KBC Securities

Bekaert

29 May 2006

Attractive FCF play

Engineering & Machinery

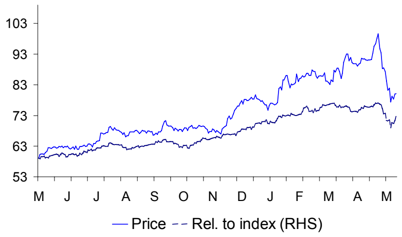
Belgium

Current Price € 80.15

Target Price € 90.00

Accumulate

Rating Unchanged



Source: Thomson Financial Datastream

FY/e 12.31	2005	2006E	2007E	2008E
Sales (€ m)	1,914.3	2,030.3	2,131.8	2,218.7
EBITDA (€ m)	257.4	267.0	277.4	288.7
Net earnings (€ m)	189.9	128.9	130.8	140.0
Current EPS* (€)	6.97	6.46	6.55	6.98
Published EPS (€)	8.82	5.98	6.08	6.50
Dividend per share (€)	3.00	2.15	2.15	2.30
P/E (x)	9.4	12.4	12.2	11.5
Dividend yield (%)	4.6%	2.7%	2.7%	2.9%
EV/EBITDA (x)	6.4	7.3	6.9	6.4

Source: KBC Securities **Adjusted for goodwill and exceptionals*

Reuters	BERTt.BR
Bloomberg	BEKB BB
www.bekaert.com	
Market Cap	€ 1,725m
Shares outst.	21.5m
Volume (Daily)	€ 3.40m
Free float	57.21%

Next corporate event

Results 1H06 : 28 July 2006

Performance over	1m	3m	12m
Absolute	-12%	-8%	39%
Rel.BEL20	-8%	-3%	13%
Relative to sector	-12%	-8%	10%
12-m Hi/Lo	€ 99.60/58.60		

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After the share's recent tumble from overheated levels, Bekaert now offers an attractive free cash flow yield – at maintenance CAPEX levels – of around 9%.

- At the trading update, Bekaert said that 2006 had started strongly, but stuck to cautious forecasts due to intensifying competition worldwide and the continuing uptrend in raw materials prices.
- In the first quarter, Bekaert recorded an organic sales decline of 2% while the effect of acquisitions less divestments added 2% and currency movements had a positive impact of 4%. Sales of the key steel cord others segment declined 4% y/y.
- Following an investment of € 200m to lift Chinese steel cord capacity to approximately 120k tones p.a., Bekaert is increasing capacity by a further 50%. Bekaert will also continue to reinforce its position in Central and Eastern Europe, including Russia. With this in mind, talks are ongoing with Uralkord on an exclusive cooperation deal.
- We welcome both the capacity hike in China and the decision to enter the Russian market as sound reinvestments of the proceeds from the Fencing disposal.
- Over 2005, Bekaert purchased # 585k own shares at an average price of € 61.04 per share. In order not to further reduce the free float, management said it would limit further share buybacks in the near future.

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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 a global strategy based on market and technological leadership with the aim of becoming the 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 current growth focus is on geographic 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 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 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 geographic expansion has been the capacity increase at Steel cord China. Over the 2003 to 2005 period, Bekaert 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 that it plans further capacity increases of at least 50%. Other regions in which Bekaert has made substantial investments are Central Eastern Europe and India. In February 2006, Bekaert announced the beginning of talks on an exclusive collaboration with the Russian steel cord producer Uralkord.

Bekaert to limit share buybacks in near future

Net financial debt fell from € 368.7m to € 271.7m at the end of 2005. Over 2005, Bekaert purchased # 585k own shares at an average price of € 61.04 per share, of which # 576.6k were cancelled. In order not to further reduce the free float, management said it would limit further share buybacks in the near future. The total dividend over 2005 amounted to € 3 per share, including the payout of an exceptional € 1 per share dividend. However, we believe that Bekaert might start paying structurally higher dividends.

Excellent 2005 results

Bekaert reported strong FY05 results. Consolidated and combined sales increased by 10% and 14% to € 1,914m and € 3,085m. Result from operations landed at € 136.3m. However, there was a substantial impact from € 32m in non-recurring charges, of which € 13.7m non-cash. REBIT amounted to € 168m. REBIT from advanced wire products was € 187m, which translates into an impressive 11.4% margin. The contribution from associates was € 56.9m. Result from continuing operations came to € 135.7m vs. € 141.3m in 2004.

Organic sales decline over 1Q of 2%

In the first quarter of 2006, Bekaert achieved consolidated sales of € 481m and combined sales of € 795m, an increase by 4% and 9% y/y. Over 1Q, Bekaert recorded an organic sales decline of 2% while the effect of acquisitions less divestments added 2% and currency movements had a positive impact of 4%.

At the trading update, Bekaert only revealed that it had made a good start to 2006, compared to a very strong 1Q05, but retained cautious forecasts in light of intensifying competition worldwide and a continuing uptrend in raw materials.

