

Chinese tire cord market crucial for recovery

Cost measures on track ...

- Bekaert confirms that it is taking all the required cost initiatives. From the EUR 100m cost savings, 40% are in COGS and a large part also from Administrative costs. Selling expenses and R&D costs should see limited impact, as management considers them crucial for long term growth.
- In total, a gross amount of almost 3,200 people will have left the company. The cost structure has already been reduced by EUR 20m in 2012 and another EUR 70m should be recorded in 2013.
- From the final total of EUR 100m, an estimated EUR 50m can be expected to flow through to the bottom line, the balance being offset by natural cost inflation. Wage cost inflation is estimated at around EUR 15m annually.

... but business remains difficult

- In Europe, general demand remains weak and recent automotive numbers even indicate a further contraction. However, with recent years cost measures, we expect margins to remain relatively stable.
- The North American market also faces lower volume and capacity is not being eliminated with imports from China increasing after the reduction of import duties. Management does not see the positives today (bus and truck -4% in Q4) but believes that over time margins should be able to increase structurally.
- Despite the Venezuelan currency issues, Latam remains a stronghold. Rebit margin was 8% in 2012 and we expect a slight increase in 2013 despite Venezuela. The Latam segment includes an important trading activity, which structurally hurts margin by some 100bp's.
- The Chinese market is facing significant over supply, competitors continue to offer favourable payment terms to clients and as a result prices are declining. Xingda mentioned price declines of approx. 9% and also took impairment losses on trade receivables.

Chinese margin recovery crucial for margin target

- With 2012 Chinese REBIT being hit by EUR 10m start-up costs and a EUR 14m bad debt provision, 2013 REBIT should improve. Staring 2013 from a low level versus H1 2012, we expect underlying EBIT margin to be similar as last year at 6.5%.
- However, to get to the 7% 2014 REBIT target in normal economic circumstances, Asian margins should move to double digit levels again.
- We do not expect this in our model. Recently capacity has further increased slightly in China (Baosteel, Shougang), demand has stalled and as a result we do expect the pricing environment to remain difficult. Demand pick-up after Chinese new-year could provide more clarity in the coming weeks/months since reducing capacity remains a difficult Chinese mindset.

Valuation anticipates margin recovery

- Bekaert continues to trade sideways between EUR 20 - 22. The SBB is not a structural BB program but is part of the options plan and as such, not initiated because management believes the company is undervalued.
- We have a 2014 REBIT margin forecast of 6.1%. On 2014 estimates, Bekaert trades at 9.1x EV/EBIT and EV/CE of 0.85. This latter is in-line with the expected ROCE 2014 of 6.6%, which does not cover the opportunity cost of capital which we estimate around 9.0%. In exhibit 2 below, we show that current market valuation anticipates a further margin improvement. With WC well managed, margin is key to get ROCE up again.
- Hence, we maintain our Hold rating with a target price of EUR 24.00.

Hold

Price: EUR 22.00
(20/03/13)

Target price: 24.00
Risk: High

Reuters: BERTt.BR
Bloomberg: BEKB BB

Shares number (m): 59.88
Market cap. (m): 1,317
Net debt 12/12 (m): 735
Net debt/EBITDA 12/12: 2.68

H/L 1 year: 25.92 - 17.51
1 year price perf.: -20.0%
Diff. with Euro Stoxx : -27.5%
Volume (sh./day): 253,234

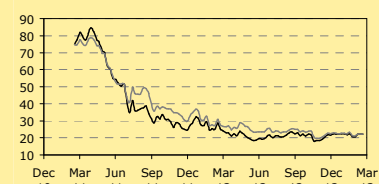
Free Float 62%
Family shareholders 38%

| | 11 | 12 | 13e |
|------------|------|------|------|
| P/E | 7.6 | nm | 38.0 |
| EV/EBITDA | 5.1 | 7.7 | 6.8 |
| EV/EBIT | 9.0 | nm | 18.0 |
| Div. yield | 4.7% | 3.9% | 3.9% |

Company Calendar

08/05/13 Q1 2013 trading update
26/07/13 HY 2013 results
14/11/13 Q3 2013 trading update

Bekaert + relative to Euro Stoxx (grey)

