

Growth continues...also in Q3

Q3 Preview

Period	Q3 2010 trading update
Date/Time	Wednesday, November 10
Recommendation	BUY
Target price	260

in EUR m	Q309	Q310e	yoy
Consolidated sales	619	795	28.5%
EMEA	198	255	28.7%
North America	106	142	33.7%
Latin America	87	78	-9.6%
Asia Pacific	228	320	40.4%
Combined sales (incl ass.)	857	1,116	30.2%
EMEA	197	252	27.8%
North America	105	139	32.1%
Latin America	326	404	23.9%
Asia Pacific	229	321	40.3%

Key items

1. In its Q2 trading update Bekaert issued a 3 year EBIT margin guidance in excess of 10%. While this was largely reflected in analyst models, by this statement management highlighted the structural changes Bekaert has witnessed in recent years. Management also showed strong confidence going into the third quarter. In this quarter, most signals remained positive. Tire manufacturers such as Michelin, Goodyear and Bridgestone confirmed the strong market environment and announced large investment programs in emerging markets. At the same time, growth in China remains buoyant and Chinese measures to increase tire radialization, although to already almost achieved levels, should also be supportive. Potential measures by China to limit traffic in some big Chinese cities is already a story going for quite some years and will not hamper car penetration to grow further from still low levels compared to mature markets.

2. We expect further strong yoy growth in most regions apart from Latam, which faces the negative yoy forex impact from Venezuela. Consolidated sales should have grown by 28.5%. We expect volumes to grow by 20%, against 26% in Q2, forex to have a slight positive impact of 2%, prices to have had a positive impact of 4% and acquisitions to contribute 2.5%.

3. In this preview we also slightly increase our estimates. We eliminate some of the Chinese margin decline that we anticipated for H2 and also believe that the US and Europe should see a more limited margin drop versus H1 than we expected. We increase our REBIT estimate by 3% and EPS by 4%.

Conclusion

Based on continuous positive momentum in most geographical markets we keep our BUY rating unchanged and increase our price target to EUR 260. The shares currently trade at 8.5x EV/EBIT 2011. At EUR 260, the shares trade at 9.9x EV/EBIT 2011, which is still not too demanding given the high growth profile of the company.

Buy

Price: EUR 221.25
(02/11/10)

Target price: 260.00
Risk: Medium

Reuters: BERTt.BR
Bloomberg: BEKB BB

Shares number (m): 19.67
Market cap. (m): 4,352
Net debt 12/09 (m): 406
Net debt/equity 12/09: 30%

H/L 1 year: 227.95 - 85.22
1 year price perf.: 155%
Diff. with Euro Stoxx : 148%
Volume (sh./day): 54,862

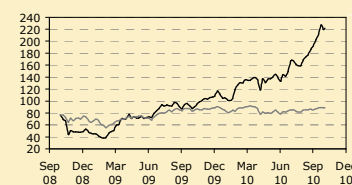
Free Float 61%
Family shareholders 39%

	09	10e	11e
P/E	14.1	12.6	12.6
EV/EBITDA	6.2	6.8	6.3
EV/EBITA	9.3	8.9	8.0
Div. yield	2.7%	2.3%	2.3%

Company Calendar

10/11/2010 Q3 trading update
10/11/2010 stock split 1/3
25/02/2011 2010 FY results
11/05/2011 Q1 trading update
11/05/2011 AGM
13/05/2011 ex-div

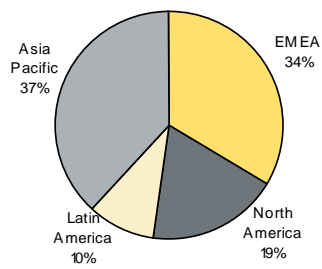
Bekaert + relative to Euro Stoxx (grey)



Analyst:

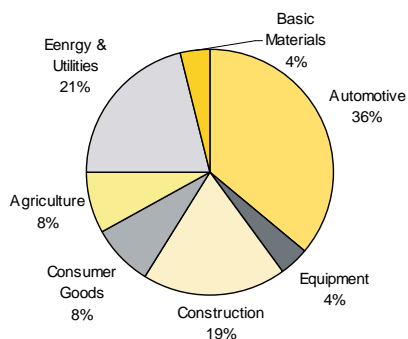
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Exhibit 1 Geographical sales breakdown 2010e



