

2 March 2010

BEKAERT

Strong results driven by Asia Pacific

ENGINEERING & MACHINERY
BELGIUM

CURRENT PRICE €120.00
TARGET PRICE €135.00

BUY
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	11%	14%	210%
Rel. BEL20	11%	11%	106%
12m Hi/Lo	€ 120.00/37.88		
Bloomberg	BEKB BB		
Reuters	BEKB.BR		
Market Cap	€ 2,380m		
Next corporate event			
Trading update 1Q10: 12 May 2010			
www.bekaert.com			

FY/e 31.12	2009	2010E	2011E	2012E
Sales (€ m)	2,437.3	2,502.7	2,612.9	2,703.0
REBITDA (€ m)	410.1	449.1	468.5	487.3
Net earnings (€ m)	151.8	171.0	184.0	202.5
Diluted adj. EPS (€)	8.55	9.49	10.13	11.06
Dividend (€)	2.94	3.00	3.00	3.00
P/E	8.81	12.65	11.84	10.85
EV/REBITDA	4.64	6.22	5.71	5.17
Free cash flow yield	24.4%	5.9%	7.3%	9.0%
Dividend yield	3.9%	2.5%	2.5%	2.5%

Source: KBC Securities

Bekaert reported very strong results, outperforming on market expectations. The numbers are mainly driven by another strong performance at Asia Pacific but we should not overlook the first signs of recovery in EMEA and Latin America.

FIRST SIGNS OF RECOVERY IN EMEA

- **Beating expectations.** Bekaert reported a recurring EBIT of €256.8m, comfortably beating market expectations. Recurring EBIT margin firmed from 7.2% in the first half (which was negatively impacted by the sharp drop in raw material prices) to an impressive 13.8% in the second half. While results were driven by Bekaert's activities in Asia Pacific, we welcome the first signs of improved market demand in EMEA and Latin America.
- **Saved by emerging market exposure.** While emerging markets accounted for only 35% of Bekaert's combined sales in 2002, they now account for over 70%. With Asia Pacific and Latin America last year contributing respectively €349m and €36m to EBITDA vs. only €47m and €13m for EMEA and North America, this strategy is clearly paying off.
- **Strong cash generation.** Net financial debt dropped by 37% from €627.5m at year-start to €395.4m at year-end, mainly as a result of the strong reduction in working capital. Bekaert proposes a 5% increase in the gross dividend to €2.94 per share.
- **Capturing growth opportunities.** Including the Bridgestone transaction, Bekaert expects to increase its tire cord capacity from 625kt at present to approximately 700kt at year-end, of which 400kt in China.
- **Solid earnings momentum.** Looking forward, we see supportive earnings momentum on continued growth in emerging markets combined with recovery potential in the mature markets. Based on our revised estimates, Bekaert is currently trading at 6.2x and 5.7x EV/EBITDA multiples for 2010 and 2011 respectively.

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SOLID FY09 RESULTS

Bekaert reported solid FY09 results, beating our estimates and the consensus. Consolidated sales are down by 8.5% y/y to €2,437.3m (KBC: €2,420.3m). Weak market demand, primarily during 1H09, and lower raw material prices drove an organic sales decline of 16.9%. This was partially offset by the integration of Prodac (Peru) and Ideal Alambrec (Ecuador) in Latin America, which added 5.9%, as well as the positive effect of currency movements adding 2.5%. Combined sales, including joint ventures and associates, fell by 16.6% (organic decline by 17.5%, partially offset by currency movements adding 0.9%) to €3,343m.

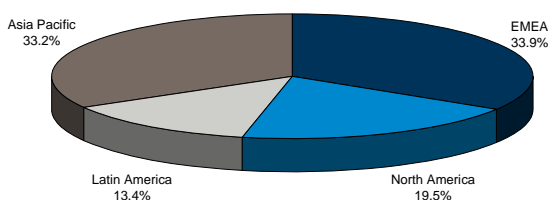
Looking to the 4Q consolidated sales, North and Latin America performed roughly in-line with expectations (€104m and €80m vs. €105.9m and €77.5m expected), Asia Pacific was slightly below (€215m vs. forecast for €225.6m) but EMEA was much stronger (€220m vs. €192.1m expected).