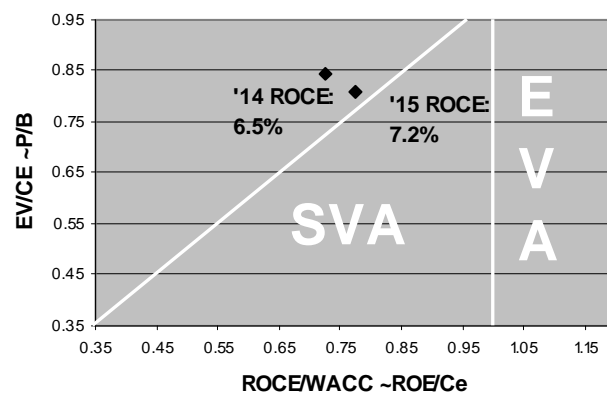


Analyst:

Stefaan Genoe
+32 (0)2 229 64 66
stefaan.genoe@petercam.be

Exhibit 1 ROCE vs. WACC
Exhibit 2 EV/CE valuation

| | 2013e | 2014e | 2015e |
|------------------|-------|-------|-------|
| ROCE/WACC | 0.34 | 0.72 | 0.77 |
| EV/CE | 0.87 | 0.84 | 0.81 |
| ROCE | 2.9% | 6.5% | 7.2% |
| ROCE-WACC | -5.6% | -2.5% | -2.1% |