Our scenario counts on a REBIT of € 154.6m, down from the € 168m recorded over 2005, and a contribution from associates of € 55.3m, in line with 2005. The net result is expected at € 128.85m, which compares to a € 135.7m result from continuing operations in 2005. Our estimate for adjusted EPS over 2006 amounts to € 6.46, down from € 7.00.

Offers an attractive FCF yield

Our DCF valuation yields a fair value of € 80.96 per share. We have an Accumulate recommendation with a target price of € 90 per share. At current share price levels, the free cash flow yield – at maintenance CAPEX levels – stands at an attractive 9%.

Shareholders

Free float close to 60%

Several individuals and companies linked to the Bekaert family, acting in concert, own # 9,209,380 shares. In 2005, Bekaert purchased a total of # 585k own shares at an average price of € 61.04. Following cancellation of # 576,550 shares and conversion of # 233,040 subscription rights, the number of outstanding shares at the end of 2005 amounted to # 21,530,195. 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

Strengths	Weaknesses
• Strong balance sheet and free cash flow generation • Leading market positions and technological edge • Focus on sustainable profitable growth and shareholder value creation • Wide product range	• Underleveraged balance sheet • Weak share liquidity • Low visibility • Cyclicality
Opportunities	**Threats**
• Geographic expansion in Russia and India • Further optimize product mix • Divest non-core assets • Acquisitions in core business	• Sharp fluctuations in raw material prices • Competition from imports • Currency impact • Increasing competition in Asia

Business description

Introduction

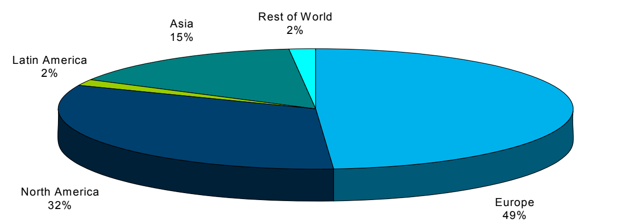
Built on expertise in two core areas: advanced metal transformation and advanced coatings

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 a global strategy aimed at achieving market and technological leadership and becoming the world number one or two.

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

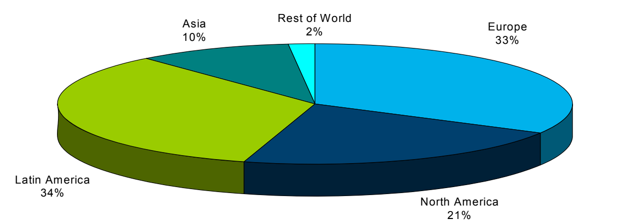
Bekaert is the world's largest independent steel cord and steel wire products manufacturer. The group is also involved in high-tech applications based on thin metal fibres and sputtered films. The activities are divided into three reporting segments: advanced wire products, advanced materials and advanced coatings. Early in 2005, Bekaert sold its European fencing division to Gilde.

Consolidated sales by region (2005)



Source: Company data

Combined sales by region (2005)

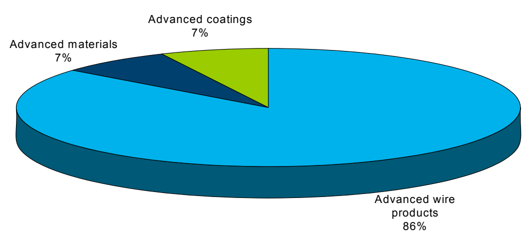


Source: Company data

Active worldwide

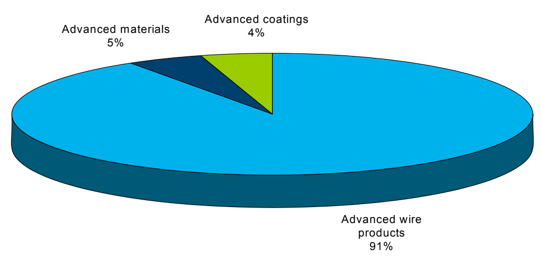
In 2005, Bekaert generated sales of € 1.9bn and employed 17,096 people. Adding Bekaert's participating interests (mainly in Latin America), 'combined sales' amounted to about € 3.1bn. While the EU accounts for about 50% of consolidated sales, combined sales offer a more accurate picture of Bekaert's regional exposure, with Latin America accounting for 34% (vs. only 2% of consolidated sales).

Consolidated sales by activity (2005)



Source: Company data

Combined sales by activity (2005)



Source: Company data

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 a 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 2005, 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%.

Divestment of handling joint ventures was a logical step

In May of this year, Bekaert announced the sale of its stake in the Handling activities based on an enterprise value of € 13.6m. After the sale of the Fencing activities also the Handling joint ventures no longer were part of Bekaert's core business.

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, in September 2005, Bekaert announced plans to restructure the advanced wire products plants at Hemiksem and Lanklaar in Belgium. The plan will lead to redundancies of respectively 85 and 125.

