

## Conference call feedback: No visibility!

### 2 months of market collapse sink margins

- While in H2 2010, Bekaert's REBIT margin in Asia reached 38%, this margin only reached 29% in H1 2011, or 32% when adjusted for the EUR 21m bad debt provision.
- Management confirmed that the real market collapse only started halfway through the quarter and as such, less than 2 out of 6 months have had a huge impact on margins.
- While little detail was provided, it's clear that capacity utilization in sawing wire has been extremely low in these 2 months and prices have been slashed very hard. We believe prices are now below RMB 70,000, while one year ago they were still above RMB 120,000.
- The huge drop in the last 2 months of H1, does not bode well for the remainder of the year.
- Management states that it has seen some improvement in recent weeks but it is still far too early to call it a trend reversal.
- Management also reiterates that quality sawing wire is not an easy product to make but when markets are in over supply, like today, it allows lower quality competitors to enter the market.
- Bekaert states it has not lost clients but it had to react aggressively to competitors offering lower prices in order not to provide oxygen to new entrants. It would also be surprised if competitors would continue to expand capacity in current markets.
- Tire cord market circumstances are much better with a normal level of price pressure but growth has disappeared for the time being.
- The H1 results also benefited from an inventory adjustment of EUR 15 – 20m, mainly in Europe and to a lesser extent in Asia.
- Outside of China, everything is fine, although the Brazilian market is difficult due to the foreign competition.

### Reviewing our estimates downwards

- Based on the above explained current extremely difficult situation in sawing wire, we significantly reduce our FY and also next year's estimates. It's clear that margins will not go back to previous levels.
- Making FY estimates is a difficult task with management itself confirming to have no visibility at all on the sawing wire market.
- We reduce our FY sales forecasts from EUR 3,714m to EUR 3,396m and we reduce our FY EBITA estimate from EUR 543m to EUR 442m.
- This estimate is based on an Asian margin of 25.5% in H2 versus 32% underlying in H1. It implies a sawing margin of less than 30% for H2 while we were still at around 60% for 2010 on average.
- Our EPS estimates go down from EUR 5.60 and EUR 5.80 for 2011 and 2012 to EUR 4.41 and 3.80 respectively.

### Valuation not demanding

- On these new estimates the shares trade at an undemanding EV/EBIT 2011 and 2012 of 7.5x and 8.0x respectively.
- While this is undemanding, it is clear that visibility is extremely low and that earnings have collapsed in just a few months of time.
- With low valuation but limited visibility we change our rating to ADD with a target price of EUR 52.0, i.e. 9.0x 2012 estimated EV/EBIT.

## Add

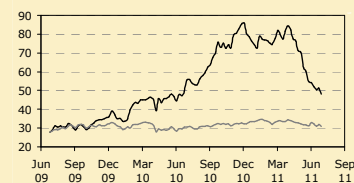
Price:	EUR 48.20
	(28/07/11)
Target price:	52.00
Risk:	High
Reuters:	BERTt.BR
Bloomberg:	BEKB BB
Shares number (m):	59.88
Market cap. (m):	2,886
Net debt 12/10 (m):	578
Net debt/equity 12/10:	34%
H/L 1 year:	87.43 - 48.20
1 year price perf.:	-3.3%
Diff. with Euro Stoxx :	-3.7%
Volume (sh./day):	198,305
Free Float	62%
Family shareholders	38%

	10	11e	12e
P/E	14.0	10.9	12.6
EV/EBITDA	7.7	5.4	5.8
EV/EBITA	9.9	7.6	8.1
Div. yield	2.0%	3.9%	4.1%

### Company Calendar

29/07/2011 HY 2011 Results  
10/11/2011 Q3 2011 Results

Bekaert + relative to Euro Stoxx (grey)