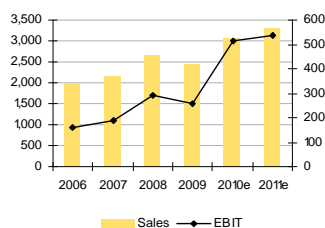
Source: Petercam

Exhibit 2 End-market sales breakdown



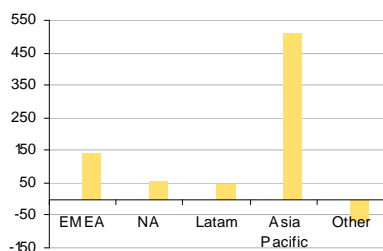
Source: Petercam

Exhibit 3 Sales & EBIT evolution



Source: Petercam

Exhibit 4 EBITDA breakdown 2010e



Source: Petercam

Profit & Loss (EUR m)	12/08	12/09	12/10e	12/11e	12/12e
Revenues	2,661.8	2,437.8	3,078.8	3,286.0	3,417.4
Gross profit	601.5	534.5	864.6	889.0	888.5
EBITDA	411.5	384.7	678.2	689.0	699.8
EBITA	293.6	256.5	514.8	536.0	537.8
EBIT	210.0	231.4	485.2	511.0	513.8
Depreciation	-201.5	-153.3	-193.0	-178.0	-186.0
Net financial result	-41.4	-56.6	-56.4	-65.7	-56.7
Exceptionals (gross)	-	-	-	-	-
Taxes	-25.5	-33.9	-103.5	-115.8	-123.4
Except./discontinued operations	0.0	0.0	0.0	0.0	0.0
Net declared earnings	173.6	151.3	345.1	344.0	346.5
Net adjusted earnings	209.3	151.3	345.1	344.0	346.5
Cash Flow (EUR m)	12/08	12/09	12/10e	12/11e	12/12e
Changes in working capital	-162.4	152.7	-167.4	-29.8	-8.7
Operational cash flow	254.9	508.5	517.0	707.1	698.2
CF from operating activities	232.0	479.3	384.3	557.6	549.4
CF from investing activities	-289.2	-171.0	-255.0	-190.0	-200.0
CF from financing activities	-81.9	-50.6	-117.7	-99.3	-101.3
CAPEX	-251.0	-167.7	-185.0	-190.0	-200.0
Dividend payment	-62.2	-50.6	-97.2	-99.3	-101.3
Balance Sheet (EUR m)	12/08	12/09	12/10e	12/11e	12/12e
Tangible fixed assets	1,070.7	1,127.7	1,175.9	1,083.2	1,068.1
Goodwill	59.1	54.3	54.3	54.3	54.3
Total fixed assets	1,408.7	1,535.5	1,635.0	1,552.1	1,543.5
Working capital	739.9	590.9	758.3	788.0	796.8
Total equity	1,172.3	1,373.6	1,621.5	1,866.2	2,111.4
Provisions & deferred taxes	214.9	217.7	217.7	217.7	217.7
Net financial debt	672.9	405.6	383.6	115.4	-132.8
Total assets	2,667.2	2,829.5	3,174.7	3,380.5	3,651.4
Shares - per share data (EUR)	12/08	12/09	12/10e	12/11e	12/12e
Adjusted EPS	10.62	7.69	17.54	17.49	17.62
Dividend	2.80	2.94	5.05	5.15	5.15
No shares - average (m)	19.71	19.67	19.67	19.67	19.67
Ratios	12/08	12/09	12/10e	12/11e	12/12e
Adjusted P/E	4.6	14.1	12.6	12.6	12.6
P/BV	0.8	1.7	2.8	2.4	2.2
EV/EBITDA	3.6	6.2	6.8	6.3	5.8
EV/EBIT	7.0	10.3	9.4	8.4	7.9
EV/FCF (1)	-	-	-	-	-
FCF yield (2)	11.8%	14.4%	3.0%	8.4%	8.0%
Div. yield	5.8%	2.7%	2.3%	2.3%	2.3%
Net Debt/EBITDA	1.6	1.1	0.6	0.2	-0.2
ROCE post-tax	15.9%	14.6%	26.7%	28.3%	28.5%
Gross margin	22.6%	21.9%	28.1%	27.1%	26.0%
EBIT margin	7.9%	9.5%	15.8%	15.6%	15.0%

Business description

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

The company transforms wire rod into different kinds of wires and cords. From 6.5mm steelcord, the company is able to draw very thin wires and even metal fibres with a thickness of merely 1 µm. These wires are used in a wide variety of markets such as the Energy & Utilities sector, Automotive, Construction, Agriculture, consumer goods, etc. Some examples are: wires for use in the manufacturing of industrial springs, the reinforcement of flexible pipes, profiled wires, textile machine wires, bookbinding wires, weaving wires, champagne cork wires, silicon-sawing wire, various types of lacquered and coated wires, steel fibers for concrete reinforcement (Dramix), etc.

High-tensile wires are woven into steel cord products like tire cord and bead wire, which are used in car and truck tires (75% replacement market). Steel cord is also used as reinforcement in other polymer applications, such as high-pressure hoses, polyurethane drive belts and conveyor belts.

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 markets for its products. In China it has a market share of close to 40%!

In several other segments Bekaert is market leader as well with often dominant positions, while competition can be severe in the lower added value segments.

Emerging markets represent more than 60% of combined sales.

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	SELL	REDUCE	HOLD	ADD	BUY
High Beta > 1.3	RP < -15%	-15% ≤ RP < -6%	-6% ≤ RP < +6%	+6% ≤ RP < +15%	RP ≥ 15%
Medium 0.9 < Beta ≤ 1.3	RP < -10%	-10% ≤ RP < -4%	-4% ≤ RP < +4%	+4% ≤ RP < +10%	RP ≥ 10%
Low Beta ≤ 0.9	RP < -6%	-6% ≤ RP < -2%	-2% ≤ RP < +2%	+2% ≤ RP < +6%	RP ≥ 6%

RP : Relative Performance against Petercam coverage universe

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