

2 March 2011

BEKAERT

Closing on a record year

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE €79.38
TARGET PRICE €90.00

BUY
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	7%	4%	98%
Rel. BEL20	6%	-2%	86%
12m Hi/Lo	€87.43/39.43		
Bloomberg	BEKB.BB		
Reuters	BEKB.BR		
Market Cap	€4,754m		
Next corporate event	General Assembly 10: 11 May 2011		
www.bekaert.com			

FY/e 31.12	2010	2011E	2012E	2013E
Sales (€m)	3,262.5	3,568.7	3,806.5	4,005.2
REBITDA (€m)	724.7	778.3	799.4	821.9
Net earnings (€m)	367.6	395.0	414.6	437.6
Diluted adj. EPS (€)	6.49	6.84	7.16	7.54
Dividend (€)	1.67	1.80	1.85	1.90
P/E	8.27	11.61	11.08	10.53
EV/REBITDA	5.25	6.65	6.12	5.54
Free cash flow yield	2.7%	6.2%	8.2%	9.5%
Dividend yield	3.1%	2.3%	2.3%	2.4%

Source: KBC Securities

Bekaert reported record-high results, beating market expectations yet again. Despite medium-term uncertainties and concerns, the company remains upbeat for the foreseeable future. We have upgraded our scenario, resulting in EPS upgrades of approximately 15%. Based on this revision, we see room to raise our target price to €90 per share from €85. Buy rating maintained.

REBIT MORE THAN DOUBLES

- **Strong Q4 sales.** Bekaert reported a 33.9% y/y increase in sales to €3,262.5m. Consolidated sales in the final quarter came to €861.5m, roughly in-line with the third quarter and substantially beating the company's own guidance for sales in-line with the average of Q1&2 (€767m) thanks to a very strong Q4 in Asia Pacific.
- **Record-high profitability.** Recurring EBIT more than doubled to €562m, corresponding to a 17.2% margin (17.4% in H2 vs. 17.1% in H1). Despite the recovery in mature markets, profitability is more than ever driven by Asia Pacific (REBIT contribution of €471m).
- **Continuing to capture emerging market growth.** Bekaert will continue to invest heavily, guiding for capital expenditure this year of at least last year's €247.6m. Compared to previous years, Bekaert might direct a higher portion of capital expenditure outside China (e.g. India).
- **Strong start to the year.** Bekaert remains confident of a "sustained strong performance in 1H11", but sees limited visibility beyond six months. Globally, management talked of "moderate growth perspectives in the coming years".
- **Estimates upped.** An upgrade of our scenario has resulted in 13.9% and 14.5% increases in our EPS estimates for 2011 and 2012 respectively. On our new estimates, Bekaert is trading at a P/E of respectively 11.6x and 11.1x for 2011/12 and EV/EBITDA of respectively 6.7x and 6.1x.

ANALYSTS

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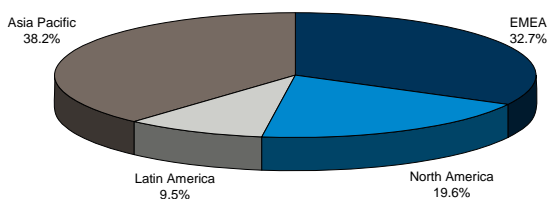
BEATING MARKET EXPECTATIONS (AGAIN)

Bekaert reported excellent FY10 results, beating market expectations yet again. The company reported a 33.9% y/y increase in consolidated sales to €3,262.5m, outstripping our (€3,160.3m) and market (€3,174.0m) expectations. Organic sales growth was 31.5%, while the net movement in acquisitions and divestments and currency effects added respectively 1.4% and 1.0%.

With the exception of Latin America (-5% to €311m), all regions showed strong y/y growth (EMEA: +29% to €1,066m, North America: +35% to €638m and Asia Pacific: +54% to €1,248m). Consolidated sales in the final quarter came to €861.5m, beating Bekaert's own guidance for Q4 sales in-line with the quarterly average in H1 (€767m). We note in particular the strong Q4 sales of €360m in Asia Pacific.