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**Exhibit 1 New estimates**

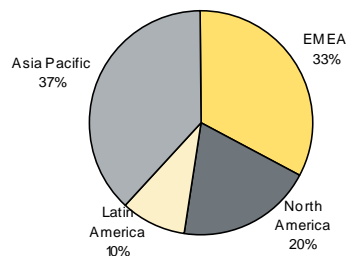
in EUR m	2009	2010	2011 Q1	2011Q2	2011 H1	2011 Q3e	2011 Q4e	2011 H2e	2011e	2012e	2013e
Combined Revenues	3,340.8	4,464.5	1,233.1	1,179.0	2,412.0	1,149.5	1,114.5	2,264.0	4,676.0	4,863.2	5,172.7
y/y	-16.7%	33.6%	29.4%	1.6%	14.1%	-3.1%	-4.3%	-3.7%	4.7%	4.0%	6.4%
Associates	903.0	1,202.3	315.0	317.0	632.1	323.9	324.2	648.2	1,280.2	1,356.1	1,433.4
Revenues	2,437.8	3,262.2	918.0	862.0	1,780.0	825.5	790.3	1,615.8	3,395.8	3,507.1	3,739.2
EMEA	827.9	1,065.7	307.0	308.0	614.9	300.5	285.1	585.6	1,200.5	1,260.5	1,323.6
North America	473.4	637.3	176.0	178.0	354.0	174.1	156.2	330.3	684.3	709.9	745.4
Latin America	326.6	310.9	82.0	90.0	172.1	94.4	80.3	174.8	346.8	371.1	397.1
Asia Pacific	809.8	1,248.3	353.0	286.0	639.0	256.5	268.7	525.2	1,164.2	1,165.5	1,273.2
EBITDA	384.7	728.0			343.5			278.8	622.3	556.9	581.7
margin	15.8%	22.3%			19.3%			17.3%	18.3%	15.9%	15.6%
EMEA	46.5	143.1			73.0			79.0	152.0	157.0	149.0
North America	13.3	49.8			34.5			35.0	69.5	58.0	55.0
Latin America	36.5	39.0			22.0			22.0	44.0	46.0	50.0
Asia Pacific	349.9	560.5			255.5			172.9	428.4	355.9	387.7
Other	-61.5	-63.0			-41.0			-30.1	-71.1	-60.0	-60.0
REBIT	256.5	562.2			242.0			199.8	441.8	394.9	409.7
margin	10.5%	17.2%			13.6%			12.4%	13.0%	11.3%	11.0%
non-recurring	-25.1	-28.2			-10.5			-13.0	-23.5	-24.0	-24.0
EBIT	231.4	534.0			231.5			186.8	418.3	370.9	385.7
margin	9.5%	16.4%			13.0%			11.6%	12.3%	10.6%	10.3%
EMEA	-19.5	86.1			45.0			47.0	92.0	92.0	84.0
margin	-2.4%	8.1%			7.3%			8.0%	7.7%	7.3%	6.3%
North America	-7.7	31.8			27.5			22.0	49.5	32.0	29.0
margin	-1.6%	5.0%			7.8%			6.7%	7.2%	4.5%	3.9%
Latin America	26.5	14.0			16.0			15.0	31.0	33.0	37.0
margin	8.1%	4.5%			9.3%			8.6%	8.9%	8.9%	9.3%
Asia Pacific	287.9	466.5			184.5			132.9	317.4	273.9	295.7
margin	35.6%	37.4%			28.9%			25.3%	27.3%	23.5%	23.2%
Other	-55.5	-63.0			-41.0			-30.1	-71.1	-60.0	-60.0
Net financial charges	-65.5	-32.4			-34.7			-27.9	-62.6	-56.7	-54.9
PBT	165.9	501.6			196.8			158.9	355.7	314.2	330.8
taxes	-33.9	-139.9			-53.5			-44.5	-98.0	-88.0	-92.6
tax rate	20.4%	27.9%			28.0%			28.0%	27.6%	28.0%	28.0%
Associates	37.8	36.0			14.1			18.7	32.8	32.3	37.2
Minoritiess	-18.6	-30.9			-13.4			-16.0	-29.4	-32.0	-30.0
Net profit	151.3	366.8			143.9			117.1	261.1	226.5	245.4
EPS	2.53	6.13							4.41	3.82	4.14
y/y	-27.7%	142.4%							-28.2%	-13.2%	8.3%

