

Xingda roadshow confirms strong dynamics

End of Q1 weakness temporary, as confirmed by Xingda

- We were on roadshow with Xingda last Friday. Xingda is Bekaert's most important competitor in tire cord in China and also a competitor in sawing wire.
- During the meetings, Xingda management confirmed that the end of quarter weakness, as indicated by Bekaert, is temporary and indicated that April was a very good month.
- This confirms the comments from Bekaert that this weakness was probably due to tire manufacturers temporarily delaying their orders in view of the high rubber prices.
- Xingda has tire cord capacity of 460k, and together with Bekaert dominates the Chinese market with market shares of around 35%.
- Xingda saw volume growth of +10% in Q1. We believe Bekaert was around 15%. Xingda also expects H2 to be stronger than H1, while Bekaert highlights more uncertainty for H2.
- In sawing wire, Xingda has entered the market this year, with prices 20% lower than Bekaert. Xingda indicates that a 5% difference is probably necessary to compensate for the quality difference, which probably is an understatement.
- As we highlighted in our March report, we believe Bekaert will react by lowering prices steadily and smart without disrupting the market. This should reduce margins but will be over compensated by volume growth, resulting in nominal EBIT growth in China. Despite lower prices, Xingda states that EBIT margin is above 60% in sawing wire.

Undemanding valuation for global diversified leader

- The Xingda roadshow confirmed our Bekaert view, that both tire cord and sawing wire demand remain very strong.
- Trading at 8.1x EV/EBIT 2011 and 7.5x 2012, Bekaert is cheap given the high growth profile and global presence with very strong market positions. We reiterate our BUY rating with target price of EUR 100.

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 two key product drivers for Bekaert are silicon sawing wire for the Photovoltaic sector and tire cord for use in trucks and busses and to a lesser extent in passenger cars.

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%! Its nearest competitor is Xingda.

In several other segments Bekaert is market leader as well, with often dominant positions, such as in the high margin sawing wire business. Competition can be severe in the lower added value segments.

Emerging markets represent more than 60% of combined sales.

Buy

Price: EUR 77.50
(13/05/11)

Target price: 100.00

Risk: Medium

Reuters: BERTt.BR

Bloomberg: BEKB BB

Shares number (m): 59.88

Market cap. (m): 4,641

Net debt 12/10 (m): 578

Net debt/equity 12/10: 34%

H/L 1 year: 87.43 - 41.70

1 year price perf.: 62.9%

Diff. with Euro Stoxx : 54.8%

Volume (sh./day): 190,287

Free Float 62%

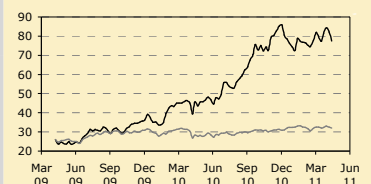
Family shareholders 38%

	10	11e	12e
P/E	14.0	11.6	11.2
EV/EBITDA	7.7	6.3	5.8
EV/EBITA	9.9	7.8	7.2
Div. yield	2.0%	2.2%	2.2%

Company Calendar

29/07/2011 H1 2011 results
10/11/2011 Q3 trading update

Bekaert + relative to Euro Stoxx (grey)



Analyst:

