

Belgium

Bekaert

Previously: Hold

Hold

25/07/02

Reuters: BERTt.BR

Price: €47.19

Target price: €50.0

Target price: 1 year

- **Bekaert will report 1H02 results next Monday before market opening. We expect 1H02F earnings to come in close to breakeven, as we reviewed our forecasts following the drastic restructuring of the merchant products division.**
- **Hold recommendation and €50 price target maintained in view of longer-term financial outlook.**

A €34m restructuring charge will hit Bekaert's 1H02F EBIT following the rationalisation programme for the merchant product division. This plan comprises three plant closures, a headcount reduction of 455 people, a re-location of production facilities to other plants and a product-mix improvement. Management estimates the plan should boost annual EBIT by some €15m as of 2003F. We currently anticipate an additional EBIT of €8m in 2003F, €11m in 2004F and €13.3m in 2005F.

We have reviewed our FY forecasts to incorporate the negative impacts of the weakening dollar (currently some 10% weaker than during 2H01) as well as the worsening economic outlook for Chilean and Brazilian operations. As a result of the combination of all of the above factors, EPS02F is roughly cut by half (from €2.69 to €1.20), EPS03F is lowered by 3.2% (from €3.74 to €3.62).

	1H02F	YoY ev.	1H01	2H01
Sales (€m)	922,2	-1%	931,3	864,7
EBIT (after goodw. amort.) (€m)	7,7	-86%	53,4	6,1
as % of sales	0,8%		5,7%	
Equity affiliates (net) (€m)	7,0	-7%	7,5	5,0
Fin. & non-oper. Income & exp. (€m)	-17,0	-23%	-22,0	-3,1
Taxes (€m)	-1,2	-84%	-7,4	11,9
Net profit (Group share) (€m)	-4,4	-115%	29,7	18,2
Current net profit (€m)	1,0	-97%	34,7	22,6
as % of sales	0,1%		3,7%	2,6%
Adj. EPS (€)	0,05	-97%	1,57	1,02

Source: ING estimates

1H02F's EPS should come in close to breakeven due to the non-recurrent €34m charge, a stable sales evolution with EBIT margins still under pressure due to insufficient capacity usage. Financial charges are expected to rise alongside the company's higher gearing in FY02F and the combined contribution from the Latin American operation and Unisolar is expected to decline some 7% YoY due to the start up of the 30MW thin film solar cell plant. Compared to 2H01's result, 1H02F comes in much lower as this semester should not benefit from a negative tax rate, which substantially flattered 2H01's results. The average US dollar level remained YoY nearly equal and should therefore have no impact.

Ahead of Monday's results announcement we maintain our Hold recommendation and our €50 price target in view of Bekaert's longer-term outlook.

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Target price based on:

	High	Low	Now	Target
EV/EBITDA 03F (x)	5,7	3,8	5,3	5,8

Price performance

	12m	3m	Now	Target
Absolute (%)	16,7	-3,5		6,0
FTSE 300	1.282	1.229	862	1.210
Rel to FTSE 300 (%)	73,4	37,4		-24,5
BEL20 index	2.916	2.849	2.102	2.850
Rel to local index (%)	61,9	30,8		-21,9

Forecasts (€)

Yr to 31 Dec	2001	2002F	2003F	2004F
Turnover (m)	1.796,0	1.851,0	1.849,0	1.883,0
EPS growth (%)	-47,0	-53,6	201,8	23,1
Net curr. profit (m)	57,3	26,6	80,2	98,8
Adj EPS	2,59	1,20	3,62	4,46
CFPS	8,76	8,79	12,01	12,70
Net Dividend	1,3	1,3	1,3	1,4
Adj PER (x)	18,2	39,3	13,0	10,6
EV/EBITDA (x)	6,8	7,3	5,3	4,8
Yield (%)	2,7	2,7	2,7	2,9

Share data (€)

No. of shares (m)	22,2	Market cap (m)	1.046,0
Daily t/o (m)	0,8	Ent'prise val (m)	1.401,0
Free float (%)	60,0	Price/NAV (x)	1,0

Key ratios

Yr to 31 Dec	2001	2002F	2003F	2004F
EBITDA margin (%)	10,7	10,4	14,2	14,8
Gross margin (%)	19,3	19,0	22,9	23,5
Net debt/equity (%)	66,5	69,8	63,9	58,0
Net margin	3,2	1,4	4,3	5,2
ROE (%)	5,6	2,6	7,9	9,4