

Bekaert

11 March 2008

EPS growth supported by share buybacks

Engineering & Machinery

Current price € 86.00

Accumulate

Belgium

Target price € 110.00

Rating Unchanged

Performance over	1m	3m	12m
Absolute	2%	-5%	-9%
Rel. BEL20	2%	11%	11%
12m Hi/Lo	€ 113.40/76.54		
Reuters	BEKB.BR		
Bloomberg	BEKB BB		
Market Cap	€ 1,709m		
Next corporate event	Results FY07: 14 March 2008		

FY/e 31.12	2006	2007E	2008E	2009E
Sales (€m)	2,009.6	2,174.0	2,228.7	2,297.7
REBITDA (€m)	262.2	288.6	287.4	291.4
Net earnings (€m)	142.3	141.5	134.4	139.1
Diluted adj. EPS (€)	7.22	7.46	7.26	7.49
Dividend (€)	2.50	2.63	2.75	3.15
P/E	11.4	11.5	11.9	11.5
EV/REBITDA	9.1	7.4	7.4	7.1
Free cash flow yield	-0.4%	2.0%	4.9%	6.7%
Dividend yield	2.6%	3.1%	3.2%	3.7%

Source: KBC Securities

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

Investment arguments

- In 2007, Bekaert posted record sales of €2,174m, a y/y increase by 8.2%
- Bekaert continues to aggressively expand its steelcord production capacity in China
- Following major share buybacks in 2007, the balance sheet structure has been optimized
- At maintenance CAPEX levels, Bekaert still offers an attractive FCF yield

Friday, before market, Bekaert will publish its FY07 results. An analyst meeting is scheduled for the same day at 14:00 CET. The trading update released mid-February pointed towards strong sales growth in the final quarter. Consolidated and combined sales increased by respectively 8.2% and 7.0% to €2,174m and €3,419m.

We are looking for recurring EBIT of €182.1m, up from €162.7m in 2006 (margin from 8.1% to 8.4%). Net financial charges are expected to show little change at €33.2m but we see income tax rising sharply from the exceptionally low level of €18.1m in 2006 (helped by approximately €10m in deferred tax income) to €31.3m last year. The contribution of joint ventures and associates is expected to soften from €51.0m to €45.9m last year. This leads us to a net result of €141.5m, virtually in line with the €142.3m booked in 2006. However, EPS is expected to firm from €7.22 to €7.46, supported by the share buyback programme.

Despite the uncertain economic outlook and rising raw materials prices, we confirm our Accumulate recommendation on Bekaert. The company remains committed to shareholder value creation as highlighted by the share buybacks and the investment in further growth in the BRIC countries.

Fourth quarter trading update pointed to solid sales growth

Bekaert already published its sales figures at the fourth quarter trading update on 15 February. Consolidated and combined sales increased by respectively 8.2% and 7.0% to €2,174m and €3,419m. The consolidated sales increase was 8.0% from organic growth, partially offset by a 2.3% negative impact from currency movements, but boosted by a 2.5% net gain in acquisitions and divestments. Impressive 15.8% sales growth y/y was recorded in the fourth quarter.

Consolidated and combined 2007 sales by business segment (in € m)

	Consolidated		Combined	
Advanced wire products	1,844	+9.2%	3,095	+8.4%
Advanced materials	204	+10.4%	204	+10.4%
Advanced coatings	124	-8.9%	124	-8.9%
Inter-segment sales and others	2		-4	
Total	2,174	+8.2%	3,419	+7.0%

Source: company data

Combined 2007 sales by activity platform

Advanced wire products	+8.4%	Advanced materials	+10.4%
Wire Europe	+9.9%	Stainless	+21.3%
Wire North America	-2.1%	Fibre technologies	+8.8%
Wire Latin America	+11.6%	Combustion technologies	+11.9%
Wire Asia	+14.1%	Composites	-4.1%
Building products	+10.9%		
Steel cord China	+48.3%	Advanced coatings	-8.9%
Steel cord others	-6.4%	Industrial coatings	-6.5%
Other advanced wire products	-1.9%	Specialized films	-10.7%

Source: company data

Combined sales of **Advanced wire products** increased by 8.4% y/y to €3,095m. The adverse effect from currency movements amounted to 2.1%. European wire products sales increased by 9.9% y/y thanks to an improved product mix. Strong growth was recorded in applications for the offshore sector, which generated strong demand for flat and profiled wires for reinforcement of flexible pipes. Bekaert's wire activities in North America held up well (sales -2.1% y/y), given the 8.0% negative effect on sales from the softer US\$ exchange rate.

