

FY03 results & analysts' meeting

Engineering & machinery

Belgium

Bekaert^[dg]

Maintained

Hold

18/03/04

12 month

Reuters: BERTt.BR

Price: €44.65

Target price: €48.00

● **Bekaert's FY03 operational results posted in line with estimates. 2003 EPS surged to €4.33 (YoY +58%) thanks to an unusual low taxation.**

● **We have slightly increased our FY04 forecasts but stick to our HOLD recommendation and €48 price target.**

To comply with IFRS, as from the FY03 results announcement Bekaert will adopt segment reporting. There are five segments: 1) Advanced Wire products (which regroups Wire and Steel cord); 2) Fencing systems Europe (unchanged, 21.3% of sales); 3) Advanced Materials (part of BAM: Fibres, combustion and composites); 4) Advanced Coatings (part of BAM: Industrial coatings and speciality films) and 5) Other (Group services).

Bekaert disclosed divisional EBIT and EBITDA figures in its FY03 reporting. However, Advanced Wire products accounted for 66.6% of 2003's consolidated sales, 86% of group EBITDA and 108% of group EBIT (before group services). As a result, this segmentation does not provide additional information on the different profit dynamics of Steel Cord and Wire activities, which combined account for the lion's share of Bekaert's activities. In 2003, Fencing activity showed the improvement in margins we were looking for (following the restructuring measures): EBIT margin for 2003 posted at 6.6% (ING estimate 6.3%), up from -2.1% in 2002 (ING estimate -3%).

In 2003, overall activities were weak in the US (26.9% of sales) and in Western Europe (47%), but quite strong in Central Europe (11%) and Asia (11.7%). The US\$ impact on FY03 EBIT was considerable, wiping out €26m to come in at €112m. Bekaert had to book a restatement for unrecognised actuarial losses of defined post-employment plans, which caused a net decrease of €82m on equity (or c.10% of equity). The company's focus remains on further expansion in China, assessing production optimisation (through relocation if necessary) so as to enhance profitability and lift ROIC above the WACC.

Short-term outlook is not very upbeat, however; overall order book is slightly improving but the US and Western European markets remain hesitant. Moreover, price increases in wire rod continue, Bekaert is attempting to recover this in its selling prices. However, supposing that this trend persists – which is what management expects – and if the US and Western European economies do not recover as fast as expected, we fear that implementing higher selling prices might become more difficult moving forward. Moreover, the YoY weaker US\$ compared with the euro is not a blessing for Bekaert as well.

We stick to our HOLD recommendation and our €48 price target as we see little to trigger the share price in the short run.

Target price based on Adj 2005F PER (x)

	High	Low	Now	Target
Adj PER (x)	11.5	7.3	9.9	10.6

Price performance

	12m	3m	Now	Target
Absolute (%)	27.5	(10.0)	-	7.5
BEL 20	1,684.1	2,190.1	2,367.7	2,420.0
Rel to BEL 20 (%)	(9.3)	(16.7)		5.2
FTSE E300	779.6	944.9	973.3	1,100.0
Rel to FTSE E300 (%)	2.2	(12.6)		(4.9)

Forecasts (€)

Yr to Dec	2002	2003	2004F	2005F
Turnover (m)	1,863.5	1,797.0	1,860.4	1,929.2
Net profit (m)	(49.5)	85.2	84.6	88.7
Adj EPS	2.74	4.33	4.32	4.51
CFPS	12.76	11.64	11.06	10.61
Dividend	1.68	1.75	1.87	2.00
Adj PER (x)	16.3	10.3	10.3	9.9
EV/EBITDA (x)	6.9	5.9	5.8	5.4
Yield (%)	3.8	3.9	4.2	4.5

Share data (€)

No. of shares (m)	22.1	Market cap (m)	985.4
Volume	71.526	Ent'prise val (m)	1,441.7
Free float (%)	60.0	Price/NAV (x)	1.2

Key ratios

Yr to Dec	2002	2003	2004F	2005F
EBITDA margin (%)	11.2	13.3	13.4	14.0
Gross margin (%)	21.1	21.9	21.6	22.2
Net debt/equity (%)	50.7	50.9	52.2	51.8
ROACE (%)		8.8	8.7	8.5
ROE (%)	(5.3)	10.6	10.6	10.5

