

Engineering & machinery

Belgium

Bekaert

Hold

Buy

13/03/03

12 month

Reuters: BERTt.BR

Price: €32.00

Target price: €40.00

☞ Bekaert's FY02 results contained no major surprises. Operational results came in ahead of our estimates and incited us to up our forecasts.

☞ We upgrade Bekaert from a Hold to a Buy recommendation and set our 12-month target at €40.

Bekaert's consolidated FY02 sales increased by 3.7% up to €1.863m, despite the already weakened US-\$ and a YoY decline of 2% in Europe. Sales in Asia, on the other hand, progressed a solid 16%YoY, reason why Bekaert devotes more of its focus on this region (and more in particular China).

Wire sales stabilized at €674m in 2002 (YoY -0.1%) with stable sales in Western Europe, but weaker demand in the US, especially linked to the telecom sector. Latin-American activities (Brazil & Chile) performed well, despite the crises in Argentina. Contribution at Latin American equity affiliates level would have attained app. €30m in 2002, which is some €4m above our estimate (and reassuring moving forward).

Steel Cord FY02-sales enhanced 1.4% YoY up to €605m, due to strong demand in the US for tyre reinforcement (less competitors) but prices were under pressure (and hit by weaker US-\$). European sales stagnated, turnover in Asia grew considerably. Fencing division accounted for €390m sales (YoY +0.7%), with less volume but with a better product mix (higher margins). Rationalisation appears to be on schedule and should drastically lift profitability as from 2003F on. Bekaert' Advanced Materials (BAM) division's sales grew by 25% YoY up to €220m (out of which half organically), with all activities having a sales growth above 10% (apart from fibers, +7% YoY). We believe window film activities (accounting for an estimated 35% of BAM's sales) to experience below average top-line growth within this division.

Visibility on FY03F operations remains low, the US\$-€ exchange rate might have a considerable impact on P&L and order book for Wire remains below 2001's level (first two months). Steel cord and BAM's orderbook is at app. the same level. Despite these uncertainties and considering the different drastic measures to cut costs (eg. restructuring in Fencing), the lowering of net debt and working capital requirement, we believe Bekaert will post considerably higher results in 2003F, even without top-line growth. Moreover, as the impairment on Unisolar has been taken in full, we expect a capital gain might be realized in case of a disposal, which -in our view- is the most likely scenario. Hence, we upgrade Bekaert from a Hold to a Buy recommendation and set our 12-month price target at €40.

Target price based on EV/EBITDA before exceptionals

	High	Low	Now	Target
EV/EBITDA 04F	6.05	3.69	3.81	4.76

Price performance

	12m	3m	Now	Target
Absolute (%)	(31.8)	(18.2)	-	
BEL 20	2,690	1,961	1,566	2,300
Rel to BEL 20 (%)	10.0	1.89		
FTSE E300	1,257	867.5	722.3	1,030
Rel to FTSE E300 (%)	10.8	(1.50)		

Forecasts (€)

Yr to Dec	2001	2002F	2003F	2004F
Turnover (m)	1,796	1,863	1,859	1,893
Net profit (m)	47.8	(49.5)	82.8	93.9
Adj EPS	2.59	2.74	4.23	4.73
CFPS	12.18	12.36	14.29	10.93
Dividend	1.68	1.68	1.68	1.80
Adj PER	12.4	11.7	7.57	6.77
EV/EBITDA (x)	6.69	5.91	4.27	3.81
Yield (%)	5.25	5.25	5.25	5.62

Share data (€)

No. of shares (m)	22.2	Market cap (m)	709.0
Daily t/o	39,404	Ent'prise val (m)	1,040
Free float (%)	60.0	Price/NAV (x)	0.81