KEY FIGURES (in €m)

	FY08	1Q09	2Q09	1H09	3Q09	4Q09	2H09	FY09	FY10E
EMEA	1,167.8	210	200	410	198	220	417	827	876.6
North America	605.1	142	122	264	106	104	210	474	493.0
Latin America	176.6	81	79	160	87	80	167	327	259.4
Asia Pacific	712.9	159	207	366	228	215	443	809	873.7
Total sales	2,662.4	592.1	607.9	1,200.0	619.0	618.3	1,237.3	2,437.3	2,502.7
REBIT	294.2			85.8			170.9	256.8	284.1
REBIT margin %	11.1%			7.2%			13.8%	10.5%	11.4%
Result from operations	210.5			78.8			153.3	232.2	259.1
Interest income & expenses	-49.3			-30.5			-35.1	-65.6	-46.1
Income taxes	-25.5			-13.3			-20.6	-33.9	-59.5
Result from ordinary activities	135.7			35.1			97.6	132.7	153.5
Joint ventures and associates	56.1			17.4			20.3	37.8	38.5
Minority interests	-17.7			-8.2			-10.5	-18.6	-21.0
Consolidated net group result	174.1			44.3			107.5	151.8	171.0

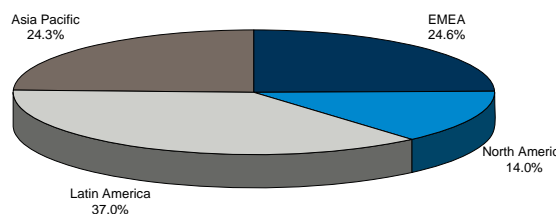
Source: company data, KBC Securities

CONSOLIDATED SALES 2009



Source: KBC Securities

COMBINED SALES 2009



Source: KBC Securities

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EMEA: FIRST SIGNS OF RECOVERY

Consolidated sales in EMEA declined from €1,168m in 2008 to €827m. The first half of the year was characterized by an overall drop in demand, especially in the automotive and construction markets. EBITDA and recurring EBIT in the first half were respectively zero (0% margin) and €-21m (-5.0% margin), figures that also reflect the impact of declining raw material prices on margins.

Bekaert actively countered the negative margin impact from lower sales by driving up volumes of basic products in order to increase capacity utilization. In addition, raw material prices stabilised and market demand recovered slightly. The combination of these elements had a positive impact on margins with EBITDA and recurring EBIT in the second half recovering to respectively €47m (11.2% margin) and €22m (€5.5% margin).

NORTH AMERICA: CONTINUED WEAK DEMAND

In North America, Bekaert saw consolidated sales declining by 21.7% to €474m as a result of raw material price decreases and declining volumes in line with low economic activity. The impact was especially felt in platforms serving the automotive and construction markets. Similar measures to those implemented in EMEA were taken in order to drive up capacity utilization, but they had little effect on the margin evolution. EBITDA and recurring EBIT for the full year were respectively a meagre €13m (2.7% margin) and €-5m.

LATIN AMERICA: RECOVERY IN DEMAND

Consolidated sales for Latin America increased last year from €176m to €327m as a result of the integration of Ideal Alambrec (Ecuador) and Prodac (Peru). Also here, profitability in the first half was impacted by declining volumes and wire rod prices fluctuations while the second half saw an improvement in market demand. EBITDA and recurring EBIT were respectively €12m (7.8% margin) and €9m (5.3%) in the first half recovering to €24m (14.3% margin) and €19m (11.4% margin) in the second half.

After a severe slowdown in the first half, Bekaert's joint ventures in Brazil saw a gradual recovery in demand from the second half onwards.

