

## Belgium

# Bekaert

**Engineering & machinery** **€47.0**

30/04/02

**Bekaert's share price surged 78% from the September 2001 low, benefiting from signs of economic recovery thanks to its early cyclical nature. As recovery seems to be taking longer than expected, we downgrade to Hold.**

**Company profile.** 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 in several market segments. Its most renowned products include 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 a volume-driven cyclical activity, the company is gradually moving to higher added-value markets with strong organic growth. The group employs c.17,000 people in over 90 production centres worldwide and has an extensive network of sales offices and agencies.

**Recent news.** Bekaert's JV in photovoltaic cells (Uni-solar, part of the BAM division) has been awarded a US\$3.3m contract (to be spread over three years) by the California Energy Commission for the development of a new, inexpensive and quick-to-install photovoltaic system that can be mounted on roof decks. We believe this contract should be regarded as a grant, as it contributes financially to the further development of new applications of this promising activity.

Bekaert has decided to stop all production and sales of preformed staple wire in Europe. This decision fits within Bekaert's strategy to address its means to BAM and to divest selectively from low profit activities.

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Previously: Hold

**Hold**

6 May 2002

Target price

**€50.0**

Reuters/Bloomberg

BERTt.BR/BEKB BB

**Key ratios (%)**

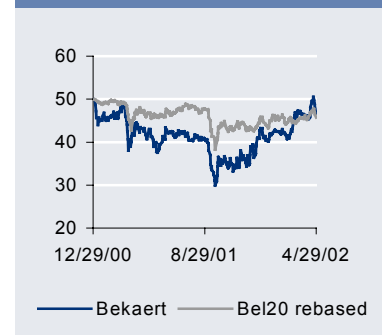
	2002F	2003F
EBITDA margin	11.6	13.0
Net margin	2.4	3.6
Net debt/equity	67.2	63.8
Price/NAV (x)	1.01	0.98
ROE	5.8	7.9

**Performance (%)**

	12-mth	3-mth	Target
Absolute	9	10	6
FTSE 300	-16	-1	17
BEL20	-1	1	7
<b>Relative to</b>			
FTSE 300	29	11	-9
Local index	10	10	0

**Share data**

No. of shares (m)	22.2
Daily t/o (m)	0.75
Free float (%)	60.0
Market cap (€m)	1,041
Enterprise value (€m)	1,389
Price/book (x)	1.02

**Share-price performance**

Source: Datastream

**Outlook.** Bekaert's share price rebounded nearly 80% from the September 2001 lows, benefiting from the announcement of positive economic indicators (primarily in the US) and from the increasing investor awareness of Bekaert's strategic shift to higher margin products (eg, solar cells, window film) in specific market niches, which showed strong growth even during the current economic slowdown. Moreover, the overall contribution of these BAM products should, in the long-term, provide the company with an extra boost to earnings growth alongside reducing its cyclical nature. Based on our forecasts, we expect BAM, which currently represents less than 10% of sales, to have the potential to account for c.25% of 2004F EBIT. We downgraded Bekaert from a Buy to a Hold recommendation on 25 April 2002, as the economic indicators tended towards a slower economic recovery. We therefore believe that Bekaert, as an early-cyclical company, loses one of its short-term share-price drivers. 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 and points to a valuation of €55.4 for Bekaert shares.

Yr to Dec	2000	2001	2002F	2003F	2004F	
<b>Data per share (€)</b>						
EPS	4,88	2,59	2,69	3,74	4,47	
CFPS	10,99	8,39	9,07	10,31	11,04	
Gross DPS	1,68	1,68	1,68	1,68	1,80	
<b>Ratios</b>						
PER (x)	9.6	18.2	17.5	12.6	10.5	
P/CF (x)	4.3	5.6	5.2	4.6	4.3	
EV/EBITDA (x)	4.4	6.7	6.3	5.5	5.0	
EV/sales (x)	0.7	0.7	0.8	0.7	0.7	
Gross yield (%)	2.7	2.7	2.7	2.7	2.9	
Net gearing (%)	43	67	67	64	59	
ROE (%)	10.6	5.6	5.8	7.9	9.1	
<b>Full-year figures (€m)</b>						
Sales	1,756	1,796	1,887	1,937	1,972	
Cost of sales	1,411	1,467	1,521	1,534	1,551	
Gross margin (%)	19.6	18.3	19.4	20.8	21.3	
Operating cash flow	253.2	194.0	222.2	254.3	268.6	
Operating result	122.3	69.0	84.2	112.1	126.4	
Operating margin (%)	7.0	3.8	4.5	5.8	6.4	
Net financial result	-16.0	-25.1	-33.4	-35.0	-34.3	
Extraordinary items	-3.0	-4.3	0.0	0.0	0.0	
Consolidated goodwill amort	6.6	9.5	13.6	13.6	13.6	
Net result, group share	102.2	47.8	45.9	69.2	85.4	
Net margin (%)	5.8	2.7	2.4	3.6	4.3	
Net current result	108.8	57.3	59.5	82.8	99.0	
Net debt	468	708	723	709	685	
<b>Growth rates YoY (%)</b>						
	<b>CAGR 2001-2004F (%)</b>	<b>2000</b>	<b>2001</b>	<b>2002F</b>	<b>2003F</b>	<b>2004F</b>
Sales	3.2	-0.5	2.3	5.1	2.6	1.8
EBIT	22.4	14.4	-43.6	22.0	33.1	12.7
EPS	20.0	27.4	-47.0	3.8	39.1	19.6

Source: Company data, ING estimates