Source: Petercam estimates

# Bekaert

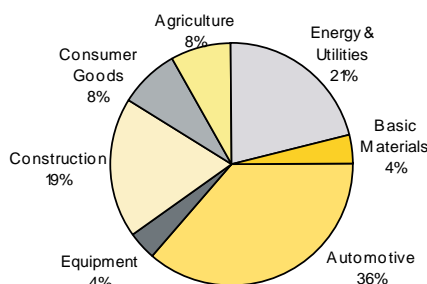
Updated Estimates: **YES**

Exhibit 1 Geographical sales breakdown 10



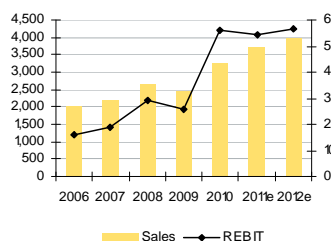
Source: Bekaert

Exhibit 2 End-market sales breakdown



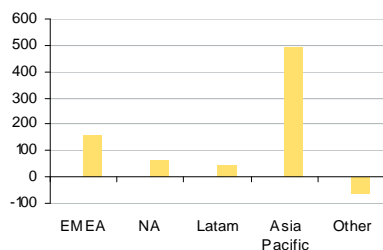
Source: Bekaert

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	3,395.8	3,507.1	3,739.2
Gross profit	534.5	903.9	833.2	811.5	860.8
EBITDA	384.7	728.0	622.3	556.9	581.7
EBITA	256.5	562.2	441.8	394.9	409.7
EBIT	231.4	534.0	418.3	370.9	385.7
Depreciation	-153.3	-194.0	-204.0	-186.0	-196.0
Net financial result	-56.6	-50.1	-59.4	-56.7	-54.9
Exceptionals (gross)	-	-	-	-	-
Taxes	-33.9	-139.9	-98.0	-88.0	-92.6
Except./discontinued operations	0.0	0.0	0.0	0.0	0.0
Net declared earnings	151.3	366.8	261.1	226.5	245.4
<b>Net adjusted earnings</b>	<b>151.3</b>	<b>366.8</b>	<b>261.1</b>	<b>226.5</b>	<b>245.4</b>
Cash Flow (EUR m)	12/09	12/10	12/11e	12/12e	12/13e
Changes in working capital	152.7	-274.0	-253.3	85.8	43.1
Operational cash flow	508.5	476.1	428.5	650.7	627.4
CF from operating activities	479.3	359.7	298.2	532.8	510.7
CF from investing activities	-171.0	-250.6	-250.0	-260.0	-270.0
CF from financing activities	-50.6	-176.2	-100.7	-113.4	-119.4
CAPEX	-167.7	-247.6	-250.0	-260.0	-270.0
Dividend payment	-50.6	-118.5	-100.7	-113.4	-119.4
Balance Sheet (EUR m)	12/09	12/10	12/11e	12/12e	12/13e
Tangible fixed assets	1,127.7	1,295.1	1,137.1	1,176.5	1,228.7
Goodwill	54.3	58.1	58.1	58.1	58.1
Total fixed assets	1,535.5	1,765.9	1,618.6	1,663.4	1,722.0
Working capital	590.9	940.3	1,193.5	1,107.8	1,064.6
Total equity	1,373.6	1,696.6	1,857.0	1,970.1	2,096.0
Provisions & deferred taxes	217.7	226.9	226.9	226.9	226.9
Net financial debt	405.6	577.9	619.7	460.3	339.0
Total assets	2,829.5	3,673.1	3,718.8	3,820.8	3,986.5
Shares - per share data (EUR)	12/09	12/10	12/11e	12/12e	12/13e
Adjusted EPS	2.53	6.13	4.41	3.82	4.14
Dividend	0.98	1.68	1.90	2.00	2.10
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
Adjusted P/E	14.3	14.0	10.9	12.6	11.6
P/BV	1.7	3.2	1.6	1.5	1.4
EV/EBITDA	6.2	7.7	5.4	5.8	5.3
EV/EBIT	10.3	10.5	8.1	8.7	8.0
EV/FCF (1)	-	-	-	-	-
FCF yield (2)	14.3%	-0.3%	1.7%	9.5%	8.4%
Div. yield	2.7%	2.0%	3.9%	4.1%	4.4%
Net Debt/EBITDA	1.1	0.8	1.0	0.8	0.6
ROCE post-tax	14.6%	25.1%	18.2%	16.6%	17.2%
Gross margin	21.9%	27.7%	24.5%	23.1%	23.0%
EBIT margin	9.5%	16.4%	12.3%	10.6%	10.3%

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

## 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 leading 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.

# Petercam Institutional Research and Sales

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