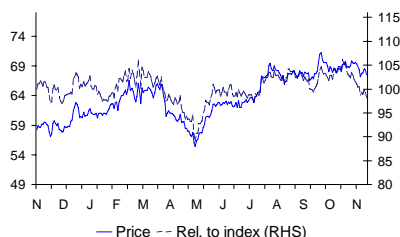
Current Price € 67.55

**Outperform**

Belgium

Target Price € 78.00

Rating Unchanged



Source: Thomson Financial Datastream

FY/e 12.31	2004	2005E	2006E	2007E
Sales (€m)	2,173.2	1,882.7	1,993.1	2,092.8
EBITDA (€m)	316.7	256.6	257.8	267.8
Net earnings (€m)	167.6	184.4	134.4	137.0
Current EPS* (€)	6.54	5.85	6.25	6.37
Published EPS (€)	7.66	8.50	6.25	6.37
Dividend per share (€)	2.00	2.00	2.00	2.15
P/E (x)	7.7	11.5	10.8	10.6
Dividend yield (%)	4.0%	3.0%	3.0%	3.2%
EV/EBITDA (x)	4.8	6.4	6.3	6.1

Source: KBC Securities

\*Adjusted for goodwill and exceptionals

Reuters BERTt.BR

Bloomberg BEKB BB

[www.bekaert.com](http://www.bekaert.com)

Market Cap € 1,454m

Shares outst. 21.5m

Volume (Daily) € 2.38m

Free float 57.21%

Next corporate event

Trading update 4Q05 : 17 February 2006

Performance over	1m	3m	12m
Absolute	-1%	0%	19%
Rel.BEL20	-5%	-5%	0%
Relative to sector	-9%	-7%	-8%
12-m Hi/Lo	€ 71.25/55.40		

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Bekaert is an international group with its core competencies in metal transformation and coating technologies.

**Bekaert's heavy investment in the product mix in recent years has yielded structurally higher margins. The main financial objectives are to achieve sustainable and profitable growth and an RoIC exceeding the average cost of capital throughout the cycle.**

- Bekaert is steadily upgrading its product mix through divestments or discontinuing of businesses that cannot meet the financial objectives and selective acquisitions and investments.
- In recent years, the most visible signs of the group's strategy have been the divestment of Fencing systems and the heavy investment program at Steel cord China.
- Over 2003 to 2005, Bekaert has invested around € 200m in Steel cord China. Today, this new capacity is on-stream and already making a full contribution to earnings, proving that this was the right move at the right time. Management recently indicated to be working on a further increase of its production capacity in China by at least 50%.
- Over 9M05, Bekaert achieved consolidated sales of € 1,440m and combined sales of € 2,286m, an increase of 11% and 14% respectively.
- While there was a definite slowing of demand in some European and North American markets, Latin America held-up well and growth in Asia accelerated.
- Even though we are already at the end of the year, Bekaert refrained from offering detailed guidance. However, we suspect the company might spring a positive surprise at the 2005 results presentation.

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## Executive summary

Bekaert is an international group built around two core areas of expertise: **advanced metal transformation** and **advanced materials and coatings**. In pursuit of its goal of sustainable profitable growth, Bekaert has built its global strategy on market leadership and technological leadership and strives to be world number one or two.

### *Shareholder value creation*

The main financial objective is to generate a RoIC that exceeds the average cost of capital through the cycle. In recent years, heavy investment in the product mix has yielded structurally higher margins. The group has pursued a strategy combining divestments and the closure of businesses deemed unable to meet the group's financial objectives with selective acquisitions and investments in the core business.

### *Growth strategy focuses on geographical expansion in the core business*

While in the past the expansion strategy mainly focussed on the Advanced Materials business, the new management has mainly focussed on a geographical expansion in the core business.

### *Disposal of Fencing systems Europe, Bekaert's historical activity*

Bekaert has made significant efforts to optimise its product mix. The most visible example of this was the divestment of the Fencing systems Europe to Gilde for a total enterprise value of € 281.5m. With combined sales of € 454m and an operating result of € 52m in 2004, the sale has reshaped Bekaert and also strongly underlined the company's commitment to meeting its financial objectives.

### *Capacity expansion at Steel cord China was the right decision at the right time*

The best example of the group's geographical expansion has been the capacity increase at Steel cord China. Over the 2003 to 2005 period, Bekaert has invested approximately €200m to bring its steel cord capacity in China to approximately 120k p.a. This capacity is now fully on-line and already utilised. Bekaert's decision to invest heavily in China was well timed and management recently indicated to work on a further increase of its production capacity by at least 50%. Other regions in which Bekaert has made substantial investments are Central Eastern Europe and India. There are also plans to invest in Russia soon. We expect some news on this in the near future.

### *Share buybacks will strengthen balance sheet structure in the short term*

With net financial debt at the end of June amounting to € 357m or gearing of 34%, Bekaert's balance sheet is underleveraged. However, the company is investing heavily in its core business, a trend we expect to continue. However, in-line with the main objective to create shareholder value, Bekaert carried out share buybacks over 1H05 at €1.55 per share, thereby reducing the number of outstanding shares to #21,523,372. The buybacks are good news in our view, creating value and optimising the balance sheet.

### *Excellent 1H05 results*

Bekaert reported excellent 1H05 results, beating expectations. The result from operations came to an impressive €85.3m or a margin of 8.8%. Before non-recurring items totalling €9m in 1H05, the operating margin amounted to an impressive 9.7%. The contribution from associates increased by 7% to €27.7m.

*Strong 9M05 sales figures ...*

On 14 November, Bekaert issued its third quarter trading update. Over 9M05, Bekaert realised consolidated sales of €1,440m and combined sales of €2,286m, an increase of respectively 11% and 14%. Consolidated and combined sales in 3Q05 grew respectively 6.9% and 10.6%. The consolidated sales increase breaks down as 10% from organic growth and 2% from the net movement in acquisitions and divestments, offset by adverse currency movements of 1%.

*... driven by accelerated growth in Asia*

There was a definite slowing of demand in various European and North American markets, but Latin America held-up well. Most of the strong performance was driven by the accelerated growth recorded in Asia, particularly China.