Stefaan Genoe

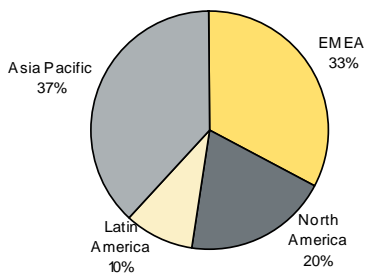
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Exhibit 1 Updated estimates										
in EUR m	2009	2010	2011 Q1	2011Q2e	2011 H1e	2011 Q3e	2011 Q4e	2010 H2e	2011e	2012e
Combined Revenues	3,340.8	4,464.5	1,233.1	1,315.4	2,548.4	1,273.0	1,243.6	2,516.6	5,065.0	5,393.5
<i>y/y</i>	-16.7%	33.6%	29.4%	13.4%	20.6%	7.3%	6.8%	7.0%	13.5%	6.5%
Associates	903.0	1,202.3	315.0	345.0	660.0	323.9	324.2	648.2	1,308.2	1,381.8
Revenues	2,437.8	3,262.2	918.0	970.4	1,888.4	949.1	919.4	1,868.4	3,756.8	4,011.7
<i>yoy</i>	-8.4%	33.8%	32.3%	15.4%	23.0%	9.5%	6.8%	8.2%	15.2%	6.8%
<i>volume</i>	-7.5%	23.6%	12.2%	9.8%	10.9%	7.3%	7.0%	7.1%	8.9%	5.1%
<i>price/mix</i>	-9.7%	6.8%	16.1%	10.1%	12.8%	5.7%	2.4%	4.1%	8.2%	2.0%
<i>acq/div</i>	5.4%	1.8%	0.7%	0.0%	0.3%	0.0%	0.0%	0.0%	0.2%	0.0%
<i>forex</i>	3.4%	2.0%	3.2%	-4.5%	-1.0%	-3.4%	-2.6%	-3.0%	-2.1%	-0.3%
EMEA	827.9	1,065.7	307.0	321.5	628.5	300.5	285.1	585.6	1,214.1	1,274.8
North America	473.4	637.3	176.0	180.7	356.7	178.4	160.3	338.8	695.5	726.3
Latin America	326.6	310.9	82.0	89.1	171.1	94.4	80.3	174.8	345.9	370.1
Asia Pacific	809.8	1,248.3	353.0	379.1	732.1	375.7	393.7	769.3	1,501.4	1,640.5
EBITDA	384.7	728.0			396.1			387.9	784.0	816.0
<i>margin</i>	15.8%	22.3%			21.0%			20.8%	20.9%	20.3%
REBIT	256.5	562.2			321.1			309.9	631.0	654.0
<i>margin</i>	10.5%	17.2%			17.0%			16.6%	16.8%	16.3%
non-recurring	-25.1	-28.2			-13.0			-13.0	-26.0	-24.0
EBIT	231.4	534.0			308.1			296.9	605.0	630.0
<i>margin</i>	9.5%	16.4%			16.3%			15.9%	16.1%	15.7%
EMEA	-19.5	86.1			52.0			41.0	93.0	87.0
<i>margin</i>	-2.4%	8.1%			8.3%			7.0%	7.7%	6.8%
North America	-7.7	31.8			21.0			17.0	38.0	30.0
<i>margin</i>	-1.6%	5.0%			5.9%			5.0%	5.5%	4.1%
Latin America	26.5	14.0			15.0			15.0	30.0	33.0
<i>margin</i>	8.1%	4.5%			8.8%			8.6%	8.7%	8.9%
Asia Pacific	287.9	466.5			250.1			254.0	504.1	540.0
<i>margin</i>	35.6%	37.4%			34.2%			33.0%	33.6%	32.9%
Other	-55.5	-63.0			-30.0			-30.1	-60.1	-60.0
Net financial charges	-65.5	-32.4			-32.8			-27.9	-60.7	-56.7
PBT	165.9	501.6			275.3			269.0	544.3	573.3
taxes	-33.9	-139.9			-77.1			-75.3	-152.4	-160.5
<i>tax rate</i>	20.4%	27.9%			28.0%			28.0%	28.0%	28.0%
Associates	37.8	36.0			17.0			18.7	35.7	35.2
Minoritiess	-18.6	-30.9			-15.0			-16.0	-31.0	-32.0
Net profit	151.3	366.8			200.2			196.4	396.6	416.0
EPS	2.53	6.13							6.69	7.02
<i>y/y</i>	-27.7%	142.4%							9.2%	4.9%

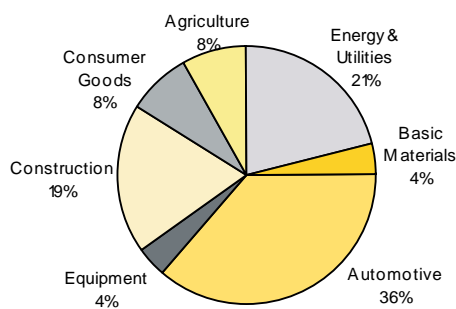
Source: Petercam estimates

Exhibit 1 Geographical sales breakdown 10e



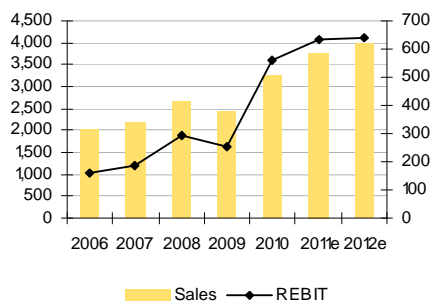
Source: Petercam

Exhibit 2 End-market sales breakdown



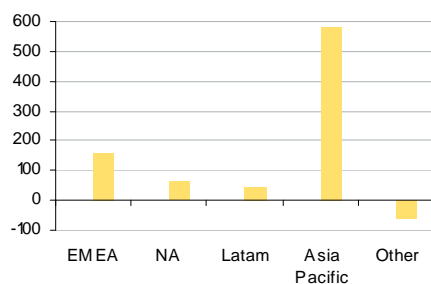
Source: Bekaert

Exhibit 3 Sales and REBIT evolution



Source: Petercam

Exhibit 4 EBITDA breakdown 2011e



Source: Petercam

Profit & Loss (EUR m)	12/09	12/10	12/11e	12/12e	12/13e
Revenues	2,437.8	3,262.2	3,756.8	4,011.7	4,289.3
Gross profit	534.5	903.9	999.0	1,053.3	1,126.1
EBITDA	384.7	728.0	784.0	809.0	830.0
EBITA	256.5	562.2	631.0	647.0	658.0
EBIT	231.4	534.0	605.0	623.0	634.0
Net Financial Result	-56.6	-50.1	-60.7	-56.7	-54.9
Exceptionals (gross)	-	-	-	-	-
Taxes	-33.9	-139.9	-152.4	-158.6	-162.1
Except./discontinued operations	0.0	0.0	0.0	0.0	0.0
Net declared earnings	151.3	366.8	396.6	410.9	424.2
Net adjusted earnings	151.3	366.8	396.6	410.9	424.2

