

Bekaert

8 July 2002

Restructuring of "Merchant Products Europe"

Engineering & Machinery

Current price € 49.50

Reduce

Belgium

Target price € 50.00

Downgraded

Performance over	1m	3m	12m
Absolute	2%	8%	17%
Rel. BEL20	6%	17%	33%
Rel. sector	6%	19%	22%
12-m- Hi/Lo	€ 50.90/29.94		
Reuters	BERTt.BR		
Bloomberg	BEKB BB		
Market Cap	€ 1,103.9m		
Next corporate event	Results 1H02 on 29 July 2002		

FY/e 31.12	2001	2002E	2003E	2004E
Sales (€m)	1,795.9	1,901.4	1,953.0	2,015.0
EBITDA (€m)	191.7	214.0	260.4	259.7
Pre-Tax* (€m)	34.1	24.4	92.4	98.6
Adj EPS* (€)	2.38	2.20	5.00	5.17
EPS (€)	2.15	1.84	4.64	4.80
DPS (€)	1.68	1.68	1.75	1.95
P/E* (x)	20.8	22.5	9.9	9.6
Yield (%)	3.4	3.4	3.5	3.9
EV/EBITDA(x)	8.3	6.8	5.0	4.7

Source: KBC Securities

*Adjusted for goodwill and exceptionals

Bekaert announced last Friday a (major) restructuring of its "Merchant Products Europe" business unit. The aim is - of course - to enhance profitability. The plan will cost €34m (about 45% of our current net profit target for this year). This plan does not impair the validity of the more optimistic report that we published recently (24-May-02). Bekaert as an early cyclical should benefit from the economic recovery underway. But the short-term focus is now the pressure on earnings and the uncertainties as to the future. We are therefore revising down our rating on the stock (to short-term) Reduce. The longer-term trend remains more positive (economic upturn, focus on technology, advanced materials, solar energy...) but we are nevertheless lowering our (12 month) price target to €50. Bekaert publishes its first half results already at the end of this month (29 July).

Merchant Products Europe

Merchant Products Europe produces woven and welded mesh products for the garden and agricultural markets, security fencing systems and products for industrial applications and material handling systems. The unit represents 21% of total consolidated sales:

Merchant Products Europe within Bekaert

	Merchant Products	Bekaert Group	%
Sales	383.7	1,795.9	21.4%
Assets	250.5	1,635.1	15.3%
Liabilities	46.2	243.0	19.0%
Capex	13.9	122.2	11.4%
Personnel	2,103	17,461	12.0%

Source: Bekaert annual report 2001

Merchant Products represents appr. 1/5th of Bekaert's "consolidated" business (excluding participating interests). However, the unit attracts only 11% of the capex. This is not surprising since Bekaert's strategy is today oriented towards a focus on technology and advanced materials. The traditional businesses (like several merchant products) do not offer a great deal of opportunities in this respect although Bekaert has tried to step up the profile of its Merchant Products unit by investing in more high tech security and fencing systems.

Bekaert does not publish segment results. It says that it would be commercially prejudicial to comply with IAS 14. It is difficult thus to estimate what the impact from Merchant Products is today on bottom line profitability. We always assumed that Merchant Products had the lowest (EBIT-) margins, as most of the products are more volume driven. We think - but this no absolute certainty - that the long term EBIT-margin in Merchant Products amounts to 2-4%. This compares with the 15% EBIT margin targeted in the new Advanced Materials business and partly explains perhaps why Merchant Products needs restructuring.

Short term impact on results

The restructuring is to cost Bekaert € 34m (€ 8m write-offs). Bekaert is to lay off 455 people (appr. 20%) and close down production facilities in France and Ireland. Germany and the UK are also involved. As important is the fact that Bekaert will be setting up its Merchant Products unit as a separate legal entity. Clearly the measures are aimed at rationalising the business (and making it more profitable); however, the creation of a separate legal structure makes it easier to form partnerships ... if ever Bekaert should be inclined to do so (you never know).

Adjusted earnings estimates					
	Old 2002e	Merchant Products	New 2002e	2003e	2004e
Sales	1,901.4		1,901.4	1,953.0	2,015.0
EBITDA	240.0	-26.0	214.0	260.4	259.7
%	12.6%		11.3%	13.3%	12.9%
Non cash items	-142.5	-8.0	-150.5	-138.6	-136.7
Operating profit	97.6	-34.0	63.6	121.8	123.0
%	5.1%		3.3%	6.2%	6.1%
Per share data					
EPS	3.47		2.20	5.00 (5.05)	5.17 (5.24)
CFPS	9.21		8.30	10.03 (10.09)	10.16 (10.23)

Source: KBC Securities

Impact on valuation

The impact on our valuation model is minimal (DCF value now € 53.8 down from € 55.0) because the one-time cost of € 34m does not affect the free cash flows that much over time. Moreover, the cost today should be compensated by higher margins and free cash flows in the future (€ 15m according to the press release?). Right now however we feel that it is too early to focus on these positive effects. We have revised our earnings estimates down for 2002 to take into account the measures announced and the fact that the costs will be regarded as operating costs (in any case they partly represent a cash outflow).

In conclusion: the market should adapt a more prudent approach as to Bekaert's (short term) outlook. The long-term trend is more positive but we are looking forward to the 1H02 figures that will be announced on 29 July when we expect the group to give more details on the short and long term impact of the restructuring plan which would in turn facilitate calculation of the impact on the results. (Short term) Reduce rating with € 50 price target.

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