

Bekaert

Luc Struelens

		2004	2005F	2006F
Recommendation	Buy			
Price (€)	63,9	2.173,2	1.814,1	1.885,2
Target price (€)	68,00	316,7	239,5	253,2
Market cap (€m)	1.398	167,6	177,9	130,0
Net debt '05F (€m)	143	7,93	5,57	5,94
EV '05F (€m)	1.540	2,00	2,00	2,14
Gearing '05F	12%	8,1	11,5	10,8
		5,9	6,4	6,2
		Yield (%)	3,1%	3,1%
			3,1%	3,3%

Company data, ING estimates

Bekaert: Preview 1H05 results

Bekaert will report 1H05 results on Monday, prior to market opening. An analysts' meeting is scheduled the same day at 2PM CET. Table below summarizes our 1H05 forecasts. Remark that 1H04 figures (as opposed to 1H05) comprise the Fencing division, which Bekaert divested from at the beginning of 2005F and which should have generated a €56m capital gain in 1H05.

Bekaert: Preview 1H05F results

	1H05F	YoY evol.	1H04
Sales (€m)	948,4	-13,5%	1096,3
EBIT (€m)	69,6	-32,6%	103,31
as % of sales	7,3%		9,4%
Equity affiliates (net) (€m)	28,2	17,6%	24,0
Fin. & non-oper. Inc. & exp. (€m)	-11,6	-28,9%	-16,3
Taxes (€m)	-15,3	-42,9%	-26,7
Current net profit (€m)	65,9	-19,8%	82,2
as % of sales	7,0%		7,5%
Adj. EPS (€)	2,99	-20,3%	3,76
Capital gain on Fencing division	56,0		
Net profit (Group share) (€m)	121,9	54,8%	78,8

Source: Company data, ING estimates

- Comparable 1H05F sales are expected to rise 11.8%YoY hereby anticipating on slowing down YoY growth in 2Q05 (compared to +18.5% YoY in 1Q05) as the Northern American and the European wire market gradually came under pressure during 2Q05. 2Q05F's sales growth should in our view purely stem from a pricing increases.
- Contribution from Latin American activities should rise considerably (ING estimate +17.6% YoY up to €28.2m) after the 29% YoY sales increase during 1Q05 and following the 9% revaluation of the Brazilian Real in 1H05.
- We anticipate on a 200 basis point YoY decline in gross margin, following the positive IFRS adjustment in 1H04 results and account for a minor (€2m) adverse P&L impact following the declining raw material prices in Bekaert's inventory during 1H05.
- The sharp YoY expected decline at Sales and EBIT level (-13.5% and -32.6% respectively) is mainly due to the discontinuation of the Fencing activity which accounted for €247.8m in 1H04 sales and for €31.5m at EBIT level. At a comparable consolidation basis, we expect a 3.1% YoY slip at EBIT level (to €69.6m).
- 1H05's EPS from continued operations should decline by c. 20% to €2.99. The net 1H05 EPS could surge 53.8% YoY up to €5.54.

Investment case

We stick to our Buy recommendation and our €68 target price on Bekaert ahead of the results announcement on Monday, in view of company's long term potential and its low valuation multiples, despite the lack of short-term share price triggers. Bekaert is a solid – albeit cyclical – long term play and Bekaert's expansion in growth areas such as China and India, should - alongside a tighter cost control – lead to substantial long term potential.

Bekaert's valuation multiples remain low. If we restate Bekaert's EBITDA, EBIT and net debt so as to account for the (major) contribution of the Latin American JV's, the adjusted EV/EBITDA for 05F, 06F and 07F would post at respectively 4.6x, 4.4x and 4.1x. In terms of EV/EBIT, the adjusted multiples for these three years would come in at 7.4x, 7.2x and 6.8x. We therefore believe that Bekaert still has ample upwards potential, considering that 05F EV/EBITDA and EV/EBIT for Belgian small & mid caps currently amounts to respectively 7.0x and 11.0x.

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