

24 July 2009

## BEKAERT

### Improved resilience put to the test

ENGINEERING & MACHINERY  
BELGIUM

CURRENT PRICE €82.36  
TARGET PRICE €80.00

**ACCUMULATE**  
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	18%	20%	-15%
Rel. BEL20	8%	7%	24%
12m Hi/Lo	€ 120.32/37.88		
Bloomberg	BEKB BB		
Reuters	BEKB.BR		
Market Cap	€ 1,629m		
Next corporate event			
Results 1H09: 31 July 2009			
www.bekaert.com			

FY/e 31.12	2008	2009E	2010E	2011E
Sales (€ m)	2,662.4	2,506.8	2,627.9	2,752.3
REBITDA (€ m)	495.9	362.3	372.2	394.6
Net earnings (€ m)	174.1	108.6	126.6	141.0
Diluted adj. EPS (€)	12.02	6.51	6.88	7.59
Dividend (€)	2.80	2.80	2.80	2.80
P/E	7.34	12.65	11.97	10.85
EV/REBITDA	4.99	6.17	5.78	5.19
Free cash flow yield	-1.0%	10.9%	8.5%	9.7%
Dividend yield	3.2%	3.4%	3.4%	3.4%

Source: KBC Securities

Friday 31 July, before market, Bekaert will publish its 1H09 results. No doubt 2009 and especially H1 will prove extremely challenging. Wire rod prices have continued to fall so far this year, resulting into a negative impact on results. We see recurring EBIT for the first half at €102.6m, down by 37% y/y. The net result is forecasted to decline by 56% y/y to €55.6m.

### 1H09 PREVIEW

- Bekaert's challenge this year is to prove its resilience in an adverse worldwide climate. The group's high exposure to growth markets should give the company some protection though, even if over 50% of turnover is generated in the automotive and construction sector.
- Consolidated sales in the first quarter showed an organic decline of 14.3% y/y on weak market demand in EMEA and North America. Nevertheless, the company issued a relatively upbeat statement, saying that "despite limited short-term visibility, Bekaert does not expect the current slowdown to last on a company-wide scale."
- In Europe, Bekaert is currently faced with weak market demand overall, reflecting both low economic activity and stock depletion. Visibility remains extremely weak and competition fierce. In North America, Bekaert is holding up well thanks to previous optimisation programs.
- In Latin America, Bekaert is confronted with a decline in market demand and a strong negative currency impact in Brazil, while the operations in the rest of Latin America are showing more stability. While combined sales are forecast to contract y/y, consolidated sales are expected to get a boost from the incorporation of the Ideal holding (80%).
- Activities in Asia continue to grow. The new steel cord plant in Chongqing opened early in Q2 and Bekaert will accelerate investments in the plant to meet the strong inland demand.

### ANALYSTS

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## ORGANIC SALES DOWN 14.3% IN Q1

Bekaert's 1Q09 trading update contained no major surprises. Consolidated sales for the quarter amounted to €592.1m, in-line with expectations and unchanged from the same period last year (€592.6m). Weak market demand in EMEA and North America drove an organic sales decline of 14.3%. This was fully offset by the integration of Prodac (Peru) and Ideal Alambre (Ecuador) in Latin America, adding 6.5%, and the positive impact of currency movements, which contributed 7.7%.

## CONSOLIDATED AND COMBINED SALES BY SEGMENT

	Consolidated sales			Combined sales		
	1Q08	1Q09	y/y	1Q08	1Q09	y/y
EMEA	290.3	210.3	-27.6%	288.4	209.1	-27.5%
North America	134.1	141.9	5.8%	133.6	139.2	4.2%
Latin America	37.7	80.6	113.8%	347.6	279.9	-19.5%
Asia Pacific	130.5	159.3	22.1%	133.1	160.2	20.4%
TOTAL	592.6	592.1	-0.1%	902.7	788.4	-12.7%

Source: Company data

## IMPROVED RESILIENCE PUT TO THE TEST

For the full year, we bank on a 5.8% decline in sales to €2,506.8m. The incorporation of the Ideal holding has a positive impact on sales of approximately €140m as the Ideal Alambre and Prodac joint-ventures have so far been consolidated using the equity method.

