

# Bekaert

12 March 2007

## Earnings preview

Engineering &amp; Machinery

Current price €94.14

**Accumulate**

Belgium

Target price €95.00

Rating Unchanged

Performance over	1m	3m	12m
<b>Absolute</b>	-1%	2%	10%
<b>Rel. BEL20</b>	2%	0%	-3%
<b>Relative to sector</b>	-1%	2%	10%
<b>12m Hi/Lo</b>	€99.60/69.35		
<b>Reuters</b>	BERTt.BR		
<b>Bloomberg</b>	BEKB BB		
<b>Market Cap</b>	€1,972m		
<b>Next corporate event</b>			
Results FY06: 16 March 2007			

FY/e 31.12	2005	2006E	2007E	2008E
<b>Sales</b>	1,914.3	2,010.0	2,099.8	2,185.4
<b>REBITDA</b>	289.0	260.6	278.4	290.0
<b>Net earnings</b>	189.9	127.3	133.5	143.5
<b>Diluted, adjusted EPS</b>	7.34	6.60	7.21	7.70
<b>Dividend</b>	3.00	2.25	2.25	2.50
<b>P/E</b>	8.9	14.3	13.1	12.2
<b>EV/REBITDA</b>	7.8	8.8	8.0	7.5
<b>Free cash flow yield</b>	1.4%	0.8%	2.7%	4.6%
<b>Dividend yield</b>	3.2%	2.4%	2.4%	2.7%

Source: KBC Securities

\*Adjusted for goodwill and exceptionals

Wouter Vanderhaeghen  
 Financial Analyst - Brussels  
 KBC Securities NV  
 +32 2 417 29 62  
[wouter.vanderhaeghen@kbcsecurities.be](mailto:wouter.vanderhaeghen@kbcsecurities.be)

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**Description:** Bekaert is an international group with core expertise in metal transformation and coating technologies.

### Investment arguments

- Production capacity was recently expanded in the fast growing Chinese tyre cord market
- We expect Bekaert to defend or even expand its Chinese market share in the near future
- At maintenance CAPEX levels, Bekaert still offers an attractive FCF yield
- However, from a valuation viewpoint, we believe further upside potential is more limited

**Friday, before market, Bekaert will report FY 06 results. The group already has reported a 5% growth in consolidated sales to €2,010m. The sales increase was 1% from organic growth and 4% from the net movement in acquisitions and divestments. Sales of advanced wire products, advanced materials and advanced coatings increased by 5%, 11% and 3% y/y to €1,724m, €156m and €136m. Sales of advanced wire products in 4Q were up 9% y/y while 4Q sales of advanced materials were flat y/y and declined by 6% for the advanced coatings. 2006 sales of wire Latin America increased by 'only' 7% y/y, indicating a slowdown in 4Q as the 9M06 sales increased by 12% y/y. Hence, Bekaert indicated it is facing increased competition in Latin America from Asian imports and hence sustained pressure on prices. At the trading update, Bekaert indicated it had purchased and cancelled # 557k shares and in the meanwhile a further # 546,779 own shares have been acquired and cancelled, reducing the number of outstanding shares to # 20.4m. Bekaert remains committed to optimise its balance sheet and we welcome the purchase programme as an attractive way to create additional value for its shareholders. For 2006, we bank on a recurring EBIT of €141.6m -of which €61.6m in 2H- compared to €168.0m in 2005. Contribution from joint ventures and associated is expected at €56.4m, in-line with the level of last year. The consolidated net result, finally, is expected at €127.3m, down from €135.7m in 2005. Our estimate for the adjusted diluted EPS amounts to €6.60.**

**Bekaert: key figures (€m)**

	1H05	2H05	FY05	1H06	2H06E	FY06E	FY07E
Sales	970.6	943.4	1,914.0	1,009.0	1,001.0	2,010.0	2,099.8
- Advanced wire products	840.0	800.0	1,640.0	870.0	854.0	1,724.0	1,793.0
- Advanced materials	63.0	78.0	141.0	74.0	82.0	156.0	165.4
- Advanced coatings	67.0	66.0	133.0	68.0	68.0	136.0	141.4
- Others	1.0	-1.0	0.0	-3.0	-3.0	-6.0	0.0
REBIT	94.3	73.7	168.0	80.0	61.6	141.6	155.2
REBIT margin %	9.7%	7.8%	8.8%	7.9%	6.2%	7.0%	7.4%
Result from operations (after restructuring)	85.3	51.0	136.3	76.0	50.6	126.6	140.2
Interest income & expenses	-11.2	-15.7	-26.9	-12.2	-14.6	-26.8	-28.3
Non-operating income & expenses	3.3	8.4	11.7	0.0	0.0	0.0	0.0
Income taxes	-21.6	-8.6	-30.3	-15.5	-9.7	-25.2	-28.6
Result from ordinary activities after taxes	55.7	35.0	90.7	48.2	26.3	74.5	83.4
Share in the result of joint ventures and associates	27.7	29.2	56.9	27.8	28.5	56.4	53.8
Minority interests	-7.3	-4.7	-12.0	-0.5	-3.0	-3.5	-3.7
<b>Consolidated net result of the group</b>	<b>76.2</b>	<b>59.5</b>	<b>135.7</b>	<b>75.5</b>	<b>51.8</b>	<b>127.3</b>	<b>133.5</b>
Discontinued operations	54.1	0.1	54.2	0.0	0.0	0.0	0.0
Total consolidated net result of the group	130.3	59.6	189.9	75.5	51.8	127.3	133.5
Sales	970.6	943.4	1,914.0	1,009.0	1,001.0	2,010.0	2,099.8

