

# Morning Note

11 February 2003

## Contents

Company	Comment	Recommendation	Price (at close)	Target Price
BP	Q4 earnings, 2002 results, strategy preview	Reduce	p 381	p 410
Bekaert	Bekaert 2002 trading update	Accumulate	€ 34.00	€ 48.00
Eurotunnel S.A.	FY02 results	Buy	€ 0.53	€ 1.35
Crit	FY 2002 sales	Accumulate	€ 9.50	€ 15.00
Interbrew	Speculation on Italian acquisition	Buy	€ 16.74	€ 24.00
Ontex	Bid to start on 12-Feb	Accept the offer	€ 91.25	€ 92.00
Philips	Still a tough environment, good execution	Accumulate	€ 14.61	€ 22.00
Solvay	FY02 results	Accumulate	€ 57.60	€ 84.00
UCB	Timing of extensions for Keppra.	Reduce	€ 24.46	€ 26.00
Vivendi U.	Revenues satisfactory overall	Buy	€ 14.09	€ 22.00

## Changes in recommendation

Company	From	To
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## Changes in EPS forecast

Company	From 2003E	To 2004E	From 2003E	To 2004E
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## Key figures

(at close)	Price	1D	1M	12M
AEX	274.8	-1.6%	-17.5%	-43.9%
BEL20	1,755.1	-1.5%	-11.6%	-36.8%
CAC40	2,772.3	-0.9%	-12.3%	-36.1%
DAX30	2,586.1	0.7%	-14.9%	-47.1%
FTSE100	3,579.1	-0.6%	-9.9%	-30.3%
EUROSTOXX50	2,125.8	-0.4%	-14.6%	-40.0%
STOXX50	2,162.6	-0.4%	-13.0%	-38.5%
NECI	2,387.3	-0.8%	-7.5%	-64.1%
DJIA	7,920.1	0.7%	-9.8%	-19.7%
S&P500	835.9	0.7%	-9.9%	-24.5%
NASDAQ Comp	1,296.1	1.1%	-10.5%	-29.3%
EUR/USD	1.07	-0.5%	2.0%	23.2%
EUR/GBP	0.66	-0.5%	0.7%	7.2%
Bel govt	4.0%	0.0 bp	-0.3 bp	-1.1 bp
French govt	3.9%	0.0 bp	-0.2 bp	-1.1 bp
Neth govt	3.9%	0.0 bp	-0.2 bp	-1.1 bp

Source: KBC Securities

## Corporate calendar

	Company	Event
11.02.03	BP	Results 4Q02
	Publicis	Sales FY02
	Solvay	Results FY02
12.02.03	Akzo Nobel	Results FY02
	Akzo Nobel	Conference Call
	DSM	Results FY02
13.02.03	Groupe Bourbon	Sales FY02
	ABN Amro	Results FY02
14.02.03	Havas	Sales FY02
	Passat	Sales FY02
	Umicore	Results FY02
15.02.03	Crédit Lyonnais	Analyst Meeting
	Carrere Group	Sales FY02
	Gaudriot	Sales FY02
18.02.03	ASMI	Results FY02
	Option	Results FY02
	Randstad	Results FY02
19.02.03	ASMI	Conference Call
	Brantano	Results FY02

**BP**

BP.L / BP/LN

Oil & Gas  
United Kingdom

Current price p 380.75  
Target price p 410  
Market cap £ 85,517 m  
Free float 100%

	EPS*(\$)	P/E
FY02E	0.29	21.46
FY03E	0.36	17.17
FY04E	0.39	15.76

\*Adjusted for goodwill and exceptionals

**Q4 earnings, 2002 results, strategy preview**

**Reduce**

Unchanged

BP is publishing its Q4 earnings figures and its results for 2002 later today. For Q4, we expect pre-exceptional net profit of \$1.95bn, up from \$1.47bn the previous year. For the year, our estimate is \$6.98bn, compared to \$10.77bn in 2001

Note that we will disregard the company's pro forma results, since they tend to exaggerate the level of group profitability.

