

Bekaert

21 March 2007

Restoring market leadership

Engineering & Machinery

Current price € 95.19

Accumulate

Belgium

Target price € 100.00

Rating Unchanged

Performance over	1m	3m	12m
Absolute	2%	2%	14%
Rel. BEL20	6%	1%	3%
Relative to sector	2%	2%	14%
12m Hi/Lo	€ 99.60/69.35		
Reuters	BERTt.BR		
Bloomberg	BEKB BB		
Market Cap	€ 1,994m		
Next corporate event	General Assembly 06: 9 May 2007		

FY/e 31.12	2006	2007E	2008E	2009E
Sales	2,009.6	2,137.4	2,224.5	2,293.0
REBITDA	262.2	278.7	287.1	291.0
Net earnings	142.3	141.2	146.0	151.1
Diluted, adjusted EPS	7.22	7.40	7.66	7.90
Dividend	2.50	2.63	2.75	3.33
P/E	11.4	12.9	12.4	12.0
EV/REBITDA	9.1	8.5	8.1	7.8
Free cash flow yield	-0.4%	2.8%	4.4%	6.0%
Dividend yield	2.6%	2.8%	2.9%	3.5%

Source: KBC Securities

*Adjusted for goodwill and exceptionals

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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

Bekaert reported firm 2006 results, beating our and consensus estimates. Consolidated sales increased by 5% to €2,010m. Organic sales growth amounted to 1%. Following a solid performance in 2H, Bekaert recorded a REBIT of €162.7m, down from €167.9m in 2005. With regards to the outlook, Bekaert indicated it has made a strong start to 2007. Over 2006, Bekaert has invested close to €100m in China, resulting in an increase in its tyre cord capacity in China to approximately 200k tonnes p.a. restoring its market leadership position with an estimated market share of over 30%. Bekaert suggested it would maintain the level of investments in China at approximately €100m in 2007. In a first phase, we would expect Bekaert to raise capacity at the Weihai and Shenyang plants. In the medium term, Bekaert will have to decide whether or not to build a fourth tyre cord plant.

Bekaert recently acquired and cancelled an additional 546,779 own shares, 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. In addition to the share buy backs, Bekaert proposes to increase its dividend by 25% to €2.50 per share. We confirm our accumulate recommendation on Bekaert with an increased target price of €100 per share (€95).

Bekaert beats expectations with a strong 2H

At its 4Q06 trading update in February, Bekaert already reported 5% growth in consolidated sales to € 2,010m. The sales increase was achieved through 1% organic growth and 4% from the net movement in acquisitions and divestments. Sales of advanced wire products, advanced materials and advanced coatings increased by respectively 5%, 11% and 3% y/y to € 1,724m, € 156m and € 136m. Sales of advanced wire products were up 9% y/y in 4Q06 while 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 resulting in sustained pressure on prices.

Bekaert: Combined sales growth by business segment (2006)

Advanced wire products	5%	Advanced materials	11%
Wire Europe	8%	Fibre technologies	15%
Wire North America	-6%	Combustion technologies	9%
Wire Latin America	7%	Composites	4%
Wire Asia	7%		
Building Products	11%	Advanced coatings	3%
Steel cord China	54%	Industrial coatings	1%
Steel cord others	-6%	Specialised films	4%
Other advanced wire products	7%		

Source: company data

Recurring EBIT declined from €167.9m to €162.7m, way above our estimate of €141.6m. Bekaert especially impressed in 2H, with a REBIT margin of 8.3%, up from 7.8% in 2H05.

Bekaert: key figures (in € m)

	1H05	2H05	FY05	1H06	2H06	FY06	FY07E
Sales	970.6	943.4	1,914.0	1,009.0	1,001.0	2,010.0	2,137.4
- Advanced wire products	840.0	800.0	1,640.0	870.0	854.0	1,724.0	1,827.4
- Advanced materials	63.0	78.0	141.0	74.0	82.0	156.0	168.5
- 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	73.6	167.9	80.0	82.8	162.7	175.1
REBIT margin %	9.7%	7.8%	8.8%	7.9%	8.3%	8.1%	8.2%
Result from operations (after restructuring)	85.3	82.4	167.7	76.0	70.0	145.9	160.1
Interest income & expenses	-11.2	-15.7	-26.9	-12.2	-19.5	-31.7	-33.1
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	-2.6	-18.1	-29.8
Result from ordinary activities after taxes	55.7	34.8	90.5	48.2	47.9	96.1	97.2
Share in the result of joint ventures and associates	27.7	29.2	56.9	27.8	23.2	51.0	48.7
Minority interests	-7.3	-4.7	-12.0	-0.5	-4.3	-4.8	-4.7
Consolidated net result of the group	76.2	59.3	135.5	75.5	66.8	142.3	141.2
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	59.4	189.7	75.5	66.8	142.3	141.2
EPS - adjusted	3.47	3.50	6.97	3.65	3.61	7.26	7.45
EPS - reported	5.94	2.84	8.78	3.51	3.12	6.62	6.89

Source: company data, KBC Securities' estimates

Advanced Wire Products

Sales of advanced wire products increased from €1,640m to €1,724m while recurring EBIT contribution softened from €198m to €192m corresponding to a margin of 11.1% (down from 12.1%). Combined sales, including joint ventures and associates, increased by 5% to €2,890m.