Wire rod prices dropped substantially in Q4 and have continued to fall so far this year, resulting in a negative impact in the 1H09 results. For the full year, we currently bank on a 32.9% decline in recurring EBIT to €197.3m. This corresponds to a margin of 7.9%, down from 11.1% last year but in-line with the long-term guidance (range of 7% to 9%). We see recurring EBIT in the first half at €102.6m, down 37% y/y.

Investors should further note that due to the incorporation of the Ideal holding, the result from joint ventures and associates will decrease while minority interests will go up. We see the net result for the first half at €55.6m, down by 56% y/y.

## KEY FIGURES

€ m	1Q08	2Q08	1H08	2H08	FY08	1Q09	2Q09E	1H09E	2H09E	FY09E
EMEA	290.3	321.8	612.1	555.7	1,167.8	210.3	246.9	457.2	432.2	889.5
North America	134.1	154.9	289.0	316.1	605.1	141.9	157.2	299.1	282.8	581.9
Latin America	37.7	46.3	84.0	92.6	176.6	80.6	93.6	174.2	164.7	338.9
Asia Pacific	130.5	187.5	318.0	394.9	712.9	159.3	198.8	358.1	338.5	696.6
Total sales	592.6	710.5	1,303.1	1,359.3	2,662.4	592.1	696.5	1,288.6	1,218.2	2,506.8
<b>REBIT</b>			<b>162.9</b>	<b>131.4</b>	<b>294.2</b>			<b>102.6</b>	<b>94.7</b>	<b>197.3</b>
<b>REBIT margin %</b>			<b>12.5%</b>	<b>9.7%</b>	<b>11.1%</b>			<b>8.0%</b>	<b>7.8%</b>	<b>7.9%</b>
Result from operations			145.3	65.2	210.5			87.6	79.7	167.3
Interest income & expenses			-22.4	-26.9	-49.3			-25.9	-23.9	-49.9
Income taxes			-25.5	0.0	-25.5			-15.4	-10.4	-25.8
Result after taxes			97.4	38.2	135.7			46.2	45.4	91.6
Joint ventures and associates			35.7	20.4	56.1			20.9	17.1	38.0
Minority interests			-7.1	-10.6	-17.7			-11.6	-9.5	-21.0
<b>Consolidated net result</b>			<b>126.0</b>	<b>48.0</b>	<b>174.1</b>			<b>55.6</b>	<b>53.0</b>	<b>108.6</b>

