

Undervalued emerging market play

Investment Case

- The group's strategy is simple and clear: investing in steel cord, in which it is worldwide leader, in areas where the underlying market is growing such as China, Russia and India. By buying out minorities in Turkey and Venezuela and starting up a Greenfield in Russia, Bekaert recently reinforced its emerging market exposure.
- Despite a 8% share buy back and all time high capex, net debt/EBITDA stood only at 1.5x at YE'07, leaving room for further action.
- Besides the strong cash generation of the consolidated business, Bekaert's FCF generation is underpinned by increasing dividend inflow out of the associates. In '07, Bekaert received a dividend of EUR 55m or EUR 2.8 per share compared to EUR 35m in 2006 and EUR 43m in 2005.
- Given the very low debt level at the associates, payout ratio will remain high. We pencilled in a payout ratio of 85% for the next 3 years. We believe that the significant increase of dividends paid Bekaert's joint ventures is next step in the group's shareholder value creation as it should unlock the value of these assets.
- On our current forecasts, pencilling in a slowdown in US and Europe, the group is trading at 5.5x EBITDA 2008 and offers a FCF Yield of 10%. Driven by its strategic and geographical positioning, we believe that Bekaert will continue to outperform the market.

Growth drivers

- Bekaert is exposed to the worldwide economy but is structurally reducing capacity in Europe and the US and shifting it towards emerging markets. Bekaert is a play on the emerging markets that accounted for an estimated 60% of profits.
- Bekaert ended 2007 in full force with revenues up by 12% organically in Q4. while 2008 started strongly as well.

Business description

Bekaert seeks sustainable profitable growth based on its two core competences: advanced metal transformation & advanced materials and coatings.

Bekaert has 3 divisions. Advanced wire products (90% of revenues) is by far the most important one. In this unit, the group produces and sells wires for use in the manufacture of industrial springs and in the reinforcement of flexible pipes, through steel fibers for concrete reinforcement, profiled wires, textile machine wires, bookbinding wires and weaving wires, to champagne cork wires, silicon-sawing wire and various types of lacquered and coated wires. High-tensile wires are woven into steel cord products like tire cord and bead wire, which are used in car and truck tires. Steel cord is also used as reinforcement in other polymer applications, such as high-pressure hoses, polyurethane drive belts and conveyor belts.

Advanced materials (5% of sales) cover applications in fiber technologies, combustion technologies and composites. The advanced coatings segment comprises industrial coatings for various materials, applied by vacuum technologies or thermal spraying.

Competitive position

Bekaert is world leader in steel cord and has a dominant position in Brazil and in China, the biggest growth market for this product. In several other segments, Bekaert is market leader as well, while competition can be severe in the lower added value segments.

Buy

Price: EUR 92.17
(31/03/08)

Target price: 122.00
Risk: Medium

Reuters: BERTt.BR
Bloomberg: BEKB BB

Shares number (m): 19.83
Market cap. (m): 1,828
Net debt 12/08e (m): 498
Net debt/equity 12/08e: 40%

H/L 1 year: 113.40 - 76.54
1 year price perf.: -9.4%
Diff. with DJ Euro Stoxx 5.7%
Volume (sh./day): 53,126

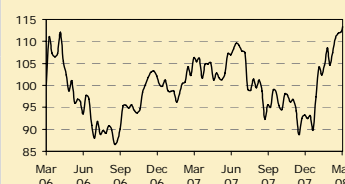
Free Float 53%
Family shareholders 47%

	08e	09e	10e
P/E	11.5	11.0	10.3
EV/EBITDA	5.7	5.1	4.7
EV/EBITA	9.7	8.5	7.8
Div. yield	3.5%	3.8%	4.1%

Company Calendar

09/05/07 Q1 07 Results
09/05/07 AGM
16/05/07 Dividend Payment
31/07/07 H1 07 Results
09/11/07 Q3 07 Results

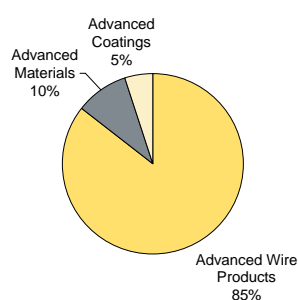
Bekaert relative to DJ Euro Stoxx
(31/03/08)



Analyst:

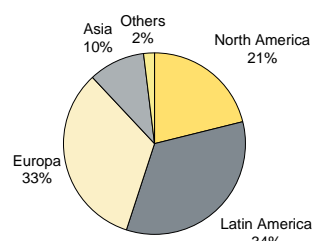
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Exhibit 27 Revenue breakdown per division



