

27 July 2010

## BEKAERT

### High expectations

GENERAL INDUSTRIES  
BELGIUM

CURRENT PRICE €151.00  
TARGET PRICE €160.00

**BUY**  
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	8%	8%	80%
Rel. BEL20	5%	14%	52%
12m Hi/Lo	€ 151.00/82.40		
Bloomberg	BEKB.BB		
Reuters	BEKB.BR		
Market Cap	€ 2,970m		
Next corporate event			
Results 1H10: 30 July 2010			
www.bekaert.com			

FY/e 31.12	2009	2010E	2011E	2012E
Sales (€m)	2,437.3	2,776.5	2,890.1	2,980.3
REBITDA (€m)	410.1	519.4	527.7	544.7
Net earnings (€m)	151.8	221.3	226.4	247.4
Diluted adj. EPS (€)	8.55	12.04	12.29	13.33
Dividend (€)	2.94	3.00	3.10	3.20
P/E	8.81	12.54	12.29	11.32
EV/REBITDA	4.64	6.64	6.21	5.64
Free cash flow yield	24.4%	3.8%	7.7%	8.8%
Dividend yield	3.9%	2.0%	2.1%	2.1%

Source: KBC Securities

**Bekaert will report 1H10 results on Friday 30 July, before market opens. We expect the company to report blow away results driven by continued strong growth in Asia Pacific, China in particular, combined with recovery in mature markets.**

### REBIT TO MORE THAN DOUBLE Y/Y

- **Xingda issues positive profit warning.** Key competitor Xingda has issued a positive profit warning for the 1H10, guiding for revenue growth of at least 60% y/y and growth in net earning of at least 130%. This further underpins the case for Bekaert's solid earnings momentum.
- **Strong revenue growth.** We see a 17.3% increase y/y in H1 sales to € 1,407m. Strong growth is expected in Asia Pacific (+37.8%) and EMEA (+20.4%). Sales in North America are expected to have remained more steady (+2.9%) while Latin American sales have been impacted negatively by Venezuela (-14.1%).
- **REBIT to more than double.** The first half results should be further helped by a favourable comparison with 1H09, when sharp declines in raw material price put a € 40m dent in earnings. Recurring EBIT for the first half is expected to more than double vs. the same period last year to € 184.4m (margin of 13.1%), while the net result is expected to land at € 113.6m (€ 44.3m in 1H09). Despite these high expectations, we might still see Bekaert spring a positive surprise.
- **Outlook.** Bekaert traditionally refrains from giving quantitative guidance. In the first quarter trading update, the company talked of a "continued strong performance in the second quarter" while remaining "cautious about market developments for the second half".
- **Capturing growth opportunities.** Bekaert will further increase its steel cord capacity this year from 625kt, of which 350kt in China, to approximately 700kt, of which approximately 400kt in China.

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## REBIT EXPECTED TO MORE THAN DOUBLE Y/Y

Consolidated sales increased by 17.2% in the first quarter to €694m with strong volume growth driving organic sales growth of 23.9%, partially offset by adverse currency movements (Venezuela). For the second quarter, we bank on 17.3% y/y growth in consolidated sales to €713.2m. Strong y/y growth is seen in Asia Pacific (+26.9%) and EMEA (+24.9%). While sales in North America were flat in the first quarter, we expect high single-digit growth for the second quarter (+7.1%). Sales in Latin America are expected to decline by 11.4% y/y, negatively impacted by Venezuela.