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.

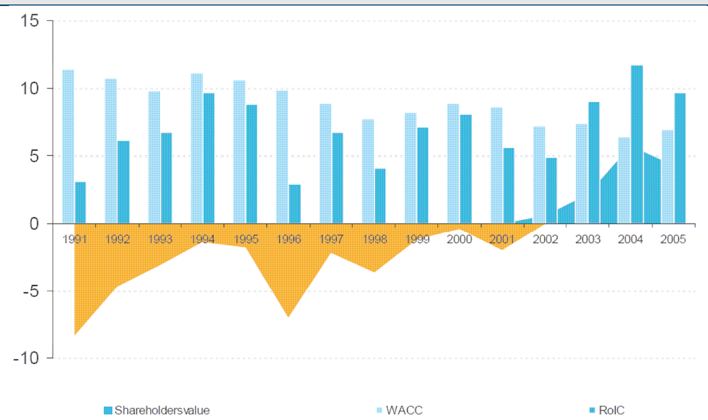
Geographical expansion of the core business

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 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 plans to increase Chinese production capacity by at least 50%. In February 2006, Bekaert announced the beginning of talks on an exclusive collaboration with the Russian steel cord producer Uralkord.

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 expends about 3% of sales on R&D, which amounted to about € 45m in 2005. Bekaert seeks to maintain a judicious balance between new and maturing products in its portfolio.

Shareholder value creation



Source: Company data

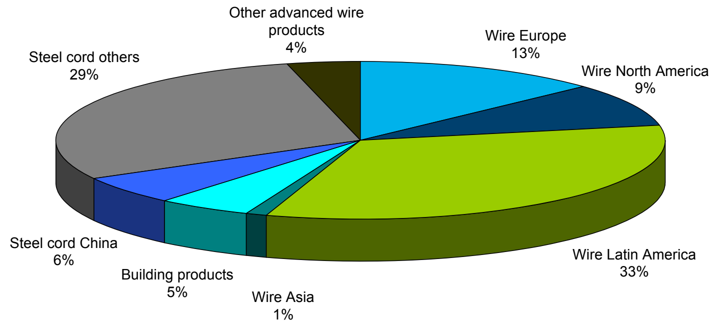
Earning a RoIC above WACC since 2003

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

Advanced wire products

Generating 86% and 91% of the past year's 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 tires, coated wires and Dramix for concrete reinforcement.

Combined sales Advanced wire products (2005)



Source: Company data

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 13%, 9%, 33% and 1% of advanced wire products' combined 2005 sales, while Steel cord others and steel cord China accounted for 29% and 6%. 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 tire reinforcement

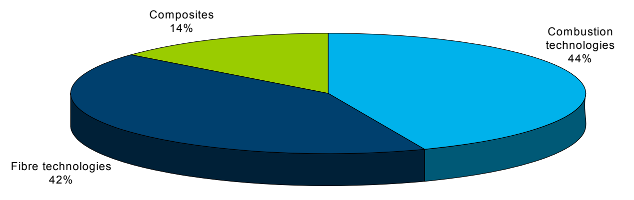
One in every four tyres is reinforced with Bekaert steel cord products, making the group the world's largest independent tyre cord (used for reinforcement of radial tyres) producer. The biggest competition in this segment comes from the tyre manufacturers themselves, which have to a certain extent integrated steel cord production into their production chain. Although a cyclical business, dependent 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 tire radialisation. Over 2003-05, Bekaert invested around € 200m in expanding its Chinese steel cord capacity and recently announced work on another increase of 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 – talks are under way for an exclusive collaboration with the Russian steel cord producer Uralkord since February.

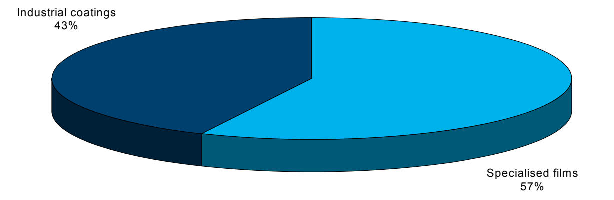
Advanced materials and coatings

Consolidated sales Advanced materials (2005)



Source: Company data

Consolidated sales Advanced coatings (2005)



Source: Company data

Advanced materials accounted for 7.4% and 4.6% of the 2005 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).

Acquisition of Shell's 25% stake in BCT

At the end of 2005, Bekaert reached an agreement with Shell regarding the purchase of the Shell's 25% stake in Bekaert Combustion technology for € 13.5m. Following this transaction, Bekaert has become 100% shareholder in BCT.

Advanced coatings accounted for 6.8% and 4.3% of the 2005 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

Strong FY05 results

Substantial impact from non-recurring charges

Bekaert reported strong FY05 results. Consolidated and combined sales increased by 10% and 14% to € 1,914m and € 3,085m. Result from operations landed at € 136.3m, some way short of our € 145.6m estimate. However, there was a substantial impact from non-recurring charges amounting to € 32m, of which € 13.7m were non-cash. REBIT amounted to € 168m, beating our € 160.6m forecast. The contribution from associates was € 56.9m, in line with expectations.