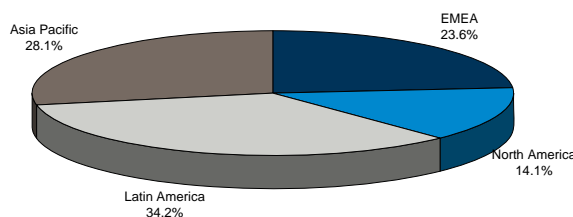
Combined sales, including joint-ventures and associates, increased by 33.7% to €4,469m. Organic growth was 26.4% with 1.0% from the net movement in acquisitions and divestments and a larger currency effect (+6.3%) thanks to a strong Brazilian Real and Chilean Peso.

CONSOLIDATED SALES 2010



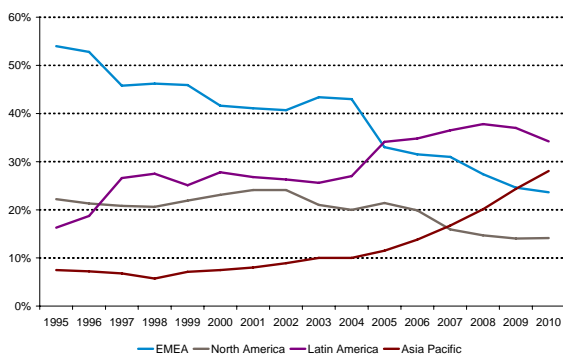
Source: Company data

COMBINED SALES 2010



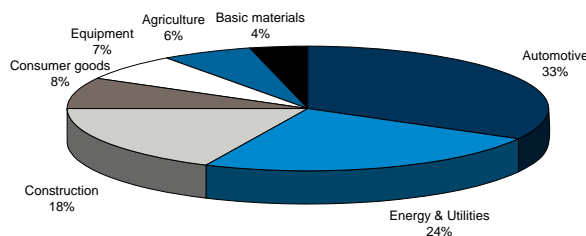
Source: Company data

COMBINED SALES BY REGION



Source: Company data

COMBINED SALES BY SECTOR (2010)



Source: Company data

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EBITDA climbed from €386m in 2009 to €725m (KBCS: €656.3m, CSS: €688.0m), corresponding to a margin of 22.2%. EBITDA in H2 amounted to €376m (21.8% margin). Recurring EBIT more than doubled from €257m to €562m (17.2% margin vs. 10.5% in 2009), beating expectations (KBCS: €501.3m, CSS: €524.0m). Recurring EBIT in H2 rose to €300.5m (17.4% margin vs. 17.1% in H1). The impact from rising raw material prices on REBIT can be estimated at a positive €20m, which occurred almost entirely in the first half. Non-recurring expenses amounted to €28.2m, and are mainly related to a partial impairment of Vicson in Venezuela (€12.4m) and provisions for the reconversion projects of closed factories and environmental liabilities (€10.9m). Including non-recurring items, result from operations was €534.3m (up from €232.2m in 2009)

KEY FIGURES (€m)

	2H09	FY09	1H10	3Q10	4Q10	2H10	FY10E	FY10CSS	FY10A	FY11E
Consolidated sales	1,237.3	2,437.3	1,535.0	866.0	861.5	1,727.5	3,160.3	3,174.0	3,262.5	3,568.7
- EMEA	417	827	526	271	269	540	1,059	1,057	1,066	1,141
- North America	211	474	313	170	155	325	640	628	638	651
- Latin America	167	327	144	89	78	167	305	309	311	342
- Asia Pacific	442	809	552	336	360	696	1,157	1,180	1,248	1,435
EBITDA	240.5	385.5	349.0			375.7	656.3	688.0	724.7	778.3
margin	19.4%	15.8%	22.7%			21.7%	20.8%	20.8%	22.2%	21.8%
- EMEA	47.0	47.0	81.0			63.0	131.3		144.0	148.3
- North America	9.0	13.0	29.0			21.0	56.3		50.0	52.1
- Latin America	24.0	36.0	20.0			18.0	38.7		38.0	39.3
- Asia Pacific	192.0	349.0	252.0			308.0	509.0		560.0	617.1
- Other	-31.5	-59.5	-33.0			-34.3	-79.0		-67.3	-78.5
REBIT	170.9	256.8	262.0			300.5	501.3	524.0	562.5	608.1
margin	13.8%	10.5%	17.1%			17.4%	15.9%	15.9%	17.2%	17.0%
Result from operations	153.3	232.2	243.5			290.8	476.3	497.0	534.3	583.1
Financial result	-35.1	-65.6	-15.6			-16.8	-36.5	-41.0	-32.4	-29.8
Income taxes	-20.6	-33.9	-51.3			-88.1	-113.9	-114.0	-139.5	-161.9
Joint ventures and assoc.	20.3	37.8	18.8			17.3	39.7	40.0	36.1	36.8
Result for the period	117.9	170.4	195.3			203.2	365.6	383.0	398.5	428.2
Minority interest	10.5	18.6	14.4			16.5	35.0	29.0	30.9	33.2
Net result, group share	107.5	151.8	181.0			186.6	330.6	354.0	367.6	395.0

