

2 August 2010

BEKAERT

BLOW-OUT H1 RESULTS

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE €166.90
TARGET PRICE €180.00

BUY
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	22%	23%	98%
Rel. BEL20	14%	25%	69%
12m Hi/Lo	€ 166.90/85.22		
Bloomberg	BEKB.BB		
Reuters	BEKB.BR		
Market Cap	€ 3,283m		
Next corporate event			
Trading update 3Q10: 10 November 2010			
www.bekaert.com			

FY/e 31.12	2009	2010E	2011E	2012E
Sales (€ m)	2,437.3	2,979.8	3,145.6	3,244.8
REBITDA (€ m)	410.1	645.7	650.3	635.6
Net earnings (€ m)	151.8	304.3	297.0	305.5
Diluted adj. EPS (€)	8.55	16.24	15.81	16.25
Dividend (€)	2.94	5.00	5.00	5.00
P/E	8.81	10.28	10.55	10.27
EV/REBITDA	4.64	5.85	5.50	5.26
Free cash flow yield	24.4%	3.8%	9.0%	9.9%
Dividend yield	3.9%	3.0%	3.0%	3.0%

Source: KBC Securities

Bekaert's first half results have far exceeded expectations, triggering a substantial upward revision of our and consensus expectations. We have raised our recurring EBIT and net result expectations by over 30% on the back of the impressive numbers, and raised our target price to €180 per share (€160). BUY rating maintained.

EBITDA MORE THAN DOUBLES Y/Y

- **Strong revenue growth.** Bekaert reported a 27.9% y/y increase in consolidated sales. Strong volume growth drove an organic sales growth of 29.2%. Sales in Asia Pacific increased by 51% y/y!
- **Consensus crushed.** Bekaert more than tripled its recurring EBIT to €262.0m or a margin of 17.1% and more than quadrupled its net group result to €181.0m. We were looking for a recurring EBIT of €184.4m and net group result of €113.6m. Consensus stood at respectively €185m and €115m. Note sharp declines in raw material prices put a €40m dent in recurring EBIT in the same period last year, while 1H10 saw a positive impact of about €20m.
- **Confidence in the future.** Although prudent in its outlook statement, Bekaert is confident in the near-term future (three years) allowing for an increase of its medium-term EBIT margin to "at least 10%" (which remains conservative in our view), the distribution of a €2 per share interim dividend in October and a three-for-one stock split in November.
- **Capturing growth opportunities.** Bekaert has increased its Chinese steel cord capacity from around 350kt p.a. at year start to (the year-end target of) around 400kt p.a. currently and will further expand in-line with market demand to around 425-435kt p.a. by year-end.
- **Numbers upped aggressively.** We have revised our numbers sharply upwards on the back of these fantastic results. Our EPS estimates for 2010 and 2011 are up by 35% and 29% to €16.23 and €15.87. Despite the strong share price reaction on Friday, Bekaert remains attractively valued.

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BLOW-OUT H1 RESULTS

Bekaert realised consolidated first-half sales of € 1,534.9m, up 27.9% y/y. We were looking for consolidated sales of € 1,407.2m while the consensus stood at € 1,408m. Strong volume growth drove organic sales growth of 29.2%. The acquisition of the two Bridgestone steel cord plants (effective 1 April) added 1.3%, while currency movements (mainly Venezuela) had a negative effect of 2.6%. Combined sales, including joint ventures and associates, increased by 30.8% y/y to € 2,113m with the currency effect turning positive (+3.9%) thanks to the strong Brazilian Real.

KEY FIGURES (in €m)

	1H09	2H09	FY09	1Q10	2Q10	1H10	2H10E	FY10E	FY11E
EMEA	410.0	417.0	827.0	244.0	282.0	526.0	516.0	1,042.0	1,073.3
North America	263.0	211.0	474.0	141.0	172.0	313.0	251.1	564.1	575.3
Latin America	160.0	167.0	327.0	67.0	77.0	144.0	137.6	281.6	295.7
Asia Pacific	367.0	442.0	809.0	242.0	310.0	552.0	540.2	1,092.2	1,201.4
Total sales	1,200.0	1,237.3	2,437.3	694.0	841.0	1,535.0	1,444.8	2,979.8	3,145.6
REBIT	85.8	170.9	256.8			262.03	203.63	465.7	476.7
REBIT margin %	7.2%	13.8%	10.5%			17.1%	14.1%	15.6%	15.2%
Result from operations	78.8	153.3	232.2			243.47	197.19	440.7	451.7
Interest income & expenses	-30.5	-35.1	-65.6			-15.59	-20.10	-35.7	-32.1
Income taxes	-13.3	-20.6	-33.9			-51.32	-54.02	-105.3	-128.9
Result from ordinary activities	35.1	97.6	132.7			176.6	123.07	299.6	290.7
Joint ventures and associates	17.4	20.3	37.8			18.79	20.87	39.7	40.5
Minority interests	-8.2	-10.5	-18.6			-14.40	-20.60	-35.0	-34.2
Consolidated net group result	44.3	107.5	151.8			180.95	123.34	304.3	297.0