Good quality results

Result from continuing operations amounted to € 135.7m, down on the € 141.3m in 2004 but beating our estimate of € 132.9m. Consolidated net result (after result from discontinuing operations, i.e. the € 54m capital gain on the sale of Bekaert Fencing NV) amounted to € 189.9m vs. € 167.6m in 2004 and our estimate of € 187.0m. Overall, the results were of good quality and slightly exceeded expectations.

Bekaert: key figures (in € m)

	FY04	1Q05	2Q05	1H05	3Q05	4Q05	2H05	FY05
Sales	1,742	462	509	971	469	474	943	1,914
Advanced wire products	1,501	400	440	840	402	398	800	1,640
Advanced materials	141	32	31	63	35	43	78	141
Advanced coatings	127	30	37	67	33	33	66	133
Others	-27	0	1	1	-1	0	-1	0
REBIT	**113.0**			**94.3**			**73.7**	**168.0**
margin %	6.5%			9.7%			7.8%	8.8%
Result from operations	**139.0**			**85.3**			**51.0**	**136.3**
Interest income & expenses	-15.6			-11.2			-15.7	-26.9
Non-operating income & expenses	-4.9			3.3			8.4	11.7
Income taxes	-18.4			-21.6			-8.6	-30.3
Result from ordinary activities after taxes	100.1			55.7			35.0	90.7
Share in the result of joint ventures and associates	53.5			27.7			29.2	56.9
Minority interests	-12.3			-7.3			-4.7	-12.0
Consolidated net result of the group	**141.3**			**76.2**			**59.5**	**135.7**
Discontinued operations	26.3			54.2				54.2
Total consolidated net result of the group	167.6			130.4			59.5	189.9

Source: Company data

Advanced wire products

Consolidated and combined sales of advanced wire products increased from a restated € 1,501m and € 2,413m to € 1,640m and € 2,750m. While the combined sales of wire Europe and wire North America were down by 7% and 4%, the combined sales of wire Latin America, wire Asia, building products, steel cord China, steel cord others and other advanced wire products increased by 26%, 24%, 12%, 39%, 15% and 19%.

Weakening demand, especially in Western Europe

In the mature markets of Western Europe and North America, Bekaert saw demand for its advanced wire products weaken noticeably, especially in the automotive industry. In contrast, the company saw significant growth in Latin America and all its activities in Asia, particularly in China.

Further capacity hike in China by 50%

Demand for steel cord products was strong. As a reminder, Bekaert has increased its steel cord capacity in China to about 120k tonnes p.a. and announced a further capacity increase of about 50%. We understand the Jiangying, Shenyang and Weihai steel cord plants had a capacity at year-end 2005 of respectively 60 to 70k tonnes p.a., 40k tonnes p.a. and 10k to 20k tonnes p.a. As such, most of the extra increases in capacity will come at the Shengyang and Weihai plants.

Bekaert to enter Russian market

Bekaert will also continue to reinforce its position in Central and Eastern Europe, including Russia. With this in mind, talks are underway with Uralkord on an exclusive cooperation deal. We welcome both the capacity hike in China and the decision to enter the Russian market as sound reinvestments of the proceeds from the Fencing disposal.

In 2005, Bekaert continued to feel the significant impact of volatile raw materials markets worldwide. In contrast to 2004, when customers built up their inventories because of supply problems, 2005 saw customers running down their stocks, which translated into a slow-down in demand on some markets. While the application of inventory valuation rules had a positive impact of € 35m in 2004, the impact on the 2005 operating result was limited. Bekaert continued to optimise its product portfolio, which has resulted in € 16m of non-recurring charges at advanced wire products. The result from operations fell from € 181m to € 171m. However, REBIT increased from € 150 (excluding inventory revaluation) to € 187m, which corresponds to a firm margin of 11.4%. EBITDA was € 256m, down slightly from € 259m in 2004.

Advanced materials and coatings

Sales of advanced materials increased by 21% from € 117 to € 141m. The increase by segment was 23% at fibre technologies, 26% at combustion technologies and 2% at composites. In combustion technologies, environment-friendly heating equipment for the residential sector performed strongly. The same was true for the industrial applications, partly thanks to the acquisition of Solaronics, which was only consolidated over nine months in 2004. By the end of 2005, with the acquisition of Shell's 25% interest, Bekaert owned 100% of the combustion technologies.

Result from operations was hit by € 8m in impairment losses and declined from € 8 to € 5m. REBIT increased from € 10 to € 13m, or a margin of 9.2%. EBITDA was up from € 15 to € 20m.

