

## Engineering &amp; machinery

Belgium

Maintained

Bekaert<sup>[dg]</sup>

Hold

13/05/04

12 month

Reuters: BERTt.BR

Price: €46.25

Target price: €48.00

- **Bekaert reported very impressive 1Q04 sales at its AGM on Wednesday.**

- **We have raised our forecasts, but maintain our Hold recommendation and our €48 price target in view of uncertain margin evolution.**

**Bekaert reported very impressive turnover growth** in 1Q04 (+14% YoY), with sales rising to €507m, driven by 14% organic growth and a 6% YoY increase stemming from different consolidation parameters. One should moreover consider that adverse currency movements (linked to the US\$) lowered sales growth by 6%; turnover would have posted a 20% YoY rise at constant currencies. This sharp increase was realised at almost the same pace across all its divisions, apart from Advanced Materials (+1% YoY to €25m), but divisional sales figures had to cope with the divestment of composite profiles. The sales rise was especially linked to Central and Eastern Europe and Asia. Western Europe grew 4% YoY (to €263m). In the US, sales declined 1% YoY to €143m, as organic growth was wiped out by the weakened US\$. Bekaert's 1Q04 trading update only provided sales figures; no indication was given on (gross) margin evolution.

**Management confirmed that “despite some caution (due to the US\$ evolution and early ordering), the outlook is favourable”,** which is – in our view – a more upbeat statement than previously. All in all, we consider 1Q04 sales to be quite strong and believe they partly reflect an improving demand.

**However, the 1Q04 figures were probably flattered by two main factors:**

1) The higher raw material prices that Bekaert apparently (and promptly) attempted to recover in its selling prices. It is therefore not certain that higher turnover automatically leads to a higher gross margin in absolute terms. Management declined to comment on gross margin evolution. We believe the 1Q04 gross margin was probably hit by higher wire rod prices, but the overall gross margin (in absolute terms) should progress YoY. 2) Early ordering in anticipation of announced price increases. We believe 2Q04F's YoY sales growth should come in lower than the 1Q04 level.

**We have reviewed our forecasts upwards:** YoY sales growth is lifted to 6.5% in 2004F (previously 3.5%), slightly aided by the recent strengthening of the US\$. 2004F EBIT is raised by 3% (from €118.7m to €122.3m) so as to capture a partial gross margin erosion due to higher wire rod prices. 2004F EPS is upped from €4.32 to €4.38; 2005F EPS now comes in at €4.65 (from €4.51). We maintain our Hold recommendation and €48 price target as we consider evidence of good resilience at the gross margin level to be as important as solid turnover growth.

## Target price based on Adj PER (x)

	High	Low	Now	Target
Adj PER (x)	11.2	8.3	10.0	10.3

## Price performance

	12m	3m	Now	Target
Absolute (%)	11.9	-0.8	-	3.8
BEL 20	1,920.2	2,423.8	2,386.2	2,550.0
Rel to BEL 20 (%)	-9.9	0.8	-	-2.9
FTSE E300	817.8	993.4	980.0	1,100.0
Rel to FTSE E300 (%)	-6.6	0.6	-	-7.5

## Forecasts (€)

Yr to Dec	2003	2004F	2005F	2006F
Turnover (m)	1,797.0	1,914.2	1,977.5	2,056.6
Net profit (m)	85.2	85.7	91.7	95.0
Adj EPS	4.33	4.38	4.65	4.80
CFPS	11.64	10.79	10.89	10.84
Dividend	1.75	1.87	2.00	2.14
Adj PER (x)	10.7	10.6	10.0	9.6
EV/EBITDA (x)	6.0	5.9	5.4	5.2
Yield (%)	3.8	4.0	4.3	4.6

## Share data (€)

No. of shares (m)	22.1	Market cap (m)	1,020.8
Volume	21,673	Ent'prise val (m)	1,482.1
Free float (%)	60.0	Price/NAV (x)	1.2

## Key ratios

Yr to Dec	2003	2004F	2005F	2006F
EBITDA margin (%)	13.3	13.2	13.9	14.1
Gross margin (%)	21.9	21.4	22.1	22.3
Net debt/equity (%)	50.9	52.7	51.4	50.3
ROACE (%)	8.8	8.8	8.7	8.4
ROE (%)	10.6	10.7	10.8	10.6

Forecasts: ING High/Low 1 year

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SPARK - single page action research

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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 has evolved from a small manufacturing and trading company into a global group. Bekaert initiated its internationalisation in the 1920s, first in Western Europe, then in Latin America and, since the 1970s, in North America and the Far East.

### Advanced Wire Products

This segment is the company's main division (c.66% of sales), which regroups Wire and Steel Cord activities. Bekaert produces mainly for the Automotive and construction sector. Its product range includes industrial spring wire, flexible hose reinforcement wire, plastic-coated specialities and champagne cork wire. Bekaert's steel cord activities are mainly linked to tyre reinforcement (Tyre cord and bead wire).

### Fencing systems Europe

This division, accounting for c. 23% of sales, comprises end products. 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.

### Advanced materials

This division (c.5% of sales) is focused on specific innovative industrial products in less cyclical markets (fibre technologies and combustion technologies).

### Advanced Coatings

Bekaert is specialised in sputtering, a high-end process in which a coating is deposited on a substrate under vacuum. Applications include diamond-like coatings (eg, used in DVD production), and specialised window films (for solar control and safety enhancement). This activity represents c.6% of sales.

## Financials

Yr to Dec (€m)	2003	2004F	2005F	2006F
<b>Income statement</b>				
Turnover	1,797.0	1,914.2	1,977.5	2,056.6
EBITDA	239.1	252.2	275.6	290.5
Net financial charges	(43.0)	(44.1)	(45.8)	(46.4)
Operating exceptionals	0.0	0.0	0.0	0.0
Adj pre-tax profit	111.3	121.6	132.8	141.1
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	(10.4)	(10.9)	(10.9)	(10.9)
Pre-tax profit	100.9	110.7	122.0	130.2
Taxes	(8.2)	(16.0)	(20.8)	(25.7)
Extraordinary items (net)	0.0	0.0	0.0	0.0
Minorities	(7.5)	(9.0)	(9.5)	(9.5)
Preference dividend	0.0	0.0	0.0	0.0
Net profit	85.2	85.7	91.7	95.0
<b>Balance sheet</b>				
Total fixed assets and L/T investments	1,153.8	1,266.4	1,341.5	1,407.7
Working capital	302.1	285.9	285.8	295.8
L/T non-interest bearing liabilities	215.2	215.2	215.2	215.2
Enterprise net assets	1,240.6	1,337.1	1,412.1	1,488.2
Group equity	822.3	875.7	932.8	990.0
Net debt	418.3	461.4	479.3	498.2
Capital employed	1,240.6	1,337.1	1,412.1	1,488.2
<b>Cash flow</b>				
Operating cash flow	308.0	298.2	306.9	311.4
Cash taxes	(8.2)	(16.0)	(20.8)	(25.7)
Net financial charges (CF)	(43.0)	(44.1)	(45.8)	(46.4)
Gross cash flow	256.9	238.1	240.3	239.3
Capital expenditures (net of disposals)	(209.2)	(210.0)	(183.0)	(180.0)
Free cash flow	47.7	28.1	57.3	59.3

All sources: Company data, ING estimates

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