

FY01 results

Belgium

Bekaert

Previously: Buy

Buy

07/03/02

Reuters: BERTt.BR

Price: €42.45

Target price: €47.50

Target price: 1 year

● **Bekaert reported an EPS of €2.58 (YoY -47%), bang in line with our estimates and consensus. Sales came in above expectations, but the pre-tax result (€34.4m, YoY -65.4%), however was deceptive.**

● **We fine-tune our forecasts and maintain both our Buy recommendation and our 12-month price target of €47.5.**

2001 consolidated sales progressed by 2.3% YoY to €1,796m (estimated at €1,756m) as external growth and Bekaert Advanced Materials' (BAM) progression masked falling sales in Bekaert's traditional business. Wire sales (€675m, YoY +3.6%) fell 2.5% YoY on an organic basis as global business (in particular cable solutions and high carbon solutions) suffered. Regional activities remained strong in Europe and in Latin America, if expressed in local currencies. However, due to the devaluation of the Brazilian Real and the Chilean peso, the contribution of these equity affiliates dropped considerably (-€10m). All in all, Wire activities negatively affected Bekaert's operating profit (YoY -€30m).

Steel Cord sales dropped YoY by 6.4% to €597m as demand for tyre reinforcement declined heavily during 2H01 (primarily in the US). The increasing volumes in Asia are still too marginal to offset the effect of a US and European economic slowdown. Merchant Products sales rose slightly (YoY +1.4%) to €388m and generated a slightly higher contribution to the P&L thanks to a better product mix.

BAM's sales progressed YoY by 39% (+13% organic), primarily thanks to a strong performance in solar cells (sales doubling YoY) and advanced coatings (sales YoY +30%). BAM's EBITDA contribution was more than 20% of total group EBIT and an EBIT margin of over 10% was recorded.

Without the non-recurrent negative tax rate (-13.2%, due to deferred taxes in IAS) on 2001 operations, Bekaert's EPS01 would have been below expectations (c.€2.03). In our view, it is thus clear that Bekaert's results are still highly sensitive to economic cycles and that BAM is currently too small to offset this.

Management confirmed that its orderbook for the different activities has been increasing from the beginning of 2002 onwards, and that the bottom of the cycle appears to be behind us. However, due to seasonal effects management is still uncertain whether the economic recovery will be sustainable.

We regard 2001 as well as 2002F as transitional years for Bekaert. From 2003F onwards, the company's renewal strategy should change its profile – as should improved economic conditions. We fine-tune our forecasts, which results in higher sales estimates and a fractionally higher EPS02F of €2.69 (was: €2.60).

We maintain our Buy recommendation, as we believe Bekaert's share price will continue to capitalise on signals of economic recovery (as an early cyclical company) and as we feel confident about Bekaert's long-term strategy. Our price target remains €47.5

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Target price based on

	High	Low	Now	Target
EV/EBITDA03F (x)	5.7	3.8	5.1	5.5

Price performance

	12m	3m	Now	Target
Absolute (%)	-11.4	8.8		11.9
FTSE 300	1,442	1,261	1,266	1,425
Rel to FTSE 300 (%)	1.0	8.4		-0.6
BEL20 index	2,968	2,636	2,724	3,000
Rel to local index (%)	-3.5	5.3		1.6

Forecasts (€)

Yr to 31 Dec	2000	2001	2002F	2003F
Turnover (m)	1,756.3	1,795.9	1,887.0	1,936.8
EPS growth (%)	27.4	-47.0	3.8	39.1
Net curr. profit (m)	108.8	57.3	59.5	82.8
Adj EPS	4.88	2.59	2.69	3.74
CFPS	11.35	8.76	10.03	11.48
Net Dividend	1.26	1.26	1.26	1.26
Adj PER (x)	8.7	16.4	15.8	11.4
EV/EBITDA (x)	4.0	6.2	5.9	5.1
Yield (%)	3.0	3.0	3.0	3.0

Share data (€)

No. of shares (m)	22.2	Market cap (m)	941
Daily t/o (m)	0.7	Ent'prise val (m)	1,289
Free float (%)	60.0	Price/NAV (x)	0.9

Key ratios

Yr to 31 Dec	2000	2001	2002F	2003F
EBITDA margin (%)	14.2	10.7	11.6	13.0
Gross margin (%)	20.6	19.3	20.3	21.6
Net debt/equity (%)	43.3	66.5	67.2	63.8
Net margin	6.1	3.2	3.1	4.2
ROE (%)	10.6	5.6	5.8	7.9

Forecasts: ING Barings, High/Low: 1 year, Target Price: 1 year

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