*Very limited guidance*

Although we are already in November, Bekaert did not commit itself to detailed guidance, only saying that sales will continue to grow in 4Q05 and that the European and North American markets will continue to weaken.

Our scenario sees 2005 and 2006 adjusted EPS of €5.85 and €6.25. Taking into account Bekaert's prudent message at the interim results publication and the recent trading update, we still suspect that Bekaert could spring a surprise at the FY results publication.

Our DCF valuation yields a fair value of €78.9 per share. Our valuation assumes a value of €350m for the associates vs. the book value of only €219.7m. We reiterate our Outperform rating but recently increased our target price from €74 to €78 per share on the recently announced intention to increase production capacity in China by at least 50%.

*Free float close to 60%*

**Shareholders**

Several individuals and companies linked to the Bekaert family, acting in concert, own #9,209,380 shares. Following the cancellation of #541,910 shares in August, the current number of outstanding shares amounts to #21,523,372. This puts the free float at an estimated 57.2%. Bekaert estimates institutional shareholdings at roughly one third of the outstanding shares. Over the past five years, the proportion of international institutionals in the capital has increased dramatically from under 20% to over 70%.

**SWOT analysis**

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Strong balance sheet and cash flow</li> <li>• Leading market positions and technological edge</li> <li>• Focus on sustainable profitable growth and shareholder value creation</li> <li>• Wide product range</li> </ul>	<ul style="list-style-type: none"> <li>• Underleveraged balance sheet</li> <li>• Weak share liquidity</li> <li>• Low visibility</li> <li>• Cyclicity</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Geographic expansion in Russia and India</li> <li>• Further optimize product mix</li> <li>• Divest non-core assets</li> <li>• Acquisitions in core business</li> </ul>	<ul style="list-style-type: none"> <li>• Sharp fluctuations in raw material prices</li> <li>• Competition from imports</li> <li>• Currency impact</li> <li>• Increasing competition in Asia</li> </ul>

## Business description

### Introduction

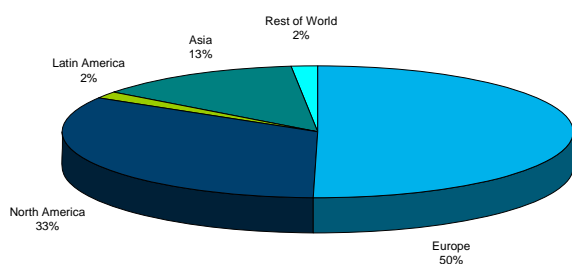
*Built on expertise in two core areas: advanced metal transformation and advanced coatings*

Bekaert is an international group built on two core areas of expertise: **advanced metal transformation** and **advanced materials and coatings**. In pursuit of its goal of sustainable profitable growth, Bekaert has built its global strategy on market leadership and technological leadership and strives to be world number one or two.

*Three reporting segments: advanced wire products, advanced materials and advanced coatings*

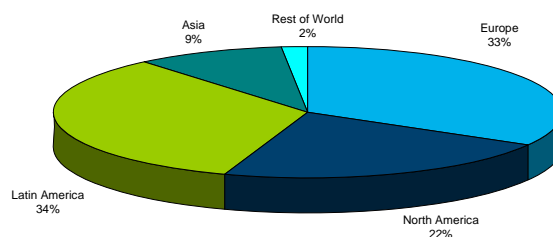
Bekaert is the world's largest independent steel cord and steel wire products manufacturer. The group is also involved in high-tech applications based on thin metal fibres and sputtered films. The activities are divided into three reporting segments: advanced wire products, advanced materials and advanced coatings. Early this year, Bekaert has sold its European fencing division to Gilde.

#### Consolidated sales by region (1H05)



Source: Bekaert NV

#### Combined sales by region (9M05)

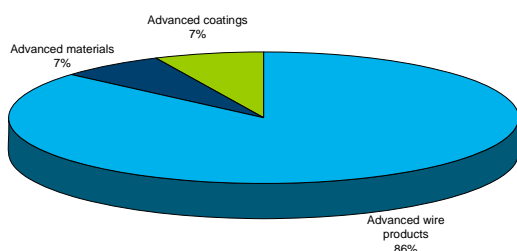


Source: Bekaert NV

#### Active worldwide

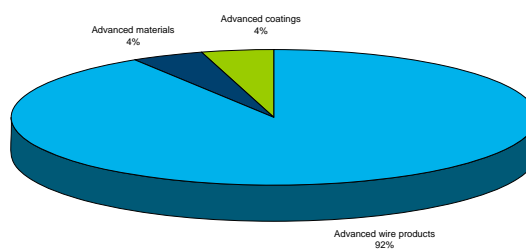
In 2004, Bekaert generated sales of € 2.2bn and employed 18,400 people. Adding Bekaert's participating interests (mainly in Latin America), 'combined sales' amounted to about € 3.1bn. While the EU accounts for about 50% of consolidated sales, combined sales offer a more accurate picture of Bekaert's regional exposure, with Latin America accounting for 34% (vs. only 2% of consolidated sales).

#### Consolidated sales by activity (9M05)



Source: Bekaert NV

#### Combined sales by activity (9M05)



Source: Bekaert NV

*Present in different market segments*

With its wide product portfolio, Bekaert is present in different market segments. About 35% of sales are generated in the automotive sector. Other market segments include construction, telecom, offshore, components, energy and textiles.

Bekaert is committed to a process of strategic renewal based on its core expertise. The group is evolving from a volume-driven producer into a manufacturer of higher-margin products offering greater added value. The strategy is to focus on selected international market segments with high inherent growth potential and to move closer to the end-user. The aim is to increase shareholder value and secure sustainable and profitable growth.

*A changing product mix*

In order to improve its product mix, Bekaert has followed a strategy of optimisation programmes, divestments, selective acquisitions, substantial investments in greenfield projects and R&D. Over the past few years, several units, whose growth profile and profitability no longer matched Bekaert's objectives, have been divested or discontinued. These include Unisolar, the composite profiles, medical coatings, staple wire Europe and last but not least, Fencing systems Europe.

Bekaert aims to achieve an RoIC that exceeds the cost of capital over the length of the cycle. New investments and potential acquisitions are being evaluated on this basis. Certain product lines, which did not have the potential to meet these profitability requirements, have already been discontinued and, for the same reason, others have been transferred to regions where they can be produced at a lower overall operating cost. The different product lines are evaluated periodically and, where necessary, optimised. Bekaert still gives priority to the close monitoring of working capital and careful evaluation of new investments.