ASIA PACIFIC: CONTINUED STRONG PERFORMANCE

Consolidated sales in Asia Pacific increased by 13.5% to €809m on strong volumes (20%+), partially offset by lower prices due to much cheaper wire rod. After a very weak January, business took off in China and achieved record sales in the second half. EBITDA and recurring EBIT for the year were an impressive €349m (43.2% margin) and €288m (35.6% margin).

IMPROVING PROFITABILITY IN SECOND HALF

Recurring EBIT was an impressive €256.8m, blowing away our €191.1m estimate and the CSS of €211m. Recurring EBIT in the second half amounted to €171m (margin of 13.8%), up from €86m (margin of 7.2%) in the first half, when margins were dented by the sharp decline in raw material prices of approximately €40m.

The operating result, share in the result of joint ventures and associates and net result group share amounted to respectively €232.2m, €37.8m and €151.8m.

HEALTHY BALANCE SHEET

Net financial debt (Bekaert def.) decreased by 37% from €627.5m at year-start to €395.4m at year-end, mainly as a result of the strong reduction in working capital. CAPEX was €158.4m in 2009 and expected to increase in 2010 to between €175 and €200m. Bekaert proposes a 5% increase in the gross dividend to €2.94 per share.

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Capacity increases in China, India and Russia and the planned integration of the former Bridgestone tire cord plans will raise Bekaert's tire cord capacity from 625kt at present (of which 350kt in China) to an estimated 700kt at year-end (of which approximately 400kt in China).

CONTINUED GROWTH IN EMERGING MARKETS WITH RECOVERY POTENTIAL IN MATURE MARKETS

On the outlook, Bekaert said it remains confident of the opportunities in emerging markets and of being able to meet continued strong demand with additional investments. The group is maintaining a cautious stance in the mature markets while remaining poised for an upturn.

We have revised our scenario, triggering a substantial increase in our adjusted EPS estimates for both 2010 and 2011 from respectively €7.39 and €8.06 to €9.49 and €10.13.

Our scenario banks on a 2.7% increase in revenues to €2,502.7m for 2010. Note the anticipated decline in revenues for Latin America from €327m to €259m largely due to events in Venezuela, where hyperinflation has prompted Bekaert to start applying the market exchange rate instead of the official exchange rate.

We also need to take into account a higher tax rate now that tax holidays are due to expire. We have assumed a tax rate of 25% in 2010 from 20.4% last year. All in all, we see an increase in recurring EBIT from €256.8m to €284.1m (margin of 11.4%) and a net result of €171.0m.