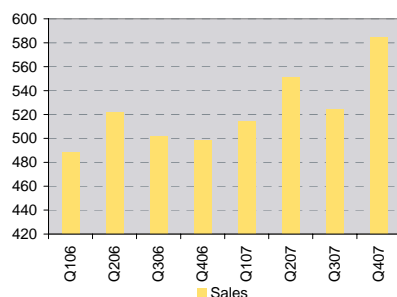
Source: Petercam

Exhibit 28 Revenue per region including associates



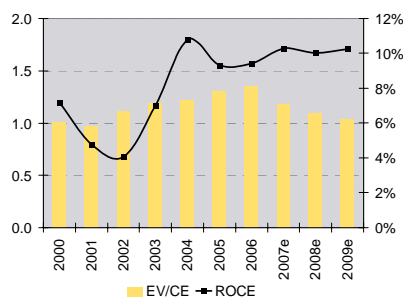
Source: Petercam

Exhibit 29 Revenue per quarter since 2006



Source: Petercam

Exhibit 30 ROCE evolution



Source: Petercam

Profit & Loss (EUR m)	12/06	12/07	12/08e	12/09e	12/10e
Revenues	2,009.6	2,173.6	2,290.2	2,394.8	2,477.0
Gross profit	394.9	433.9	459.8	486.8	507.8
EBITDA	267.7	298.6	318.3	339.3	353.8
EBITA	151.4	174.6	188.3	203.3	213.8
EBIT	145.9	174.6	188.3	203.3	213.8
Net Financial Result	-25.1	-32.5	-39.3	-40.1	-36.7
Exceptionals (gross)	-	-	-	-	-
Taxes	-18.1	-19.1	-26.8	-35.9	-39.0
Except. & discontinued operations	0.0	0.0	0.0	0.0	0.0
Net declared earnings	142.3	152.9	158.8	164.5	176.6
Net adjusted earnings	147.8	152.9	158.8	164.5	176.6

Cash Flow (EUR m)	12/06	12/07	12/08e	12/09e	12/10e
EBIT	145.9	174.6	188.3	203.3	213.8
Depreciation	116.2	124.0	130.0	136.0	140.0
Amortization	0.0	0.0	0.0	0.0	0.0
Impairment charges	0.0	0.0	0.0	0.0	0.0
Changes in provision	0.0	0.0	0.0	0.0	0.0
Changes in working capital	-31.9	-41.9	-31.3	-26.4	-23.6
Others	-8.4	-1.5	0.0	0.0	0.0
Operational Cash Flow	221.8	255.2	287.0	312.9	330.2
Tax expenses	-16.8	-24.9	-26.8	-35.9	-77.9
Dividends from associates	35.2	54.7	38.8	40.1	41.2
Net interest charges	-22.0	-30.8	-39.3	-40.1	-36.7
Others	0.0	0.0	0.0	0.0	0.0
CF from operating activities	218.1	254.2	259.6	277.0	256.8
CAPEX	-161.3	-199.8	-200.0	-120.0	-120.0
Acquisitions	-42.7	-14.7	-40.4	0.0	0.0
Divestments	11.4	8.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
CF from investing activities	-192.6	-206.6	-240.4	-120.0	-120.0
Dividend payment	-74.1	-57.2	-54.7	-63.9	-68.8
Minor. & pref. dividends	0.0	0.0	0.0	0.0	0.0
Equity financing	-52.8	-111.0	-14.4	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
CF from financing activities	-127.0	-168.2	-69.1	-63.9	-68.8
Net debt/cash change	-101.5	-120.6	-49.9	93.1	67.9

Balance Sheet (EUR m)	12/06	12/07	12/08e	12/09e	12/10e
Tangible fixed assets	824.2	917.6	995.7	969.7	977.7
Goodwill	77.0	70.1	70.1	70.1	70.1
Other intang. assets	57.5	51.9	51.9	51.9	51.9
Financial fixed assets	309.2	246.4	240.2	247.3	254.5
Total Fixed assets	1,267.8	1,286.0	1,357.9	1,339.0	1,354.2
Working capital	401.1	511.6	542.9	569.4	593.0
Total Equity	1,121.3	1,146.6	1,230.6	1,331.2	1,439.0
Provisions & deferred taxes	222.8	201.0	170.2	170.2	170.2
Net financial debt	377.6	448.1	498.0	404.9	336.0
Total assets	2,163.0	2,309.7	2,422.7	2,449.9	2,509.4

Shares - per share data (EUR)	12/06	12/07	12/08e	12/09e	12/10e
Adjusted EPS	6.88	7.63	8.04	8.36	8.98
Dividend	2.50	2.76	3.25	3.50	3.75
No shares - average (m)	21.49	20.04	19.75	19.67	19.67

Ratios	12/06	12/07	12/08e	12/09e	12/10e
Valuation analysis					
Adjusted P/E	13.8	12.1	11.5	11.0	10.3
P/BV	1.9	1.7	1.5	1.4	1.3
EV/EBITDA	7.4	6.1	5.7	5.1	4.7
EV/EBITA	13.0	10.5	9.7	8.5	7.8
EV/FCF (1)	14.8	11.6	9.3	7.8	6.9
FCF yield (2)	6.1%	8.5%	9.4%	10.3%	9.3%
Dividend yield	2.6%	3.0%	3.5%	3.8%	4.1%

Financial ratios					
Net Debt/EBITDA	1.4	1.5	1.6	1.2	0.9
Net Debt/Equity	33.7%	39.1%	40.5%	30.4%	23.3%
ROCE post-tax	11.2%	12.0%	12.2%	13.1%	13.5%
ROCE post-tax (grossed gdw II)	9.4%	10.3%	10.0%	10.2%	10.6%

Margin analysis and tax rate					
Gross margin	19.7%	20.0%	20.1%	20.3%	20.5%
EBITA margin	7.5%	8.0%	8.2%	8.5%	8.6%
Tax rate	15.9%	14.3%	18.0%	22.0%	21.9%

Growth analysis					
Sales	5%	8%	5%	5%	3%
Adjusted EPS	0%	11%	5%	4%	7%

(1) Based on FCF to Enterprise - (2) Based on FCF to Equity