*Sale of Fencing systems Europe to Gilde for € 281.5m*

In January, Bekaert announced the disposal of Fencing systems Europe, renamed Betafence, to Gilde for an EV of €281.5m. The deal was finalised on 1 March 2005 and the business was deconsolidated from 1 January. The price tag breaks down as the transfer of fencing debt of €118m, the transfer of the fencing pension fund liabilities of €54m, with the remainder being a mixture of cash and cash adjustments. Over 1H05, Bekaert realised a capital gain of approximately €54m. In 2004, Betafence generated combined sales of €454m and an operating result of €52m, including an €11m inventory revaluation. Adjusted for non-recurring items and inventory revaluation, the adjusted operating margin improved from 7.1% to 9.1%.

*Optimisation measures to keep Bekaert sharp*

In addition to selective divestments, optimisation programmes should lower the break-even point and thereby boost cash-flows, which can then serve to finance new applications or expansion in new regions. As an illustration, Bekaert announced in September its intention to restructure the advanced wire products plants at Hemiksem and Lanklaar in Belgium. The plan will effect 85 and 125 jobs respectively.

Hemiksem is faced with increased retail pricing pressure in Western Europe due to increasing competition from imports of galvanized low carbon wires from countries like Russia, South Africa, Ukraine, China, Israel, Turkey and Romania.

A number of Bekaert customers are also moving to CEE and Asia, where they prefer to produce supplies locally. In response to this structural shift, Bekaert will adapt its cost structure by closing two low carbon wire production lines.

Lanklaar supplies steel cord products for tire reinforcement and is also grappling with the market shift in tire production from Western Europe to CEE. As a result of fierce competition, retail price pressure on simple steel cord products in Europe has increased, whilst production costs in Western Europe have also risen. In addition, exports from Europe to customers in the rest of the world have more or less disappeared due to the construction of local production capacity and exchange rate fluctuations. Restructuring at the Lanklaar plant is also unavoidable.

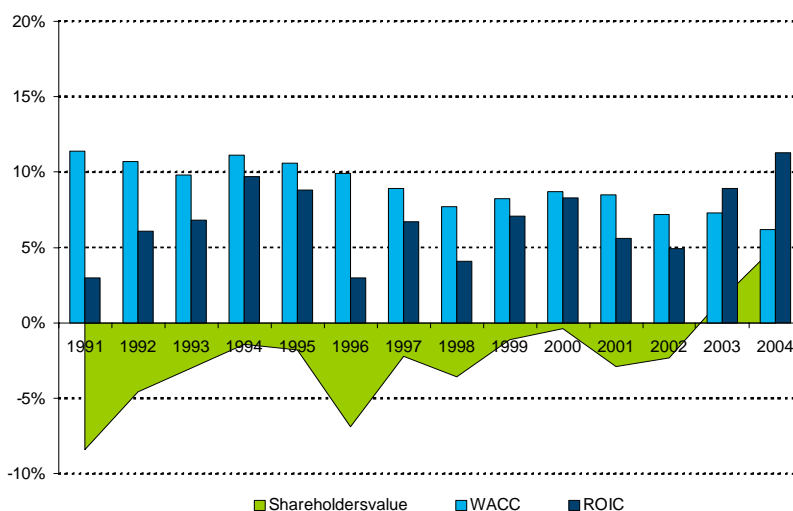
*Geographical expansion of the core business*

In terms of future expansion, Bekaert is focusing on growth regions where it sees possibilities to market the products that are already sold in Europe and North America. Eastern Europe and Asia in particular are two regions where the group is expanding. Over the 2003 to 2005 period, Bekaert has invested around € 200m to lift its Chinese steel cord capacity to approximately 120k p.a. This new capacity is now on-stream and already fully utilised. The timing of the decision to invest heavily in steel cord China was perfect and Bekaert recently announced to work on a further increase of its production capacity in China by at least 50%. New growth opportunities in Russia are also being studied and we expect some news on this issue in the near future.

*Spending about 3% of sales on R&D*

Bekaert pursues growth by constantly reinforcing its technological leadership, maintaining its technological lead through a process of continuous innovation. Bekaert spends about 3% of sales on R&D, which amounted to about € 55m in 2004. Bekaert seeks to maintain a judicious balance between new and maturing products in its portfolio.

**Shareholder value creation**



Source: Bekaert NV

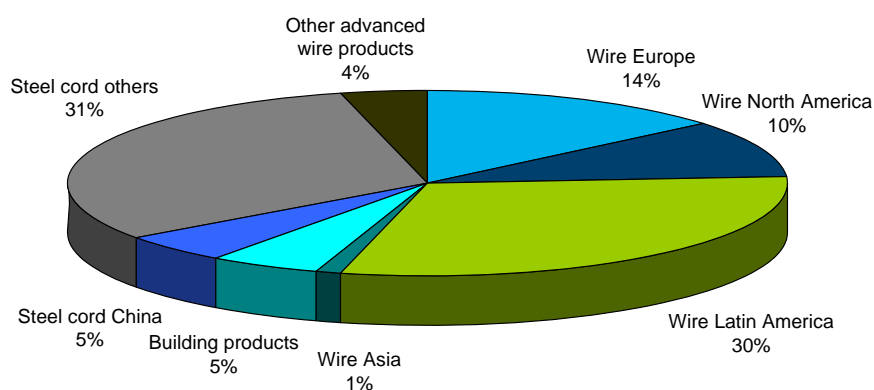
*Earning a RoIC above WACC in 2003 and 2004*

The strategy of recent years has not been without success. While in the past, profitability was insufficient to cover the cost of capital, in 2003 and 2004 Bekaert managed to earn a RoIC in excess of its cost of capital.

## Advanced wire products

Generating 86% and 92% of the 9M05 consolidated and combined sales, advanced wire products is by far the largest business segment. The wide product range includes steel cord for reinforcement of radial tyres, coated wires and Dramix for concrete reinforcement.

