

# Small and mid cap

Bekaert		Luc Struelens			
			2004	2005F	2006F
<b>Recommendation</b>	<b>Hold</b>	Sales (€m)	2,173.2	1,863.6	1,987.2
Price (€)	67.3	EBITDA (€m)	316.7	250.8	250.9
Target price (€)	72.00	Net attr. profit (€m)	167.6	181.6	132.1
Market cap (€m)	1,444	Adj. EPS (€)	7.93	5.94	6.15
Net debt '05F (€m)	194	Dividend (€)	2.00	2.00	2.14
EV '05F (€m)	1,637	Adj. PER	8.5	11.3	10.9
Gearing '05F	15%	EV/EBITDA	6.1	6.5	6.7
		Yield (%)	3.0%	3.0%	3.2%

Company data, ING estimates

## Bekaert: Feedback from yesterday's analysts' meeting. Downgraded to HOLD.

Bekaert scheduled an analysts' meeting yesterday afternoon in order to provide some additional detail on its 1H05 results. Highlights of the meeting included:

- Share buyback. Bekaert bought 2.5% of its outstanding shares (at an average price of €60.68) and will cancel them in the month of August. In our view this does not mark a policy for Bekaert to buy back its shares, but rather is an opportunistic move. We believe this might happen again in the future in the event of share-price weakness and as the company's gearing (34% at 30/06/05) allows it to do so.
- Within Advanced Wire products (86% of 1H05 sales and 123% of Group's EBIT), a sharp decline in wire sales in Europe and the US was recorded during 2Q05 (c. -23% YoY and c. -12% YoY respectively). This coincided with management's cautious stance on these markets (guidance in May 2005). On the other hand, Steelcord activities (31% of divisional sales) progressed by c. 20% in all regions apart from China, where the YoY progression should have exceeded 50% YoY during 2Q05. Considering the relative importance of each subsegment, steelcord activities should have clearly been able to offset the adverse impact of the more cyclical (less value added) wire operations.
- Outlook: In yesterday's statement, management cautiousness regarding the outlook for the European and US market now also relates to the steelcord activities. Bekaert's current orderbook is lower than last year as customers have tended to delay ordering, anticipating a further lowering of raw material prices. Due to the weakened steel prices in 3Q05F and the tough 3Q04 comparison basis, we believe that Bekaert will find it difficult to exceed 3Q04's sales level in 3Q05. We expect that it will mainly be the Asian and Latin American activities which could really spur short-term turnover as well as the YoY strengthened US\$. For the Chinese steelcord activities, we expect a 35% YoY turnover increase in 2H05.
- We have revised our forecasts to incorporate 1H05's results and the aforementioned elements, albeit departing from a scenario of stabilising wire rod prices in 4Q05F. Adjusted EPS for 2005F is increased by 6.6% (from €5.57 to €5.94) and EPS06F is raised by 3.5% to €6.15. We estimate 2H05F's gross margin to post at 20.5%.

### Investment case

After the recent surge in the share price, the upside potential to our unchanged €72 price target diminished to less than 10%. We therefore downgrade Bekaert from a Buy to a HOLD recommendation as we moreover believe that the earnings momentum is diminishing moving forward. On a longer term horizon, we continue to strongly believe in Bekaert's potential as we favour the company's strategy of building up a worldwide platform in areas or countries such as China, Latin America, Central Europe, India and Russia, where Bekaert's competitors are likely to be based in the near future and as we believe that Bekaert has sufficient attractions (technology, quality) to remain a top player worldwide.

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