

Downgrade to Hold

Belgium

Bekaert

Previously: Buy

Hold

24/04/02

Reuters: BERTt.BR

Price: €49.83

Target price: €50.0

Target price: 1 year

- We downgrade Bekaert from a Buy to a Hold recommendation following the recent price strength and in view of the market's anticipation of a slower overall economic recovery.
- However, we maintain a positive stance towards the company from a long-term perspective. Our price target is set at €50.

Bekaert's share price has rebounded 78% from the September 2001 lows (€28) benefiting from the announcement of positive economic indicators (primarily in the US) and from the increasing investor awareness regarding Bekaert's strategic shift to higher margin products (solar cells, window film, etc) in specific market niches. These proved to grow strongly despite the current economic slowdown. Moreover, the overall contribution of these 'Bekaert advanced materials' (BAM) products should, in the long term, provide the company with an extra boost to earnings growth along with reducing its cyclical nature. Based on our forecasts, we expect BAM, which currently represents less than 10% of sales, to potentially account for c.25% of 2004F EBIT.

As economic indicators now tend towards a slower economic recovery, we believe that Bekaert (as an early-cyclical company) will lose one of its short-term share price drivers. As a result, and in view of its recent strong share price performance, we downgrade Bekaert from a Buy to a Hold recommendation. However, we maintain our positive stance towards the stock from a long-term perspective and set our 12-month price target at €50, which is 10% below our DCF calculation which points to a share price of €55.40

Bekaert produces and markets a wide range of products based on metal-forming and coating technologies. The group's current activities are built around four business units: steel wire, merchant products Europe, steel cord and the fast-growing Bekaert advanced materials (BAM). Bekaert holds worldwide market leadership positions within several market segments. Amongst its most renowned products we emphasise Bekaert's steel cord (used in tyres), fibres, fences, champagne-cork wire as well as its coated wire. The main determining factor in Bekaert's international expansion was the use of steel cord for rubber reinforcement (in radial tyres). Bekaert is now at a turning point – from volume-driven cyclical activity, the company is gradually moving to higher added-value markets with strong organic growth. The Group employs c.7,000 people in over 90 production centres worldwide and uses an extensive network of sales offices and agencies.

Target price based on:

	High	Low	Now	Target
EV/EBITDA03F (x)	5.7	3.8	5.7	5.8

Price performance

	12m	3m	Now	Target
Absolute (%)	22.4	17.9		0.3
FTSE 300	1,415	1,242	1,242	1,425
Rel to FTSE 300 (%)	39.6	18.0		-12.6
BEL20 index	2,811	2,790	2,893	3,000
Rel to local index (%)	19.0	13.8		-3.2

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	4.9	2.6	2.7	3.7
CFPS	11.4	8.8	10.0	11.5
Net Dividend	1.3	1.3	1.3	1.3
Adj PER (x)	10.2	19.3	18.5	13.3
EV/EBITDA (x)	4.7	7.1	6.6	5.7
Yield (%)	2.5	2.5	2.5	2.5

Share data (€)

No. of shares (m)	22.2	Market cap (m)	1,104.1
Daily t/o (m)	0.8	Ent'prise val (m)	1,452.2
Free float (%)	60.0	Price/NAV (x)	1.1

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 estimates, High/Low: 1 year, Target Price: 1 year

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SPARK: single page action research

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