Combined sales of Wire Latin America increased by a solid 11.6% y/y, although sales in Brazil and Chile were restrained by heightened competition. Growth was supported by the full acquisition of Vicson in Venezuela and the group also indirectly strengthened its participation to 87.5% in Proalco, Colombia.

Bekaert further expanded its steel cord capacity in China from approximately 200k tonnes p.a. at the end of 2006 to 250k tonnes p.a. at the end of 2007, thereby restoring its market share in China to approximately 30%. By the end of the current year, Bekaert intends to further increase capacity to levels close to 300k tonnes p.a. These new capacity expansions can be implemented at the current sites but during the year, Bekaert will probably have to commit to building a new site if it wants to continue growing. In 2007, sales of steel cord China increased by a spectacular 48.3% y/y, partially at the expense of steel cord others (-6.4% y/y), which was anticipated given the capacity adaptations in North America.

Combined 2007 sales by geographical area (in €m)

Europe	1,057	+5.1%
North America	544	-14.6%
Latin America	1,248	+12.2%
Asia	517	+33.9%
Other regions	53	-0.5%
Total	3,419	+7.0%

Source: company data

Combined sales of **Advanced materials** increased by 10.4% in 2007. Sales growth of the stainless activities (+21.3% y/y) was largely on the back of higher prices, reflecting the higher prices of nickel-based wire rod. Sales growth in fibre technologies (+8.8% y/y) was mainly a reflection of the breakthrough of Bekaert's application of metal fibres for diesel particulate filters. Sales of the composites were down by 4.1% y/y although capacity utilisation improved in 4Q. The strong sales growth (+11.9% y/y) in combustion technologies was partially explained by the integration of Aluheat.

Sales of the **Advanced coatings** were down by 8.9% y/y. In specialized films (-10.7% y/y), the company experienced weaker demand in North America. This adverse effect was compounded by exchange rate movements, but partially offset by higher sales in Asia and Europe. Sales of industrial coatings were down by 6.5% y/y and the market remained extremely competitive.

Bekaert: key figures (in €m)

	1H06	2H06	FY06	1H07	2H07E	FY07E	FY08E
Sales	1,009.0	1,001.0	2,010.0	1,065.0	1,109.0	2,174.0	2,259.7
Advanced wire products	870.0	854.0	1,724.0	897.0	947.0	1,844.0	1,917.8
Advanced materials	74.0	82.0	156.0	101.0	103.0	204.0	214.2
Advanced coatings	68.0	68.0	136.0	64.0	60.0	124.0	127.7
Others	-3.0	-3.0	-6.0	3.0	-1.0	2.0	0.0
REBIT	80.0	82.8	162.7	90.3	91.8	182.1	186.1
REBIT margin %	7.9%	8.3%	8.1%	8.5%	8.3%	8.4%	8.2%
Result from operations (after restructuring)	76.0	70.0	145.9	86.5	83.6	170.1	171.1
Interest income & expenses	-12.2	-19.5	-31.7	-16.7	-16.5	-33.2	-38.8
Income taxes	-15.5	-2.6	-18.1	-14.9	-16.4	-31.3	-31.7
Result from ordinary activities after taxes	48.2	47.9	96.1	55.0	50.6	105.6	100.7
Share in the result of joint ventures and associates	27.8	23.2	51.0	23.4	22.5	45.9	46.8
Minority interests	-0.5	-4.3	-4.8	-5.8	-4.2	-10.0	-9.7
Consolidated net result of the group	75.5	66.8	142.3	72.6	68.9	141.5	137.7

Source: company data, KBC Securities' estimates

EPS growth supported by share buybacks

We are looking for recurring EBIT of €182.1m, up from €162.7m in 2006 (margin from 8.1% to 8.4%). Net financial charges are expected to be little changed at €33.2m but we see income tax rising sharply from €18.1m in 2006 (helped by approximately €10m in deferred tax income) to €31.3m last year. The contribution of joint ventures and associates is expected to soften from €51.0m to €45.9m last year.

This leads us to a net result of €141.5m, virtually in line with the €142.3m booked in 2006. However, following share buy-backs and cancellations in 2007, the number of outstanding shares decreased from 20,946,779 at year-start to 19,831,000 at year-end. The weighted average of outstanding shares decreased by 6.8% to 20,039,098, supporting EPS growth.