Source: Petercam estimates

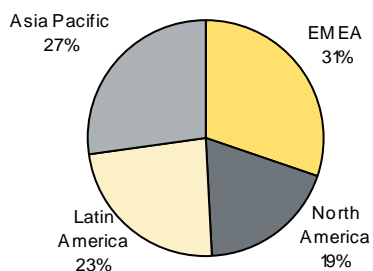
Source: Petercam estimates

Exhibit 3 P&L data

| in EUR m | 2009 | 2010 | 2011 | 2012 | 2013 Q1 | 2013Q2 | 2013 H1 | 2013 Q3 | 2013 Q4 | 2013 H2 | 2013e | 2014e | 2015e |
|-----------------------|--------------|--------------|--------------|---------------|---------|---------|-------------|---------|---------|-------------|--------------|--------------|--------------|
| Combined Revenues | 3,340.8 | 4,464.5 | 4,600.8 | 4,387.1 | 1,121.4 | 1,123.1 | 2,244.5 | 1,094.5 | 1,057.2 | 2,151.7 | 4,396.2 | 4,556.4 | 4,725.6 |
| y/y | -16.7% | 33.6% | 3.1% | -4.6% | -1.2% | 0.3% | -0.4% | -1.0% | 2.9% | 0.9% | 0.2% | 3.6% | 3.7% |
| Associates | 903.0 | 1,202.3 | 1,259.4 | 911.5 | 220.9 | 230.1 | 451.0 | 242.6 | 245.4 | 488.0 | 939.0 | 978.9 | 1,022.2 |
| Revenues | 2,437.8 | 3,262.2 | 3,340.0 | 3,460.6 | 900.5 | 893.1 | 1,793.6 | 851.8 | 811.8 | 1,663.7 | 3,457.3 | 3,577.5 | 3,703.3 |
| EMEA | 827.9 | 1,065.7 | 1,170.0 | 1,044.0 | 292.9 | 269.5 | 562.4 | 256.8 | 237.7 | 494.5 | 1,056.9 | 1,072.7 | 1,088.8 |
| y/y | | 28.7% | 9.8% | -10.8% | | | | | | | 1.2% | 1.5% | 1.5% |
| North America | 473.4 | 637.3 | 665.2 | 659.1 | 175.1 | 174.3 | 349.4 | 161.4 | 143.5 | 304.9 | 654.3 | 667.4 | 680.7 |
| y/y | | | 4.4% | -0.9% | | | | | | | -0.7% | 2.0% | 2.0% |
| Latin America | 326.6 | 310.9 | 372.1 | 812.2 | 184.8 | 186.1 | 370.9 | 186.1 | 183.9 | 370.0 | 740.9 | 766.8 | 793.7 |
| y/y | | | 19.7% | 118.3% | | | | | | | -8.8% | 3.5% | 3.5% |
| Asia Pacific | 809.8 | 1,248.3 | 1,134.0 | 945.3 | 247.7 | 263.2 | 510.9 | 247.5 | 246.8 | 494.3 | 1,005.2 | 1,070.5 | 1,140.1 |
| y/y | | | -9.2% | -16.6% | | | | | | | 6.3% | 6.5% | 6.5% |
| EBITDA | 384.7 | 728.0 | 480.0 | 274.8 | | | 144.2 | | | 156.8 | 301.0 | 393.0 | 408.6 |
| margin | 15.8% | 22.3% | 14.4% | 7.9% | | | 8.0% | | | 9.4% | 8.7% | 11.0% | 11.0% |
| REBIT | 256.5 | 562.2 | 281.0 | 117.8 | | | 70.2 | | | 77.8 | 148.0 | 218.0 | 233.6 |
| margin | 10.5% | 17.2% | 8.4% | 3.4% | | | 3.9% | | | 4.7% | 4.3% | 6.1% | 6.3% |
| EMEA | 1.0 | 95.0 | 66.0 | 63.0 | | | 30.9 | | | 29.7 | 60.6 | 83.0 | 84.2 |
| margin | 0.1% | 8.9% | 5.6% | 6.0% | | | 5.5% | | | 6.0% | 5.7% | 7.7% | 7.7% |
| North America | -5.0 | 34.0 | 32.0 | 30.0 | | | 14.0 | | | 15.2 | 29.2 | 41.6 | 42.4 |
| margin | -1.1% | 5.3% | 4.8% | 4.6% | | | 4.0% | | | 5.0% | 4.5% | 6.2% | 6.2% |
| Latin America | 28.0 | 26.0 | 35.0 | 64.0 | | | 29.7 | | | 31.5 | 61.1 | 67.1 | 69.4 |
| margin | 8.6% | 8.4% | 9.4% | 7.9% | | | 8.0% | | | 8.5% | 8.2% | 8.7% | 8.7% |
| Asia Pacific | 288.0 | 470.0 | 224.0 | 37.0 | | | 30.7 | | | 36.4 | 67.1 | 91.3 | 102.5 |
| margin | 35.6% | 37.7% | 19.8% | 3.9% | | | 6.0% | | | 7.4% | 6.7% | 8.5% | 9.0% |
| Other | -55.0 | -63.0 | -76.0 | -76.0 | | | -35.0 | | | -35.0 | -70.0 | -70.0 | -70.0 |
| non-recurring | -25.1 | -28.2 | -12.0 | -167.0 | | | -20.0 | | | -15.0 | -35.0 | -15.0 | -15.0 |
| EBIT | 231.4 | 534.0 | 269.0 | -49.2 | | | 50.2 | | | 62.8 | 113.0 | 203.0 | 218.6 |
| margin | 9.5% | 16.4% | 8.1% | -1.4% | | | 2.8% | | | 3.8% | 3.3% | 5.7% | 5.9% |
| Net financial charges | -65.5 | -32.4 | -18.5 | -82.0 | | | -29.0 | | | -30.9 | -59.9 | -56.9 | -56.9 |
| PBT | 165.9 | 501.6 | 250.5 | -131.2 | | | 21.2 | | | 31.9 | 53.1 | 146.1 | 161.7 |
| taxes | -33.9 | -139.9 | -68.1 | -67.7 | | | -9.6 | | | -12.8 | -22.3 | -40.9 | -45.3 |
| tax rate | 20.4% | 27.9% | 27.2% | -51.6% | | | 45.0% | | | 40.0% | 42.0% | 28.0% | 28.0% |
| Associates | 37.8 | 36.0 | 25.4 | 10.4 | | | 7.0 | | | 7.5 | 14.5 | 17.5 | 17.5 |
| Minorities | -18.6 | -30.9 | -14.6 | -6.4 | | | -5.5 | | | -5.5 | -11.0 | -12.0 | -12.0 |
| Net profit | 151.3 | 366.8 | 193.1 | -195.0 | | | 13.2 | | | 21.1 | 34.3 | 110.7 | 121.9 |
| EPS | 2.53 | 6.13 | 3.26 | -1.30 | | | | | | | 0.58 | 1.87 | 2.06 |
| y/y | -27.7% | 142.4% | -46.8% | | | | | | | | -144.6% | 222.6% | 10.1% |
| At EUR 24.72 | | 2010 | 2011 | 2012 | | | | | | | 2013e | 2014e | 2015e |
| EV/EBITDA | | 2.7 | 4.7 | 7.6 | | | | | | | 6.7 | 4.8 | 4.3 |
| EV/EBIT | | 3.7 | 8.4 | -42.5 | | | | | | | 17.7 | 9.3 | 8.1 |
| PER | | 3.6 | 6.7 | -16.5 | | | | | | | 37.0 | 11.5 | 10.4 |
| DPS | | 1.67 | 1.17 | 0.85 | | | | | | | 0.85 | 0.85 | 0.85 |
| gross yield | | 7.6% | 5.4% | 3.9% | | | | | | | 3.9% | 3.9% | 3.9% |
| ND/EBITDA | | 0.79 | 1.83 | 2.68 | | | | | | | 2.15 | 1.35 | 1.01 |

