

Preliminary FY02 results & earnings revision

Engineering & machinery

Belgium

Previously: Hold

Bekaert^[c]

Hold

10/02/03

12 month

Reuters: BERTt.BR

Price: €34.30

Target price: €43.00

- Bekaert provided some indication of its FY02 results at an analysts' meeting yesterday. Operational results were strong and in line with expectations. The €82m impairment on Unisolar, however, was a major disappointment.

- We revise our forecasts and cut our 12-month target price from €50 to €43. We maintain our Hold recommendation.

Bekaert's preliminary results contained one major surprise: it must book an impairment of US\$84m on its investment in Unisolar (active in photovoltaic cells), or the equivalent of the full investment in order to comply with IFRS accounting rules. The impairment is based on the value in use of the current facilities. It was already known that Unisolar activities would take longer to break even (2004F-2005F) and that Bekaert was seeking an additional partner (in marketing or in funding) in order to face competition from large-scale players. Considering that Bekaert acquired the stake in Unisolar activities in April 2000, an impairment on the full investment is a disappointment, in our view. Bekaert aims to find a solution for Unisolar in 2003. We would not be surprised should Bekaert divest its stake.

FY02 accounts will thus be heavily affected by 'exceptionals' (impairment of €84m and restructuring charges of €56m which were mostly (€48m) booked during 1H02), resulting in a net consolidated loss for 2H02F of c.€60m. Consensus for net profit ranges between €11.3m (our estimate) and €28.3m. Management stated that EBIT for 2H02F (after restructuring charges) would come in at €33m. Consensus for 2H02F ranges from €19.2m to €41m (our estimate: €36.9m), roughly in line with estimates. EBIT02F (before exceptionals) should rise YoY by 60%, which is, in view of the current economic environment, quite strong. The gross dividend of €1.68 is to be maintained, bringing the gross yield to 4.90%.

The current order intake is in line with that of 2002, but visibility remains low. We have revised our forecasts to incorporate the different elements. We slightly raise FY03F net profit as the adverse impact of Unisolar on equity affiliates should vanish from 2003F on. We are forecasting more conservative top and bottom lines for 2004F, especially regarding Bekaert Advanced Materials.

We maintain our Hold recommendation, but lower our 12-month price target to €43 in view of the setback on Unisolar, which in turn renders Bekaert's profile more traditional and more cyclical. Our target price is based on an EV/EBITDA03F of 6.6x.

Target price based on EV/EBITDA

	High	Low	Now	Target
EV/EBITDA03F (x) before exceptionals	7.81	5.26	5.26	6.60

Price performance

	12m	3m	Now	Target
Absolute (%)	(18.0)	(11.6)	-	25.3
BEL 20	2,779	1,984	1,755	2,300
Rel to BEL 20 (%)	18.8	(0.06)		(5.69)
FTSE E300	1,213	878.5	770.5	1,030
Rel to FTSE E300 (%)	18.4	0.69		(8.31)

Forecasts (€)

Yr to Dec	2001	2002F	2003F	2004F
Turnover (m)	1,796	1,885	1,857	1,891
Net profit (m)	47.8	(51.1)	78.6	83.8
Adj EPS	2.59	(1.63)	4.04	4.27
CFPS	12.18	11.30	10.51	10.32
Dividend	1.68	1.68	1.68	1.80
Adj PER (x)	13.3		8.50	8.03
EV/EBITDA (x)	6.96	6.78	5.26	4.75
Yield (%)	4.90	4.90	4.90	5.24

Share data (€)

No. of shares (m)	22.2	Market cap (m)	760.0
Daily t/o	54,638	Ent'prise val (m)	1,245
Free float (%)	60.0	Price/NAV (x)	0.78

Key ratios

Yr to Dec	2001	2002F	2003F	2004F
EBITDA margin (%)	10.8	10.0	12.7	13.6
Gross margin (%)	19.6	18.7	21.5	22.4
Net debt/equity	55.4	53.0	47.3	43.1
ROACE (%)		(5.77)	7.67	7.36
ROE (%)	4.68	3.37	8.24	8.41

Forecasts: ING High/Low 1 year

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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 since the 1970s, 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, North America, Latam, 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

This division comprises end products, in contrast to the prevailing part of the two previously described activities. It 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 and 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, it developed an additional business unit focusing 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
Income statement				
Turnover	1,796	1,885	1,857	1,891
EBITDA	194.0	188.8	236.5	257.4
Net financial charges	(25.1)	(29.4)	(23.4)	(21.4)
Operating exceptionals	0.00	0.00	0.00	0.00
Adj pre-tax profit	56.5	49.9	99.0	125.2
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	34.9	88.1	114.4
Taxes	4.55	1.67	(6.04)	(27.1)
Extraordinary items (net)	(0.20)	(84.0)	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 (m)	47.8	(51.1)	78.6	83.8
Balance sheet				
Total fixed assets and L/T investments	1,416	1,413	1,428	1,449
Working capital	415.5	263.9	259.3	262.1
L/T Non-interest bearing liabilities	177.9	177.9	177.9	177.9
Enterprise net assets	1,654	1,499	1,509	1,533
Group equity	1,064	979.3	1,024	1,072
Net debt	589.7	519.4	484.8	461.5
Capital employed	1,654	1,499	1,509	1,533
Cash flow				
Operating cash flow	290.4	278.1	262.1	277.0
Cash taxes	4.55	1.67	(6.04)	(27.1)
Net financial charges (CF)	(25.1)	(29.4)	(23.4)	(21.4)
Gross cash flow	269.9	250.3	232.8	228.6
Capital expenditures (net of disposals)	(321.2)	(142.6)	(161.0)	(168.0)
Free cash flow	(51.3)	107.7	71.8	60.6

All sources: Company data, ING estimates

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