Source: company data, KBC Securities

Net financial result improved from €-65.6m in 2009 to €-32.4m. Net interest charges declined from €56.7m in 2009 to €50.1m, while the other financial result turned from €-8.9m in 2009 to €17.7m, mainly due to foreign exchange rate gains in Venezuela and dividends from China.

Taxes amounted to €139.5m, up from €33.9m in 2009. The average tax rate increased from 20.4% in 2009 to 27.8% last year as a result of expired tax holidays in China and updated assumptions on tax positions. For the current year, Bekaert is guiding for a comparable effective tax rate.

The share of joint ventures and associates declined slightly from €37.8m to €36.1m last year. After minority interests of €30.9m, the net result group share landed at €367.6m (KBCS: 330.6m, CSS: 354.0m), up from €151.8m in 2009.

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KEY FIGURES PER SEGMENT (2010, €m)

	EMEA	N-AM	L-AM	APAC	OTHER	2010
Consolidated sales	1,066	638	311	1,248		3,262
EBITDA	144	50	38	560	-68	725
margin	13.5%	7.8%	12.2%	44.9%		22.2%
REBIT	95	34	26	471	-64	562
margin	8.9%	5.3%	8.4%	37.7%		17.2%
Operating result	87	32	14	467	-65	534

Source: company data

EMEA

Consolidated sales in EMEA increased by 28.9% y/y to €1,066m. With the exception of building products, all activity platforms recorded higher sales and profits. Both in Western and Central Europe, Bekaert's manufacturing platforms operated at high capacity utilization levels driven by increased demand.

North America

Market demand in the automotive sector picked-up strongly in 2010, while the industrial and agricultural applications continued to perform well. Profitability increased (REBIT recovered from €-5m in 2009 to €34m) as a result of better capacity utilization driven by higher volumes in most activities, although highly competitive market conditions did put margins under pressure.

Latin America

Consolidated sales in Latin America declined by 5% y/y to €311m. In Venezuela, sales and profits were dented from the beginning of the year by supply restrictions and the applicable exchange rate of the Bolivar (negative top line impact of approximately €117m). In addition, Bekaert booked an impairment of approximately €12m on the Vicson assets in the first half.

Asia Pacific

Consolidated sales in Asia Pacific increased by an impressive 54% y/y to €1,248m, reflecting solid demand driven by strong industrial development across the region. The fourth quarter was extremely firm with consolidated sales of €360m. EBITDA increased from €349m to €560m (vs. €724.7m for the entire Group), with a further increase in the margin from 43.2% to 44.9%.

SUSTAINED HIGH CAPITAL EXPENDITURE IN EMERGING MARKETS

Net financial debt, as reported by Bekaert, increased from €395.4m at year-start to €521.9m at year-end. However, net financial debt decreased in H2 vs. the end-of-June level of €582.1m.

Capital expenditure was a high €247.6m (of which €230.3m in property, plant and equipment) and is expected to attain at least the same level in 2011. Bekaert no longer provided an update on capacity and intended capacity increases but the company is expected to have increased its Chinese steel cord capacity from around 350kt to 450kt. Going forward, Bekaert is expected to direct a higher portion of its capital expenditure to emerging markets outside China. Investments in China, Indonesia, Slovakia and Russia are in the process of being implemented. In India, Bekaert is accelerating its expansion investment with a 75% increase in tire cord capacity at its existing plant in Ranjangaon, as well as the purchase of land to build a new steel cord production plant in Thervoy Kandigai to cater for the growing demand from tire manufacturers in Chennai (new Michelin truck tire plant expected to start production in late 2012).

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The complex transaction for the planned 75% shareholding in Xinyu Iron & Steel's spring wire and overhead conductor business via a 75/25 holding with Shougang Concord Century is taking longer than anticipated to complete. However, Bekaert expects progress in the course of 2011.

Bekaert proposes to reward shareholders with a closing dividend of € 1.0 per share. This dividend comes on top of the interim dividend of € 0.667 distributed in October.

