

Bekaert

17 March 2008

Solid FY07 results

Engineering & Machinery

Current price € 88.50

Accumulate

Belgium

Target price € 110.00

Rating Unchanged

Performance over	1m	3m	12m
Absolute	1%	3%	-3%
Rel. BEL20	3%	15%	11%
12m Hi/Lo	€ 113.40/76.54		
Reuters	BEKB.BR		
Bloomberg	BEKB BB		
Market Cap	€ 1,741m		
Next corporate event			
Trading update 1Q08: 14 May 2008			

FY/e 31.12	2007	2008E	2009E	2010E
Sales (€m)	2,173.6	2,285.8	2,365.6	2,439.0
REBITDA (€m)	310.3	321.9	328.0	332.8
Net earnings (€m)	152.9	147.9	144.9	142.1
Diluted adj. EPS (€)	8.05	8.03	7.85	7.68
Dividend (€)	2.76	3.00	3.00	3.25
P/E	12.2	11.0	11.3	11.5
EV/REBITDA	7.2	6.9	6.8	6.6
Free cash flow yield	2.7%	2.5%	4.2%	4.3%
Dividend yield	3.1%	3.4%	3.4%	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 of 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

Bekaert reported solid FY07 results. Recurring EBIT increased from €162.7m to €186.3m, exceeding expectations. The recurring EBIT margin firmed from 8.1% to 8.6%. The improvements are driven by the strong sales growth, particularly in China, and rising sales of products with high added-value such as reinforcing wire for cables and flat and profiled wire for flexible pipes, wires for hoisting cables, sawing wire and steel cord for off-road heavy equipment. The consolidated net result of the group amounted to €152.9m, by far exceeding our estimate of €141.5m. Results were boosted by tax holidays in 2H.

Following a revision of our scenario, we have increased our EPS estimate for 2008 from €7.26 to €8.03. Despite the uncertain economic outlook and rising raw material prices, we still rate Bekaert at Accumulate with a price target of €110 per share. The company remains committed to shareholder value creation as highlighted by the aggressive share buybacks and continued heavy spending aimed at pursuing growth in the BRIC countries.

Bekaert reports solid FY07 results

Bekaert reported solid FY07 results. Consolidated and combined sales increased by respectively 8.2% and 7.0% to €2,174m and €3,419m. Consolidated sales grew 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.

Bekaert reported a recurring EBIT of €186.3m, up from €162.7m in 2006 and beating our €182.1m forecast. The recurring EBIT margin firmed from 8.1% in 2006 to 8.6% last year. The improvements are driven by the strong sales growth, particularly in China, and rising sales of products with high added-value such as reinforcing wire for cables and flat and profiled wire for flexible pipes, wires for hoisting cables, sawing wire and steel cord for off-road heavy equipment. Recurring EBIT from advanced wire products, advanced materials and advanced coatings amounted to respectively €215m, €17m and €3m, compared to €189m, €16m and €3m in 2006.

The share in the result of joint ventures and associates softened from €51.0m in 2006 to €47.1m, slightly exceeding expectations (€45.9m). Results were impacted by a lower contribution from the Mercosur region (Brazil and Chile) and restructuring costs related to the closure of a joint-venture steel cord plant in Australia. In addition, Bekaert obtained full ownership of Vicson in Venezuela and indirectly strengthened its participation in Proalco in Columbia to 87.5%. The impact of the change in consolidation scope in 2007 can be estimated at around €2m, before taxes. The dividend received from joint ventures and associates increased sharply from €35.2m to €54.7m. This increased dividend payment was boosted by an exceptional dividend and the normal level going forward should be estimated at around €30m to €35m.

The group's consolidated net result amounted to €152.9m, far exceeding our estimate of €141.5m. The reason for this outperformance was much lower-than-forecast taxes of €19.1m (€31.3m expected), helped by tax holidays. It seems that we should also take into account a lower-than-normal tax rate for 2008. Net financial debt (Bekaert definition) increased from €375m to €448m, mainly due to the share buy-back program (€111m in 2007) and heavy CAPEX (€192.4m). In 2007, Bekaert repurchased and cancelled 1,157,645 treasury shares, thus reducing the number of outstanding shares to 19,831,000 at the end of 2007. In 2008, Bekaert has repurchased and cancelled a further 161k shares. For 2008, management is guiding for CAPEX around €200m. The company will propose a gross dividend of €2.76 per share (up from €2.50) payable as from 21 May.