In steel cord, sales increased strongly by 54% in China but declined by 6% in Bekaert's other markets. In 2006, Bekaert has invested close to €100m in the Chinese market, increasing its tyre cord capacity to approximately 200k tonnes p.a. Hence, Bekaert has restored its market leadership position in China with a share of over 30%. In 2007, Bekaert will maintain this level of investment but management refrained from giving much detail about the plans.

Bekaert currently has three tyre cord plants in China located in Weihai (65k tonnes p.a.), Jiangyin (90k tonnes p.a.) and Shenyang (45k tonnes p.a.). In the event of further capacity expansions in the near future, we would expect Bekaert to add production lines in the Weihai and/or Shenyang plants. In the medium to longer term, Bekaert will have to decide whether to invest in a fourth tyre cord plant. This might be located further inland, depending on the location of new tyre production facilities.

In September 2006, Bekaert announced the acquisition of 250,000 new shares in Shougang Concord Century Holdings (Bloomberg: 103 HK). Bekaert has paid HK\$ 0.65 per share or a total of around €16.5m for the 18.85% stake. Shougang is the mother company of Jiaying Eastern Steel Cord (JESC), which has a tyre cord capacity of approximately 30k tonnes p.a. Shougang intends to use the proceeds from the capital increase to increase capacity at JESC to 60k tonnes p.a. by the end of this year with the aim to further increase capacity to 80k tonnes p.a. later. The deal was accompanied by two co-operation agreements. The first is a service contract for the planning and design of the capacity increase at JESC. The second is a supply contract in which Bekaert will provide certain materials (including brass coated wire) required for the production of steel cord for a period of at least three years.

The Chinese tyre cord market still has excellent growth prospects. From a capacity of 368k tonnes p.a. at the end of 2005, the market is expected to more than double to 765k tonnes p.a. by the end of 2010. The main drivers behind the tyre cord demand projects are the rise in tyre production in China as tyre makers shift capacity from North America or Europe to China and increased demand for tyres in China itself.

Sales of wire Europe increased by 8% and would have remained stable excluding the acquisition of Cold Drawn Products. Sales of wire North America declined by 6%, as there were clear signs of weakening of several economic sectors in which the company is active. Helped by the mild winter, Bekaert was able to maintain a high level of activity in building products (+11% y/y) in Europe and Asia. Sales of wire Latin America increased by 7% y/y but slowed down in 4Q. In Latin America, Bekaert is facing increased competition from Asian imports, hence the sustained pressure on prices. The contribution from joint ventures and associates declined from €56.9m to €51.0m.

Advanced Materials

Sales of advanced materials increased by 11% to €156m while recurring EBIT contribution remained stable at €13m. Sales in fibre technologies were up 15%, partially helped by the acquisition in June 2005 of Southwest Screens & Filters. Sales in combustion technologies increased by 9% with the acquisition of Aluheat contributing to growth while the project-based industrial burner activities had a more difficult year. Sales of the composites were up by 4% y/y with Bekaert maintaining itself in an extremely competitive environment.

Advanced Coatings

Sales of advanced coating increased slightly from €133 to €136m with an unchanged weak recurring EBIT contribution of €3m. Sales in industrial coating increased by 1% while sales of specialised films were up 4% y/y. In industrial coatings, business picked up in H2.

Bekaert beats expectations

Income taxes were a low €18.1m compared to €30.3m and as mentioned before, contribution from joint ventures and associates declined to €51.0m. This resulted into a profit from continuing operations, group share, of €142.3m, up from €135.5m in 2005. Hence, Bekaert was able to beat our expectations by about €15m thanks to a strong 2H on an operational level but also thanks to the exceptionally low tax rate.

Optimising the balance sheet

Net financial debt, as reported by Bekaert, increased from €271.7m to €374.7m. Capital expenditures of the group amounted to €153m, including close to €100m in China. In 2007, Bekaert is unlikely to put the breaks on capital expenditures. In addition, Bekaert purchased a total of 636.7k shares in 2006. A further 546.8k shares have been repurchased and cancelled early this year, bringing the total number of outstanding shares to 20.4m. We highly welcome the share buy backs as an attractive way to reward shareholders. Finally, Bekaert proposes to increase the dividend by 25% to €2.50 per share, payable as from 16 May 2006.

Outlook

With regards to the outlook, Bekaert indicated it made a good start to 2007. In addition, the group will maintain the high level of capital expenditures in order to benefit from the growth in the BRIC countries. We have raised our EPS estimates for 2007 by 3% to €7.40 per share. Although we see further growth in the recurring EBIT (from €162.7m to €175.1m) the comparison basis becomes more challenging given the exceptionally low tax rate in 2006. Hence we expect a net result of €141.2m in-line with the level of 2006 with the share buybacks supporting EPS growth.