Cash Flow (EUR m)	12/09	12/10	12/11e	12/12e	12/13e
EBIT	231.4	534.0	605.0	623.0	634.0
Depreciation	153.3	194.0	179.0	186.0	196.0
Amortization	0.0	0.0	0.0	0.0	0.0
Impairment charges	14.1	16.2	12.0	13.0	13.0
Changes in provision	0.0	0.0	0.0	0.0	0.0
Changes in working capital	152.7	-274.0	-155.3	1.3	-75.7
Others	-43.0	6.0	26.7	-11.5	-12.5
Operational Cash Flow	508.5	476.1	667.4	811.9	754.8
Tax expenses	-31.1	-113.3	-152.4	-158.6	-162.1
Dividends from associates	41.1	40.4	29.6	29.2	30.9
Net interest charges	-39.2	-43.5	-60.7	-56.7	-54.9
Others	0.0	0.0	0.0	0.0	0.0
CF from operating activities	479.3	359.7	483.9	625.8	568.6
CAPEX	-167.7	-247.6	-250.0	-260.0	-270.0
Acquisitions	-3.3	-29.7	0.0	0.0	0.0
Divestments	0.0	26.7	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
CF from investing activities	-171.0	-250.6	-250.0	-260.0	-270.0
Dividend payment	-50.6	-118.5	-100.7	-102.7	-102.7
Minor. & pref. dividends	0.0	0.0	0.0	0.0	0.0
Equity financing	0.0	-57.7	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
CF from financing activities	-50.6	-176.2	-100.7	-102.7	-102.7
Net debt/cash change	257.7	-67.1	133.3	263.1	196.0

Balance Sheet (EUR m)	12/09	12/10	12/11e	12/12e	12/13e
Tangible fixed assets	1,127.7	1,295.1	1,073.4	1,137.5	1,138.4
Goodwill	54.3	58.1	58.1	58.1	58.1
Other intang. assets	50.7	73.1	73.1	73.1	73.1
Financial fixed assets	302.8	339.6	350.8	356.8	363.1
Total Fixed assets	1,535.5	1,765.9	1,555.4	1,625.4	1,632.7
Working capital	590.9	940.3	1,095.6	1,094.2	1,169.9
Total Equity	1,373.6	1,696.6	1,992.6	2,300.8	2,622.3
Provisions & deferred taxes	217.7	226.9	226.9	226.9	226.9
Net financial debt	405.6	577.9	434.0	170.9	-25.1
Total assets	2,829.5	3,673.1	3,871.3	4,223.2	4,590.7

Shares - per share data (EUR)	12/09	12/10	12/11e	12/12e	12/13e
Adjusted EPS	2.53	6.13	6.69	6.94	7.16
Dividend	0.98	1.68	1.72	1.72	1.77
No shares - average (m)	59.81	59.81	59.25	59.25	59.25

Ratios	12/09	12/10	12/11e	12/12e	12/13e
Valuation analysis					
Adjusted P/E	14.3	14.0	11.6	11.2	10.8
P/BV	1.7	3.2	2.4	2.1	1.8
EV/EBITDA	6.2	7.7	6.3	5.8	5.4
EV/EBITA	9.3	9.9	7.8	7.2	6.8
EV/FCF (1)	-	-	-	-	-
FCF yield (2)	14.3%	-0.3%	5.0%	7.9%	6.4%
Dividend yield	2.7%	2.0%	2.2%	2.2%	2.3%

Financial ratios					
Net Debt/EBITDA	1.1	0.8	0.6	0.2	0.0
Net Debt/Equity	29.5%	34.1%	21.8%	7.4%	-1.0%
ROCE post-tax	14.6%	25.1%	26.5%	26.7%	25.9%
ROCE post-tax (grossed gdwll)	11.6%	18.1%	19.1%	19.3%	18.7%

Margin analysis and tax rate					
Gross margin	21.9%	27.7%	26.6%	26.3%	26.3%
EBITA margin	10.5%	17.2%	16.8%	16.1%	15.3%
Tax rate	20.4%	27.9%	28.0%	28.0%	28.0%

Growth analysis					
Sales	-8%	34%	15%	7%	7%
Adjusted EPS	-28%	142%	9%	4%	3%

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

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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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