Sales of advanced coatings increased from € 127 to € 133m. This breaks down as a 4% decline in sales at industrial coatings and an 11% hike in sales of specialised films. In industrial coatings, there was growth in diamond-like coatings, which are used for example on engine components for racing cars. By contrast, sputter products, where demand is largely project-driven, had a difficult year.

Specialized films performed strongly, mainly thanks to substantial growth in Asia. Result from operations was a negative € -4m, improving on the € -8m loss in 2004. Bekaert recorded a € 7m non-recurring charge related to the relocation of its worldwide production capacity in sputtered films. REBIT came to € 3m, up from a negative € -2m in 2004. EBITDA was flat at € 13m.

Balance sheet

Net financial debt fell from € 368.7m to € 271.7m. Bekaert's new method for calculating net financial debt includes all derivatives, which effectively fixes the amount to be repaid. The new method reduces represented net financial debt by € 16.4m in 2005 and € 40.6m in 2004. Equity amounted to 51% of total assets and the gearing ratio was 24%, down from 38% at the end of 2004.

EBITDA and cash flow came to € 257m. Cash proceeds from the sale of Bekaert Fencing amounted to € 86.5m. Investments in property, plant and equipment totalled € 141.9m, mainly due to the expansion of production capacity in various growth markets, especially in China.

Bekaert to limit share buybacks in the near future

Over 2005, Bekaert purchased # 585k own shares at an average price of € 61.04 per share, of which # 576.6k were cancelled. In order not to further reduce the free float, management said it will limit further share buybacks in the near future. As such, the group announced a total gross dividend of € 3 per share, which has been payable as from 17 May. The dividend includes an exceptional payout of € 1 per share related to the divestment of Bekaert Fencing NV.

First quarter trading update 2006

Organic sales decline over 1Q of 2%

In the first quarter of 2006, Bekaert achieved consolidated sales of € 481m and combined sales of € 795m, up 4% and 9% y/y. Over 1Q, Bekaert recorded an organic sales decline of 2% while the effect of acquisitions less divestments added 2% and currency movements had a positive impact of 4%.

Consolidated and combined 1Q06 sales (in € m)

	Consolidated sales		Combined sales	
Advanced wire products	415	4%	717	10%
Advanced materials	36	14%	36	14%
Advanced coatings	31	5%	31	5%
Intersegment sales and others	-1		11	
Total	481	4%	795	9%

Source: Company data

Advanced wire products

Combined sales of Advanced wire products increased by 10%, partly due to the positive impact of currency movements. Sales at Wire Latin America surged by 23%, helped by strong local currencies.

Sales at Wire Europe fell 6% while Wire North America sales gained 9%. In Europe, Bekaert was faced with lower demand for most of its wire products, after a strong 1Q05, while demand in North America, mainly for cable strands and fencing products, was higher. Sales of building products increased by 10%, despite the very long winter in most European countries.

Combined sales by activity platform

Advanced wire products	**10%**	**Advanced materials**	**14%**
Wire Europe	-6%	Fibre technologies	45%
Wire North America	9%	Combustion technologies	-19%
Wire Latin America	23%	Composites	34%
Wire Asia	7%		
Building Products	10%	**Advanced coatings**	**5%**
Steel cord China	43%	Industrial coatings	-9%
Steel cord others	-4%	Specialised films	17%
Other advanced wire products	30%		

Source: Company data

Combined sales of steel cord others down by 4%

The main disappointment in the trading update was the 4% decline in sales at the key steel cord others division. European steel cord sales were lower against a strong 1Q05. With the acquisition of Delta Wire, a major US supplier of bead wire, Bekaert wants to bolster market share growth in North America. The company has also launched discussions on an exclusive cooperation with the Russian company Uralkord. Bekaert achieved strong sales growth in Steel cord China (+ 43% y/y) where a major investment program is ongoing. A start has been made on the new expansion projects in Jiangyin and in Shenyang while additional production capacity was made available in Weihai for customer supply.

Outlook

At the trading update, Bekaert said little more than that 2006 had started well compared to a very strong 1Q05. The full-year forecasts remained cautious however, to reflect intensifying competition worldwide and the continuing uptrend in raw materials prices.

Our scenario counts on a REBIT of € 154.6m, down from the € 168m recorded over 2005 and a contribution from associates of € 55.3m, in line with 2005. The net result is expected at € 128.85m, which compares to a result from continuing operations of € 135.7m over 2005. Our estimate for adjusted EPS over 2006 is € 6.46, down from € 7.00.

Valuation

DCF points to € 80.96 per share

Our DCF valuation points to a theoretical fair price of € 80.96 per share. We make the following assumptions:

- Beta: 1.05;
- Risk premium: 4%;
- Risk free rate: 4%;
- Ke of 9.2%;
- Terminal growth rate: 1.5%.