Bekaert: key figures (in € m)

	1H06	2H06	FY06	1H07	2H07	FY07	FY08E
Sales	1,009.0	1,001.0	2,010.0	1,065.0	1,108.6	2,173.6	2,285.8
Advanced wire products	870.0	854.0	1,724.0	897.0	947.0	1,844.0	1,936.2
Advanced materials	74.0	82.0	156.0	101.0	103.0	204.0	224.4
Advanced coatings	68.0	68.0	136.0	64.0	60.0	124.0	125.2
Others	-3.0	-3.0	-6.0	3.0	-1.0	2.0	0.0
REBIT	80.0	82.8	162.7	90.3	96.0	186.3	195.5
REBIT margin %	7.9%	8.3%	8.1%	8.5%	8.7%	8.6%	8.6%
Result from operations (after restructuring)	76.0	70.0	145.9	86.5	88.1	174.6	180.5
Interest income & expenses	-12.2	-19.5	-31.7	-16.7	-24.3	-41.0	-41.5
Income taxes	-15.5	-2.6	-18.1	-14.9	-4.2	-19.1	-27.7
Result from ordinary activities after taxes	48.2	47.9	96.1	55.0	59.5	114.5	111.3
Share in the result of joint ventures and associates	27.8	23.2	51.0	23.4	23.7	47.1	45.0
Minority interests	-0.5	-4.3	-4.8	-5.8	-3.0	-8.7	-8.4
Consolidated net result of the group	75.5	66.8	142.3	72.6	80.2	152.9	147.9

Source: company data, KBC Securities' estimates

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 sales of **Advanced wire products** increased by 8.4% y/y to €3,095m. The adverse effect of currency movements amounted to 2.1%. EBITDA firmed from €276m to €314m (margin from 16.4% to 17.0%), recurring EBIT increased from €189m in 2006 to €215m, last year (margin from 10.5% to 11.3%). The significant sales growth and **improving product mix** are the main drivers behind the strong increase in operating profit.

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. EBITDA and recurring EBIT increased slightly y/y from €24m to €26m (margin from 13.1% to 12.6%) and from €16m to €17m. 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.

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

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. EBITDA declined from €12m to €11m (margin from €8.5% to €9.0m) while recurring EBIT was unchanged at €3m.

Outlook

Bekaert remained vague on the outlook, referring to increasing raw material prices and an uncertain economic outlook. However, the company expects continued growth of its activities, supported by the €200m CAPEX program, mainly in the BRIC countries. In addition, EPS growth will be supported by the share buyback program.

We have made some minor changes to our scenario, including the assumption of lower taxes in 2008. Given the sharp rise in raw material prices, there will probably be some effect from inventory revaluations in 2008, although we have not factored this into our model. We now bank on a 5.2% increase y/y in revenues to €2,285.8m and recurring EBIT of 195.5m, up by 4.9% y/y (margin unchanged at 8.6%). Our estimate for the net result is revised upwards from €137.7m to €147.9m, slightly down y/y (€152.9m in 2007). Our adjusted diluted EPS estimate is revised upwards from €7.26 to €8.03, steady y/y and supported by share buybacks.

