

25 February 2010

BEKAERT

Earnings momentum picking up

ENGINEERING & MACHINERY
BELGIUM

CURRENT PRICE €108.95
TARGET PRICE €120.00

ACCUMULATE
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	4%	5%	183%
Rel. BEL20	2%	5%	92%
12m Hi/Lo	€ 117.30/37.88		
Bloomberg	BEKB BB		
Reuters	BEKB.BR		
Market Cap	€ 2,155m		
Next corporate event			
Results FY09: 26 February 2010			
www.bekaert.com			

FY/e 31.12	2008	2009E	2010E	2011E
Sales (€ m)	2,662.4	2,420.3	2,537.1	2,657.0
REBITDA (€ m)	495.9	356.1	379.1	399.4
Net earnings (€ m)	174.1	117.5	136.3	150.0
Diluted adj. EPS (€)	12.02	6.46	7.39	8.06
Dividend (€)	2.80	2.80	2.80	2.80
P/E	7.34	16.87	14.75	13.52
EV/REBITDA	4.99	7.65	6.95	6.32
Free cash flow yield	-1.0%	10.4%	6.7%	7.6%
Dividend yield	3.2%	2.6%	2.6%	2.6%

Source: KBC Securities

Friday, before market, Bekaert will report its FY09 results. The trading environment in EMEA and North America was extremely challenging last year, but Bekaert was saved by its activities in emerging markets and China in particular. Going forward, earnings momentum for the company is expected to pick-up on continued strong performances in emerging markets with recovery potential in EMEA and North America.

FOCUS ON EMERGING MARKETS PAYS OFF

- Revenues and profit were dented by the steep and rapid drop in steel-based raw material prices. Bekaert estimates the negative impact in 1H at around €40m. With raw material prices stabilising, a similar negative impact on margins from lower raw material prices in 2H is highly unlikely.
- We expect the company to have realised a recurring EBIT of €105.3m in 2H (margin of 8.6%), up from €85.8m in 1H (margin of 7.2%). This brings us to our estimate for the full year of €191.1m, which corresponds to a recurring EBIT margin of 7.9%.
- The net result is expected to recover from €44.3m in 1H to €73.2m in 2H, bringing our estimate for the FY net result to €117.5m, slightly below the consensus of €124m. Looking forward, we see supportive earnings momentum on continued growth in emerging markets combined with recovery potential in the mature markets. Hence, the risk to our scenario (2010+) looks to be on the upside.
- While the growth markets of CEE, Latin America and Asia Pacific accounted for only 35% of Bekaert's combined sales in 2002, they now account for over 70%. Bekaert's resilience last year proved that this strategy has delivered.

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EARNINGS PREVIEW

Consolidated 9M09 sales fell by 11.2%. In organic terms sales declined by 21.7% due primarily to weak market demand in EMEA and North America. This was partially offset by the integration of the former joint ventures in Peru and Ecuador, adding 5.7%, as well as favourable currency movements, which added 4.9%. At the publication of the 3Q trading update, Bekaert expected to maintain high sales volumes in 4Q, driven in particular by solid market demand in emerging markets.

Our scenario sees fourth quarter consolidated sales of € 601.2m, down by 2.2% y/y. For the full year, we bank on revenues of € 2,420m, down by 9.1% y/y, with EMEA, North America, Latin America and Asia Pacific contributing respectively € 799.9m (-31.5%), € 475.0m (-21.5%), € 324.9m (+84%) and € 820.4m (+15.1%).

Revenues and profit were dented by the steep and rapid drop in steel-based raw material prices. Bekaert estimates the negative impact in 1H at around € 40m. With raw material prices stabilising, a similar negative impact on margins from lower raw material prices in H2 is highly unlikely. We expect the company to realise a recurring EBIT of € 105.3m in 2H (margin of 8.6%), up from € 85.8m in 1H (margin of 7.2%). This brings us to our estimate for the full year of € 191.1m, which corresponds to a recurring EBIT margin of 7.9%, in-line with the company's long-term guidance for margins in the 7 to 9% range.

After taxes of € 24.4m, the contribution of joint ventures and associates of € 35.0m and minority interests of € 17.5m), we predict a net result of € 117.5m. After a net result in H1 of € 44.3m, this implies an 2H recovery to € 73.2m.

KEY FIGURES

	FY08	1Q09	2Q09	1H09	3Q09	4Q09E	2H09E	FY09E	CSS
EMEA	1,167.8	210.3	199.7	410.0	197.8	192.1	389.9	799.9	
North America	605.1	141.9	121.1	263.0	106.1	105.9	212.0	475.0	
Latin America	176.6	80.6	79.4	160.0	87.4	77.5	164.9	324.9	
Asia Pacific	712.9	159.3	207.7	367.0	227.8	225.6	453.4	820.4	
Total sales	2,662.4	592.1	607.9	1,200.0	619.1	601.2	1,220.3	2,420.3	2,437
REBIT	294.2			85.8			105.3	191.1	211
REBIT margin %	11.1%			7.2%			8.6%	7.9%	8.7%
Result from operations	210.5			78.8			97.3	176.1	194
Interest income & expenses	-49.3			-30.5			-21.2	-51.7	-57
Income taxes	-25.5			-13.3			-11.1	-24.4	-32
Result from ordinary activities after taxes	135.7			35.1			65.0	100.0	105
Joint ventures and associates	56.1			17.4			17.6	35.0	37
Minority interests	-17.7			-8.2			-9.3	-17.5	-19
Consolidated net group result	174.1			44.3			73.2	117.5	124