OUTLOOK

Bekaert has made a good start to the year and issued a relatively upbeat message for the foreseeable future, despite flagging medium-term uncertainties and concerns.

The company remains confident of "sustained strong performance in the 1H11", but sees limited visibility beyond six months as a general trend, due to uncertainty or volatility of global and local business developments.

For the coming years, management talked of "moderate growth perspectives". In the short term, Bekaert expects growth to be tempered by measures for more controlled growth in China and policies to contain inflation in several countries. Bekaert also made reference to increased capacity among the competition. Moreover, both the volatility of raw material prices and changes in fiscal incentive programs in several relevant business sectors are indicators of a more "irregular future growth pattern".

REVISED ADJUSTED EPS ESTIMATES

	2011	2012	2013	2014
OLD	6.00	6.25	6.48	6.63
NEW	6.84	7.16	7.54	7.65
% change	13.9%	14.5%	16.5%	15.4%

Source: KBC Securities

We have upgraded our scenario, leading to increases in our EPS estimates of approximately 15% (see table). For 2011, we now bank on a 9.4% increase in revenues to € 3,568.7m. Recurring EBIT is seen 8.1% up at € 608.1m, corresponding to a 17.0% margin (marginally down from 17.2%). Taking into account a tax rate of 28%, the net result group share is expected at € 395m (+ 7.4% y/y).

Our medium-term scenario takes into account a CAGR in sales of 6.1% (9.4% y/y growth for 2011, gradually declining to 4.4% y/y in 2015). The recurring EBIT margin gradually "normalises" from the record-high 17.2% recorded last year to 14.8% by 2015, still extremely high in historical terms (average of 8.9% over 2001-10).

