

## Engineering &amp; Machinery

Belgium

Bekaert<sup>[c]</sup>

Maintained

Hold

29/10/02

12 Month

Reuters: BERTt.BR

Price: €38.51

Target price: €50.00

- **Bekaert issued a rather vague trading update on its 3Q02-operations (ending 30 September 2002). Bekaert's advanced material sales increase appeared to weaken during 3Q02.**
- **We slightly lower our 12-month price target to reflect the lower valuation multiples paid at the stock market (from €52 to €50). Hold recommendation maintained.**

**Bekaert's 3Q02 trading update** does not include precise figures in terms of sales or in terms of profitability, but aims to provide an overall view of operations per region and per activity. However, as all elements were expressed in terms of nine months of operations, an accurate assessment of 3Q02 operations becomes difficult. During the first nine months, all divisions appear to have recorded higher YoY sales, partly due to external growth.

**Wire sales appeared to continue the progress of 1H02** (YoY +2.8% during 1H02). Activities in Europe were facing lower demand, but Northern American and Latin American activities progressed. The impact of exchange losses on results (primarily related to Brazilian activities) should be limited. Here, however, we fear that (moving forward) the situation will deteriorate as the Brazilian Real has weakened further. All in all, considering our relatively conservative estimate of €5.7m for Bekaert's 2H02F's equity affiliates (including Unisolar activities) compared to €11.8m during 1H02, we expect FY02F to exceed the FY01 contribution of €12.5m.

**Within Steel Cord activities, tire cord sales** (c.60% of steel cord activities) came in higher, aided by strong sales in China. However, all other main product types recorded slightly lower sales (ie, bead wire, belt cord, hose reinforcement). The weaker demand, primarily in the US, affected sales progression.

**Despite a double-digit organic growth** after the first nine months of 2002, Bekaert Advanced Materials (BAM) 3Q02 sales could be deceptive, as demand weakened in the US. In particular, window film sales came in low, most likely as this is project driven business and the postponement of new orders immediately hits top-line progression. Bekaert's solar systems (Unisolar) appear to have larger-than-expected pre-production expenses, which might lead Bekaert and its JV partner ECD to look for a third partner in order to strengthen the financing base and to extent the distribution network. Attaining the break-even point should take more time than expected. We forecast it to materialise by 2005F.

**As the outlook of two of its major BAM investments** (estimated at c. 50 % of BAM sales) is less encouraging than previously expected, we maintain our Hold recommendation despite the current share-price weakness.

## Target price based on: Adj. PER

	High	Low	Now	Target
Adj. PER	11.4	7.54	8.65	11.2

## Price performance

	12m	3m	Now	Target
Absolute (3m.12m %)	16.0	(19.8)	38.5	50.0
BEL 20	2,586	2,251	1,930	2,843
Rel to BEL 20 (%)	41.4	(5.51)		
FTSE E300	1,157	951.9	865.6	1,170
Rel to FTSE E300 (%)	41.2	(10.7)		

## Forecasts (€)

Yr to Dec	2001	2002F	2003F	2004F
Turnover (m)	1,796	1,903	1,895	1,930
Net profit (m)	47.8	21.0	69.4	87.8
Adj EPS	2.59	1.63	3.62	4.45
CFPS	6.86	5.91	10.00	10.20
Dividend	1.68	1.68	1.68	1.80
Adj. PER	14.9	23.7	10.6	8.65
EV/EBITDA (x)	8.05	8.50	6.04	5.61
Yield (%)	4.36	4.36	4.36	4.67

## Share data (€)

No. of shares (m)	222.0	Market cap (m)	853.3
Daily t/o	13,890	Ent'prise val (m)	1,607
Free float (%)	60.0	Price/NAV (x)	0.85

## Key ratios

Yr to Dec	2001	2002F	2003F	2004F
EBITDA margin (%)	10.8	9.94	13.7	14.3
Gross margin (%)	19.6	18.6	22.5	23.0
Net debt/equity	66.5	71.7	66.3	60.9
ROACE (%)		3.67	5.88	6.43
ROE (%)	4.68	2.07	6.79	8.27

Forecasts: ING High/Low 1 year

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30 October 2002

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## Company profile

Bekaert produces and markets a wide range of products based on metal-forming and coating technologies. Incorporated in 1880, Bekaert evolved from a small manufacturing and trading company into a global group. Bekaert initiated its internationalisation in the 1920s, first in Western Europe, later in Latin America and then from the seventies on, in North America and the Far East.