Source: company data, KBC Securities

EMEA

Consolidated sales in EMEA increased by 28% y/y to € 526m. With the exception of building products, the strong revenue growth was visible across all business segments. Capacity utilisation was boosted by increased demand and this is also reflected in higher operating margins. In addition, we should note the negative impact of declining raw material prices in 1H09 (estimated around € 20m) while there was a positive impact of approximately € 10m in 1H10. EBITDA and recurring EBIT rose from € 0m and € -21m in the same period last year to € 81m and € 54m respectively.

North America

North America showed solid growth driven by a demand pick-up in the automotive segment, while industrial applications continued to perform well. Consolidated sales increased by 19% y/y to € 313m. Profitability picked-up as well as a result of better capacity utilization driven by higher volumes. EBITDA and recurring EBIT increased from € 4m and € -5m to € 29m and € 21m.

Latin America: numbers blurred by Venezuela

Latin America benefited from a solid recovery of overall market demand versus a low level of activity in 2009. However, consolidated sales were hit hard by supply restrictions and the use of the parallel exchange rate of the Bolivar in Venezuela. Consolidated sales declined by 10% y/y to € 144m, reflecting strong organic growth of 17%, more than offset by the impact of exchange rate movements (negative exchange rate impact of € 52m). Combined sales in Latin America increased by 26% y/y on increased market demand and the strong currencies in Brazil and Chile.

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Due to the uncertain economic environment in Venezuela, Bekaert also booked a €12m impairment on the Vicson assets. EBITDA and recurring EBIT increased from respectively €12m and €9m in the same period last year to €20m (13.9% margin) and €14m (9.5% margin).

Asia Pacific: continued dramatic growth

Asia Pacific continues to show excellent growth, reflecting the high demand driven by strong industrial developments across the total region and high utilization of the increased capacity. Consolidated sales increased by 51% y/y to €552m. EBITDA and recurring EBIT are up from €157m and €128m to respectively €252m (45.6% margin) and €206m (37.4% margin). Steel cord capacity in China has already reached the year-end target of 400kt p.a. and Bekaert will continue to expand capacity in-line with market growth. Steel cord capacity in China by the end of this year might be expanded to approximately 425-435kt p.a. with in particular ample expansion potential at the Chongqing and Huizhou (former Bridgestone) plants.

EBITDA more than doubles y/y

Recurring EBIT increased from €85.9m (7.2% margin) in the same period last year to €262.0m (17.1% margin), far exceeding our forecast for €184.4m and consensus of €185.0m. Note that recurring EBIT in the first half is helped by a positive impact of around €20m (€10m EMEA, €3m NA, €2m LA and €5m AP) from rising raw material prices (vs. negative impact of around €40m in the same period last year). EBITDA has more than doubled to €349m (from €145m), representing a margin of 22.7%.

Net interest expenses amounted to €23.7m, down from €27.1m, as a result of lower average net financial debt. The other financial income and expenses turned positive (€7.9m vs. €-3.4m), mainly due to a one-time realised fx gain in Venezuela. Taxes amounted to €51.3m, corresponding to a tax rate of 22.5%. Going forward, we should take into account a structurally higher tax rate as tax holidays expire. Hence, Bekaert is guiding for a gradually increasing tax rate towards 30% on the medium term. Joint ventures and associates contributed €18.8m to the first half, up from €17.4m.

The result for the period landed at €195.3m. The net result group share, after minority interest of €14.3m, was €181.0m, more than four times the €44.2m realised in the same period last year. We were looking for a net result, group share, of €113.6m, and the consensus stood at €115.0m.

Working capital requirements drive increase in net financial debt

Net financial debt increased from €395m at year-start to €582m at the end of June 5 (gearing of 34.9%). The increase is mainly due to the increase in working capital to €232.4m. Capital expenditure was €76.0m in the first half and is still expected to approach €200m for the full year.

OUTLOOK

Bekaert remains prudent for the second half of 2010 as the volatility of markets, exchange rates and raw material prices continue to create uncertainty for the near future. The company will continue to increase capacity to support mid-term growth in emerging markets in particular.

Confident of its performance over the next three years, Bekaert:

- believes it can raise the medium-term EBIT margin target to “at least 10%”, provided there are no exceptional circumstances in the markets where it operates;
- proposes to pay out an interim dividend of €2 per share, payable on 15 October;
- proposes a three-for-one stock split to come into effect on 10 November.