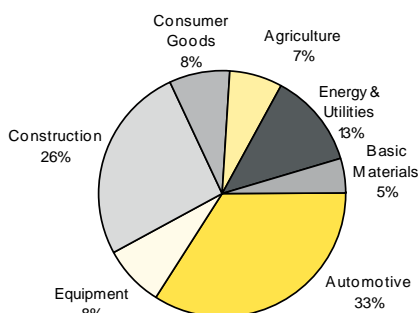
Source: Petercam estimates

Exhibit 1 Geographic sales breakdown 12e



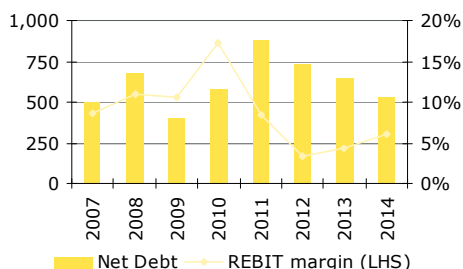
Source: Petercam

Exhibit 2



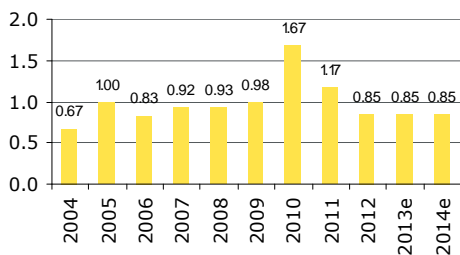
Source: Petercam

Exhibit 3 Net debt and REBIT evolution



Source: Petercam

Exhibit 4 DPS evolution



Source: Petercam

| Profit & Loss (EUR m) | 12/10 | 12/11 | 12/12 | 12/13e | 12/14e |
|---------------------------------|--------------|--------------|--------------|-------------|--------------|
| Revenues | 3,262.2 | 3,340.0 | 3,460.6 | 3,457.3 | 3,577.5 |
| Gross profit | 903.9 | 651.5 | 478.8 | 501.3 | 565.2 |
| EBITDA | 728.0 | 480.0 | 274.8 | 301.0 | 393.0 |
| EBITA | 562.2 | 281.0 | 117.8 | 148.0 | 218.0 |
| EBIT | 534.0 | 269.0 | -49.2 | 113.0 | 203.0 |
| Depreciation | -194.0 | -211.0 | -324.0 | -188.0 | -190.0 |
| Net financial result | -50.1 | -65.8 | -79.1 | -59.9 | -56.9 |
| Exceptionals (gross) | - | - | - | - | - |
| Taxes | -139.9 | -68.1 | -67.7 | -22.3 | -40.9 |
| Except./discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net declared earnings | 366.8 | 193.1 | -195.0 | 34.3 | 110.7 |
| Net adjusted earnings | 366.8 | 193.1 | -76.9 | 34.3 | 110.7 |
| Cash Flow (EUR m) | 12/10 | 12/11 | 12/12 | 12/13e | 12/14e |
| Changes in working capital | -274.0 | -199.7 | 226.8 | -15.3 | -16.2 |
| Operational cash flow | 476.1 | 322.5 | 504.2 | 334.9 | 380.2 |
| CF from operating activities | 359.7 | 141.7 | 373.8 | 261.8 | 293.4 |
| CF from investing activities | -250.6 | -194.3 | -95.8 | -125.0 | -125.0 |
| CF from financing activities | - | - | - | - | - |
| CAPEX | -247.6 | -277.6 | -127.3 | -125.0 | -125.0 |
| Dividend payment | -118.5 | -163.1 | -46.1 | -49.4 | -49.4 |
| Balance Sheet (EUR m) | 12/10 | 12/11 | 12/12 | 12/13e | 12/14e |
| Tangible fixed assets | 1,295.1 | 1,433.6 | 1,377.5 | 1,213.8 | 1,140.1 |
| Goodwill | 58.1 | 20.9 | 16.9 | 16.9 | 16.9 |
| Total fixed assets | 1,765.9 | 1,900.0 | 1,746.6 | 1,590.0 | 1,522.7 |
| Working capital | 940.3 | 1,115.6 | 835.0 | 850.3 | 866.5 |
| Total equity | 1,696.6 | 1,766.4 | 1,603.7 | 1,588.6 | 1,649.9 |
| Provisions & deferred taxes | 226.9 | 220.0 | 254.6 | 254.6 | 254.6 |
| Net financial debt | 577.9 | 879.6 | 735.5 | 648.5 | 529.5 |
| Total assets | 3,673.1 | 4,169.1 | 3,667.7 | 3,734.2 | 3,813.9 |
| Shares - per share data (EUR) | 12/10 | 12/11 | 12/12 | 12/13e | 12/14e |
| Adjusted EPS | 6.13 | 3.26 | -1.30 | 0.58 | 1.87 |
| Dividend | 1.67 | 1.17 | 0.85 | 0.85 | 0.85 |
| No shares - average (m) | 59.81 | 59.25 | 59.25 | 59.25 | 59.25 |
| Ratios | 12/10 | 12/11 | 12/12 | 12/13e | 12/14e |
| Adjusted P/E | 14.0 | 7.6 | nm | 38.0 | 11.8 |
| P/BV | 3.2 | 0.9 | 0.9 | 0.9 | 0.9 |
| EV/EBITDA | 8.0 | 5.1 | 7.7 | 6.8 | 4.9 |
| EV/EBIT | 10.8 | 9.0 | -43.0 | 18.0 | 9.4 |
| EV/FCF (1) | - | - | - | - | - |
| FCF yield (2) | -0.3% | -5.2% | 24.9% | 10.5% | 13.0% |
| Div. yield | 1.9% | 4.7% | 3.9% | 3.9% | 3.9% |
| Net Debt/EBITDA | 0.8 | 1.8 | 2.7 | 2.2 | 1.3 |
| ROCE post-tax | 18.1% | 7.8% | -1.5% | 2.9% | 6.5% |
| Gross margin | 27.7% | 19.5% | 13.8% | 14.5% | 15.8% |
| EBIT margin | 16.4% | 8.1% | -1.4% | 3.3% | 5.7% |