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FINANCIAL DATA

Income statement (€m)	2009	2010	2011E	2012E	2013E	2014E
Sales	2,437.3	3,262.5	3,568.7	3,806.5	4,005.2	4,201.9
Gross profit	509.6	905.6	989.3	1,032.6	1,072.7	1,111.8
EBIT	232.2	534.3	583.1	599.3	616.9	633.6
Pre-tax earnings	166.6	501.9	553.3	586.0	624.4	638.1
Net earnings	151.8	367.6	395.0	414.6	437.6	444.2
EBITDA	385.5	724.7	778.3	799.4	821.9	843.8
REBITDA	385.5	724.7	778.3	799.4	821.9	843.8
REBITA	256.8	562.5	608.1	624.3	641.9	658.6
Balance sheet (€m)	2009	2010	2011E	2012E	2013E	2014E
Intangible assets	105.0	131.1	131.1	131.1	131.1	131.1
Tangible assets	1,127.7	1,295.1	1,349.9	1,349.8	1,319.7	1,284.5
Financial assets	218.6	243.8	243.8	243.8	243.8	243.8
Net other assets & liabilities	27.9	58.5	58.5	58.5	58.5	58.5
Net working capital	640.2	940.3	948.0	1,011.2	1,064.0	1,116.3
Net debt	473.7	564.1	370.2	89.9	-252.7	-605.3
Provisions	272.1	408.1	408.1	408.1	408.1	408.1
Minorities	88.7	86.0	86.0	86.0	86.0	86.0
Equity	1,284.8	1,610.7	1,955.3	2,296.4	2,658.8	3,025.4
Capital employed	1,685.7	2,160.6	2,223.2	2,286.3	2,309.0	2,326.0
TOTAL ASSETS	2,829.5	3,673.1	3,899.8	4,217.3	4,552.8	4,892.4
Cash flow statement (€m)	2009	2010	2011E	2012E	2013E	2014E
Cash flow from operations	522.7	316.4	543.8	588.1	628.4	641.4
Net capital expenditure	-158.4	-230.3	-250.0	-200.0	-175.0	-175.0
Free cash-flow	364.3	86.0	293.8	388.1	453.4	466.4
Acquisitions / disposals	-12.0	-34.6	0.0	0.0	0.0	0.0
Dividend payments	-50.6	-118.5	-99.8	-107.8	-110.8	-113.8
Shares issues	1.8	-57.7	0.0	0.0	0.0	0.0
New borrowings / reimbursements	-41.7	271.3	-50.0	-50.0	-50.0	-50.0
Other	-104.2	34.4	0.0	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	157.5	180.9	143.9	230.3	292.6	302.6
Performance criteria	2009	2010	2011E	2012E	2013E	2014E
Sales growth	-8.5%	33.9%	9.4%	6.7%	5.2%	4.9%
Gross margin	20.9%	27.8%	27.7%	27.1%	26.8%	26.5%
REBITDA margin	15.8%	22.2%	21.8%	21.0%	20.5%	20.1%
REBITA margin	10.5%	17.2%	17.0%	16.4%	16.0%	15.7%
EBIT margin	9.5%	16.4%	16.3%	15.7%	15.4%	15.1%
Net debt / Equity + Minorities	34.5%	33.3%	18.1%	3.8%	-9.2%	-19.5%
Net debt / EBITDA	1.23	0.78	0.48	0.11	-0.31	-0.72
EBITDA / net interest	5.87	22.40	26.12	60.05	-109.68	-186.12
Pay-out ratio	38.4%	27.2%	27.3%	26.7%	26.0%	26.3%
= Return on Equity (avg)	12.6%	25.4%	22.2%	19.5%	17.7%	15.6%
Return on Capital Employed (avg)	10.5%	20.1%	19.2%	19.0%	19.1%	19.3%
Per share data (€)	2009	2010	2011E	2012E	2013E	2014E
weighted average # shares, diluted	59,355,930	59,558,664	60,194,037	60,194,037	60,194,037	60,194,037
Basic EPS	2.56	6.21	6.60	6.92	7.31	7.42
Diluted EPS	2.56	6.17	6.56	6.89	7.27	7.38
Diluted, adjusted EPS	2.85	6.49	6.84	7.16	7.54	7.65
Net book value / share	21.59	26.90	32.65	38.35	44.40	50.52
Free cash flow / share	6.15	1.45	4.91	6.48	7.57	7.79
Dividend (€)	0.98	1.67	1.80	1.85	1.90	1.95
Valuation data	2009	2010	2011E	2012E	2013E	2014E
Reference share price (€)	25.11	53.68	79.38	79.38	79.38	79.38
Reference market capitalisation (€m)	1,494.0	3,214.8	4,753.7	4,753.7	4,753.7	4,753.7
Enterprise value (€m)	1,903.1	3,803.1	5,175.0	4,894.7	4,552.1	4,199.5
P/E	8.8	8.3	11.6	11.1	10.5	10.4
EV/sales	0.8	1.2	1.5	1.3	1.1	1.0
EV/EBITDA	4.9	5.2	6.6	6.1	5.5	5.0
EV/Capital employed	1.1	1.8	2.3	2.1	2.0	1.8
P/ NBV	1.2	2.0	2.4	2.1	1.8	1.6
Free cash flow yield	24.4%	2.7%	6.2%	8.2%	9.5%	9.8%
Dividend yield	3.9%	3.1%	2.3%	2.3%	2.4%	2.5%

Source: KBC Securities

*Historic valuation data are based on historic prices

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The company disclosures can also be consulted on our website <http://www.kbcsecurities.be/disclosures>.

KBC Securities uses an absolute rating system including terms such as Buy, Accumulate, Hold, Reduce and Sell (see definitions below).

	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

Due to external factors and in exceptional cases, KBC Securities allows the use of ratings such as Accept the Offer, Black Out, No Recommendation or Suspended.

Our analysts assign one of those ratings based on their investment outlook and valuation for the concerned stock. The valuation can be based on different methodologies such as DCF (discounted cash flow), absolute multiples, peer group multiples, sum-of-parts or NAV (Net Asset Value). The valuation is reflected in a 6-month target price. Occasionally, the expected total return may fall outside of these ranges because of price movement and/or volatility. Such deviations will be permitted but will be closely monitored. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the report contains more complete information concerning the analyst's view, investors should carefully read the entire report and not infer its contents from the rating alone. KBC Securities discloses the recommendations of its reports to the issuers before their dissemination. In case the recommendation has been amended following this disclosure, such amendments will be indicated in the concerned report.

Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	29.60%	0.00%
ACCUMULATE	40.80%	0.00%
HOLD	26.40%	100.00%
REDUCE	3.20%	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
02-MAR-11	Buy	€ 90.00
10-NOV-10	Buy	€ 85.00
14-OCT-10	Buy	€ 76.67
30-JUL-10	Buy	€ 60.00
20-JUL-10	Buy	€ 53.33
14-MAY-10	Buy	€ 51.67
12-MAY-10	Buy	€ 48.33

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