Alongside the results presentation, BP is also expected to offer a strategy update, with a radical change in its financial communication likely:

We expect a sharp downward revision of the hydrocarbon production targets. The objectives may even be abandoned altogether after the disappointing 2002 figures.

New divestments of production assets are on the cards after the sale of the Forties, one of the first major North Sea fields.

The group has also hinted it may seek major cost reductions, mainly in the administrative functions.

Finally, the persistent rumours of a major acquisition in Russia may be confirmed.

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**Bekaert**

BERTL.BR / BEKB BB

Engineering  
Belgium

Current price € 34.00  
Target price € 48.00  
Market cap € 758 m  
Free float 60%

	EPS*(€)	P/E
FY02E	2.27	14.95
FY03E	4.51	7.54
FY04E	4.76	7.14

\*Adjusted for goodwill and exceptionals

**Bekaert 2002 trading update**

**Accumulate**

Unchanged

Yesterday's trading update offered a first view of Bekaert's operations in 2002. Despite the US\$, sales are expected above the 2001 level with all units performing better than in 2001. **Before restructuring charges, results from operations increased by 60%** (to an estimated €112m) exceeding our estimates (€108m). However, Bekaert posted, in addition to the €48m restructuring charges booked in 1H02 (mainly on the merchant products), €12m restructuring charges in 2H02 plus an impairment of €84m (€3.8 per share) on the solar energy operations, bringing its value to 0. At the bottom line, Bekaert expects close to a €50m loss. Bekaert will maintain its dividend at €1.68 (to be paid May 21), which offers an attractive gross yield of 4.9% at yesterday's closing price of €34.3. Concerning the €84m 'impairment' (non cash) on its investment in United Solar Systems and the Bekaert ECD JV, Bekaert referred to the **IFRS 36**, which values the business at the higher of the net selling prices or the value in use (0). Nevertheless, Bekaert is remaining in the solar business and is still searching for a third partner. As such, the revaluation illustrates Bekaert's cautious accounting policy although the value of the business may actually be above zero. For 2003, Bekaert refers to the weak visibility and points out that current order inflow is back to pre-December levels. All in all, we regard the sharp drop in the share price of the past days as excessive and **regard the current levels as an opportunity**. With our new target price of €45 (down from €48), we see significant short term upside potential. Accumulate rating confirmed.

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**Eurotunnel S.A.**

EUTL.PA / TNU FP

Transport  
France

Current price € 0.53  
Target price € 1.35  
Market cap € 1,104 m  
Free float 100%

	EPS*(€)	P/E
FY02E	0.21	2.47
FY03E	-0.03	-
FY04E	-0.01	-

\*Adjusted for goodwill and exceptionals

**FY02 results**

Eurotunnel published FY02 results yesterday.

Sales were up 2% to €897m (from €876m). The "Eurotunnel" sales (cars + trucks) were up 6% (to €523m on the back of a better mix volumes/averagerevenue). The railway companies added €342m (+1%) under their minimum usage charge. The "other" income came down 26% to € 32m (telecom, real estate). Eurotunnel managed to keep its operating costs under control (€ 389m). This on balance leads to a 3% jump in the operating profit (€326m from €317m).

Eurotunnel managed in 2002 (earlier than expected) to cover its interest expenses out of operating cash flow (after capex). This is already an achievement.

The net profit is positive for € 508m (vs. because of an exceptional gain of € 686m) as a result of the financial restructuring in July 2002 (buying back debt at less than the face value) and a leasing structure set up in the UK.

The future looks brighter now for Eurotunnel although the economic uncertainty keeps weighing on the outlook for this year (volume growth uncertain with most likely no room for price increases). Furthermore, the "minimum usage charge" to be paid by the railway companies is only guaranteed until 2006. Estimates are under review.