Following publication of H1 results, we have substantially upped our scenario for 2010 and the subsequent years. Our forecasts for recurring EBIT and net group result for the current year have been raised by 31.4% and 37.5% to €465.7m and €304.3m respectively. Our adjusted EPS estimates for 2010 and 2011 have been revised from €12.04 and €12.29 to €16.23 and €15.87.

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FINANCIAL DATA

Income statement (€m)	2009	2010E	2011E	2012E	2013E	2014E
Sales	2,437.3	2,979.8	3,145.6	3,244.8	3,342.4	3,443.9
Gross profit	509.6	779.8	809.7	802.9	799.5	813.1
EBIT	232.2	440.7	451.7	433.6	419.1	421.2
Pre-tax earnings	166.6	405.0	419.6	431.9	419.8	424.1
Net earnings	151.8	304.3	297.0	305.5	298.5	302.0
EBITDA	385.5	620.7	625.3	610.6	599.7	605.4
REBITDA	410.1	645.7	650.3	635.6	624.7	630.4
REBITA	256.8	465.7	476.7	458.6	444.1	446.2
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	1,147.7	1,124.1	1,097.0	1,066.4	1,027.2
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	821.4	867.1	894.4	921.3	949.3
Net debt	473.7	496.5	298.1	68.5	-157.0	-393.7
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	1,463.2	1,683.9	1,913.8	2,135.6	2,361.1
Capital employed	1,685.7	1,886.9	1,909.0	1,909.3	1,905.6	1,894.3
TOTAL ASSETS	2,829.5	3,012.9	3,200.3	3,390.2	3,571.9	3,757.6
Cash flow statement (€m)	2009	2010E	2011E	2012E	2013E	2014E
Cash flow from operations	522.7	326.1	447.6	478.8	474.7	480.9
Net capital expenditure	-158.4	-200.0	-150.0	-150.0	-150.0	-145.0
Free cash-flow	364.3	126.1	297.6	328.8	324.7	335.9
Acquisitions / disposals	-12.0	-70.0	0.0	0.0	0.0	0.0
Dividend payments	-50.6	-58.3	-99.2	-99.2	-99.2	-99.2
Shares issues	1.8	-20.6	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	-72.8	148.4	179.6	175.5	186.7
Performance criteria	2009	2010E	2011E	2012E	2013E	2014E
Sales growth	-8.5%	22.3%	5.6%	3.2%	3.0%	3.0%
Gross margin	20.9%	26.2%	25.7%	24.7%	23.9%	23.6%
REBITDA margin	16.8%	21.7%	20.7%	19.6%	18.7%	18.3%
REBITA margin	10.5%	15.6%	15.2%	14.1%	13.3%	13.0%
EBIT margin	9.5%	14.8%	14.4%	13.4%	12.5%	12.2%
Net debt / Equity + Minorities	34.5%	32.0%	16.8%	3.4%	-7.1%	-16.1%
Net debt / EBITDA	1.23	0.80	0.48	0.11	-0.26	-0.65
EBITDA / net interest	5.87	17.39	19.49	372.95	-957.10	-208.64
Pay-out ratio	38.4%	32.6%	33.4%	32.5%	33.2%	32.8%
= Return on Equity (avg)	12.6%	22.1%	18.9%	17.0%	14.7%	13.4%
Return on Capital Employed (avg)	10.5%	18.6%	16.9%	16.1%	15.6%	15.7%
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	15.41	15.04	15.48	15.12	15.30
Diluted EPS	7.67	15.38	15.01	15.44	15.09	15.27
Diluted, adjusted EPS	8.55	16.24	15.81	16.25	15.89	16.07
Net book value / share	64.78	73.77	84.90	96.49	107.67	119.04
Free cash flow / share	18.46	6.39	15.08	16.66	16.45	17.01
Dividend (€)	2.94	5.00	5.00	5.00	5.00	5.00
Valuation data	2009	2010E	2011E	2012E	2013E	2014E
Reference share price (€)	75.32	166.90	166.90	166.90	166.90	166.90
Reference market capitalisation (€)	1,494.0	3,310.4	3,310.4	3,310.4	3,310.4	3,310.4
Enterprise value (€m)	1,903.1	3,774.4	3,576.0	3,346.4	3,120.9	2,884.2
P/E	8.8	10.3	10.6	10.3	10.5	10.4
EV/sales	0.8	1.3	1.1	1.0	0.9	0.8
EV/EBITDA	4.9	6.1	5.7	5.5	5.2	4.8
EV/Capital employed	1.1	2.0	1.9	1.8	1.6	1.5
P/ NBV	1.2	2.3	2.0	1.7	1.6	1.4
Free cash flow yield	24.4%	3.8%	9.0%	9.9%	9.8%	10.1%
Dividend yield	3.9%	3.0%	3.0%	3.0%	3.0%	3.0%

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	36.20%	0.00%
ACCUMULATE	39.70%	0.00%
HOLD	22.40%	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
30-JUL-10	Buy	€ 180.00
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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