Financial data

Income statement (€m)	2006	2007	2008E	2009E	2010E
Sales	2,009.6	2,173.6	2,285.8	2,365.6	2,439.0
Gross profit	394.9	433.9	440.9	453.5	464.0
EBIT	145.9	174.6	180.5	184.0	186.2
Pre-tax earnings	114.2	133.6	139.0	143.8	147.2
Net earnings	142.3	152.9	147.9	144.9	142.1
EBITDA	262.2	298.6	306.9	313.0	317.8
REBITDA	279.0	310.3	321.9	328.0	332.8
REBITA	162.7	186.3	195.5	199.0	201.2
Balance sheet (€m)	2006	2007	2008E	2009E	2010E
Intangible assets	134.5	122.0	122.0	122.0	122.0
Tangible assets	824.2	917.6	991.2	1,037.2	1,080.6
Financial assets	328.3	290.4	290.4	290.4	290.4
Net other assets & liabilities	-33.3	-21.6	-21.6	-21.6	-21.6
Net working capital	530.5	582.1	612.2	633.6	653.2
Net debt	411.2	502.2	513.9	499.3	483.6
Provisions	251.7	241.8	241.8	241.8	241.8
Minorities	48.9	48.4	48.4	48.4	48.4
Equity	1,072.5	1,098.2	1,185.3	1,278.3	1,350.9
Capital employed	1,428.6	1,566.7	1,670.3	1,737.7	1,800.8
TOTAL ASSETS	2,216.9	2,312.6	2,369.6	2,412.4	2,451.2
Cash flow statement (€m)	2006	2007	2008E	2009E	2010E
Cash flow from operations	143.9	240.1	243.0	248.7	249.7
Net capital expenditure	-152.8	-192.4	-200.0	-175.0	-175.0
Free cash-flow	-8.9	47.7	43.0	73.7	74.7
Acquisitions / disposals	-51.3	-17.9	0.0	0.0	0.0
Dividend payments	-74.1	-57.2	-54.7	-59.0	-59.0
Shares issues	-54.4	-110.0	0.0	0.0	0.0
New borrowings / reimbursements	-41.6	83.1	-50.0	-50.0	-50.0
Other	88.7	46.4	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	-141.5	-7.9	-61.7	-35.4	-34.3
Performance criteria	2006	2007	2008E	2009E	2010E
Sales growth	5.0%	8.2%	5.2%	3.5%	3.1%
Gross margin	19.7%	20.0%	19.3%	19.2%	19.0%
REBITDA margin	13.9%	14.3%	14.1%	13.9%	13.6%
REBITA margin	8.1%	8.6%	8.6%	8.4%	8.3%
EBIT margin	7.3%	8.0%	7.9%	7.8%	7.6%
Net debt / Equity + Minorities	36.7%	43.8%	41.7%	37.6%	34.6%
Net debt / EBITDA	1.57	1.68	1.67	1.59	1.52
EBITDA / net interest	8.27	7.29	7.40	7.78	8.14
Pay-out ratio	36.8%	35.8%	39.9%	40.7%	45.0%
= Return on Equity (avg)	13.2%	14.1%	13.0%	11.8%	10.8%
Return on Capital Employed (avg)	8.8%	10.0%	9.1%	8.3%	7.7%
Per share data (€)	2006	2007	2008E	2009E	2010E
weighted average # shares, diluted	21,596,843	20,169,889	19,854,346	19,854,346	19,854,346
Basic EPS	6.62	7.63	7.51	7.37	7.22
Diluted EPS	6.59	7.58	7.45	7.30	7.16
Diluted, adjusted EPS	7.22	8.05	8.03	7.85	7.68
Net book value / share	51.20	55.38	60.26	64.99	68.68
Free cash flow / share	-0.41	2.38	2.18	3.74	3.80
Dividend (€)	2.50	2.76	3.00	3.00	3.25
Valuation data	2006	2007	2008E	2009E	2010E
Reference share price (€)	82.18	98.17	88.50	88.50	88.50
Reference market capitalisation (€)	1,721.4	1,946.8	1,740.8	1,740.8	1,740.8
Enterprise value (€m)	2,088.2	2,431.7	2,234.0	2,219.3	2,203.6
P/E	11.4	12.2	11.0	11.3	11.5
EV/sales	1.1	1.0	1.0	0.9	0.9
EV/EBITDA	8.5	7.5	7.3	7.1	6.9
EV/Capital employed	1.6	1.4	1.3	1.3	1.2
P/ NBV	1.7	1.6	1.5	1.4	1.3
Free cash flow yield	-0.5%	2.7%	2.5%	4.2%	4.3%
Dividend yield	2.8%	3.1%	3.4%	3.4%	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

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