**Buy**  
Unchanged

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**Crit**

CITT.PA / CEN FP

Support Services  
France

Current price € 9.50  
Target price € 15.00  
Market cap € 107 m  
Free float 0%

	EPS*(€)	P/E
FY02E	2.21	4.29
FY03E	2.33	4.07
FY04E	2.31	4.11

\*Adjusted for goodwill and exceptionals

**FY 2002 sales**

Group sales fell to € 1.1bn, down 1.3% on 2001. The core business (temporary staffing accounting for 92% of total) recorded a 3% drop against a 5% fall for the French temporary staffing market. Q4 figures were better showing a 4% increase (year on year) but with a much more favourable base for comparison.(Q4 2001 was very weak on the back of September 11th) No comments were made regarding the outlook for 2003. We will be in contact with the management today (Flash to follow).

**Accumulate**  
Unchanged

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**Interbrew**

INTB.BR / INTB BB

Beverages  
Belgium

Current price € 16.74  
Target price € 24.00  
Market cap € 7,215 m  
Free float 24%

	EPS*(€)	P/E
FY02E	1.35	12.40
FY03E	1.62	10.36
FY04E	1.81	9.23

\*Adjusted for goodwill and exceptionals

**Speculation on Italian acquisition**

**Buy**  
Unchanged

According to Dow Jones, Interbrew is planning a bid for 40% of unlisted Italian brewer Peroni. A tie-up with an important brewer on the Italian mainland would make sense in our view, since Interbrew has just repurchased the license to sell its own brands on the Italian market from Heineken for €19.5m and an agreement with a strong local player would leverage the company's distribution power in Italy. We are maintaining our rating and price target.

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**Ontex**

ONTE.BR / ONT BB

Personal Care  
Belgium

Current price € 91.25  
Target price € 92.00  
Market cap € 776 m  
Free float 23%

	EPS*(€)	P/E
FY02E	4.49	20.31
FY03E	5.66	16.12
FY04E	6.49	14.05

\*Adjusted for goodwill and exceptionals

**Bid to start on 12-Feb**

**Accept the offer**  
Unchanged

Candover will launch its bid on the outstanding Ontex shares on 12-Feb. The prospectus will be available on [www.investisseurs.be.fortisbank.com](http://www.investisseurs.be.fortisbank.com) and [www.ontex.be](http://www.ontex.be) from 12-Feb onwards.

Candover (or rather the new holding company ONV Holdco, controlled by Candover but in which also Mr. Bart Van Malderen participates) is offering €87 per share +€5 if, on the day after the public offer closes, ONV Holdco holds more than 95% or more of the Ontex shares.

We have already said we feel the price offered (€92) is very reasonable, hence our advice to investors to tender their shares.

Note also that Mr. Van Malderen suggested last week in the press that the Candover structure could eventually turn out to be an interim solution. He did not rule out a new listing for Ontex in three years.

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**Philips**

PHG.AS / PHIA NA

Electronics  
Netherlands

Current price € 14.61  
Target price € 22.00  
Market cap € 19,228 m  
Free float 100%

	EPS*(€)	P/E
FY02E	0.34	42.84
FY03E	1.16	12.54
	-	-

\*Adjusted for goodwill and exceptionals

**Still a tough environment, good execution**

**Accumulate**

Unchanged

The group has published EPS of €-1.2, including impairment charges of €1340m for Atos Origin, LG Philips, JDS Uniphase and Great Nordics.

Excluding impairment charges but including restructuring charges; income from operations is higher than expected at €47m, when we expected -€139m.

As expected, all divisions performed well in terms of operating income, especially the Consumer and Medical divisions, where EBIT was much higher than consensus.

The Semiconductor and Component divisions remain disappointing. Losses were higher than expected for the semiconductor division, capacity use was only 52% and the book to bill was 0.87 versus 0.74 in Q3. The fact that Mr. van der Poel's Board is handing over responsibility for supervising Philips' Semiconductors division to Gerard Kleisterlee suggests that further restructuring could be taken for the semiconductor division.

Net debt fell to €5.25bn lower than our estimate of € 5.85bn.

As expected, the outlook remains weak and the company will continue to focus on cost cutting.

A conference call will be held this afternoon, for the time being we are maintaining our Accumulate rating with a target price of €20/21.