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

Business description

Bekaert 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.

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 35%. Its nearest competitor is Xingda, with similar tire cord capacity (+/-500kt). In several other segments Bekaert is market leader as well, with often large market shares. Competition can be severe in the lower added value segments. Emerging markets represent more than 60% of combined sales.

Petercam Institutional Research and Sales

www.petercam.com

Place Sainte-Gudule 19 – 1000 Brussels
De Lairessestraat 180 – 1075 HM Amsterdam
JPP Eurosecurities, 595 Madison Avenue – 38th floor – New York, 10022

Marc Janssens - Managing Director – +32.2.229.64.28

Analysts

| | | |
|--|---------------------------------|------------------------|
| Stefaan Genoe Head of Research | Telecom/Technology | +32.2.229.64.66 |
| Marcel Achterberg | IT Hardware & Services | +31.20.573.54.63 |
| Junior Cuigniez | Industrials/Shipping | +32.2.229.63.39 |
| Fernand de Boer | Retail/Food/Staffing | +31.20.573.54.17 |
| Marc Debrouwer | Misc. | +32.2.229.65.78 |
| Matthias De Wit, CFA | Financials | +32.2.229.65.56 |
| Joël Gorselé | Real Estate | +32.2.229.63.40 |
| Kris Kippers | Food & Beverages/Media | +32.2.229.65.95 |
| Luuk van Beek | Energy/Engineering/Construction | +31.20.573.54.71 |
| Stephan van Weeren | Real Estate | +31.20.573.54.22 |
| Roderick Verhelst | Life Sciences/Chemicals | +32.2.229.66.82 |

Sales

| | |
|---|------------------------|
| Gert Potvlieghe Head of Sales | +32.2.229.66.59 |
| Raymond de Wolff | +31.20.573.54.14 |
| Céline Donnet, CFA | +32.2.229.63.80 |
| Damien Fontaine | +32.2.229.65.62 |
| Sammy Nebbou | +32.2.229.64.23 |
| Jurgen Smits van Oyen | +31.20.573.54.13 |
| Jochen Vercauteren | +32.2.229.66.12 |

Sales Trading

| | |
|---|-------------------------|
| Hans de Jonge Head of Sales Trading | +31.20.573.54.04 |
| Veronique De Schoemaecker | +32.2.229.66.20 |
| Frans van Wakeren | +31.20.573.54.07 |

JPP Eurosecurities

| | |
|----------------|------------------|
| Simon Vlamincx | +1.212.521.67.35 |
|----------------|------------------|

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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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