### Combined sales Advanced wire products (1H05)



Source: Bekaert NV

*Segment split into 8 activity platforms*

The business segment is split into eight activity platforms and regroups the former Wire and Steel Cord business groups. Wire Europe, Wire North America, Wire Latin America and Wire Asia generated respectively 14%, 10%, 30% and 1% of the advanced wire products' combined 1H05 sales, while Steel cord others and steel cord China accounted for 31% and 5%. Taking into account the dramatic growth in steel cord China and the new capacity now on full stream, we expect its share to increase to about 7% in the near future. Building products and other advanced wire products represent 5% and 4% of sales.

*The world's largest independent producer of steel cord for tyre reinforcement*

One in every four tyres is reinforced with Bekaert steel cord products, making the group the world's largest independent tyre cord (used for reinforcement of radial tyres) producer. The biggest competition in this segment comes from the tyre manufacturers themselves, which have integrated to a certain extent steel cord production in their production chain. Although a cyclical business, depending on the global economic environment (automotive), cyclical effects are softened by the fact that the replacement market represents around 70-80% of demand for steel cord for the car and truck segments.

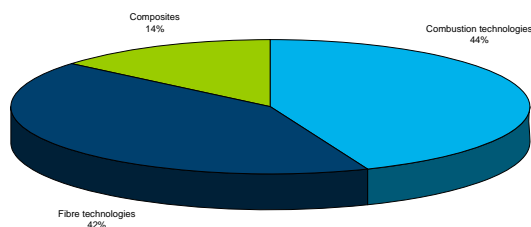
*Bekaert to further increase its production capacity in China with at least 50%*

Further growth could come from new markets where heavy investments in infrastructure are expected to boost tyre radialisation. Over 2003-05, Bekaert has invested around €200m in expanding its Chinese steel cord capacity and recently announced to work on a further increase of its production capacity in China by at least 50%. Bekaert has also opened new plants in Central Europe and India and is currently considering growth opportunities in Russia.



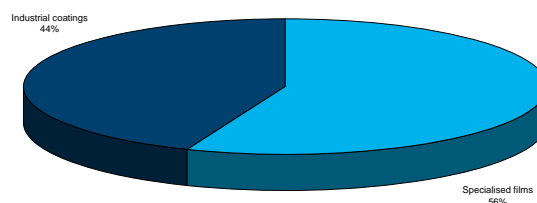
## Advanced materials and coatings

### Consolidated sales Advanced materials (1H05)



Source: Bekaert NV

### Consolidated sales Advanced coatings (1H05)



Source: Bekaert NV

**Advanced materials** accounted for 6.8% and 4.4% of the 9M05 consolidated and combined sales. The business segment has three activity platforms: fibre technologies, combustion technologies and composites.

- **Fiber technologies**  
Manufactures fine fibers in a range of metal alloys, mainly stainless steel, and products incorporating metal fibers in various forms.
- **Combustion technologies**  
Products mainly based on metal fiber technology and metal fiber media for environmentally friendly gas burners.
- **Filtrations**  
High-pressure vessels for reverse osmosis (water desalination).

**Advanced coatings** accounted for 6.9% and 4.5% of the 9M05 consolidated and combined sales. The business segment has two activity platforms: specialised films and industrial coatings.

- **Industrial coatings**  
Coatings applied to various materials using vacuum techniques or thermal spraying, including diamond-like coatings.
- **Specialized films**  
Coatings applied by sputtering or by a wet-coating process whereby a plastic film is coated with a liquid chemical.

## Financials

### Third quarter trading update 2005

On 14 November, Bekaert issued its third quarter trading update. Over 9M05, Bekaert realised consolidated sales of € 1,440m and combined sales of € 2,286m, an increase of respectively 11% and 14%. Consolidated and combined sales growth in 3Q05 was respectively 6.9% and 10.6%.

The consolidated sales increase broke down as 10% from organic growth and 2% from the net movement in acquisitions and divestments. This was offset by adverse currency movements of 1%.

#### Consolidated sales by business segment

	1H05		3Q05		9M05	
Advanced wire products	840	10.7%	402	11.8%	1,242	11.0%
Advanced materials	63	16.7%	35	10.1%	98	14.2%
Advanced coatings	67	0.0%	33	5.1%	100	1.6%
Intersegment sales and others	1		-1		0	
<b>Total</b>	<b>971</b>	<b>13.0%</b>	<b>469</b>	<b>6.9%</b>	<b>1,440</b>	<b>10.9%</b>

Source: Bekaert NV

#### *Weakening of European and North American markets ...*

Consolidated and combined sales growth at **advanced wire products** over 9M05 was respectively 11.0% and 15%. In the third quarter, Bekaert recorded a strong performance but there is a definite slowing of demand in various markets in Europe and North America. In Latin America market demand remains stable. Only in Asia, and particularly China, did Bekaert achieve faster growth. Sales in other advanced wire products increased, partly through the acquisition of ECC Card Clothing.

#### *... accelerated growth in Asia and China in particular*

While combined sales in Wire Europe and Wire North America were up by 19% and 10% y/y in 1Q05, this has fallen dramatically to -4% and -6% over 9M05. While sales will continue to grow in 4Q05, Bekaert expects the weakening of the European and North American markets to continue. On the other hand, combined sales growth of Wire Asia and Steel cord China accelerated from 12% in 1H05 to 22% over 9M05 and from 28% in 1H05 to 34% over 9M05. In Wire Asia, Bekaert has successfully launched wire products such as Dramix and nylon-coated wire on the Chinese market. At steel cord China, the new capacity, which is now on stream, is already fully utilised and underpins the sharp increase in sales in 2Q and 3Q05. Further double-digit growth is expected for 4Q05 and 1Q06 at least.

With consolidated and combined sales growth y/y of respectively 14% and 14% over 9M05, Bekaert also performed strongly in **advanced materials**. Besides organic growth, activities were boosted by the recent acquisition of Southwest Screens & Filters, in fibre technologies, and the earlier takeover of Solaronics, in combustion technologies. Combined sales in fibre technologies increased by 13% y/y over 9M05 while combined sales in fibre technologies were up by 24% over the same period.

At only 2% y/y over 9M05, sales growth in **advanced coatings** remained weak. 9M05 sales of industrial coatings were down by 1% y/y while sales of specialised films firmed by 3%. It was mainly the strongly project-driven activities in industrial coatings that underperformed. In specialised films, window film saw strong growth.

