

Bekaert

Engineering & machinery

Buy

Belgium

Bekaert's solid 2H04 results reassure us on Bekaert's long-term strategy, which emphasises expansion in its core activities (in growth areas), while seeking more durable margins and monitoring its working capital requirements.

Equity story

We consider Bekaert's performance in 2004 as particularly strong considering the rising wire rod prices and the weakened US dollar the company had to face. We therefore believe that the positive momentum for Bekaert shares could continue, backed by these results.

Key newsflow

Bekaert's 2H04's results unveiled good resilience of its gross margin as the company had to face a strong hike in raw material prices. Profitability increased at double-digit rates for all of its divisions (apart from Advanced Coatings), while Bekaert's Latin American activities generated a record high contribution as well.

The outlook provided by management remained vague: 'Bekaert made a good start in 2005' and included no indication on turnover or order book evolution. Management stated that demand in China had started to pick up again. Due to the divestment of the Fencing division, Bekaert's recurrent earnings should remain well below FY04's level. However, due to the corresponding €56m capital gain, FY05F's net earnings could exceed FY04's level. The Fencing division accounted for €453m of 2004 sales as well as €52m of EBIT.

Valuation

Considering Bekaert's EV/EBITDA, adjusted for the sizeable contribution of Latam equity affiliates to Bekaert's net result, points to further upside. The adjusted EV/EBITDA for Bekaert for 2004-07F are respectively 4.5x, 4.6x, 4.4x and 4.1x. We therefore believe that Bekaert still has ample upside potential, considering that 2005F EV/EBITDA for Belgian small & mid caps currently amounts to 6.7x. Hence, we stick to our **BUY** and our €72 price target, in line with an adjusted PER 2005F of 12.9x.

Forecasts and ratios

Yr to Dec	Turn over (€m)	Net profit (€m)	Adj EPS (€)	CFPS (€)	Div (€)	Adj PER (x)	EV/EBITDA (x)	Yield (%)
2004	2.173,2	167,6	7,93	9,05	2,00	7,7	5,7	3,3
2005F	1.814,1	177,9	5,57	17,54	2,00	11,0	6,2	3,3
2006F	1.885,2	130,0	5,94	11,49	2,14	10,3	5,9	3,5
2007F	1.953,9	136,1	6,22	11,49	2,29	9,8	5,7	3,7

Source: Company data, ING estimates

Price (19/04/05)	€61.10
Target price (12 mth)	€72.00
Market cap	€1.336,5m
Reuters	BERTt.BR

Key ratios

	2004	2005F
EBITDA margin (%)	14,6	13,2
Operating margin (%)	8,8	7,1
Net debt/equity (%)	47,8	12,0
ROA (%)	13,3	9,5
ROE (%)	19,9	11,9

Performance (%)

	12m	3m	Target
Absolute (%)	30,0	0,7	17,8
FTSE E300	1.015,7	1.053,6	
BEL 20	2.486,5	2.967,3	
Relative to (%)			
FTSE E300	23,3	(0,9)	
BEL 20	4,6	(3,3)	

Share data

No. of shares (m)	21.9
Volume	52.199
Free float (%)	60,0
Market cap (€m)	1.336,5
Enterprise value (€m)	1.479,1
Price/NAV (x)	1,2

Share price performance



Source: ING

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)	2004	2005F	2006F	2007F
Income statement				
Turnover	2.173,2	1.814,1	1.885,2	1.953,9
Gross profit	490,8	375,2	395,4	413,8
Staff costs	(142,8)	(124,7)	(131,2)	(137,4)
Other operating costs	(31,3)	(11,0)	(11,0)	(12,0)
EBITDA	316,7	239,5	253,2	264,4
Depreciation	(125,9)	(110,8)	(115,7)	(118,4)
EBITA	190,9	128,7	137,5	146,1
Amortisation of goodwill	(5,8)	0,0	0,0	0,0
Amortisation of other intangibles	0,0	0,0	0,0	0,0
EBIT	185,1	128,7	137,5	146,1
Operating exceptionals	0,0	0,0	0,0	0,0
Net financial charges	(30,6)	(18,7)	(10,7)	(12,0)
Income from associates (pre-tax)	0,0	0,0	0,0	0,0
Income from associates (net)	53,6	49,0	47,8	48,8
Adj pre-tax profit (adj for GW)	213,8	159,0	174,6	182,8
Taxes	(28,1)	(28,6)	(36,1)	(38,2)
Minorities	(12,4)	(8,5)	(8,5)	(8,5)
Adj Net profit	173,3	121,9	130	136,1
Adj net attributable profit	173,4	121,9	130,0	136,1
Profitability ratios (%)				
Gross margin	22,6	20,7	21,0	21,2
EBITDA margin	14,6	13,2	13,4	13,5
EBIT margin	8,5	7,1	7,3	7,5
Net margin	8,3	10,3	7,3	7,4
Tax rate	18,2	26,0	28,5	28,5
Cash flow				
Operating cash flow (pre tax)	256,6	431,0	298,1	301,6
Cash taxes	(28,1)	(28,6)	(36,1)	(38,2)
Operating cash flow (after tax)	228,5	402,4	262,0	263,4
Net financial charges	(30,6)	(18,7)	(10,7)	(12,0)
Preference dividend	0,0	0,0	0,0	0,0
Capital expenditures (net of disposals)	(271,3)	(65,0)	(180,0)	(160,0)
Free cash flow	(73,3)	318,8	71,3	91,4
Balance sheet				
Cash & cash equivalents	102,5	46,0	48,3	50,7
Trade receivables	385,2	317,5	329,9	341,9
Other current operating assets	478,7	359,2	363,8	377,2
Total current assets	966,4	722,7	742,0	769,8
Goodwill	76,0	76,0	76,0	76,0
Tangible fixed assets	791,6	745,8	810,1	851,8
Total fixed assets and L/T investments	1.222,9	1.226,1	1.338,2	1.428,6
Total assets	2.189,3	1.948,8	2.080,3	2.198,4
Trade payables	250,8	217,7	226,2	234,5
Other current liabilities	202,5	188,9	197,6	206,4
L/T non-interest bearing Liabilities	216,4	162,4	162,4	162,4
Debt	561,1	188,6	211,2	217,8
Total liabilities	1.230,8	757,7	797,5	821,1
Minority interests	0,0	0,0	0,0	0,0
Shareholders equity	909,7	1.133,8	1.217,0	1.303,0
Total liabilities & group equity	2.189,3	1.948,8	2.080,3	2.198,4
Solvency ratios				
Gearing (%)	50	13	13	13
Group equity/total assets (%)	42	58	59	59
Net debt/EBITDA (x)	01	01	01	01
Valuation ratios				
EV/turnover (x)	0,8	0,8	0,8	0,8
EV/EBITDA (x)	5,7	6,2	5,9	5,7
Adj PER (x)	7,7	11,0	10,3	9,8
Yield (gross) (%)	3,3	3,3	3,5	3,7

All sources: Company data, ING estimates