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FINANCIAL DATA

Income statement (€m)	2008	2009	2010E	2011E	2012E	2013E
Sales	2,662.4	2,437.3	2,502.7	2,612.9	2,703.0	2,782.8
Gross profit	601.8	509.6	544.0	572.6	598.3	614.1
EBIT	210.5	232.2	259.1	275.2	290.7	297.4
Pre-tax earnings	161.2	166.6	213.0	234.8	265.8	289.0
Net earnings	174.1	151.8	171.0	184.0	202.5	218.3
EBITDA	412.2	385.5	424.1	443.5	462.3	472.5
REBITDA	495.9	410.1	449.1	468.5	487.3	497.5
REBITA	294.2	256.8	284.1	300.2	315.7	322.4
Balance sheet (€m)	2008	2009	2010E	2011E	2012E	2013E
Intangible assets	111.5	105.0	105.0	105.0	105.0	105.0
Tangible assets	1,070.7	1,127.7	1,150.2	1,141.9	1,120.2	1,095.1
Financial assets	199.9	218.6	218.6	218.6	218.6	218.6
Net other assets & liabilities	-6.2	27.9	27.9	27.9	27.9	27.9
Net working capital	792.9	640.2	657.4	686.3	710.0	730.9
Net debt	672.9	473.7	460.5	345.2	190.7	12.5
Provisions	323.4	272.1	272.1	272.1	272.1	272.1
Minorities	41.8	88.7	88.7	88.7	88.7	88.7
Equity	1,130.6	1,284.8	1,337.7	1,473.6	1,630.2	1,804.2
Capital employed	1,848.7	1,685.7	1,725.4	1,746.0	1,748.0	1,743.9
TOTAL ASSETS	2,667.2	2,829.5	2,839.0	2,936.1	3,051.8	3,183.9
Cash flow statement (€m)	2008	2009	2010E	2011E	2012E	2013E
Cash flow from operations	221.1	522.7	329.0	334.8	364.0	387.7
Net capital expenditure	-238.6	-158.4	-187.5	-160.0	-150.0	-150.0
Free cash-flow	-17.5	364.3	141.5	174.8	214.0	237.7
Acquisitions / disposals	-55.9	-12.0	-70.0	0.0	0.0	0.0
Dividend payments	-62.2	-50.6	-58.3	-59.5	-59.5	-59.5
Shares issues	-19.7	1.8	0.0	0.0	0.0	0.0
New borrowings / reimbursements	215.8	-41.7	-50.0	-50.0	-50.0	-50.0
Other	-15.3	-104.2	0.0	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	45.1	157.5	-36.8	65.3	104.5	128.2
Performance criteria	2008	2009	2010E	2011E	2012E	2013E
Sales growth	22.5%	-8.5%	2.7%	4.4%	3.4%	3.0%
Gross margin	22.6%	20.9%	21.7%	21.9%	22.1%	22.1%
REBITDA margin	18.6%	16.8%	17.9%	17.9%	18.0%	17.9%
REBITA margin	11.1%	10.5%	11.4%	11.5%	11.7%	11.6%
EBIT margin	7.9%	9.5%	10.4%	10.5%	10.8%	10.7%
Net debt / Equity + Minorities	57.4%	34.5%	32.3%	22.1%	11.1%	0.7%
Net debt / EBITDA	1.63	1.23	1.09	0.78	0.41	0.03
EBITDA / net interest	8.37	5.87	9.19	10.99	18.56	56.27
Pay-out ratio	31.8%	38.4%	34.8%	32.3%	29.4%	29.5%
= Return on Equity (avg)	15.6%	12.6%	13.0%	13.1%	13.0%	12.7%
Return on Capital Employed (avg)	10.4%	10.5%	11.4%	11.7%	12.1%	12.4%
Per share data (€)	2008	2009	2010E	2011E	2012E	2013E
weighted average # shares, diluted	19,796,210	19,785,310	19,785,310	19,785,310	19,785,310	19,785,310
Basic EPS	8.83	7.69	8.66	9.32	10.26	11.06
Diluted EPS	8.79	7.67	8.64	9.30	10.23	11.03
Diluted, adjusted EPS	12.02	8.55	9.49	10.13	11.06	11.85
Net book value / share	57.15	64.78	67.44	74.30	82.19	90.96
Free cash flow / share	-0.89	18.46	7.17	8.86	10.84	12.04
Dividend (€)	2.80	2.94	3.00	3.00	3.00	3.25
Valuation data	2008	2009	2010E	2011E	2012E	2013E
Reference share price (€)	88.25	75.32	120.00	120.00	120.00	120.00
Reference market capitalisation (€)	1,745.9	1,494.0	2,380.1	2,380.1	2,380.1	2,380.1
Enterprise value (€m)	2,476.7	1,903.1	2,791.8	2,676.4	2,521.9	2,343.7
P/E	7.3	8.8	12.6	11.8	10.9	10.1
EV/sales	0.9	0.8	1.1	1.0	0.9	0.8
EV/EBITDA	6.0	4.9	6.6	6.0	5.5	5.0
EV/Capital employed	1.3	1.1	1.6	1.5	1.4	1.3
P/ NBV	1.5	1.2	1.8	1.6	1.5	1.3
Free cash flow yield	-1.0%	24.4%	5.9%	7.3%	9.0%	10.0%
Dividend yield	3.2%	3.9%	2.5%	2.5%	2.5%	2.7%

Source: KBC Securities

*Historic valuation data are based on historic prices

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	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 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	33.00%	0.00%
ACCUMULATE	41.70%	0.00%
HOLD	23.50%	0.00%
REDUCE	1.70%	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
26-FEB-10	Buy	€ 135.00
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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