#### *New production unit in Suzhou*

Early November, Bekaert opened its new production unit for advanced materials and coatings in Suzhou (China). The plant took less than 6 months to build at a cost of about €20m.

<b>Combined sales by activity platform</b>			
	<b>1Q05</b>	<b>1H05</b>	<b>9M05</b>
<b>Advanced wire products</b>	<b>22%</b>	<b>15%</b>	<b>15%</b>
Wire Europe	19%	-2%	-4%
Wire North America	10%	-1%	-6%
Wire Latin America	29%	24%	24%
Wire Asia	30%	12%	22%
Building Products	2%	-2%	16%
Steel cord China	1%	28%	34%
Steel cord others	28%	24%	19%
Other advanced wire products	13%	7%	18%
<b>Advanced materials</b>	<b>26%</b>	<b>17%</b>	<b>14%</b>
Fibre technologies	-6%	0%	13%
Combustion technologies	95%	42%	24%
Composites	5%	10%	-6%
<b>Advanced coatings</b>	<b>-2%</b>	<b>-1%</b>	<b>2%</b>
Industrial coatings	1%	-2%	-1%
Specialised films	-5%	-1%	3%

Source: Bekaert NV

### **Excellent 1H05 results**

Over the first-half, Bekaert posted 13% growth in consolidated sales to €971m and a 16% increase in combined sales (including associates) to €1,514m. Pricing was the main growth driver, reflecting the sharp increase in raw material prices over 2004. Consolidated sales grew 14% organically and 1% from net movements caused by acquisitions and divestments, while adverse currency movements shaved 2% from the figures.

Consolidated sales of **advanced wire products** increased by 11% over 1H to €840m. In 1Q, growth was reported at 18.6%, meaning a slowdown to 5.3% in 2Q. The sales growth evolution is quite normal given the 2004 price increases. For the same reason, the comparison with 2H04 will be challenging, to say the least.

The various segments within the Advanced wire products business unit showed markedly different evolutions. While small declines were recorded in wire Europe (-2%) and wire North America (-1%), double-digit growth was recorded at wire Latin America (+24%) and wire Asia (+12%). Spectacular growth was seen in steel cord with steel cord others up 24% and steel cord China up 28%.

**Advanced materials'** sales increased by 17% to € 63m. While sales in fibre technologies were stable, sales in combustion technologies surged 42%, helped by the acquisition of Solaronics. Sales of composites firmed by 10%. **Advanced coatings** sales slipped 1% to € 67m. In industrial coatings, sales fell in the project-driven sputter products business. At the same time, Bekaert prepared for growth in diamond-like coatings by opening new facilities in the US. The US market for specialised films remained stable, while new technological developments were recently introduced successfully onto the market. Furthermore, business activities were extended, mainly in Asia. However, adverse currency movements offset these effects.

<b>Bekaert 1H05 results</b>			
	<b>1H04 (restated)</b>	<b>1H05</b>	<b>y/y</b>
Sales	859.8	970.6	12.9%
Gross profit	201.1	212.6	5.7%
Gross margin	23.4%	21.9%	
Comparable operating result	74.8	94.1	25.9%
Margin	8.7%	9.7%	
Result from operations	71.2	85.3	19.8%
Interest income & expenses	-8.0	-11.2	
Non-operating income & expenses	0.4	3.3	
Associates	24.0	27.7	15.7%
Taxes	-18.6	-21.6	
Minorities	-5.4	-7.3	
Consolidated net result, group share, from continuing operations	63.7	76.2	19.6%
Discontinued operations	15.1	54.1	
Consolidated net result, group share	78.8	130.3	
<b>EPS from continuing operations</b>	<b>2.89</b>	<b>3.47</b>	<b>20.1%</b>
<b>EPS - reported</b>	<b>3.58</b>	<b>5.94</b>	<b>65.9%</b>

Source: Bekaert

The operating result before one-offs at Advanced wire products climbed from €98m to €105m, equivalent to a margin slide from 12.9% to 12.5%. Advanced materials posted an increase from €5m to €7m or a margin improvement from 9.3% to 11.1%. The operating result before one-offs at Advanced coatings rose to €3m, equivalent to a 4.5% margin from operational break-even in 1H04.

### Impressive margin management

The operating result climbed to an impressive €85.3m or a margin of 8.8%. Before one-offs totalling €9m in 1H05, the operating margin was a healthy 9.7%. The contribution from associates increased by 7% to €27.7m. As a reminder, sales from Latin America (mainly related to the associates) increased by 22% over 1H05. The consolidated net result, group share, from continuing operations increased from €63.7m to €76.2m. After the capital gain on the disposal of the fencing business (€54.1m), the net consolidated result, group share, came to €130.3m vs. an expected €123.1m.

### Optimising balance sheet structure

### Share buybacks boost shareholder value

At the end of June, equity represented 48% of total assets, compared to 44% at the end of December. Net debt amounted to €357m, compared to €409m or gearing of 34%, compared to 43% at the end of December. Over 1H, Bekaert purchased # 550k shares for a total of €33.2m or about €1.55 per share. Most of these shares were cancelled (about 2.5% of current shares outstanding) early August bringing the number of outstanding shares to #21,523,372. We welcome the buyback programme, which should create value and strengthen the balance sheet. Net financial debt was a bit higher than expected, due mainly to the share buybacks and the higher working capital requirements generated by the growing Chinese business.

Although the balance sheet is underleveraged following the divestment of the fencing business, this will allow the group to proceed with its current growth strategy. In the short term, further share buybacks or an increase of the dividend should not be excluded. Over 2004, Bekaert paid a total gross dividend of €2.0 per share. We have projected a stable dividend for the current year, which is below the company's policy of a 40% payout.

### Excellent 2004

Bekaert reported excellent FY04 results. The net result, group share, rose to a higher-than-expected €167.6m. This surprise is a result of the higher-than-anticipated contributions from Latin American joint ventures and associates and the lower-than-expected taxes and inventory revaluations, which added €46m to the operating result.