Source: Company data, KBC Securities

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## FINANCIAL DATA

Income statement (€m)	2008	2009E	2010E	2011E	2012E
Sales	2,662.4	2,506.8	2,627.9	2,752.3	2,882.7
Gross profit	601.8	456.8	489.1	522.5	553.0
EBIT	210.5	167.3	185.6	204.5	220.1
Pre-tax earnings	161.2	117.4	144.1	170.4	196.8
Net earnings	174.1	108.6	126.6	141.0	154.3
EBITDA	412.2	332.3	357.2	379.6	398.6
REBITDA	495.9	362.3	372.2	394.6	413.6
REBITA	294.2	197.3	200.6	219.5	235.1
Balance sheet (€m)	2008	2009E	2010E	2011E	2012E
Intangible assets	111.5	111.5	111.5	111.5	111.5
Tangible assets	1,070.7	1,080.7	1,059.1	1,034.0	1,005.5
Financial assets	199.9	199.9	199.9	199.9	199.9
Net other assets & liabilities	-6.2	-6.2	-6.2	-6.2	-6.2
Net working capital	792.9	671.4	703.8	737.1	772.1
Net debt	672.9	550.2	467.0	364.0	243.3
Provisions	323.4	323.4	323.4	323.4	323.4
Minorities	41.8	41.8	41.8	41.8	41.8
Equity	1,130.6	1,141.8	1,235.9	1,347.1	1,474.2
Capital employed	1,848.7	1,737.2	1,748.0	1,756.3	1,762.7
TOTAL ASSETS	2,667.2	2,713.4	2,773.8	2,851.8	2,946.6
Cash flow statement (€m)	2008	2009E	2010E	2011E	2012E
Cash flow from operations	221.1	353.1	288.6	308.3	326.1
Net capital expenditure	-238.6	-175.0	-150.0	-150.0	-150.0
Free cash-flow	-17.5	178.1	138.6	158.3	176.1
Acquisitions / disposals	-55.9	0.0	0.0	0.0	0.0
Dividend payments	-62.2	-55.4	-55.4	-55.4	-55.4
Shares issues	-19.7	0.0	0.0	0.0	0.0
New borrowings / reimbursements	215.8	-50.0	-50.0	-50.0	-50.0
Other	-15.3	0.0	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	45.1	72.7	33.2	52.9	70.7
Performance criteria	2008	2009E	2010E	2011E	2012E
Sales growth	22.5%	-5.8%	4.8%	4.7%	4.7%
Gross margin	22.6%	18.2%	18.6%	19.0%	19.2%
REBITDA margin	18.6%	14.5%	14.2%	14.3%	14.3%
REBITA margin	11.1%	7.9%	7.6%	8.0%	8.2%
EBIT margin	7.9%	6.7%	7.1%	7.4%	7.6%
Net debt / Equity + Minorities	57.4%	46.5%	36.5%	26.2%	16.0%
Net debt / EBITDA	1.63	1.66	1.31	0.96	0.61
EBITDA / net interest	8.37	6.66	8.61	11.12	17.16
Pay-out ratio	31.8%	51.0%	43.8%	39.3%	38.5%
= Return on Equity (avg)	15.6%	9.6%	10.6%	10.9%	10.9%
Return on Capital Employed (avg)	10.4%	7.7%	8.5%	9.0%	9.4%
Per share data (€)	2008	2009E	2010E	2011E	2012E
weighted average # shares, diluted	19,796,210	19,861,194	19,861,194	19,861,194	19,861,194
Basic EPS	8.83	5.49	6.40	7.13	7.80
Diluted EPS	8.79	5.47	6.37	7.10	7.77
Diluted, adjusted EPS	12.02	6.51	6.88	7.59	8.25
Net book value / share	57.15	57.72	62.47	68.09	74.52
Free cash flow / share	-0.89	9.00	7.01	8.00	8.90
Dividend (€)	2.80	2.80	2.80	2.80	3.00
Valuation data	2008	2009E	2010E	2011E	2012E
Reference share price (€)	88.25	82.36	82.36	82.36	82.36
Reference market capitalisation (€)	1,745.9	1,629.4	1,629.4	1,629.4	1,629.4
Enterprise value (€m)	2,476.7	2,235.4	2,152.2	2,049.3	1,928.6
P/E	7.3	12.6	12.0	10.9	10.0
EV/sales	0.9	0.9	0.8	0.7	0.7
EV/EBITDA	6.0	6.7	6.0	5.4	4.8
EV/Capital employed	1.3	1.3	1.2	1.2	1.1
P/ NBV	1.5	1.4	1.3	1.2	1.1
Free cash flow yield	-1.0%	10.9%	8.5%	9.7%	10.8%
Dividend yield	3.2%	3.4%	3.4%	3.4%	3.6%

Source: KBC Securities

\*Historic valuation data are based on historic prices

24 July 2009

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BUY	Expected total return (including dividends) of 10% or more over a 6-month period
ACCUMULATE	Expected total return (including dividends) between 0% and 15% over a 6-month period
HOLD	Expected total return (including dividends) between -5% and 5% over a 6-month period
REDUCE	Expected total return (including dividends) between -15% 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	29.00%	0.00%
ACCUMULATE	43.00%	0.00%
HOLD	25.20%	0.00%
REDUCE	2.80%	0.00%
SELL	0.00%	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
11-MAY-09	Accumulate	€ 80.00
11-FEB-09	Buy	€ 70.00
05-NOV-08	Buy	€ 105.00
01-AUG-08	Buy	€ 125.00

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