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**Solvay**

SOLBt.BR / SOLB BB

Chemicals  
Belgium

Current price € 57.60  
Target price € 84.00  
Market cap € 4,860 m  
Free float 74%

	EPS*(€)	P/E
FY02E	5.40	10.67
FY03E	7.00	8.23
FY04E	7.36	7.82

\*Adjusted for goodwill and exceptionals

**FY02 results**

**Accumulate**

Unchanged

Solvay published strong (preliminary) 2002 results this morning that top the market expectations.

Sales amounted to € 7,918m declining 9% (worse than expected). In particular plastics were disappointing (-26% to € 1,940).

EBIT amounts to € 772m which is far better than expected (€ 731m). Operating margins are far better than anticipated in three out of the four business lines (except in Plastics where they are in line with expectations).

As a result of this, net profit came in at € 496m (vs. € 406m expected). Cash flow according to Solvay amounts to € 1,107m also better than expected.

All in all, the results - at first sight - seem to be excellent beating the market expectations. There is a conference call this morning (11h30) where we hope to get more details on the financial figures 2002 and on the outlook.

There is a flash coming up, rating and estimates will be reviewed after the call. Meanwhile Accumulate with a € 84 price target

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## UCB

UCBBt.BR / UCB BB

Pharma & Biotech  
Belgium

Current price € 24.46  
Target price € 26.00  
Market cap € 3,570 m  
Free float 59%

	EPS*(€)	P/E
FY02E	2.40	10.19
FY03E	2.50	9.77
FY04E	2.69	9.08

\*Adjusted for goodwill and exceptionals

## Timing of extensions for Keppra.

**Reduce**  
Unchanged

Today, a newspaper reports that a study with Keppra demonstrated that the drug is also well tolerated and effective for a longer time period up to 54 months as adjunctive therapy in patients with partial seizures.

UCB also repeated that it will seek approval to extend the use of Keppra to children in 2004. In 2005 it will apply for the indication of generalized epilepsy and in 2006-2007 for monotherapy.

These long time lines are nothing to get excited about and certainly no reason to revise our opinion at the moment.

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## Vivendi U.

EAUG.PA / EX FP

Media  
France

Current price € 14.09  
Target price € 22.00  
Market cap € 15,334 m  
Free float 85%

	EPS*(€)	P/E
FY02E	-0.75	-
FY03E	0.00	-
FY04E	-	-

\*Adjusted for goodwill and exceptionals

## Revenues satisfactory overall

**Buy**  
Unchanged

Revenues for the Media & Communication division in 2002 were satisfactory overall, with the best performances coming from the Music and Video games divisions. Total revenues for the activities consolidated at end-December 2002 rose 11% to €28.11bn. The pro-forma figure is €28.73bn vs. €27.73bn (+6% like for like). Total consolidated revenue (including the 2002 divestments) rose to €60.99m from €57.63bn. The key elements were:

**Telecoms:** Cegetel posted sales of €7.07bn (+11%) of which €6.14bn (+10%) in the mobile division and €921m (+18%) in Fixed. Maroc Telecom grew 10% to €1.49bn while VTI posted a 90% rise to €461m vs. €242m (Hungary, Kenya...).

**Music:** down only 4% to €6.27bn (-1% at constant exchange rates).

**Canal+:** up 4% to €4.74bn of which €2.65bn in France (pay-TV: +5% thanks to Canalsatellite), €455m (+6%) for the StudioCanal films business and €1.63bn (+2%) for the other activities, foreign TV channels, TV production, PSG etc...

**Vivendi Universal Entertainment:** up 2% to €6.98bn of which €3.93bn (+7% like for like) for cinema/DVD, €2.2bn (+6% like for like) for television (USA Networks...) and €852m (-5% like for like) for entertainment parks.

**VU Games:** an excellent year with sales up 25% like for like to €794m.

Of note in Q4 was the 7% growth at Cegetel compared to 11% over the year, of which +6% for the Mobile division. Conversely, the Canal+ French pay-TV business grew 6% in Q4, vs.+5% for the year. **The definitive results are due on March 6.**

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