### BEKAERT Key figures

	2H03	2003	1H04	2H04	2004
Sales	864	1,797	1,096	1,077	2,173
Growth	-1.5%	-3.6%	+17.5%	+24.6%	+20.9%
Comparable op. result	49.0	121.7	81.3	72.1	153.4
Margin	5.7%	6.8%	7.4%	6.7%	7.1%
Operating result	43.5	111.8	103.3	81.8	185.1
Financial result	-14.0	-32.3	-13.7	-12.9	-26.6
Other	0.0	-10.7	-2.7	-1.4	-4.0
Taxes	1.1	-8.16	-26.7	-1.4	-28.1
Equity consolidated	14.1	32.0	24.0	29.6	53.6
Net profit group share	42.7	85.2	78.8	90.2	167.6
EPS – reported	1.93	3.85	3.57	4.09	7.66

Source: Bekaert

Over 2004, Bekaert reported **20.9% growth in consolidated sales** to €2,173m and 20.1% growth in combined sales to €3,144m. Organic growth amounted to 22%, while net movements in acquisitions & divestments and adverse currency movements had an impact of respectively 3% and 4%. Double-digit growth was recorded in all business segments with advance wire products, fencing, advance materials and advance coatings recording 20.9%, 18.4%, 13.0% and 12.8% increases in consolidated sales. According to the company, about half of the sales growth was volume driven.

**Advanced wire products** combined sales increased by 21.3%. Most noteworthy was the strong 32% surge in Latin America and the moderate 1% growth of steel cord China. However, at constant currencies, steel cord China would have posted 12% growth. By the end of the year, growth in China picked-up again.

**Fencing systems** combined sales increased by 18.6%, reflecting a good season, substantial volume growth in industrial fences and further expansion of the project business.

**Advanced materials** combined sales were up by 13%. Substantial growth was recorded in fibre technologies (+7%) and combustion technologies (+53%), the latter being boosted by the acquisition of Solaronics. Sales of composites on the other hand were down 24% following the withdrawal from composite profiles. Combined sales of **advanced coatings** were up by 7.4%. Sales of industrial coatings grew by a solid 15% on firm demand. Growth in specialised films was only 2% but there was strong growth in Europe and Asia.

#### Sales per business unit

	Consolidated sales		Combined sales	
Advanced wire products	1,500	+ 20.9%	2,411	+ 21.3%
Fencing systems Europe	453	+ 18.4%	454	+ 18.6%
Advanced materials	117	+ 13.0%	117	+ 13.0%
Advanced coatings	127	+ 12.8%	127	+ 7.4%
Intersegment and others	-24		35	
<b>TOTAL</b>	<b>2,173</b>	<b>+ 20.9%</b>	<b>3,144</b>	<b>+ 20.1%</b>

Source: Bekaert

#### € 46m inventory revaluation

The operating result soared from €111.8m to €185.1m after €14.3m in non-recurring charges and a €46m revaluation of inventories. Adjusted for the revaluations and one-offs, the operating result rose from €121.7m to €153.4m, equivalent to a further improvement in the adjusted margin from 6.8% to 7.1%. This is an excellent performance not only from a historical perspective but also given the dramatic surge in steel rod prices.

Advanced wire products saw the operating result before non-recurring items climb steeply from €124m to €185m, including the €35m inventory revaluations. Adjusted for the one-offs and inventory revaluation, the adjusted operating margin improved from 10.0% to 11.3%.

Fencing systems the operating result before non-recurring items increased from €27m to €52m, including an €11m inventory revaluation. Adjusted for non-recurring items and inventory revaluation, the adjusted operating margin improved from 7.1% to 9.1%.

The Advanced materials operating result before non-recurring items was flat at €10m compared to €9m in 2003. The margin declined slightly from 8.7% to 8.5%.

Advanced coatings posted a €2m recurring operating loss, compared to a break-even in 2003. A €6m impairment was applied to one of the niche applications of specialised films. In addition, Bekaert allocated €4m in R&D expenses to the business unit which we have not integrated into our figures.

Non-operating income and expenses included an impairment of €4.6m on the handling and a positive €3.6m on financial instruments. Interest income and expenses were in-line with expectations at €26.6m. The big surprise came from the tax bill of only €28.1m. The normal level in 2004 would have been €49m with Bekaert posting for about €22m tax adjustments in 2H04.

The contribution from joint ventures and associates grew strongly from €34.5m to €53.6m. Combined sales included a 26.2% jump in Latin America to €847m or 27% of total sales.

## Outlook

In its third quarter trading update, Bekaert stated that sales will continue to grow in 4Q05 but expects the weakening of the European and North American markets to continue. On the other hand, growth at steel cord China will continue now that the capacity expansion is complete and being put to full use. The recent evolution in the US\$ exchange rate is also favouring Bekaert.

For the full year, we count on consolidated sales of €1,882.7m. This implies about €442.3m in 4Q05, in-line with Bekaert's guidance. Growth in the last quarter in Advanced Wire Products, Advanced Materials and Advanced Coatings is projected at respectively 3.7%, 9.2% and 11.2% y/y.

We expect an operating result before one-offs of €62.3m in 2H05 or a margin of 6.8%. For the full year, we project €156.6m or a margin of 8.3%. The financial result for 2H05 is estimated at €-11.1m and taxes at €13.3m. After the €28.5m contribution from associates, net result, group share, is expected to come in at €54.1m for 2H05. This brings us to a net consolidated result, group share, of €184.4m for the full year, including the capital gain of €54.1m on the sale of Fencing systems Europe. Reported and adjusted EPS expectations for the current year are €5.85 and €8.50. Our adjusted EPS estimate for 2006 stands at €6.25.

*Sales will grow in 4Q although European and North-American markets are expected to weaken further*

*Capital gain of € 54.1m on sale of Fencing systems Europe*

## Valuation

DCF points to € 78.9 per share

Our DCF valuation points to a theoretical fair price of €78.9 per share. We make the following assumptions:

- Beta: 1.05;
- Risk premium: 4%;
- Risk free rate: 4%;
- Ke of 9.2%;
- Terminal growth rate: 0.5%.

