

1Q03 trading update, change in recommendation

## Engineering & machinery

Belgium

# Bekaert<sup>[c]</sup>

Previously: Buy

## Hold

14/05/03

12 month

Reuters: BERTt.BR

Price: €41.80

Target price: €45.00

● **Bekaert apparently performed well during 1Q03 as the company managed to offset the impact of the weakening US dollar at EBIT level. However, we believe the short-term outlook is becoming more challenging. We have revised our forecasts downwards.**

● **We raise our 12-month price target from €40 to €45, but downgrade Bekaert from Buy to Hold as the upside potential appears to be more limited after the recent share-price surge.**

**Bekaert's 1Q03 trading update**, provided at the AGM, appears to be reassuring for 1Q03 operations, although we received no actual figures for 1Q03 (nor for 1Q02). Management commented only on business evolution in the different regions and for the different business units.

**During 1Q03, sales would have increased by 2%** at constant currency exchange rates. However, due to the sharply lower US dollar, actual sales declined 7.2% YoY. EBIT and net profit managed to come in higher YoY (our estimate: +11% YoY). We should point out that neither 1Q02 nor 1Q03 were affected by exceptional items (the major restructuring charges in the Fencing division was accounted for during 2Q02).

**BAM's sales remained stable YoY**, which appears to be in line as c.90% of BAM sales are expressed in US dollars. Bekaert also announced it sold its Unisolar stake for US\$6m. In 2002, Bekaert had to book a €84m impairment charge on this investment. Steel cord's turnover kept up better than expected (declining 2.2% YoY) as it was able to capitalise on the disappearance of US competitor Tokyo Rope. Wire sales (YoY -16%) were less convincing as demand weakened. The contribution of the Latin American equity affiliates continued to rise. The restructuring at the fencing division appears to be evolving well as divisional EBIT progressed at a stable sales level, which can be explained by a better product mix and the fact that fencing sales are almost entirely related to the eurozone.

**We have revised our forecasts slightly downwards** in order to adjust for the further weakened US dollar (in total, c.55% of Bekaert sales are linked to the US dollar) and management's indications of continued weakness in the US and German markets. We lower our EPS03F to €3.96 (was: €4.23) and EPS04F to €4.30 (was: €4.70). The strong operational performance in terms of margin improvement convinced us to raise our 12-month target from €40 to €45 (in line with an EV/EBITDA04F of 5x). We downgrade Bekaert from Buy to Hold, as we believe that the upside potential has decreased following the recent share-price surge from mid-March 2003 onwards.

### Target price based on EV/EBITDA

	High	Low	Now	Target
EV/EBITDA04F (x) before exceptionals	5.56	3.90	4.80	5.07

### Price performance

	12m	3m	Now	Target
Absolute (%)	(17.6)	8.50	-	7.7
BEL 20	2,872	1,778	1,930	1,960
Rel to BEL 20 (%)	22.5	(0.04)		6.02
FTSE E300	1,234	781.1	817.2	910.0
Rel to FTSE E300 (%)	24.4	3.75		-3.32

### Forecasts (€)

Yr to Dec	2002	2003F	2004F	2005F
Turnover (m)	1,863	1,839	1,831	1,869
Net profit (m)	(49.5)	82.2	84.5	96.5
Adj EPS	2.74	3.96	4.30	4.85
CFPS	12.76	11.41	11.34	11.37
Dividend	1.68	1.68	1.80	1.92
Adj PER (x)	15.2	10.5	9.71	8.63
EV/EBITDA (x)	6.58	5.29	4.80	4.44
Yield (%)	4.02	4.02	4.30	4.60

### Share data (€)

No. of shares (m)	22.2	Market cap (m)	926.2
Daily t/o	20,762	Ent'prise val (m)	1,320
Free float (%)	60.0	Price/NAV (x)	1.06

### Key ratios

Yr to Dec	2002	2003F	2004F	2005F
EBITDA margin (%)	11.2	13.6	14.5	14.8
Gross margin (%)	21.1	21.7	22.7	23.0
Net debt/equity (%)	50.7	42.4	35.8	29.2
ROACE (%)	-	7.83	7.86	8.34
ROE (%)	(5.34)	9.01	9.40	10.2

Forecasts: ING High/Low 1 year

Luc Struelens

+32 2 547 3678

luc.struelens@v-r.be

15 May 2003

SPARK - single page action research

Please see the important disclaimer &amp; company disclosures at the back of this report

## 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)	2002	2003F	2004F	2005F
<b>Income statement</b>				
Turnover	1,863	1,839	1,831	1,869
EBITDA	208.2	249.3	266.0	276.9
Net financial charges	(32.9)	(25.1)	(22.3)	(20.0)
Operating exceptionals	0.00	0.00	0.00	0.00
Adj pre-tax profit	60.0	107.1	129.9	149.7
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	(110.3)	(10.9)	(10.9)	(10.9)
Pre-tax profit	(50.2)	96.2	119.0	138.8
Taxes	7.41	(12.2)	(27.5)	(35.3)
Extraordinary items (net)	0.00	5.26	0.00	0.00
Minorities	(6.69)	(7.00)	(7.00)	(7.00)
Preference dividend	0.00	0.00	0.00	0.00
Net profit	(49.5)	82.2	84.5	96.5
<b>Balance sheet</b>				
Total fixed assets and L/T investments	1,164	1,176	1,194	1,209
Working capital	340.3	329.8	320.0	318.9
L/T non-interest bearing liabilities	183.4	183.4	183.4	183.4
Enterprise net assets	1.321	1.322	1.331	1.345
Group equity	876.2	928.3	979.9	1.041
Net debt	444.6	393.9	350.8	303.8
Capital employed	1.321	1.322	1.331	1.345
<b>Cash flow</b>				
Operating cash flow	308.3	290.2	301.2	307.2
Cash taxes	7.41	(12.2)	(27.5)	(35.3)
Net financial charges (CF)	(32.9)	(25.1)	(22.3)	(20.0)
Gross cash flow	282.8	252.9	251.3	251.9
Capital expenditures (net of disposals)	(120.4)	(165.0)	(171.0)	(165.0)
Free cash flow	162.4	87.9	80.3	86.9