Financial data

Income statement (€m)	2005	2006	2007E	2008E	2009E
Sales	1,914.3	2,009.6	2,137.4	2,224.5	2,293.0
Gross profit	392.1	394.9	407.0	423.1	433.8
EBIT	136.1	145.9	160.1	166.1	168.9
Pre-tax earnings	120.8	114.2	127.0	133.0	139.4
Net earnings	189.7	142.3	141.2	146.0	151.1
EBITDA	257.2	262.2	278.7	287.1	291.0
REBITDA	257.2	262.2	278.7	287.1	291.0
REBITA	181.4	162.7	175.1	181.1	183.9
Balance sheet (€m)	2005	2006	2007E	2008E	2009E
Intangible assets	125.4	134.5	134.5	134.5	134.5
Tangible assets	799.8	824.2	865.6	889.7	892.6
Financial assets	306.3	328.3	328.3	328.3	328.3
Net other assets & liabilities	-37.3	-33.3	-33.3	-33.3	-33.3
Net working capital	505.2	530.5	564.3	587.3	605.4
Net debt	311.2	411.2	459.9	427.7	367.0
Provisions	257.9	251.7	251.7	251.7	251.7
Minorities	51.1	48.9	48.9	48.9	48.9
Equity	1,079.2	1,072.5	1,099.0	1,178.3	1,259.9
Capital employed	1,372.5	1,428.6	1,503.8	1,550.9	1,571.9
TOTAL ASSETS	2,231.7	2,216.9	2,329.4	2,371.3	2,412.9
Cash flow statement (€m)	2005	2006	2007E	2008E	2009E
Cash flow from operations	165.5	143.9	215.2	230.8	241.8
Net capital expenditure	-141.9	-152.8	-160.0	-145.0	-125.0
Free cash-flow	23.6	-8.9	55.2	85.8	116.8
Acquisitions / disposals	55.5	-51.3	0.0	0.0	0.0
Dividend payments	-52.2	-74.1	-52.4	-53.6	-56.1
Shares issues	-24.3	-54.4	-51.5	0.0	0.0
New borrowings / reimbursements	-27.0	-41.6	67.5	-50.0	-50.0
Other	144.5	88.7	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	120.2	-141.5	18.8	-17.8	10.7
Performance criteria	2005	2006	2007E	2008E	2009E
Sales growth	9.9%	5.0%	6.4%	4.1%	3.1%
Gross margin	20.5%	19.7%	19.0%	19.0%	18.9%
REBITDA margin	13.4%	13.0%	13.0%	12.9%	12.7%
REBITA margin	9.5%	8.1%	8.2%	8.1%	8.0%
EBIT margin	7.1%	7.3%	7.5%	7.5%	7.4%
Net debt / Equity + Minorities	27.5%	36.7%	40.1%	34.9%	28.0%
Net debt / EBITDA	1.21	1.57	1.65	1.49	1.26
EBITDA / net interest	9.55	8.27	8.42	8.67	9.89
Pay-out ratio	34.1%	36.8%	37.9%	38.4%	45.0%
= Return on Equity (avg)	19.1%	13.2%	13.0%	12.8%	12.4%
Return on Capital Employed (avg)	8.4%	8.8%	8.6%	8.5%	8.4%
Per share data (€)	2005	2006	2007E	2008E	2009E
weighted average # shares, diluted	21,707,875	21,596,843	20,639,855	20,548,725	20,548,725
Basic EPS	8.77	6.62	6.89	7.16	7.40
Diluted EPS	8.74	6.59	6.84	7.10	7.35
Diluted, adjusted EPS	7.89	7.22	7.40	7.66	7.90
Net book value / share	50.13	51.20	53.87	57.76	61.76
Free cash flow / share	1.09	-0.41	2.69	4.20	5.72
Dividend	3.00	2.50	2.63	2.75	3.33
Valuation data	2005	2006	2007E	2008E	2009E
Reference share price (€)	65.18	82.18	95.19	95.19	95.19
Reference market capitalisation	1,403.3	1,721.3	1,941.9	1,941.9	1,941.9
Enterprise value (€m)	1,702.4	2,088.1	2,361.9	2,329.7	2,269.0
P/E	8.3	11.4	12.9	12.4	12.0
EV/sales	1.2	1.2	1.1	1.0	1.0
EV/EBITDA	9.2	9.1	8.5	8.1	7.8
EV/Capital employed	1.7	1.7	1.6	1.5	1.4
P/ NBV	1.9	1.9	1.8	1.6	1.5
Free cash flow yield	1.1%	-0.4%	2.8%	4.4%	6.0%
Dividend yield	3.1%	2.6%	2.8%	2.9%	3.5%

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	39.60%	75.00%
ACCUMULATE	42.40%	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-MAR-07	Accumulate	€ 100.00
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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