DCF valuation

€ m	OCF	CAPEX	WCR	FOCF	Disc. FOCF
2006	232.07	-165.00	-26.13	40.94	38.96
2007	240.24	-150.00	-22.86	67.38	59.06
2008	248.20	-120.00	-19.56	108.64	87.46
2009	254.29	-100.00	-15.36	138.93	1002.13
2010	260.50	-90.00	-15.84	154.66	103.10
2011	265.51	-90.00	-11.02	164.48	100.41
2012	270.61	-90.00	-11.26	169.35	94.67
2013	275.81	-90.00	-11.49	174.32	89.24
2014	281.13	-90.00	-11.74	179.39	84.09
2015				143.98	61.81
	Residual value (LT growth = 1.5%)				814.77
Total value					**1,635.69**
Net debt					-271.69
Provisions & minorities					-304.19
Associates					683.27
Value of Equity					**1,743.08**

Source: KBC Securities estimates

Over the projected period, we assumed average sales growth of 3.2%. Capex will far exceed the maintenance level (estimated at around € 90m) in 2006. This will probably also be the case in 2007 and 2008 given the intention to increase capacity in China by at least 50%.

Investment conclusion

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

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. Bekaert reported excellent FY05 results, but disappointed with its first quarter trading update. The Bekaert shares recently fell from overheated levels, even peaking briefly at € 100 per share.

Current investment is well above maintenance Capex levels. However, at maintenance Capex levels, Bekaert currently offers an attractive FCF yield of around 9%. We welcome both the capacity hike in China and the decision to enter the Russian market as sound reinvestments of the proceeds from the Fencing disposal.

We have an Accumulate rating with a target price of € 90 per share. This target is supported by a conservative DCF valuation and implies a PER 06 and 07 of 13.9x and 13.7x. 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

Income statement (€ m)	2003	2004	2005	2006E	2007E	2008E
Sales	1,797.0	2,173.2	1,914.3	2,030.3	2,131.8	2,218.7
COGS	-1,424.5	-1,682.4	-1,522.2	-1,604.4	-1,686.2	-1,751.5
Gross profit	372.5	490.8	392.1	425.9	445.7	467.2
Other operating items	-133.4	-174.1	-134.7	-159.0	-168.3	-178.6
EBITDA	239.1	316.7	257.4	267.0	277.4	288.7
Depreciation	-116.9	-122.6	-121.2	-127.4	-131.7	-133.0
EBITA	122.2	194.1	136.3	139.6	145.8	155.7
Goodwill amortisation	-10.4	-9.0	0.0	0.0	0.0	0.0
EBIT	111.8	185.1	136.3	139.6	145.8	155.7
Net interest	-32.3	-26.6	-26.9	-21.3	-19.9	-16.9
Other financial result	-	-	-	-	-	-
Associates before tax	-	-	-	-	-	-
Exceptional result	-10.7	-4.0	65.8	0.0	0.0	0.0
Pre-tax earnings	68.8	154.5	175.2	118.3	125.8	138.8
Taxes	-8.2	-28.1	-30.3	-33.3	-35.9	-40.0
Associates after tax	32.0	53.6	56.9	55.2	52.5	53.5
Consolidated earnings	92.7	180.0	201.9	140.2	142.4	152.4
Minority interests	-7.5	-12.4	-12.0	-11.4	-11.6	-12.4
Net earnings	85.2	167.6	189.9	128.9	130.8	140.0
Retained earnings	46.5	123.9	125.0	82.6	84.5	90.5
Current earnings before goodwill	102.3	143.1	150.7	139.2	141.1	150.2
Current earnings after goodwill	91.9	134.1	150.7	139.2	141.1	150.2
Current cash flow	219.2	265.7	271.9	266.6	272.8	283.2

Balance sheet (€ m)	2003	2004	2005	2006E	2007E	2008E
Goodwill	70.9	76.0	76.0	76.0	76.0	76.0
Other intangible assets	0.0	0.0	0.0	0.0	0.0	0.0
Tangible assets	806.1	834.1	849.2	894.1	934.5	943.4
Associates	276.7	312.9	306.3	306.3	306.3	306.3
Other financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Inventories	322.6	419.3	348.3	369.5	387.9	403.7
Trade receivables	338.6	421.7	408.8	375.7	394.5	410.6
Other current assets	27.7	22.9	16.3	0.0	0.0	0.0
Cash and equivalents	83.0	102.5	226.8	208.0	212.0	224.7
TOTAL ASSETS	1,925.8	2,189.3	2,231.7	2,229.5	2,311.1	2,364.7
Equity	779.0	909.7	1,079.2	1,161.8	1,246.3	1,336.8
Minorities	43.3	48.8	51.1	51.1	51.1	51.1
Provisions for pensions and similar	215.2	216.4	184.4	184.4	184.4	184.4
Other long-term liabilities (excl. debt)	0.0	0.0	0.0	0.0	0.0	0.0
Long term debt	324.0	246.7	300.7	219.0	211.3	188.3
Short term debt	177.3	314.4	246.7	279.0	269.3	239.9
Trade payables	191.4	250.8	187.4	198.7	208.7	217.2
Other short-term liabilities (excl. debt)	195.4	202.5	182.2	135.6	140.1	147.1
TOTAL LIABILITIES	1,925.8	2,189.3	2,231.7	2,229.5	2,311.1	2,364.7
Capital employed, incl. cum goodwill	1,541.4	1,494.5	1,685.8	1,635.2	1,733.4	1,796.7
Net debt	418.3	458.6	320.5	289.9	268.6	203.4
Net debt, incl. off balance sheet items	418.3	458.6	320.5	289.9	268.6	203.4