DCF valuation					
€m	OCF	CAPEX	WCR	FOCF	Disc. FOCF
2005	276.0	-160.0	-38.9	77.1	76.5
2006	274.4	-165.0	-12.9	96.5	88.3
2007	277.9	-150.0	-21.1	106.9	90.1
2008	285.6	-120.0	-17.1	148.5	115.4
2009	291.4	-100.0	-12.3	179.2	127.5
2010				161.4	104.8
					Residual value (LT growth = 0.5%)
					1,262.9
<b>Total value</b>					<b>1,865.6</b>
Net debt					-231.1
Provisions & minorities					-285.9
Associates					350.0
<b>Value of Equity</b>					<b>1,698.5</b>

Source: KBC Securities estimates

Hidden value in the Latin American associates

Over the projected period, we assumed average sales growth of 3.7%. In 2010, we used an operating margin, before non-recurring elements, of 6.9%. Capex, which will end substantially above the maintenance level in 2005, and is expected to remain so in 2006 and 2007 following Bekaert's intention to increase its capacity in China by at least 50%. We have taken a value of €350m for the associates, which is substantially above the book value of €219.7m at the end of 2004. However note that this is still less than 7x the contribution from associates in 2004 and just over 6x the projected contribution for the current year. As such, we believe that more detailed disclosures by Bekaert on the associates could unlock hidden value.

## Investment conclusion

Improved product mix to lead to a re-rating of the shares

Bekaert has reported excellent 2004 and 1H05 results and given the prudent guidance, we also suspect the group will spring a positive surprise at the FY results publication. Bekaert's successful overhaul of the business has resulted in structurally higher margins and an improved growth profile for the group as a whole, suggesting to us that Bekaert should trade at multiples above its historical average. We have an Outperform rating with a target price of €78 per share. This target is supported by a conservative DCF valuation and implies a PER 05 and 06 of 13.3x and 12.5x. Given the divestment of Fencing systems Europe and the fact that Bekaert is currently investing above its level of depreciations, we believe these multiples are more than reasonable.



## Financial data

<b>Income statement (€m)</b>	<b>2004</b>	<b>2005E</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
Sales	2,173.2	1,882.7	1,993.1	2,092.8	2,178.0
COGS	-1,682.4	-1,461.3	-1,566.0	-1,642.8	-1,706.3
Gross profit	490.8	421.5	427.0	449.9	471.6
Other operating items	-174.1	-164.9	-169.2	-182.1	-192.9
EBITDA	316.7	256.6	257.8	267.8	278.7
Depreciation	-122.6	-115.0	-116.2	-117.3	-118.5
EBITA	194.1	141.6	141.7	150.5	160.2
Goodwill amortisation	-9.0	0.0	0.0	0.0	0.0
EBIT	185.1	141.6	141.7	150.5	160.2
Net interest	-26.6	-22.4	-17.0	-16.7	-16.2
Other financial result	-	-	-	-	-
Associates before tax	-	-	-	-	-
Exceptional result	-4.0	57.4	0.0	0.0	0.0
Pre-tax earnings	154.5	176.6	124.6	133.8	144.1
Taxes	-28.1	-34.9	-33.7	-37.5	-41.7
Associates after tax	53.6	56.2	53.4	50.7	51.8
Consolidated earnings	180.0	197.9	144.3	147.1	154.1
Minority interests	-12.4	-13.6	-9.9	-10.1	-10.6
Net earnings	167.6	184.4	134.4	137.0	143.5
Retained earnings	123.9	141.0	91.4	90.7	94.0
Current earnings before goodwill	143.1	127.0	134.4	137.0	143.5
Current earnings after goodwill	134.1	127.0	134.4	137.0	143.5
Current cash flow	265.7	242.0	250.6	254.3	262.0
<b>Balance sheet (€m)</b>	<b>2004</b>	<b>2005E</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
Goodwill	76.0	76.0	76.0	76.0	76.0
Other intangible assets	0.0	0.0	0.0	0.0	0.0
Tangible assets	834.1	710.6	782.3	850.7	918.3
Associates	312.9	312.9	312.9	312.9	312.9
Other financial assets	0.0	0.0	0.0	0.0	0.0
Inventories	419.3	386.0	404.5	420.5	433.2
Trade receivables	421.7	423.6	438.5	460.4	479.2
Other current assets	22.9	16.9	17.9	18.8	19.6
Cash and equivalents	102.5	129.0	130.6	131.8	134.9
<b>TOTAL ASSETS</b>	<b>2,189.3</b>	<b>2,055.0</b>	<b>2,162.7</b>	<b>2,271.1</b>	<b>2,374.0</b>
Equity	909.7	1,050.7	1,142.1	1,232.8	1,326.8
Minorities	48.8	48.8	48.8	48.8	48.8
Provisions for pensions and similar	216.4	162.4	162.4	162.4	162.4
Other long-term liabilities (excl. debt)	0.0	0.0	0.0	0.0	0.0
Long term debt	246.7	183.0	180.7	179.1	174.9
Short term debt	314.4	233.2	230.2	228.2	222.8
Trade payables	250.8	184.5	199.3	209.3	217.8
Other short-term liabilities (excl. debt)	202.5	192.3	199.1	210.4	220.5
<b>TOTAL LIABILITIES</b>	<b>2,189.3</b>	<b>2,055.0</b>	<b>2,162.7</b>	<b>2,271.1</b>	<b>2,374.0</b>
Capital employed, incl. cum goodwill	1,494.5	1,677.3	1,592.8	1,677.3	1,766.8
Net debt	458.6	287.3	280.3	275.6	262.8
Net debt, incl. off balance sheet items	458.6	287.3	280.3	275.6	262.8
<b>Cash flow statement (€m)</b>	<b>2004</b>	<b>2005E</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
Consolidated earnings	180.0	197.9	144.3	147.1	154.1
Depreciation and goodwill amortisation	131.6	115.0	116.2	117.3	118.5
Other	-30.9	-90.0	-34.2	-32.5	-33.2
Change in working capital	-113.6	-38.9	-12.9	-21.1	-17.1
<b>CASH FLOW FROM OPERATIONS</b>	<b>167.1</b>	<b>184.0</b>	<b>213.4</b>	<b>210.8</b>	<b>222.3</b>
Net capital expenditure	-166.0	-160.0	-160.0	-160.0	-160.0
Acquisitions and disposals	0.0	-227.5	0.0	0.0	0.0
Other	-	-	-	-	-
<b>CASH FLOW FROM INVESTMENTS</b>	<b>-166.0</b>	<b>-387.5</b>	<b>-160.0</b>	<b>-160.0</b>	<b>-160.0</b>
Dividend payments	-41.4	-46.8	-46.4	-46.1	-49.5
Shares issues	0.0	0.0	0.0	0.0	0.0
New borrowings and reimbursements	59.7	-144.8	-5.3	-3.6	-9.7
Other	-	-	-	-	-
<b>CASH FLOW FROM FINANCING</b>	<b>18.3</b>	<b>-191.7</b>	<b>-51.7</b>	<b>-49.7</b>	<b>-59.2</b>
Fx and changes to consolidation scope	0.0	421.6	0.0	0.0	0.0
Change in cash & equivalents	19.5	26.5	1.6	1.1	3.1
Free cash flow (before acquisitions)	1.1	24.0	53.4	50.8	62.3
Change in net debt	40.3	-171.3	-7.0	-4.7	-12.8