Source: Company data, KBC Securities estimates

25 February 2010

FINANCIAL DATA

Income statement (€m)	2008	2009E	2010E	2011E	2012E	2013E
Sales	2,662.4	2,420.3	2,537.1	2,657.0	2,782.6	2,914.4
Gross profit	601.8	455.7	485.5	516.3	546.5	577.7
EBIT	210.5	176.1	192.5	209.3	225.1	241.1
Pre-tax earnings	161.2	124.4	154.9	179.7	206.8	233.5
Net earnings	174.1	117.5	136.3	150.0	164.1	182.2
EBITDA	412.2	341.1	364.1	384.4	403.6	423.2
REBITDA	495.9	356.1	379.1	399.4	418.6	438.2
REBITA	294.2	191.1	207.5	224.3	240.1	256.1
Balance sheet (€m)	2008	2009E	2010E	2011E	2012E	2013E
Intangible assets	111.5	111.5	111.5	111.5	111.5	111.5
Tangible assets	1,070.7	1,065.7	1,044.1	1,019.0	990.5	958.4
Financial assets	199.9	199.9	199.9	199.9	199.9	199.9
Net other assets & liabilities	-6.2	-6.2	-6.2	-6.2	-6.2	-6.2
Net working capital	792.9	648.2	679.5	711.6	745.2	780.5
Net debt	672.9	503.6	413.5	305.2	178.7	33.5
Provisions	323.4	323.4	323.4	323.4	323.4	323.4
Minorities	41.8	41.8	41.8	41.8	41.8	41.8
Equity	1,130.6	1,150.3	1,249.8	1,365.0	1,496.6	1,645.5
Capital employed	1,848.7	1,699.0	1,708.7	1,715.7	1,720.9	1,724.1
TOTAL ASSETS	2,667.2	2,710.1	2,775.6	2,857.2	2,955.8	3,071.9
Cash flow statement (€m)	2008	2009E	2010E	2011E	2012E	2013E
Cash flow from operations	221.1	384.7	295.5	313.7	331.8	354.5
Net capital expenditure	-238.6	-160.0	-150.0	-150.0	-150.0	-150.0
Free cash-flow	-17.5	224.7	145.5	163.7	181.8	204.5
Acquisitions / disposals	-55.9	0.0	0.0	0.0	0.0	0.0
Dividend payments	-62.2	-55.4	-55.4	-55.4	-55.4	-59.4
Shares issues	-19.7	0.0	0.0	0.0	0.0	0.0
New borrowings / reimbursements	215.8	-50.0	-50.0	-50.0	-50.0	-50.0
Other	-15.3	0.0	0.0	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	45.1	119.3	40.1	58.3	76.4	95.2
Performance criteria	2008	2009E	2010E	2011E	2012E	2013E
Sales growth	22.5%	-9.1%	4.8%	4.7%	4.7%	4.7%
Gross margin	22.6%	18.8%	19.1%	19.4%	19.6%	19.8%
REBITDA margin	18.6%	14.7%	14.9%	15.0%	15.0%	15.0%
REBITA margin	11.1%	7.9%	8.2%	8.4%	8.6%	8.8%
EBIT margin	7.9%	7.3%	7.6%	7.9%	8.1%	8.3%
Net debt / Equity + Minorities	57.4%	42.2%	32.0%	21.7%	11.6%	2.0%
Net debt / EBITDA	1.63	1.48	1.14	0.79	0.44	0.08
EBITDA / net interest	8.37	6.60	9.68	12.95	22.05	56.15
Pay-out ratio	31.8%	47.1%	40.6%	36.9%	36.2%	35.3%
= Return on Equity (avg)	15.6%	10.3%	11.4%	11.5%	11.5%	11.6%
Return on Capital Employed (avg)	10.4%	8.2%	9.0%	9.5%	9.8%	10.5%
Per share data (€)	2008	2009E	2010E	2011E	2012E	2013E
weighted average # shares, diluted	19,796,210	19,861,194	19,861,194	19,861,194	19,861,194	19,861,194
Basic EPS	8.83	5.94	6.89	7.58	8.29	9.21
Diluted EPS	8.79	5.92	6.86	7.55	8.26	9.17
Diluted, adjusted EPS	12.02	6.46	7.39	8.06	8.75	9.67
Net book value / share	57.15	58.14	63.17	68.99	75.65	83.18
Free cash flow / share	-0.89	11.36	7.35	8.28	9.19	10.34
Dividend (€)	2.80	2.80	2.80	2.80	3.00	3.25
Valuation data	2008	2009E	2010E	2011E	2012E	2013E
Reference share price (€)	88.25	108.95	108.95	108.95	108.95	108.95
Reference market capitalisation (€)	1,745.9	2,155.4	2,155.4	2,155.4	2,155.4	2,155.4
Enterprise value (€m)	2,476.7	2,724.2	2,634.1	2,525.8	2,399.4	2,254.2
P/E	7.3	16.9	14.7	13.5	12.4	11.3
EV/sales	0.9	1.1	1.0	1.0	0.9	0.8
EV/EBITDA	6.0	8.0	7.2	6.6	5.9	5.3
EV/Capital employed	1.3	1.6	1.5	1.5	1.4	1.3
P/ NBV	1.5	1.9	1.7	1.6	1.4	1.3
Free cash flow yield	-1.0%	10.4%	6.7%	7.6%	8.4%	9.5%
Dividend yield	3.2%	2.6%	2.6%	2.6%	2.8%	3.0%

Source: KBC Securities

*Historic valuation data are based on historic prices

25 February 2010

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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	33.60%	0.00%
ACCUMULATE	41.40%	0.00%
HOLD	22.40%	0.00%
REDUCE	2.60%	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
01-FEB-10	Accumulate	€ 120.00
13-NOV-09	Accumulate	€ 100.00
04-AUG-09	Hold	€ 90.00
11-MAY-09	Accumulate	€ 80.00

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