### KEY FIGURES (in €m)

	1H09	2H09	FY09	1Q10	2Q10E	1H10E	2H10E	FY10E	FY11E
EMEA	410.0	417.0	827.0	244.0	249.5	493.5	474.1	967.6	996.6
North America	263.0	211.0	474.0	141.0	129.7	270.7	260.1	530.9	541.5
Latin America	160.0	167.0	327.0	67.0	70.4	137.4	129.4	266.8	280.1
Asia Pacific	367.0	442.0	809.0	242.0	263.6	505.6	505.6	1,011.3	1,071.9
Total sales	1,200.0	1,237.3	2,437.3	694.0	713.2	1,407.2	1,369.3	2,776.5	2,890.1
REBIT	85.8	170.9	256.8			184.37	170.01	354.4	359.4
REBIT margin %	7.2%	13.8%	10.5%			13.1%	12.4%	12.8%	12.4%
Result from operations	78.8	153.3	232.2			169.37	160.01	329.4	334.4
Interest income & expenses	-30.5	-35.1	-65.6			-23.36	-23.36	-46.7	-41.0
Income taxes	-13.3	-20.6	-33.9			-39.42	-34.41	-73.8	-79.6
Result from ordinary activities	35.1	97.6	132.7			106.6	102.23	208.8	213.8
Joint ventures and associates	17.4	20.3	37.8			20.62	19.04	39.7	40.5
Minority interests	-8.2	-10.5	-18.6			-13.59	-13.59	-27.2	-27.8
Consolidated net group result	44.3	107.5	151.8			113.62	107.67	221.3	226.4

Source: company data, KBC Securities

Recurring EBIT is expected to more than double to €184.4m (+115% y/y) on strong volume growth in Latin America combined with a recovery in mature markets, EMEA in particular. We should also take into account the favourable comparison with 1H09, when the results took a hit of approximately €40m due to the negative impact of sharp declines in raw material prices.

We should also integrate a higher tax rate as tax holidays are due to expire. Net result is expected to jump from €44.3m in the same period last year to €113.6m. Note that we see the risk as more on the upside.

## PROFIT WARNING FROM XINGDA UNDERLINES STRONG EARNINGS MOMENTUM

On 16 July, Chinese competitor Xingda issued a positive profit warning for the first half guiding for revenue growth exceeding 60% and net profit growth of over 130%. The strong growth in net earnings is driven by strong volume growth, an improvement in gross margins and the recognition of a capital gain.