Performance criteria	2004	2005E	2006E	2007E	2008E
Sales growth	20.9%	-13.4%	5.9%	5.0%	4.1%
Gross profit growth	31.8%	-14.1%	1.3%	5.4%	4.8%
EBITDA growth	32.5%	-19.0%	0.5%	3.9%	4.1%
EBITA growth	58.8%	-27.0%	0.0%	6.3%	6.4%
EBIT growth	65.5%	-23.5%	0.0%	6.3%	6.4%
Pre-tax earnings growth	124.5%	14.3%	-29.4%	7.4%	7.6%
Net earnings growth	96.7%	10.0%	-27.1%	1.9%	4.8%
Gross margin	22.6%	22.4%	21.4%	21.5%	21.7%
EBITDA margin	14.6%	13.6%	12.9%	12.8%	12.8%
EBITA margin	8.9%	7.5%	7.1%	7.2%	7.4%
EBIT margin	8.5%	7.5%	7.1%	7.2%	7.4%
Pre-tax earnings / sales	7.1%	9.4%	6.3%	6.4%	6.6%
Net earnings / sales	7.7%	9.8%	6.7%	6.5%	6.6%
Inventories / sales	19.3%	20.5%	20.3%	20.1%	19.9%
Trade receivables / sales	19.4%	22.5%	22.0%	22.0%	22.0%
Trade payables / sales	11.5%	9.8%	10.0%	10.0%	10.0%
Net capital expenditure / sales	7.6%	8.5%	8.0%	7.6%	7.3%
Depreciation / Net capital expenditure	73.9%	71.9%	72.6%	73.3%	74.1%
Free cash flow / sales	0.1%	1.3%	2.7%	2.4%	2.9%
Net debt / equity	50.4%	27.3%	24.5%	22.4%	19.8%
Net debt / EBITDA	1.4	1.1	1.1	1.0	0.9
EBITDA / net interest	11.9	11.5	15.1	16.1	17.3
Pay-out ratio	26.1%	23.5%	32.0%	33.8%	34.5%
Current earnings / sales	6.6%	6.7%	6.7%	6.5%	6.6%
x CE turnover (sales / avg. CE)	1.43	1.19	1.22	1.28	1.26
x Leverage (avg. CE / avg. equity)	1.80	1.62	1.49	1.38	1.35
= Current return on equity (avg.)	16.9%	13.0%	12.3%	11.5%	11.2%
Net return on equity (avg.)	19.9%	18.8%	12.3%	11.5%	11.2%
Return on capital employed (avg.)	10.5%	6.6%	6.4%	6.7%	6.7%
<b>Per share data (€)</b>	<b>2004</b>	<b>2005E</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
Weighted average number of shares (m)	21.87	21.69	21.52	21.52	21.52
EBITDA per share	14.48	11.83	11.98	12.44	12.95
EBITA per share	8.87	6.53	6.58	6.99	7.44
EBIT per share	8.46	6.53	6.58	6.99	7.44
Published EPS	7.66	8.50	6.25	6.37	6.67
Current EPS, before GW	6.54	5.85	6.25	6.37	6.67
Current EPS, after GW	6.13	5.85	6.25	6.37	6.67
Current CFPS	12.15	11.16	11.64	11.82	12.17
Free cash flow per share	0.05	1.11	2.48	2.36	2.90
Net book value per share	41.59	48.44	53.06	57.28	61.65
Current EPS (before GW): y/y growth	41.5%	-10.5%	6.7%	1.9%	4.8%
Current EPS (before GW): CAGR 3Y	10.5%	-0.9%	4.4%	3.7%	1.5%
Current CFPS: y/y growth	22.6%	-8.2%	4.4%	1.5%	3.0%
Current CFPS: CAGR 3Y	5.5%	-0.9%	3.0%	2.5%	1.3%
Published EPS (fully diluted)	7.66	8.50	6.25	6.37	6.67
Current EPS (before GW), fully diluted	6.54	5.91	6.25	6.37	6.67
Dividend per share (€)	2.00	2.00	2.00	2.15	2.30
<b>Valuation data</b>	<b>2004</b>	<b>2005E</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
Max share price (€)	59.75	71.25	-	-	-
Min share price (€)	43.50	55.40	-	-	-
Reference share price (€)	50.14	67.55	67.55	67.55	67.55
Reference market capitalisation (€ m)	1,096.7	1,465.1	1,453.9	1,453.9	1,453.9
Enterprise value (€ m)	1,507.6	1,650.8	1,632.6	1,627.8	1,615.0
P/E high (x)	9.1	12.2	-	-	-
P/E low (x)	6.6	9.5	-	-	-
P/E reference (x)	7.7	11.5	10.8	10.6	10.1
P/CF (x)	4.1	6.1	5.8	5.7	5.5
P/NBV (x)	1.2	1.4	1.3	1.2	1.1
Dividend yield (%)	4.0%	3.0%	3.0%	3.2%	3.4%
EV/sales (x)	0.7	0.9	0.8	0.8	0.7
EV/EBITDA (x)	4.8	6.4	6.3	6.1	5.8
EV/EBITA (x)	7.8	11.7	11.5	10.8	10.1
EV/EBIT (x)	8.1	11.7	11.5	10.8	10.1
EV/Capital employed (x)	1.0	1.0	1.0	1.0	0.9

Source: KBC Securities

\*Historic valuation data are based on historic prices



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