Source: company data, KBC Securities' estimates

## Financial data

<b>Income statement (€m)</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
Sales	1,914.3	2,010.0	2,099.8	2,185.4
Gross profit	392.1	395.2	420.9	442.7
EBIT	136.3	126.6	140.2	150.6
Pre-tax earnings	121.0	99.7	111.9	124.7
Net earnings	189.9	127.3	133.5	143.5
EBITDA	257.4	245.6	263.4	275.0
REBITDA	289.0	260.6	278.4	290.0
REBITA	181.6	141.6	155.2	165.6
<b>Balance sheet (€m)</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
Intangible assets	125.4	129.2	137.0	141.3
Tangible assets	799.8	823.9	873.7	901.2
Financial assets	306.3	306.3	306.3	306.3
Net other assets & liabilities	-41.6	-48.4	-47.1	-52.4
Net working capital	442.3	549.0	573.5	596.9
Net debt	317.5	366.3	363.3	322.2
Provisions	184.4	184.4	184.4	184.4
Minorities	51.1	51.1	51.1	51.1
Equity	1,079.2	1,158.1	1,244.5	1,335.7
Capital employed	1,309.6	1,453.6	1,537.0	1,587.0
TOTAL ASSETS	2,231.7	2,198.0	2,289.4	2,359.2
<b>Cash flow statement (€m)</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
Cash flow from operations	178.8	179.9	201.4	213.3
Net capital expenditure	-151.6	-165.0	-150.0	-125.0
Free cash-flow	27.2	14.9	51.4	88.3
Acquisitions / disposals	71.7	-	-	-
Dividend payments	-52.2	-64.6	-48.4	-47.1
Shares issues	-24.3	-54.4	-	-
New borrowings / reimbursements	-16.5	14.9	-2.5	-35.0
Other	118.4	55.3	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	124.3	-33.8	0.4	6.2
<b>Performance criteria</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
Sales growth	9.9%	5.0%	4.5%	4.1%
Gross margin	20.5%	19.7%	20.0%	20.3%
REBITDA margin	15.1%	13.0%	13.3%	13.3%
REBITA margin	9.5%	7.0%	7.4%	7.6%
EBIT margin	7.1%	6.3%	6.7%	6.9%
Net debt / Equity + Minorities	28.1%	30.3%	28.0%	23.2%
Net debt / EBITDA	1.23	1.49	1.38	1.17
EBITDA / net interest	9.56	9.15	9.30	10.60
Pay-out ratio	34.0%	37.0%	34.4%	35.5%
= Return on Equity (avg)	19.1%	11.4%	11.1%	11.1%
Return on Capital Employed (avg)	7.8%	7.1%	7.3%	7.4%
<b>Per share data (€)</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
weighted average # shares, diluted	21,707,875	21,596,843	20,639,855	20,639,855
Basic EPS	8.78	5.93	6.52	7.00
Diluted EPS	8.75	5.90	6.47	6.95
Diluted, adjusted EPS	7.34	6.60	7.21	7.70
Net book value / share	50.13	55.29	61.01	65.47
Free cash flow / share	1.26	0.70	2.51	4.31
Dividend	3.00	2.25	2.25	2.50
<b>Valuation data</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
Reference share price (€)	65.18	94.14	94.14	94.14
Reference market capitalisation	1,403.3	1,971.9	1,920.5	1,920.5
Enterprise value (€m)	1,639.6	2,282.2	2,227.8	2,186.7
P/E	8.9	14.3	13.1	12.2
EV/sales	1.2	1.1	1.1	1.0
EV/EBITDA	8.7	9.3	8.5	8.0
EV/Capital employed	1.7	1.6	1.4	1.4
P/ NBV	1.9	1.7	1.5	1.4
Free cash flow yield	1.4%	0.8%	2.7%	4.6%
Dividend yield	3.2%	2.4%	2.4%	2.7%

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

Due to external factors and in exceptional cases, KBC Securities allows the use of ratings such as Accept the Offer, Black Out, No Recommendation or Suspended.

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Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	36.00%	75.00%
ACCUMULATE	46.00%	25.00%
REDUCE	15.80%	0.00%
SELL	2.20%	0.00%

Bekaert is an international group with core expertise 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 2007 until 2016, 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
16-FEB-07	Accumulate	€ 95.00
23-NOV-06	Accumulate	€ 92.00
19-OCT-06	Accumulate	€ 87.00
28-JUL-06	Buy	€ 84.00
27-APR-06	Accumulate	€ 90.00

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KBC Securities NV  
Havenlaan 12  
Avenue du Port  
1080 Brussels  
Belgium  
+32 2 417 44 04  
Regulated by CBFA

KBC Securities French Branch  
Le Centorial  
18, rue du Quatre Septembre  
75002 Paris  
France  
+33 1 53 05 35 55  
Regulated by AMF

KBC Securities NV Polish Branch  
ul. Chmielna 85/87  
00-805 Warsaw  
Poland  
+48 22 581 08 00  
Regulated by SEC

Patria Finance as  
Jungmannova 24  
110 00 Praha 1  
Czech Republic  
+420 221 424 111  
Regulated by CNB

KBC Financial Products  
140 East 45th Street  
2 Grand Central Tower - 42<sup>nd</sup> Floor  
NY 10017-3144 New York  
US  
+1 212 845 22 89  
+1 866 917 88 88 (toll free)  
Regulated by NASD

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