### Steel wire activities

The vast group of applications within steel wire can be segmented between global and regional businesses as well as on applications level. Bekaert's global business in steel wire can be split into four main categories: cable solutions, high carbon specialities, low carbon specialities and building products. Bekaert's other steel wire products are marketed and managed on a continental level (Europe, N America, Latin Am., Asia). The latter includes galvanised wire, rope wire and stainless steel wire.

### Steel cord activities

Bekaert develops, produces and markets steel cord products for polymer reinforcement worldwide. Tyre cord and bead wire are used for reinforcement of truck and car tyres. The product range also includes high-pressure hose, reinforcement wire, conveyor belt cord, woven steel cord, fine cord for transmission belts and sawing wire.

### Merchant products Europe

Bekaert's third division comprises end products, in contrast to the prevailing part of the two previously described activities. The merchant products Europe business unit designs, develops, produces and markets

- woven and welded mesh products for the garden and agricultural markets
- professional and security fencing systems
- half-products for industrial applications
- products for handling and display

### Bekaert advanced materials

The Bekaert advanced materials division (BAM) is the central point in Bekaert's future development. As Bekaert aims to pursue a strategy of fundamental renewal within its core activities and become less vulnerable to economic cycles, the company developed an additional business unit focussed on innovative industrial products, which combine Bekaert's core skills (metal transformation and coating technologies) with new technologies.

## Financials

Yr to Dec (€m)	2001	2002F	2003F	2004F
<b>Income statement</b>				
Turnover	1,796	1,903	1,895	1,930
EBITDA	194.0	189.1	260.3	275.8
Net financial charges	(25.1)	(35.4)	(36.7)	(34.9)
Operating exceptionals	0.00	0.00	0.00	0.00
Adj pre-tax profit	56.5	46.2	107.6	133.9
Corporate exceptionals	0.00	0.00	0.00	0.00
Profit/Loss on sale of tangible fixed assets	0.00	0.00	0.00	0.00
Amortisation of goodwill	(9.50)	(15.0)	(10.8)	(10.8)
Pre-tax profit	46.9	31.2	96.8	123.0
Taxes	4.55	(6.61)	(23.9)	(31.8)
Extra-ordinary items (net)	(0.20)	0.00	0.00	0.00
Minorities	(3.49)	(3.60)	(3.49)	(3.49)
Preference dividend	0.00	0.00	0.00	0.00
Net profit	47.8	21.0	69.4	87.8
<b>Balance sheet</b>				
Total fixed assets and L/T investments	1,416	1,416	1,421	1,437
Working capital	533.4	567.3	564.5	572.9
L/T Non-interest bearing liabilities	177.9	177.9	177.9	177.9
Net Assets	1,772	1,805	1,807	1,832
Group equity	1,064	1,051	1,087	1,138
Net debt	707.6	753.5	720.2	693.3
Capital employed	1,772	1,805	1,807	1,832
<b>Cash flow</b>				
Operating cash flow	172.4	173.0	282.1	292.7
Cash taxes	4.55	(6.61)	(23.9)	(31.8)
Net financial charges (CF)	(25.1)	(35.4)	(36.7)	(34.9)
Gross cash flow (after tax)	151.9	131.0	221.5	226.0
Capital Exp. (net of disposals)	(321.2)	(139.5)	(151.0)	(161.9)
Free cash flow	(169.3)	(8.50)	70.5	64.1

Source: ING and company data

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