

1H01 results

Belgium

Bekaert

Previously Hold

Hold

27/07/01

Reuters: BERTt.BR

Price: €40.4

Target price: €41.0

- Bekaert reported its 1H01 results on Friday after market close. Sales in 1H01 came in at a solid €905m (YoY -1%) but net earnings were down YoY by 33.7%, which is some 10% below consensus expectations.
- Due to the persistent economic difficulties and a traditionally weaker second half, Bekaert's short-term outlook is not very appealing. Earnings forecasts are cut by some 20% ahead of the analyst's conference call next Monday. We expect the share price to suffer on Monday but stand by our Hold recommendation. Our price target is lowered to €41.

Bekaert's weak 1H01 results did not come as a surprise. At the FY00 results presentation, management warned of the impact of the economic slowdown in the US, which incited us to downgrade Bekaert to a Hold recommendation. In May 2001, signs of the decelerating European economy added another adverse impact to Bekaert's outlook, which provoked – once more – a downward revision of our earnings forecasts.

Bekaert's 1H01 sales were still strong as they only fell slightly (-1%) aided by the 7% stronger US dollar, which added some 3% to Bekaert's top line. However, the gross margin shrunk (-1.7%) due to less efficient production capacity use, bringing the group's EBITDA down (-15%) to €113m. Moreover, Bekaert's equity affiliates contributed only €7.5m (compared to €16.7m one year ago) to current earnings, despite their strong operational performance – currency devaluations in Latin America accounted for the lion's share of the €9m decline.

All in all, pre-tax profit was down by 41.8%. The lower overall tax rate (12.3%) limited the YoY decrease of net current earnings to -33.7% (€32.7m, corresponding to net EPS of €1.47). We revise our earnings forecasts downwards (EPS01F from €3.61 to €2.97, EPS02F from €4.06 to €3.61) to take the more substantial margin squeeze into account, as well as the lower profitability at Bekaert's associates. The analysts' conference call on Monday afternoon might lead us to fine-tune these estimates.

We expect Bekaert's share price to be under pressure on Monday, as results fell short of expectations. However, we maintain our Hold recommendation in view of Bekaert's long-term potential. Bekaert's strategy, implying an increasing proportion in overall sales of higher added-value products in growth markets, should gradually make the company less cyclical, as well as a candidate for higher multiples. In addition, Bekaert's current valuation in terms of EV/EBITDA01F (only 3.8x) or price/NAV (0.77x) remains low.

Target price based on

| | High | Low | Now | Target |
|-------------------|------|-----|-----|--------|
| EV/EBITDA 01F (x) | 5.3 | 3.9 | 3.8 | 3.8 |

Price performance

| | 12m | 3m | Now | Target |
|------------------------|-------|-------|-------|--------|
| Absolute (%) | -25.5 | -3.2 | | 1.5 |
| FTSE 300 | 1,607 | 1,446 | 1,292 | 1,640 |
| Rel to FTSE 300 (%) | -7.4 | 8.3 | | -20.0 |
| BEL20 Index | 3,060 | 2,841 | 2,911 | 3,200 |
| Rel to local index (%) | -21.7 | -5.6 | | -7.7 |

Forecasts (€)

| Yr to 31 Dec | 1999 | 2000 | 2001F | 2002F |
|---------------------|---------|---------|---------|---------|
| Turnover (m) | 1,764.7 | 1,756.3 | 1,764.2 | 1,874.1 |
| EPS growth (%) | 107.7 | 18.3 | -29.4 | 21.4 |
| Net curr profit (m) | 79.9 | 93.8 | 66.2 | 80.4 |
| Adj EPS | 3.56 | 4.20 | 2.97 | 3.61 |
| CFPS | 10.3 | 10.9 | 9.8 | 11.0 |
| Net dividend | 1.2 | 1.3 | 1.2 | 1.3 |
| Adj PER (x) | 11.4 | 9.6 | 13.6 | 11.2 |
| EV/EBITDA (x) | 4.0 | 3.2 | 3.8 | 3.3 |
| Yield (%) | 2.9 | 3.1 | 3.0 | 3.2 |

Share data (€)

| | | | |
|-------------------|------|-------------------|-------|
| No. of shares (m) | 22.3 | Market cap (m) | 901.0 |
| Daily t/o (m) | 0.6 | Ent'prise val (m) | 846.0 |
| Free float (%) | 52.1 | Price/NAV (x) | 0.8 |

Key ratios

| Yr to 31 Dec | 1999 | 2000 | 2001F | 2002F |
|---------------------|------|------|-------|-------|
| EBITDA margin (%) | 13.0 | 13.7 | 12.2 | 13.0 |
| Gross margin (%) | 19.6 | 20.4 | 18.8 | 19.5 |
| Net debt/equity (%) | 24.5 | 21.5 | 24.1 | 21.8 |
| Net margin | 4.5 | 5.3 | 3.7 | 4.3 |
| ROE (%) | 8.4 | 8.9 | 6.0 | 7.1 |

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

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