At the publication of the 4Q trading update, Bekaert refrained from offering forward-looking statements. 2008 will be challenging giving the uncertain economic outlook and rising raw material prices (wire rod), but further growth is expected in the BRIC countries, especially China.

Financial data

Income statement (€m)	2006	2007E	2008E	2009E
Sales	2,009.6	2,174.0	2,228.7	2,297.7
Gross profit	394.9	421.2	423.9	434.7
EBIT	145.9	170.1	166.5	169.3
Pre-tax earnings	114.2	136.9	128.0	134.1
Net earnings	142.3	141.5	134.4	139.1
EBITDA	262.2	288.6	287.4	291.4
REBITDA	262.2	288.6	287.4	291.4
REBITA	162.7	182.1	181.5	184.3
Balance sheet (€m)	2006	2007E	2008E	2009E
Intangible assets	134.5	134.5	134.5	134.5
Tangible assets	824.2	885.6	909.7	912.6
Financial assets	328.3	328.3	328.3	328.3
Net other assets & liabilities	-33.3	-33.3	-33.3	-33.3
Net working capital	530.5	573.9	588.4	606.6
Net debt	411.2	536.1	502.0	446.0
Provisions	251.7	251.7	251.7	251.7
Minorities	48.9	48.9	48.9	48.9
Equity	1,072.5	1,052.5	1,114.9	1,189.2
Capital employed	1,428.6	1,533.5	1,572.0	1,593.1
TOTAL ASSETS	2,216.9	2,364.4	2,389.6	2,426.6
Cash flow statement (€m)	2006	2007E	2008E	2009E
Cash flow from operations	143.9	213.9	225.9	235.7
Net capital expenditure	-152.8	-180.0	-145.0	-125.0
Free cash-flow	-8.9	33.9	80.9	110.7
Acquisitions / disposals	-51.3	0.0	0.0	0.0
Dividend payments	-74.1	-52.4	-52.2	-54.7
Shares issues	-54.4	-106.5	0.0	0.0
New borrowings / reimbursements	-41.6	143.8	-50.0	-50.0
Other	88.7	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	-141.5	18.8	-21.2	6.0
Performance criteria	2006	2007E	2008E	2009E
Sales growth	5.0%	8.2%	2.5%	3.1%
Gross margin	19.7%	19.4%	19.0%	18.9%
REBITDA margin	13.0%	13.3%	12.9%	12.7%
REBITA margin	8.1%	8.4%	8.1%	8.0%
EBIT margin	7.3%	7.8%	7.5%	7.4%
Net debt / Equity + Minorities	36.7%	48.7%	43.1%	36.0%
Net debt / EBITDA	1.57	1.86	1.75	1.53
EBITDA / net interest	8.27	8.70	7.46	8.30
Pay-out ratio	36.8%	36.8%	40.7%	45.0%
= Return on Equity (avg)	13.2%	13.3%	12.4%	12.1%
Return on Capital Employed (avg)	8.8%	9.1%	8.4%	8.3%
Per share data (€)	2006	2007E	2008E	2009E
weighted average # shares, diluted	21,596,843	20,169,889	20,035,972	20,035,972
Basic EPS	6.62	7.06	6.76	7.00
Diluted EPS	6.59	7.02	6.71	6.94
Diluted, adjusted EPS	7.22	7.46	7.26	7.49
Net book value / share	51.20	54.63	57.73	61.57
Free cash flow / share	-0.41	1.69	4.07	5.57
Dividend (€)	2.50	2.63	2.75	3.15
Valuation data	2006	2007E	2008E	2009E
Reference share price (€)	82.18	86.00	86.00	86.00
Reference market capitalisation (€)	1,721.4	1,705.5	1,709.4	1,709.4
Enterprise value (€m)	2,088.2	2,150.1	2,119.9	2,063.9
P/E	11.4	11.5	11.9	11.5
EV/sales	1.2	1.0	1.0	0.9
EV/EBITDA	9.1	7.4	7.4	7.1
EV/Capital employed	1.7	1.4	1.3	1.3
P/ NBV	1.9	1.6	1.5	1.4
Free cash flow yield	-0.4%	2.0%	4.9%	6.7%
Dividend yield	2.6%	3.1%	3.2%	3.7%

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

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Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	57.70%	0.00%
ACCUMULATE	38.50%	0.00%
REDUCE	3.10%	100.00%
SELL	0.80%	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
09-MAY-07	Accumulate	€ 110.00
16-MAR-07	Accumulate	€ 100.00

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