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## FINANCIAL DATA

Income statement (€m)	2009	2010E	2011E	2012E	2013E	2014E
Sales	2,437.3	2,776.5	2,890.1	2,980.3	3,068.9	3,161.1
Gross profit	509.6	645.4	663.3	687.2	705.2	722.5
EBIT	232.2	329.4	334.4	348.0	356.0	362.8
Pre-tax earnings	166.6	282.7	293.4	328.4	357.7	364.0
Net earnings	151.8	221.3	226.4	247.4	267.4	272.3
EBITDA	385.5	494.4	502.7	519.7	531.1	541.4
REBITDA	410.1	519.4	527.7	544.7	556.1	566.4
REBITA	256.8	354.4	359.4	373.0	381.0	387.8
Balance sheet (€m)	2009	2010E	2011E	2012E	2013E	2014E
Intangible assets	105.0	105.0	105.0	105.0	105.0	105.0
Tangible assets	1,127.7	1,162.7	1,144.4	1,122.7	1,097.6	1,064.0
Financial assets	218.6	218.6	218.6	218.6	218.6	218.6
Net other assets & liabilities	27.9	27.9	27.9	27.9	27.9	27.9
Net working capital	640.2	729.3	759.1	782.8	806.1	830.3
Net debt	473.7	489.6	317.9	115.3	-111.5	-349.1
Provisions	272.1	272.1	272.1	272.1	272.1	272.1
Minorities	88.7	88.7	88.7	88.7	88.7	88.7
Equity	1,284.8	1,393.0	1,576.3	1,780.9	2,005.9	2,234.1
Capital employed	1,685.7	1,809.8	1,821.4	1,823.4	1,821.5	1,812.2
TOTAL ASSETS	2,829.5	2,922.1	3,066.9	3,230.6	3,414.6	3,602.1
Cash flow statement (€m)	2009	2010E	2011E	2012E	2013E	2014E
Cash flow from operations	522.7	312.4	381.3	414.1	440.2	448.0
Net capital expenditure	-158.4	-200.0	-150.0	-150.0	-150.0	-145.0
Free cash-flow	364.3	112.4	231.3	264.1	290.2	303.0
Acquisitions / disposals	-12.0	-70.0	0.0	0.0	0.0	0.0
Dividend payments	-50.6	-58.3	-59.5	-61.5	-63.5	-65.5
Shares issues	1.8	0.0	0.0	0.0	0.0	0.0
New borrowings / reimbursements	-41.7	-50.0	-50.0	-50.0	-50.0	-50.0
Other	-104.2	0.0	0.0	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	157.5	-65.9	121.8	152.6	176.8	187.6
Performance criteria	2009	2010E	2011E	2012E	2013E	2014E
Sales growth	-8.5%	13.9%	4.1%	3.1%	3.0%	3.0%
Gross margin	20.9%	23.2%	23.0%	23.1%	23.0%	22.9%
REBITDA margin	16.8%	18.7%	18.3%	18.3%	18.1%	17.9%
REBITA margin	10.5%	12.8%	12.4%	12.5%	12.4%	12.3%
EBIT margin	9.5%	11.9%	11.6%	11.7%	11.6%	11.5%
Net debt / Equity + Minorities	34.5%	33.0%	19.1%	6.2%	-5.3%	-15.0%
Net debt / EBITDA	1.23	0.99	0.63	0.22	-0.21	-0.64
EBITDA / net interest	5.87	10.58	12.27	26.39	-302.33	-442.56
Pay-out ratio	38.4%	26.9%	27.2%	25.7%	24.5%	24.8%
= Return on Equity (avg)	12.6%	16.5%	15.3%	14.7%	14.1%	12.8%
Return on Capital Employed (avg)	10.5%	14.3%	13.8%	14.1%	14.5%	14.8%
Per share data (€)	2009	2010E	2011E	2012E	2013E	2014E
weighted average # shares, diluted	19,785,310	19,785,310	19,785,310	19,785,310	19,785,310	19,785,310
Basic EPS	7.69	11.21	11.47	12.53	13.55	13.80
Diluted EPS	7.67	11.18	11.44	12.50	13.52	13.76
Diluted, adjusted EPS	8.55	12.04	12.29	13.33	14.35	14.60
Net book value / share	64.78	70.23	79.47	89.79	101.13	112.64
Free cash flow / share	18.46	5.69	11.72	13.38	14.70	15.35
Dividend (€)	2.94	3.00	3.10	3.20	3.30	3.40
Valuation data	2009	2010E	2011E	2012E	2013E	2014E
Reference share price (€)	75.32	151.00	151.00	151.00	151.00	151.00
Reference market capitalisation (€)	1,494.0	2,995.0	2,995.0	2,995.0	2,995.0	2,995.0
Enterprise value (€m)	1,903.1	3,446.6	3,274.8	3,072.2	2,845.5	2,607.9
P/E	8.8	12.5	12.3	11.3	10.5	10.3
EV/sales	0.8	1.2	1.1	1.0	0.9	0.8
EV/EBITDA	4.9	7.0	6.5	5.9	5.4	4.8
EV/Capital employed	1.1	1.9	1.8	1.7	1.6	1.4
P/ NBV	1.2	2.2	1.9	1.7	1.5	1.3
Free cash flow yield	24.4%	3.8%	7.7%	8.8%	9.7%	10.1%
Dividend yield	3.9%	2.0%	2.1%	2.1%	2.2%	2.3%

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	36.80%	0.00%
ACCUMULATE	40.40%	0.00%
HOLD	21.10%	0.00%
REDUCE	0.90%	0.00%
SELL	0.90%	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
20-JUL-10	Buy	€ 160.00
14-MAY-10	Buy	€ 155.00
12-MAY-10	Buy	€ 145.00
26-FEB-10	Buy	€ 135.00
01-FEB-10	Accumulate	€ 120.00
13-NOV-09	Accumulate	€ 100.00
04-AUG-09	Hold	€ 90.00

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