

1H04F results preview

Engineering & machinery

Belgium

Maintained

Bekaert^[dgr]

Hold

27/07/04

12 month

Reuters: BERTt.BR

Price: €49.35

Target price: €48.00

● **Bekaert will report 1H04 results on Monday, prior to market opening.**

● **Ahead of the results announcement and considering the uncertainty concerning Bekaert's margin evolution, we maintain our Hold recommendation and our €48 price target.**

We expect Bekaert to report solid top-line growth (+8.5% YoY), mainly driven by organic growth, as the adverse impact of the weakening US\$ (vs the euro) should more or less offset the expansion of Bekaert's consolidation parameters. This organic growth will, in our view, be largely due to the increase in Bekaert's selling prices, which were passed on to clients so as to (amongst other things) compensate for higher raw material (wire rod) prices.

Bekaert: 1H04F results preview (€m)

	1H04F	1H03	%ch YoY
Sales	1,012.0	932.7	8.5
EBIT (after goodwill amortisation)	73.20	68.32	7.1
As % of sales	7.2	7.3	-
Equity affiliates (net)	17.0	18.0	-5.4
Net profit (group share)	49.9	43.7	14.2
Net EPS (€)	2.26	1.98	14.2

Source: Company data, ING estimates

Our 1H04F sales forecast assumes that top-line growth weakened during 2Q04F as early ordering (due to announced price increases) could have spurred the impressive 1Q04 sales rise (+14% YoY). At the EBIT level, we expect the margin to slip only slightly as we believe the gross margin pressure could have been offset by better capacity usage and higher volumes, alongside further benefits of Bekaert's restructuring. Including a 23% tax rate (the same as in 1H03), we expect net EPS to rise 14.2% YoY to €2.26.

In the 1H04 results announcement, attention will mainly be drawn to:

1) Bekaert's capacity to offset higher wire rod prices; 2) the company's short-term outlook, which we expect to continue to improve (rising order book); and 3) a possible announcement concerning the future (divestment?) of Bekaert's Fencing division.

Ahead of the results announcement and given the uncertainty surrounding Bekaert's 1H04F (gross) margin evolution, which we consider to be the main element that guided Bekaert's share price lower at the beginning of 2004 (a 16.6% underperformance vs the BEL20 during the first two months of 2004), but which has been partly compensated for since (an 8.2% outperformance vs the BEL20 from 1 March 2004 onwards), we maintain our Hold recommendation and €48 price target.

Target price based on EV/turnover

	High	Low	Now	Target
EV/turnover (x)	0.8	0.7	0.8	0.8

Price performance

	12m	3m	Now	Target
Absolute (%)	12.2	1.6	-	-2.7
BEL 20	1,976.8	2,491.0	2,438.0	2,550.0
Rel to BEL 20 (%)	-9.1	3.9	-	-7.0
FTSE E300	860.9	1,025.0	964.4	1,160.0
Rel to FTSE E300 (%)	0.1	8.0	-	-19.1

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)	11.4	11.3	10.6	10.3
EV/EBITDA (x)	6.3	6.1	5.7	5.5
Yield (%)	3.5	3.8	4.1	4.3

Share data (€)

No. of shares (m)	22.1	Market cap (m)	1,089.2
Volume	17,727	Ent'prise val (m)	1,550.6
Free float (%)	60.0	Price/NAV (x)	1.3

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 began 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), grouping together Wire and Steel Cord activities. Bekaert produces mainly for the automotive and construction sectors. 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
Income statement				
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
Balance sheet				
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
Cash flow				
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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