All sources: Company data, ING estimates

## ING Financial Markets

<b>AMSTERDAM</b> Tel: 31 20 563 87 98 Fax: 31 20 563 87 66	<b>LONDON</b> Tel: 44 20 7767 1000 Fax: 44 20 7767 7777	<b>NEW YORK</b> Tel: 1 646 424 6000 Fax: 1 646 424 6060	<b>HONG KONG</b> Tel: 852 2848 8488 Fax: 852 2522 8640	<b>TOKYO</b> Tel: 813 5210 1500 Fax: 813 5210 1555
<b>Bangkok</b> Tel: 662 263 2888-9	<b>Dublin</b> Tel: 353 1 638 4000	<b>Kiev</b> Tel: 380 44 230 3030	<b>Moscow</b> Tel: 7095 755 5400	<b>Shanghai</b> Tel: 86 21 6841 3355
<b>Bratislava</b> Tel: 421 2 5934 61 11	<b>Edinburgh</b> Tel: 44 131 527 3000	<b>Kuala Lumpur</b> Tel: 603 2162 0036	<b>Paris</b> Tel: 33 1 56 39 31 41	<b>Singapore</b> Tel: 65 6535 3688
<b>Brussels</b> Tel: 32 2 547 70 60	<b>Frankfurt</b> Tel: 49 69 718 2701	<b>Madrid</b> Tel: 34 91 789 0030	<b>Prague</b> Tel: 420 2 232 0000	<b>Sofia</b> Tel: 359 2 917 6400
<b>Bucharest</b> Tel: 401 222 1600	<b>Geneva</b> Tel: 41 22 818 77 77	<b>Manila</b> Tel: 632 840 8888	<b>Santiago</b> Tel: 562 330 0600	<b>Taipei</b> Tel: 886 2 2734 7500
<b>Budapest</b> Tel: 36 1 268 0140	<b>Istanbul</b> Tel: 90 212 258 8770	<b>Mexico City</b> Tel: 52 55 5258 2000	<b>Sao Paulo</b> Tel: 55 11 3847 6000	<b>Warsaw</b> Tel: 48 22 820 5018
<b>Buenos Aires</b> Tel: 54 11 4310 4700	<b>Jakarta</b> Tel: 62 21 515 1818	<b>Milan</b> Tel: 39 02 4762 1	<b>Seoul</b> Tel: 822 317 1500	

## Company disclosures

The following designations [a-h] next to a company covered in this publication highlight that one or more members of ING Group:

- [a] holds 1% or more of the share capital of the company (as at the end of the month preceding this publication).
- [b] has lead managed or co-lead managed a public offering of the securities of the company in the last 12 months.
- [c] was a member of a group of underwriters which has subscribed for and/or underwritten securities of the company in the last 5 years.
- [d] is a liquidity provider, or acts as designated sponsor or market maker, for the company on a German, French or Dutch stock exchange.
- [e] has received compensation for investment banking services from the company within the last 12 months.
- [f] expects to receive or intends to seek compensation for investment banking services from the company in the next 3 months.
- [g] makes a market in the company's securities in the US via ING Financial Markets LLC.
- [h] has a member of its board of directors or supervisory board or senior officer on the company's board of directors or supervisory board.

In addition, ING Group trades in the shares of the company/ies covered in this publication.

## Disclaimer

The views expressed in this report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this report.

This publication has been prepared on behalf of ING (being for this purpose the wholesale and investment banking business of ING Bank NV and certain of its subsidiary companies) solely for the information of its clients. ING forms part of ING Group (being for this purpose ING Groep NV and its subsidiary and affiliated companies). It is not investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, ING makes no representation that it is accurate or complete. The information contained herein is subject to change without notice.

ING Group and any of its officers, employees, related and discretionary accounts may, to the extent not disclosed above and to the extent permitted by law, have long or short positions or may otherwise be interested in any transactions or investments (including derivatives) referred to in this publication. In addition, ING Group may provide banking, insurance or asset management services for, or solicit such business from, any company referred to in this publication.

Neither ING nor any of its officers or employees accepts any liability for any direct or consequential loss arising from any use of this publication or its contents. Copyright and database rights protection exists in this publication and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved.

Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investment decisions without relying on this publication. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this publication.

This publication is issued: 1) in the United Kingdom only to persons described in Articles 19, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and is not intended to be distributed, directly or indirectly, to any other class of persons (including private investors); 2) in Italy only to persons described in Article No. 31 of Consob Regulation No. 11522/98. Clients should contact analysts at, and execute transactions through, an ING entity in their home jurisdiction unless governing law permits otherwise.

ING Bank N.V., London branch is regulated for the conduct of investment business in the UK by the Financial Services Authority. It is incorporated in the Netherlands and its London branch is registered in the UK (number BR000341) at 60 London Wall, London EC2M 5TQ. ING Financial Markets LLC, which is a member of the NYSE, NASD and SIPC and part of ING, has accepted responsibility for the distribution of this report in the United States under applicable requirements.

**Additional information is available on request**