Cash flow statement (€ m)	2003	2004	2005	2006E	2007E	2008E
Consolidated earnings	92.7	180.0	201.9	140.2	142.4	152.4
Depreciation and goodwill amortisation	127.3	131.6	121.2	127.4	131.7	133.0
Other	-15.3	-30.9	-13.3	-35.4	-33.6	-34.3
Change in working capital	-37.1	-113.6	-87.3	-26.1	-22.9	-19.6
CASH FLOW FROM OPERATIONS	167.6	167.1	222.4	206.1	217.6	231.5
Net capital expenditure	-134.9	-166.0	-145.1	-165.0	-150.0	-120.0
Acquisitions and disposals	0.0	0.0	65.3	0.0	0.0	0.0
Other	-	-	-	-	-	-
CASH FLOW FROM INVESTMENTS	-134.9	-166.0	-79.9	-165.0	-150.0	-120.0
Dividend payments	-39.8	-41.4	-52.2	-64.6	-46.3	-46.3
Shares issues	0.0	0.0	0.0	0.0	0.0	0.0
New borrowings and reimbursements	-17.0	59.7	-13.7	-49.4	-17.3	-52.4
Other	-	-	-	-	-	-
CASH FLOW FROM FINANCING	-56.8	18.3	-65.9	-114.0	-63.6	-98.7
Fx and changes to consolidation scope	33.4	0.0	47.7	54.1	0.0	0.0
Change in cash & equivalents	9.3	19.5	124.3	-18.8	3.9	12.7
Free cash flow (before acquisitions)	32.7	1.1	77.2	41.1	67.6	111.5
Change in net debt	-26.3	40.3	-138.0	-30.6	-21.3	-65.2

Performance criteria	2003	2004	2005	2006E	2007E	2008E
Sales growth	-3.6%	20.9%	-11.9%	6.1%	5.0%	4.1%
Gross profit growth	-0.3%	31.8%	-20.1%	8.6%	4.6%	4.8%
EBITDA growth	5.9%	32.5%	-18.7%	3.7%	3.9%	4.1%
EBITA growth	53.9%	58.8%	-29.8%	2.4%	4.4%	6.8%
EBIT growth	74.0%	65.5%	-26.4%	2.4%	4.4%	6.8%
Pre-tax earnings growth	-	124.5%	13.4%	-32.5%	6.3%	10.3%
Net earnings growth	-	96.7%	13.3%	-32.1%	1.5%	7.0%
Gross margin	20.7%	22.6%	20.5%	21.0%	20.9%	21.1%
EBITDA margin	13.3%	14.6%	13.4%	13.1%	13.0%	13.0%
EBITA margin	6.8%	8.9%	7.1%	6.9%	6.8%	7.0%
EBIT margin	6.2%	8.5%	7.1%	6.9%	6.8%	7.0%
Pre-tax earnings / sales	3.8%	7.1%	9.2%	5.8%	5.9%	6.3%
Net earnings / sales	4.7%	7.7%	9.9%	6.3%	6.1%	6.3%
Inventories / sales	18.0%	19.3%	18.2%	18.2%	18.2%	18.2%
Trade receivables / sales	18.8%	19.4%	21.4%	18.5%	18.5%	18.5%
Trade payables / sales	10.7%	11.5%	9.8%	9.8%	9.8%	9.8%
Net capital expenditure / sales	7.5%	7.6%	7.6%	8.1%	7.0%	5.4%
Depreciation / Net capital expenditure	86.6%	73.9%	83.5%	77.2%	87.8%	110.8%
Free cash flow / sales	1.8%	0.1%	4.0%	2.0%	3.2%	5.0%
Net debt / equity	53.7%	50.4%	29.7%	25.0%	21.6%	15.2%
Net debt / EBITDA	1.7	1.4	1.2	1.1	1.0	0.7
EBITDA / net interest	7.4	11.9	9.6	12.6	13.9	17.1
Pay-out ratio	45.4%	26.1%	34.2%	35.9%	35.4%	35.4%
Current earnings / sales	5.7%	6.6%	7.9%	6.9%	6.6%	6.8%
x CE turnover (sales / avg. CE)	1.06	1.43	1.20	1.22	1.27	1.26
x Leverage (avg. CE / avg. equity)	2.11	1.80	1.60	1.48	1.40	1.37
= Current return on equity (avg.)	12.7%	16.9%	15.2%	12.4%	11.7%	11.6%
Net return on equity (avg.)	10.6%	19.9%	19.1%	11.5%	10.9%	10.8%
Return on capital employed (avg.)	6.4%	10.5%	6.4%	6.3%	6.4%	6.5%

