

Bekaert

31 July 2002

A comforting outlook

| Engineering & Machinery | | | | Current price | € 48.01 | Accumulate | | | |
|---------------------------------------|---------------|-----|-----|---------------|---------|-------------------|-------|-------|--|
| Belgium | | | | Target price | € 54.00 | Upgraded | | | |
| Performance over | 1m | 3m | 12m | FY/e 31.12 | 2000 | 2001 | 2002E | 2003E | |
| Absolute | 0% | 2% | 19% | Sales (€m) | 1,756 | 1,796 | 1,901 | 1,986 | |
| Rel. BEL20 | 13% | 28% | 54% | EBITDA(€m) | 246 | 192 | 215 | 265 | |
| Rel. sector | 11% | 18% | 32% | Pre-Tax* (€m) | 92 | 34 | 40 | 111 | |
| 12-m- Hi/Lo | € 50.90/29.94 | | | Adj EPS* (€) | 4.66 | 2.38 | 2.20 | 5.01 | |
| Reuters | BERTt.BR | | | EPS (€) | 4.20 | 2.15 | 1.52 | 4.33 | |
| Bloomberg | BEKB BB | | | DPS (€) | 1.68 | 1.68 | 1.68 | 1.75 | |
| Market Cap | 1,071M € | | | P/E* (x) | 10.3 | 20.2 | 21.9 | 9.6 | |
| Next corporate event | | | | Yield (%) | 3.5 | 3.5 | 3.5 | 3.6 | |
| Analyst Meeting 02 on 4 December 2002 | | | | EV/EBITDA(x) | 5.5 | 8.2 | 6.2 | 4.5 | |

Source: KBC Securities *Adjusted for goodwill and exceptionals

Not taking into account the one-off restructuring costs, Bekaert yesterday published better than expected “current” results. Almost all divisions did well in almost all geographical areas said Bekaert. We are convinced that not only Advanced Materials accounted for the strong performance. Despite the focus on renewal, the traditional businesses, steel cord and steel wire, have added to the bottom line too (see our previous comments on the early cyclical character of Bekaert’s traditional businesses). Anyhow, we feel that the positives (improved order book, better product mix, future impact of restructurings, growth in Advanced Materials, reduced working capital needs...) are currently outweighing the negatives (macro economic uncertainty, need for further rationalisations, low visibility with regard to Advanced Materials...). Therefore a Reduce rating was no longer justified even more as the outlook for 2003/2004 becomes quite attractive (P/E multiples of ≈ 10x). We upgraded the stock to Accumulate with a new (12 month) price target of € 54.

Better than expected “current” first half results

Sales (€ 986.1m) came in at the high end of the forecasts just below our estimate of € 988.7m. Bekaert published - as expected - weak(er) bottom line results. The group had already announced that it would take into account restructuring charges for i.a. the Merchant Products Europe division. When excluding these one-off costs (€ 48m where we had taken into account € 34m), it showed that the underlying trend was far more positive:

Bekaert first half results

| | 1H01 | 1H02e | 1H02a | 2002e | 2003e |
|-----------------------|-------|-------------|-------------|---------|---------|
| Sales | 931.3 | 988.7 | 986.1 | 1,901.3 | 1,986.1 |
| % growth | | 6.2% | 5.9% | 5.9% | 4.5% |
| EBITDA | 120.2 | 98.6 | 101.5 | 215.1 | 265.2 |
| As % of Sales | 12.9% | 10.0% | 10.3% | 11.3% | 13.4% |
| EBIT | 53.4 | 16.4 | 20.8 | 55.5 | 118.8 |
| As % of Sales | 5.7% | 1.7% | 2.1% | 2.9% | 6.0% |
| Restructuring charges | 0 | 34.0 | 48.0 | 48.0 | 0 |
| “Current” EBIT | 53.4 | 40.4 | 68.8 | 113.5 | 118.8 |
| As % of Sales | 5.7% | 4.1% | 7.0% | 7.1% | 6.0% |
| Associates | 7.6 | 11.0 | 13.9 | 25.0 | 34.9 |
| Net profit | 30.7 | 11.0 | 9.4 | 33.7 | 95.9 |

Per Share data

| | 1H01 | 1H02e | 1H02a | 2002e new | 2003e new |
|------|------|-------|-------|-----------|-----------|
| EPS | 1.54 | 0.60 | 0.87 | 2.20 | 5.01 |
| CFPS | 4.46 | 3.75 | 4.16 | 8.39 | 9.96 |

Source: Bekaert, KBC Securities

There are plenty of reasons which explain this positive trend:

- A higher gross margin (19.6% vs. 18.2% last year) thanks amongst others to a better product mix (volume driven businesses with lower margins are systematically restructured or sold). In the steel cord business, higher volumes and more efficiency offset price pressure;
- Reduced working capital needs. Bekaert was able to save € 68m in working capital (before \$ impact) thanks amongst others to lower inventory levels;
- Growth in Advanced Materials. BAM posted 82% growth in Sales. This was mainly external growth (window films acquired in June 2001) although Bekaert said that organic growth amounted to at least 10%;
- Strong(er) order book. The current order book is 5-10% up compared to last year. The current order inflow is strong and allows the plants to run at high capacities;
- Strong steel cord in China. Bekaert's presence in China with steel cord (mainly destined for the tyre industry) is strategically very important and the unit did very well Bekaert said (unfortunately there is still no detailed information available on the separate business units);
- Strong performance in Brazil where the volumes growth outpaced the decline of the Brazilian Real.

