

Belgium

Bekaert

Previously Hold

Hold

11/06/01

Reuters: BERTt.BR

Price: €42.08

Target price: €45

- Bekaert acquires US-based MSC/Specialty Films Inc for \$122m in cash. The acquisition confirms Bekaert's strategy to evolve towards higher value-added activities in growth markets.
- We expect impact on earnings to be insignificant for the next two years. Due to Bekaert's weak 1H01 outlook, we maintain our Hold recommendation.

Bekaert and MSC/SFI established a 50/50 JV in 1998, active in the coating of films with a (sputtered) metallic layer. The acquisition of MSC/SFI should therefore be regarded as a further vertical integration towards the end-consumer by offering more finished products. MSC/SFI is world-renown for window films. They are applied to glass windows in cars as well as in residential and commercial buildings. The combination of films and coatings makes it possible to control characteristics such as light transmission or reflection, energy absorption, heat permeability, etc. The market potential of MSC/SFI's products, especially in architectural applications (thanks to energy savings features), as well as the fact that MSC/SFI is already a JV partner of Bekaert, makes us feel confident about this acquisition. MSC/SFI holds a 20% market share in window film activities and attains an EBIT margin of 15% in a market which historically grew between 15% and 20%. Additionally the market is still in an early phase of development. Goodwill paid should amount up to c.\$70m.

Bekaert continues to strengthen its Advanced Materials division with the takeover of MSC/SFI. In 2000, MSC/SFI accounted for \$58.3m worth of sales with a staff of 224 people and it generated a pre-tax profit of \$9.8m. MSC's 50% stake in ISF is also part of the asset deal. All in all, this agreement should add annual sales of c.\$100m in 2002F (consolidated from 2H01 onwards). However, the lion's share of MSC/SFI's contribution to Bekaert's net earnings will, in the short run, be offset by the financing cost. Hence, we maintain our current EPS forecasts.

Bekaert's steel wire business, on the other hand, continues to suffer from the weaker economic outlook in the US and (from April onwards) also in Europe. To counteract the adverse effects, Bekaert closed a certain factories for a few weeks in May, which affected some 7,000 employees. Nevertheless, we expect 1H01F as well as FY01F results to be below last year's performance. We therefore maintain our Hold rating as we expect only limited upside potential in the short run. From a long-term perspective, we remain positive in view of Bekaert's increasing portion of higher value-added products in growth markets which Bekaert combines with a very limited downside risk in terms of valuation (EV/EBITDA of only 3.5x, share price below bookvalue).

Target price based on:

	High	Low	Now	Target
EV/EBITDA 01F (x)	4,8	3,5	3,5	3,8

Price performance

	12m	3m	Now	Target
Absolute (%)	-24,9	-6,5		6,9
FTSE 300	1.619	1.394	1.439	1.640
Rel to FTSE 300 (%)	-15,6	-9,4		-6,2
BEL20 index	2.877	2.942	2.856	3.200
Rel to local index (%)	-24,4	-3,7		-4,6

Forecasts (€)

Yr to 31 Dec	1999	2000	2001F	2002F
Turnover (m)	1.764,7	1.756,3	1.718,2	1.825,2
EPS growth (%)	107,7	18,3	-14,0	12,4
Net curr. profit (m)	79,9	93,8	80,6	90,6
Adj EPS	3,6	4,2	3,6	4,1
CFPS	10,3	10,9	10,4	11,0
Net Dividend	1,2	1,3	1,2	1,3
Adj PER (x)	11,8	10,0	11,6	10,4
EV/EBITDA (x)	4,1	3,3	3,5	3,1
Yield (%)	2,8	3,0	2,9	3,1

Share data (€)

No. of shares (m)	22,3	Market cap (m)	938,4
Daily t/o (m)	0,7	Ent'prise val (m)	883,6
Free float (%)	52,1	Price/NAV (x)	0,9

Key ratios

Yr to 31 Dec	1999	2000	2001F	2002F
EBITDA margin (%)	13,0	13,7	13,4	13,3
Gross margin (%)	17,4	20,4	20,1	20,0
Net debt/equity (%)	24,5	21,5	17,6	15,1
Net margin	4,5	5,3	4,6	4,9
ROE (%)	8,4	8,9	7,2	7,8

Forecasts: ING Barings, High/Low: 1 year, Target Price: 1 year

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