Per share data (€)	2003	2004	2005	2006E	2007E	2008E
Weighted average number of shares (m)	22.12	21.87	21.63	21.53	21.53	21.53
EBITDA per share	10.81	14.48	11.90	12.40	12.88	13.41
EBITA per share	5.52	8.87	6.30	6.48	6.77	7.23
EBIT per share	5.05	8.46	6.30	6.48	6.77	7.23
Published EPS	3.85	7.66	8.82	5.98	6.08	6.50
Current EPS, before GW	4.62	6.54	6.97	6.46	6.55	6.98
Current EPS, after GW	4.15	6.13	6.97	6.46	6.55	6.98
Current CFPS	9.91	12.15	12.57	12.38	12.67	13.15
Free cash flow per share	1.48	0.05	3.57	1.91	3.14	5.18
Net book value per share	35.21	41.59	49.89	53.96	57.89	62.09
Current EPS (before GW): y/y growth	47.2%	41.5%	6.5%	-7.2%	1.4%	6.4%
Current EPS (before GW): CAGR 3Y	30.4%	11.8%	0.1%	0.0%	4.6%	6.3%
Current CFPS: y/y growth	1.5%	22.6%	3.5%	-1.5%	2.3%	3.8%
Current CFPS: CAGR 3Y	8.8%	7.7%	1.4%	1.5%	3.3%	3.8%
Published EPS (fully diluted)	3.85	7.66	8.82	5.98	6.08	6.50
Current EPS (before GW), fully diluted	4.62	6.54	6.94	6.46	6.55	6.98
Dividend per share (€)	1.75	2.00	3.00	2.15	2.15	2.30

Valuation data	2003	2004	2005	2006E	2007E	2008E
Max share price (€)	50.70	59.75	78.95	99.60	-	-
Min share price (€)	31.30	43.50	55.40	74.65	-	-
Reference share price (€)	41.42	50.14	65.18	80.15	80.15	80.15
Reference market capitalisation (€ m)	916.2	1,096.7	1,403.3	1,725.6	1,725.6	1,725.6
Enterprise value (€ m)	1,316.3	1,507.6	1,653.0	1,944.7	1,923.5	1,858.3
P/E high (x)	11.0	9.1	11.3	15.4	-	-
P/E low (x)	6.8	6.6	8.0	11.5	-	-
P/E reference (x)	9.0	7.7	9.4	12.4	12.2	11.5
P/CF (x)	4.2	4.1	5.2	6.5	6.3	6.1
P/NBV (x)	1.2	1.2	1.3	1.5	1.4	1.3
Dividend yield (%)	4.2%	4.0%	4.6%	2.7%	2.7%	2.9%
EV/sales (x)	0.7	0.7	0.9	1.0	0.9	0.8
EV/EBITDA (x)	5.5	4.8	6.4	7.3	6.9	6.4
EV/EBITA (x)	10.8	7.8	12.1	13.9	13.2	11.9
EV/EBIT (x)	11.8	8.1	12.1	13.9	13.2	11.9
EV/Capital employed (x)	0.9	1.0	1.0	1.2	1.1	1.0

Source: KBC Securities *Historic valuation data are based on historic prices

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Stock rating	Definition
BUY	Expected total return (including dividends) of 10% or more over a 6-month period
ACCUMULATE	Expected total return (including dividends) between 0% and 10% over a 6-month period
REDUCE	Expected total return (including dividends) between –10% and 0% over a 6-month period
SELL	Expected total return (including dividends) of -10% or worse over a 6-month period

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Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	40.20%	60.00%
ACCUMULATE	41.00%	30.00%
REDUCE	14.80%	10.00%
SELL	4.10%	0.00%

Bekaert is an international group with its core competencies in metal transformation and coating technologies.
The price target for Bekaert is based on following parameters: Discounted Cash Flow (DCF), Absolute Multiples, Peer Group Multiples
The risks which may impede the achievement of our price target are: Evolution on the raw materials markets, currencies, global economic outlook, capacity additions
Any reference made to a DCF valuation for Bekaert is based on the following parameters: a forecast period from 2006 until 2015, a perpetual growth rate of 1.5% and a calculated WACC of 8.5%.

Below is an overview of the stock ratings and target price history in the last 12 months for the stock described in this report.

Date	Rating	Target price
27-APR-06	Accumulate	€ 90.00
17-FEB-06	Outperform	€ 90.00
31-JAN-06	Outperform	€ 85.00
24-NOV-05	Outperform	€ 78.00
13-OCT-05	Outperform	€ 74.00
02-AUG-05	Neutral	€ 68.00

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