Not everything evolves according to plan however. The management yesterday referred to the difficult market circumstances in the telecom industry and the construction sector in particular. The “Handling division” (Bekaert Variant Handling Systems is a 50/50 joint venture with the Danish group Axcel) is a problem child which posts negative growth. Bekaert denied yesterday that the group has already made up its mind about what to do with the Handling division but the Belgian press was firm this morning citing that same management. Bekaert is looking for a buyer for the 50% stake and if nobody is interested, measures will be taken. It is not a surprise that Bekaert is thinking about the Handling division. It is a volume driven business with lower added value. The business has little to do with technology neither and is thus not what Bekaert is looking for in its renewal strive.

A word also on Advanced Materials. It remains a pity that we do not get more detailed information on how this unit is doing (in terms of organic growth and operating margins). After all, it is Advanced Materials that stands for Bekaert's renewal process. Solar energy (since 2000 and still in a start up phase hoping to break even next year) and window films (acquired in 2001 and already a more mature business) should signify the break-through for Bekaert in the coming years.

As far as **solar energy** is concerned (€ 6.1m loss last year and hoping to break even in 2003) we were somewhat surprised that Bekaert temporarily suggests to forget about the second (25 MW) plant (which was scheduled in 2005). The first task it seems is to get the first plant - which opened up only a few weeks ago - up and running and, more importantly, get a decent sales and marketing organisation off the ground. We stick to our analysis dated 24 May 2002. Looking at the number of players getting involved in solar energy (the biggest energy groups and utilities companies), it is fair to raise some concern about Bekaert's ability to survive in the longer run. Already Bekaert told us yesterday that it is completely reviewing its sales and marketing strategy (focussing most likely on turnkey solutions and not just selling solar energy products to distributors and retailers). Obviously it is too early days to be firm on that but Bekaert should in the future be willing to capitalise on the strength of its technology if opportunities would arise.

Bekaert did not unveil Sales nor EBIT figures in its **window films** business. We had the impression that the growth was not in the 15-20% range - which corresponds with the industry growth according to Bekaert (guidance given last year when the acquisition of Bekaert Specialty Film was announced). Seemingly there was some kind of slowdown. Bekaert expects a pick up over the second half of this year.

We just want to point out that (see also our company note dated 24 May) the different units of Advanced Materials – although growth oriented – are also susceptible to dwindling demand. From what the management told us, we had the impression that BAM did not (yet?) reach the 15% EBIT level. Steel cord and steel wire may be the more traditional businesses and may be early cyclical, we are sure that they have done well over the past few months. After all, 65% of consolidated sales remains important.

One will recall that Bekaert only recently announced a somewhat surprising management change. The new CEO Julien De Wilde yesterday said that he intends to focus more on “asset turnover” and synergies between the different Bekaert units (we have always said that we did not think that a variety of alliances was the best way forward for Bekaert). Indeed, return on assets has never been fabulous with Bekaert and it is a good thing that the group will pay more attention to that.

Impact on valuation

We have reviewed our estimates slightly up taking into account the 6 months results and making some adjustments here and there. We value the share now € 60 which leaves a theoretical upside potential of some 20%. Given the risk profile of Bekaert - one has i.a. to take into account the uncertainties in Brazil - we set a 12 month price target of € 54 (up from € 50). If the economies keep recovering, Bekaert will be one of the first to benefit from that.

Serge Pattyn
+32 2 417 53 78
serge.pattyn@kbcsecurities.be

This publication has been prepared by KBC Securities NV or one of its European subsidiaries (together "KBC Securities"). This publication is provided for informational purposes only and is not intended to be an offer, or the solicitation of any offer, to buy or sell the securities referred to herein. No part of this publication may be reproduced in any manner without the prior written consent of KBC Securities. The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable, but neither KBC Securities nor its affiliates represent that it is accurate or complete, and it should not be relied upon as such. All opinions, forecasts, and estimates herein reflect our judgement on the date of this publication and are subject to change without notice. From time to time, KBC Securities, its principals or employees may have a position in the securities referred to herein or hold options, warrants or rights with respect thereto or other securities of such issuers and may make a market or otherwise act as principal in transactions in any of these securities. Any such persons may have purchased securities referred to herein for their own account in advance of the release of this publication. KBC Securities and principals or employees of KBC Securities may from time to time provide investment banking or consulting services to, or serve as a director of a company being reported on herein. This publication is provided solely for the information and use of professional investors who are expected to make their own investment decisions without undue reliance on this publication. Investors must make their own determination of the appropriateness of an investment in any securities referred to herein based on the merits and risks involved, their own investment strategy and their legal, fiscal and financial position. Past performance is no guarantee for future results. By virtue of this publication, none of KBC Securities or any of its employees shall be responsible for any investment decision. In the United States this publication is being distributed to U.S. Persons by KBC Securities, Inc., which accepts responsibility for its contents. Orders in any securities referred to herein by any U.S. investor should be placed with KBC Securities, Inc. and not with any of its foreign affiliates. This publication is for distribution in or from the United Kingdom only to persons who are authorised persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom or any order made thereunder or to investment professionals as defined in Section 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This publication is for distribution in Canada only to pension funds, mutual funds, banks, asset managers and insurance companies. The distribution of this publication in other jurisdictions may be restricted by law, and persons into whose possession this publication comes should inform themselves about, and observe, any such restrictions. In particular this publication may not be sent into or distributed, directly or indirectly, in Japan or to any resident thereof.

Copyright © 2002 KBC Securities

www.kbcsecurities.com

| | | | | | |
|------------------|-----------------|------------------|------------------|------------------|-------------------|
| Amsterdam | Brussels | London | Madrid | New York | Paris |
| +31 20 531 21 33 | +32 2 417 44 04 | +44 20 7283 9666 | +34 91 417 77 10 | +1 212 489 20 40 | +33 1 53 05 32 00 |