

1H03 results & analysts' meeting

Engineering & machinery

Belgium

Maintained

Bekaert^[c]

Hold

28/07/03

12 month

Reuters: BERTt.BR

Price: €44.25

Target price: €50.00

- **Bekaert reported stronger-than-expected operational 1H03 results. Net profit (€43.7m), however, posted in line with our estimates. Adjusted EPS came in at €2.17 (estimate €2.12).**
- **Despite the solid results, we maintain our HOLD recommendation in view of the uncertain short-term outlook. The target price is raised from €45 to €50.**

1H03 sales declined 5.4% YoY to €932.7m, largely influenced by the sharp decline (-23% YoY during 1H03) of the US\$ versus the euro. At a constant US\$/€ exchange rate, sales would have increased by 3.4% YoY during 1H03, hereby suggesting that the sales trend improved during 2Q03 (compared with 1Q03, where sales increased 2% YoY). 2Q03 Wire sales appeared to recover slightly from the low levels during 1Q03, Steelcord sales remained very strong (+0.8% YoY in 1H03 or +13% YoY at constant exchange rates), 2Q03 Fencing sales remained stable (as during 1Q03). 1H03 BAM sales, however, declined 6.2% YoY to €106m, whereas 1Q03 sales remained flat YoY during 1Q03, due to weak speciality films (BSF) sales.

1H03 EBIT surged YoY by 228% up to €68.3m (our estimate €46.5m), which was clearly ahead of expectations. The corresponding EBIT margin (7.3%) has not been realised at Bekaert since 1995. However, at the bottom line our forecasts came in bang in line (€43.7m) as taxation came in considerably higher than anticipated and financial and non-operating charges hiked to €27.8m (hereby exceeding our estimate by €15.4m). Three main elements explain this discrepancy: 1) a cumulative translation effect on dividend payments (approximately €6m), 2) an impairment of €5.8m on the poor performing handling business and 3) the adjustment of pension fund liabilities as a lower expected return was applied.

Management remains very cautious on the 2H03 outlook as they see no pick-up in the automotive industry. Besides, 2H is traditionally weaker at Bekaert. Bekaert's US and EU orderbook (for automotive wire products) is lower than at the beginning of the year and management does not expect this to change soon. All-in-all, 1H03 results contain several buoyant elements (record EBIT margin, increasing gross margin, strong overall performance at Steelcord, strong growth in Central and Eastern Europe, restructuring in Fencing on track, good resilience to the weakened US, etc) but the outlook is less upbeat (a more limited orderbook, poor short-term outlook for the US and EU, an additional impairment on Speciality Film could emerge, etc). We reviewed our forecasts following the analysts' meeting and incorporated an estimated €10m impairment in 2004F estimates for BSF. EPS for 2003F and 2004F have respectively risen to €4.16 (from €3.96) and €4.71 (from €4.30).

Target price based on EV/EBITDA before exceptionals

	High	Low	Now	Target
EV/EBITDA04F (x)	5.24	3.77	4.80	5.25

Price performance

	12m	3m	Now	Target
Absolute (%)	-10.3	5.90	-	13.0
BEL 20	2,245	1,866	1,995	2,100
Rel to BEL 20 (%)	0.97	-0.95	-	7.33
FTSE E300	957.9	823.9	872.0	910.0
Rel to FTSE E300 (%)	-1.46	0.05	-	8.27

Forecasts (€)

Yr to Dec	2002	2003F	2004F	2005F
Turnover (m)	1,863	1,826	1,886	1,944
Net profit (m)	(49.5)	81.1	83.4	103.7
Adj EPS	2.74	4.16	4.71	5.18
CFPS	12.76	10.86	11.25	11.66
Dividend	1.68	1.68	1.80	1.92
Adj PER (x)	16.1	10.6	9.39	8.55
EV/EBITDA (x)	6.85	5.49	4.80	4.41
Yield (%)	3.80	3.80	4.06	4.35

Share data (€)

No. of shares (m)	22.1	Market cap (m)	978.9
Daily t/o	12,455	Ent'prise val (m)	1,394
Free float (%)	60.0	Price/NAV (x)	1.12

Key ratios

Yr to Dec	2002	2003F	2004F	2005F
EBITDA margin (%)	11.2	13.9	15.0	15.3
Gross margin (%)	21.1	22.0	23.1	23.4
Net debt/equity (%)	50.7	44.7	38.9	31.9
ROACE (%)	-	8.07	8.50	8.77
ROE (%)	(5.34)	9.49	9.29	10.9

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, 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

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' 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
Income statement				
Turnover	1,863	1,826	1,886	1,944
EBITDA	208.2	253.9	283.3	297.8
Net financial charges	(32.9)	(44.1)	(38.5)	(37.1)
Operating exceptionals	0.00	0.00	0.00	0.00
Adj pre-tax profit	60.0	117.7	138.0	160.5
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)	(20.9)	(10.9)
Pre-tax profit	(50.2)	106.8	117.1	149.6
Taxes	7.41	(16.7)	(24.7)	(36.4)
Extraordinary items (net)	0.00	0.00	0.00	0.00
Minorities	(6.69)	(9.00)	(9.00)	(9.50)
Preference dividend	0.00	0.00	0.00	0.00
Net profit	(49.5)	81.1	83.4	103.7
Balance sheet				
Total fixed assets and L/T investments	1,164	1,201	1,216	1,238
Working capital	340.3	327.3	330.8	333.4
L/T non-interest bearing liabilities	183.4	183.4	183.4	183.4
Enterprise net assets	1.321	1.345	1.364	1.388
Group equity	876.2	929.1	981.8	1.052
Net debt	444.6	415.5	381.7	335.7
Capital employed	1.321	1.345	1.364	1.388
Cash flow				
Operating cash flow	308.3	301.1	312.2	331.4
Cash taxes	7.41	(16.7)	(24.7)	(36.4)
Net financial charges (CF)	(32.9)	(44.1)	(38.5)	(37.1)
Gross cash flow	282.8	240.3	248.9	257.8
Capital expenditures (net of disposals)	(120.4)	(174.0)	(178.0)	(172.0)
Free cash flow	162.4	66.3	70.9	85.8

All sources: Company data, ING estimates

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