

Change in recommendation/Earnings revision

Engineering & machinery

Belgium

Previously: Buy

Bekaert^[9]**Hold**

11/01/05

12-month

Reuters: BERTt.BR

Price: €61.90**Target price: €65.00**

● **Bekaert announced the (expected) sale of its Fencing division on Wednesday, prior to market opening.**

● **We revise our forecasts following this strategic move and stick to our €65 price target. As upside potential compared to our target price has diminished to less than 10%, we downgrade our recommendation from a Buy to a HOLD.**

Bekaert agrees to sell its Fencing division to Dutch investment fund Gilde, hereby valuing the Fencing's enterprise value at €281.5m and realising a capital gain of €56m. The transaction price exceeded our €275m estimate, but comprised a €25m higher net debt than we were expecting. The EV/EBITDA03 and 04F multiple for Fencing should therefore come in at c.6.4x and 4.4x; in terms of EV/EBIT it would come in at 11.1x and 5.9x for 2003 and 2004F, respectively. In terms of P/Book, Gilde would pay c.2.6x for the unit. We believe the transaction is at a fair price.

We consider this as a strategic move for Bekaert, hereby confirming the company's intention to divest from non-core activities and further strengthen its core and higher margin activities. We expect Bekaert to use the proceeds of the divestment for further expansion in steel cord activities in China, but India, Russia or Latin America could certainly be envisaged as well.

We revise our forecasts following the disposal (see table below). Our sales and EPS forecasts are drastically cut, due to the sizeable sales and EBIT contribution of the Fencing division, which is currently only partially offset by the lowering of Bekaert's interest charges (following the debt reduction). The divestment improves Bekaert's equity base, gearing ratio and limits the company's working capital requirements. On the other hand, it should also lower EBIT margins in absolute and relative terms up to 2006F.

Revision of forecasts

	04F	05F	06F	07F
Sales: new estimate (€m)	2,092.3	1,763.0	1,831.2	1,896.5
Sales: % of revision	0.0	-20.5	-19.7	-19.0
Adj.EPS (€)	5.94	4.87	4.97	5.04
Adj.EPS: % of revision	0.0	-18.4	-15.5	-15.7

Source: ING estimates

In view of the recent strong share price performance, the limited upside to our €65 target price, the 'sell on the news' impact and the drastic change on short-term profitability, we expect that Bekaert shares will most likely consolidate in the short run. Hence, we downgrade Bekaert from Buy to HOLD.

Target price based on Adj PER

	High	Low	Now	Target
Adj PER05F	12.9	8.9	12.7	13.3

Price performance

	12m	3m	Now	Target
Absolute (%)	22.3	19.0	-	5.0
BEL 20	2,315.1	2,759.2	2,980.2	
Rel to BEL 20 (%)	(5.0)	10.2		
FTSE E300	971.4	1,009.6	1,047.4	
Rel to FTSE E300 (%)	13.5	14.7		

Forecasts (€)

Yr to Dec	2003	2004F	2005F	2006F
Turnover (m)	1,797.0	2,092.3	1,763.0	1,831.2
Net profit (m)	85.2	124.2	156.6	102.8
Adj EPS	4.18	5.94	4.87	4.97
CFPS	11.64	11.05	13.44	10.02
Dividend	1.75	2.00	2.14	2.29
Adj PER (x)	14.8	10.4	12.7	12.4
EV/EBITDA (x)	7.5	6.5	7.0	6.9
Yield (%)	2.8	3.2	3.5	3.7

Share data (€)

No. of shares (m)	22.1	Market cap (m)	1,366.2
Volume	38,010	Ent'prise val (m)	1,599.5
Free float (%)	60.0	Price/NAV (x)	1.3

Key ratios (%)

Yr to Dec	2003	2004F	2005F	2006F
EBITDA margin	13.3	13.6	12.9	13.0
Gross margin	20.7	22.3	21.3	21.6
Net debt/equity	50.9	51.5	20.7	23.5
ROACE	8.6	10.7	8.6	8.0
ROE	10.6	15.2	10.4	9.4

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
Income statement				
Turnover	1,797.0	2,092.3	1,763.0	1,831.2
EBITDA	239.1	283.9	226.9	238.4
Net financial charges	(43.0)	(32.1)	(17.4)	(15.7)
Operating exceptionals	0.0	0.0	0.0	0.0
Adj pre-tax profit	107.8	176.8	141.5	149.2
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	(7.0)	(7.0)	(7.0)	(7.0)
Pre-tax profit	100.9	169.8	134.6	142.2
Taxes	(8.2)	(36.6)	(25.5)	(30.9)
Extraordinary items (net)	0.0	0.0	56.0	0.0
Minorities	(7.5)	(9.0)	(8.5)	(8.5)
Preference dividend	0.0	0.0	0.0	0.0
Net profit	85.2	124.2	156.6	102.8
Balance sheet				
Total fixed assets and L/T investments	1,153.8	1,281.8	1,279.9	1,379.4
Working capital	302.1	314.0	243.9	251.9
L/T non-interest-bearing liabilities	215.2	215.2	161.2	161.2
Enterprise net assets	1,240.6	1,380.5	1,362.6	1,470.0
Group equity	822.3	911.3	1,129.2	1,189.9
Net debt	418.3	469.2	233.4	280.1
Capital employed	1,240.6	1,380.5	1,362.6	1,470.0
Cash flow				
Operating cash flow	308.0	312.5	339.4	267.8
Cash taxes	(8.2)	(36.6)	(25.5)	(30.9)
Net financial charges (CF)	(43.0)	(32.1)	(17.4)	(15.7)
Gross cash flow	256.9	243.8	296.5	221.1
Capital expenditures (net of disposals)	(209.2)	(210.0)	(73.0)	(180.0)
Free cash flow	47.7	33.8	223.5	41.1

All sources: Company data, ING estimates

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