Key ratios

Yr to Dec	2001	2002F	2003F	2004F
EBITDA margin (%)	0.11	0.11	0.13	0.14
Gross margin (%)	0.20	0.19	0.22	0.23
Net debt/equity	0.58	0.53	0.38	0.32
ROACE (%)	0.00	0.00	0.00	0.00
ROE (%)	0.00	0.00	0.00	0.00

Forecasts: ING High/Low 1 year

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SPARK - single page action research

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Company profile

Bekaert produces and markets a wide range of products based on metal-forming and coating technologies. Incorporated in 1880, Bekaert evolved from a small manufacturing and trading company into a global group. Bekaert initiated its internationalisation in the 1920s, first in Western Europe, later in Latin America and since the 1970s, in North America and the Far East.

Steel wire activities

The vast group of applications within steel wire can be segmented between global and regional businesses as well as on applications level. Bekaert's global business in steel wire can be split into four main categories: cable solutions, high carbon specialities, low carbon specialities and building products. Bekaert's other steel wire products are marketed and managed on a continental level (Europe, North America, Latam, Asia). The latter includes galvanised wire, rope wire and stainless steel wire.

Steel cord activities

Bekaert develops, produces and markets steel cord products for polymer reinforcement worldwide. Tyre cord and bead wire are used for reinforcement of truck and car tyres. The product range also includes high-pressure hose, reinforcement wire, conveyor belt cord, woven steel cord, fine cord for transmission belts and sawing wire.

Merchant products Europe

This division comprises end products, in contrast to the prevailing part of the two previously described activities. It designs, develops, produces and markets woven and welded mesh products for the garden and agricultural markets, professional and security fencing systems, half-products for industrial applications and products for handling and display.

Bekaert advanced materials

The Bekaert advanced materials division (BAM) is the central point in Bekaert's future development. As Bekaert aims to pursue a strategy of fundamental renewal within its core activities and become less vulnerable to economic cycles, it developed an additional business unit focusing on innovative industrial products, which combine Bekaert's core skills (metal transformation and coating technologies) with new technologies.

Financials

Yr to Dec (€m)	2001	2002F	2003F	2004F
Income statement				
Turnover	1,796	1,863	1,859	1,893
EBITDA	194.0	195.2	243.3	264.2
Net financial charges	(25.1)	(26.4)	(20.1)	(13.7)
Operating exceptionals	0.00	0.00	0.00	0.00
Adj pre-tax profit	56.5	61.0	113.0	142.7
Corporate exceptionals	0.00	0.00	0.00	0.00
Profit/loss on sale of tangible fixed assets	0.00	0.00	0.00	0.00
Amortisation of goodwill	(9.50)	(110.3)	(10.9)	(10.9)
Pre-tax profit	46.9	(49.3)	102.1	131.9
Taxes	4.55	7.41	(12.3)	(31.0)
Extraordinary items (net)	(0.20)	(0.93)	0.00	0.00
Minorities	(3.49)	(6.69)	(7.00)	(7.00)
Preference dividend	0.00	0.00	0.00	0.00
Net profit (m)	47.8	(49.5)	82.8	93.9
Balance sheet				
Total fixed assets and L/T investments	1,416	1,164	1,183	1,207
Working capital	415.5	340.3	259.6	262.3
L/T Non-interest bearing liabilities	177.9	183.4	183.4	183.4
Enterprise net assets	1,654	1,321	1,259	1,286
Group equity	1,064	876.2	928.8	989.9
Net debt	589.7	444.6	330.6	296.6
Capital employed	1,654	1,321	1,259	1,287
Cash flow				
Operating cash flow	290.4	292.8	349.1	286.9
Cash taxes	4.55	7.41	(12.3)	(31.0)
Net financial charges (CF)	(25.1)	(26.4)	(20.1)	(13.7)
Gross cash flow	269.9	273.8	316.7	242.2
Capital expenditures (net of disposals)	(321.2)	11.0	(165.0)	(171.0)
Free cash flow	(51.3)	284.8	151.7	71.2

All sources: Company data, ING estimates

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