

Small and mid cap

Bekaert		Luc Struelens			
			2004	2005F	2006F
Recommendation	Buy	Sales (€m)	2,173.2	1,814.1	1,885.2
Price (€)	64.9	EBITDA (€m)	316.7	239.5	253.2
Target price (€)	72.00	Net attr. profit (€m)	167.6	177.9	130.0
Market cap (€m)	1,419	Adj. EPS (€)	7.93	5.57	5.94
Net debt '05F (€m)	143	Dividend (€)	2.00	2.00	2.14
EV '05F (€m)	1,561	Adj. PER	8.2	11.6	10.9
Gearing '05F (%)	12	EV/EBITDA	5.9	6.5	6.2
		Yield (%)	3.1	3.1	3.3

Company data, ING estimates

Bekaert: Strong 1H05 results out this morning. Target price upped to €72

Bekaert reported 1H05 results today, prior to market opening. An analysts' meeting is scheduled for later today (2pm CET). The table below summarises Bekaert's 1H05 results. 1H04 figures are restated to account for the discontinuation of the Fencing division.

Bekaert: 1H05 results

	1H05	%ch YoY	1H04	1H05F	Consensus
Sales (€m)	970.6	12.9	859.8	948.4	952.5
EBIT (€m)	85.27	19.8	71.19	69.60	71.9
as % of sales	8.8		8.3	7.3	7.5
Equity affiliates (net) (€m)	27.7	15.7	24.0	28.2	
Fin. & non-oper. Inc. & exp. (€m)	-7.9	5.3	-7.5	-11.6	
Taxes (€m)	-21.6	-19.1	-26.7	-15.3	
Current net profit (€m)	76.2	19.6	63.7	65.9	68.37
as % of sales	7.8		7.4	7.0	
Adj. EPS (€)	3.46	19.6	2.89	2.99	3.11
Cons. net result for discontinued oper.	54.1		15.1	56.0	56.0
Net profit (Group share) (€m)	130.3	65.4	78.8	121.9	124.37

Source: Company data, ING estimates, Tijd-Nieuwslijn

Highlights in the 1H05 results included:

- 1H05's comparable turnover (excluding the Fencing division) increased 12.9% YoY (ING estimate +11.8%), driven by 14% organic growth, 1% following the change in the consolidation parameter and hindered by currency movements, which wiped out 2% of the YoY increase.
- Turnover increased in all regions, reflecting continued strength in Latin America (+22% YoY in 1H05) and a sharp increase for Steelcord in China (+28% YoY in 1H05, compared with +1% YoY in 1Q05). A clear slowdown was, however, recorded in wire activities in Europe (-2% in 1H05) and North America (-1% YoY in 1H05), which coincided with management's cautious guidance on these two regions at the 1Q05 trading update.
- Contribution from Latin American activities rose 15.7% YoY to €27.7m, slightly below our €28.2m estimate.
- Management stuck with its previous outlook guidance as it stated that "the economic environment in most of the mature markets in Europe and North America faces a clear weakening".
- The gross margin held up better than expected in 1H05 as it declined 150 basis points (ING estimate – 200bp). 1H05's EBIT therefore also clearly exceeded our forecast EBIT.
- Bekaert's 1H05's EPS from continued operations came in at €3.46 (ING estimate €2.99), thereby progressing 19.6% YoY on a comparable basis. 1H04's EPS (including the Fencing division) came in at €3.76.

Investment case

All in all, we consider Bekaert's 1H05 results as strong (with higher gross margins demonstrating the company's pricing power) and believe its prudent outlook statement (quite similar to that issued in May 2005) is already anticipated and, in our view, the higher growth rates in Latin America and Asia offset the weaker outlook for Europe and the US.

We maintain our Buy recommendation and raise our target price from €68 to €72, in line with a sector-based adjusted 2005F EV/EBITDA of 5.0x. We will review our forecasts after the analysts' meeting scheduled today at 2pm.

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