Forecasts: ING High/Low 1 year

Luc Struelens

+32 2 547 3678

luc.struelens@ing.be

19 March 2004

SPARK - single page action research

PLEASE SEE THE IMPORTANT DISCLAIMER, COMPANY DISCLOSURES AND ANALYST CERTIFICATION ON THE LAST PAGE 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	2003	2004F	2005F
Income statement				
Turnover	1,863.5	1,797.0	1,860.4	1,929.2
EBITDA	208.2	239.1	248.6	270.2
Net financial charges	(32.9)	(43.0)	(44.1)	(45.5)
Operating exceptionals	0.0	0.0	0.0	0.0
Adj pre-tax profit	60.0	111.3	119.0	128.7
Corporate exceptionals	0.0	0.0	0.0	0.0
Profit/loss on sale of tangible fixed assets	0.0	0.0	0.0	0.0
Amortisation of goodwill	(110.3)	(10.4)	(10.9)	(10.9)
Pre-tax profit	(50.2)	100.9	108.1	117.8
Taxes	7.4	(8.2)	(14.5)	(19.7)
Extraordinary items (net)	0.0	0.0	0.0	0.0
Minorities	(6.7)	(7.5)	(9.0)	(9.5)
Preference dividend	0.0	0.0	0.0	0.0
Net profit	(49.5)	85.2	84.6	88.7
Balance sheet				
Total fixed assets and L/T investments	1,163.9	1,153.8	1,267.4	1,343.5
Working capital	340.3	302.1	278.7	281.7
L/T non-interest bearing liabilities	183.4	215.2	215.2	215.2
Enterprise net assets	1,320.8	1,240.6	1,330.9	1,410.0
Group equity	876.2	822.3	874.6	928.6
Net debt	444.6	418.3	456.3	481.4
Capital employed	1,320.9	1,240.6	1,330.9	1,410.0
Cash flow				
Operating cash flow	308.3	308.0	302.8	299.3
Cash taxes	7.4	(8.2)	(14.5)	(19.7)
Net financial charges (CF)	(32.9)	(43.0)	(44.1)	(45.5)
Gross cash flow	282.8	256.9	244.2	234.1
Capital expenditures (net of disposals)	(97.3)	(209.2)	(210.0)	(183.0)
Free cash flow	185.5	47.7	34.2	51.1

All sources: Company data, ING estimates

ING Financial Markets

AMSTERDAM Tel: 31 20 563 87 98	BRUSSELS Tel: 32 2 557 10 26	LONDON Tel: 44 20 7767 1000	HONG KONG Tel: 852 2848 8488	NEW YORK Tel: 1 646 424 6000
Bangkok Tel: 662 263 2888-9	Edinburgh Tel: 44 131 527 3000	Madrid Tel: 34 91 789 0030	Prague Tel: 420 2 5747 1111	Sofia Tel: 359 2 917 6400
Bratislava Tel: 421 2 5934 61 11	Geneva Tel: 41 22 593 8050	Manila Tel: 632 840 8888	Santiago Tel: 562 452 2700	Taipei Tel: 886 2 2734 7500
Bucharest Tel: 40 21 222 1600	Istanbul Tel: 90 212 258 8770	Mexico City Tel: 52 55 5258 2000	Sao Paulo Tel: 55 11 3847 6000	Tokyo Tel: 813 5210 1500
Budapest Tel: 36 1 268 0140	Jakarta Tel: 62 21 515 1818	Milan Tel: 39 02 4762 1	Seoul Tel: 822 317 1500	Warsaw Tel: 48 22 820 5018
Buenos Aires Tel: 54 11 4310 4700	Kiev Tel: 380 44 230 3030	Moscow Tel: 7095 755 5400	Shanghai Tel: 86 21 6841 3355	
Dublin Tel: 353 1 638 4000	Kuala Lumpur Tel: 603 2166 8803	Paris Tel: 33 1 56 39 31 41	Singapore Tel: 65 6535 3688	

Important Company Disclosures

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

- [a] holds 1% or more of the equity shares 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] has received compensation for investment banking services from the company within the last 12 months.
- [d] expects to receive or intends to seek compensation for investment banking services from the company in the next 3 months.
- [e] makes a market in the company's securities in the US via ING Financial Markets LLC.
- [f] is a liquidity provider, or acts as designated sponsor or market maker, for the company on a German, French or Dutch stock exchange.
- [g] was a member of a group of underwriters which has subscribed for and/or underwritten securities of the company in the last 5 years.
- [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.
- [i] holds a net short position of 1% or more of the share capital, calculated in accordance with German law.

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

Disclosures [a]-[e] are required specifically but not exclusively by US regulations.

Disclaimer and Analyst Certification

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 authorised by the Dutch Central Bank and regulated by the Financial Services Authority for the conduct of UK business. 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