

# Bekaert

Engineering & machinery

**Hold**

**Belgium**

**Bekaert's strong 1H05 results reassured us – once again – by reflecting its long-term strategy, which is emphasised by expansion in core (growth) activities, while aiming for higher profitability and monitoring working capital.**

## Equity story

Although earnings momentum, going forward, is likely to slow down somewhat, we consider Bekaert a long-term investment opportunity, backed by its strategy to build up, ahead of its competitors, a worldwide platform in (growth) areas such as China, Latin America, Central Europe, India and Russia. Besides this first-mover advantage, we believe that Bekaert will remain a leading worldwide player thanks to its other fundamental strengths: strong worldwide market shares, leading technology, focus on quality, etc.

## Key newsflow

Bekaert's 1H05 net profit growth of 19.6% YoY is driven by (1) good (mainly pricing-driven) organic sales growth (14% YoY) in all continents and for all of its divisions, (2) strong resilience of its gross margin and (3) EBIT growth in all of its divisions.

Management's guidance for 2H05 has become more cautious as (1) the level of the order book in the early months of 2H05 is below the same period in 2004 and (2) the weakness in the European and the US market for wire sales now also applies to steel cord products. 3Q05 will be tough for Bekaert due to weakened steel prices and the tough 3Q04 comparison basis. We do, however, expect growth in Asia and Latin America as well as a stronger USD to partially offset the weakness.

## Valuation

Bekaert's undemanding EV/EBITDA, adjusted for the sizeable contribution of the Latin American equity affiliates to group results (c.30%), points to further upside. The adjusted EV/EBITDA for 2005-07F are, respectively, 4.7x, 4.6x and 4.3x. We therefore believe that Bekaert still has ample upside potential, considering that 2005F EV/EBITDA for Belgian small & mid caps is currently 7.7x. In view of the weakening earnings momentum, however, we stick to our Hold and €72 price target, 5% below our DCF valuation.

## 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	8.6	6.2	2.9
2005F	1,863.6	181.6	5.94	17.83	2.00	11.5	6.6	2.9
2006F	1,987.2	132.1	6.15	11.16	2.14	11.1	6.6	3.1
2007F	2,071.2	137.3	6.39	11.34	2.29	10.7	6.4	3.3

Source: Company data, ING estimates

Price (17/10/05)	<b>€68.50</b>
Target price (12 mth)	<b>€72.00</b>
Market cap	<b>€1,470.7m</b>
Reuters	<b>BERTt.BR</b>

## Key ratios

	2004	2005F
EBITDA margin (%)	14.6	13.5
Operating margin (%)	8.8	7.5
Net debt/equity (%)	47.8	16.6
ROA (%)	13.3	9.9
ROE (%)	19.9	12.7

## Performance (%)

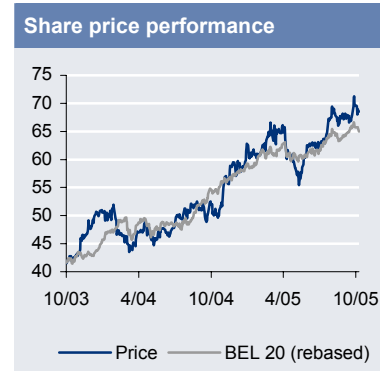
	12m	3m	Target
Absolute (%)	37.0	9.0	5.1
FTSE E300	994.3	1,163.6	
BEL 20	2,743.6	3,164.3	

## Relative to (%)

FTSE E300	14.0	6.1
BEL 20	14.2	4.8

## Share data

No. of shares (m)	21.5
Volume	15,765
Free float (%)	60.0
Market cap (€m)	1,470.7
Enterprise value (€m)	1,664.2
Price/NAV (x)	1.3



Source: ING

## Company profile

Bekaert produces and markets a range of products based on metal-forming and coating technologies. Incorporated in 1880, it has evolved from a small manufacturing and trading company into a global group. Internationalisation began in the 1920s in Western Europe, then in Latin America and, since the 1970s, in North America and Asia. In January 2005, it divested from European fencing systems.

### Advanced Wire Products

This segment is the company's main division (c.85% of sales), which groups 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).

### Advanced materials

This division (c.7% 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.8% of sales.

## Financials

Yr to Dec (€m)	2004	2005F	2006F	2007F
<b>Income statement</b>				
Turnover	2,173.2	1,863.6	1,987.2	2,071.2
Gross profit	490.8	398.5	416.6	438.4
Staff costs	(142.8)	(141.2)	(154.7)	(169.7)
Other operating costs	(31.3)	(6.5)	(11.0)	(12.0)
EBITDA	316.7	250.8	250.9	256.7
Depreciation	(125.9)	(111.3)	(108.7)	(111.8)
EBITA	190.9	139.5	142.2	145.0
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	139.5	142.2	145.0
Operating exceptionals	0.0	0.0	0.0	0.0
Net financial charges	(30.6)	(18.7)	(13.5)	(12.8)
Income from associates (pre-tax)	0.0	0.0	0.0	0.0
Income from associates (net)	53.6	52.6	50.3	51.3
Adj pre-tax profit (adj for GW)	213.8	173.4	179.0	183.5
Taxes	(28.1)	(33.8)	(36.7)	(37.7)
Minorities	(12.4)	(12.0)	(10.2)	(8.5)
Adj Net profit	173.3	127.6	132.1	137.3
Adj net attributable profit	173.4	127.6	132.1	137.3
<b>Profitability ratios (%)</b>				
Gross margin	22.6	21.4	21.0	21.2
EBITDA margin	14.6	13.5	12.6	12.4
EBIT margin	8.5	7.5	7.2	7.0
Net margin	8.3	10.4	7.2	7.0
Tax rate	18.2	28.0	28.5	28.5
<b>Cash flow</b>				
Operating cash flow (pre tax)	256.6	435.4	289.7	293.9
Cash taxes	(28.1)	(33.8)	(36.7)	(37.7)
Operating cash flow (after tax)	228.5	401.5	253.0	256.2
Net financial charges	(30.6)	(18.7)	(13.5)	(12.8)
Preference dividend	0.0	0.0	0.0	0.0
Capital expenditures (net of disposals)	(271.3)	(78.0)	(130.0)	(132.0)
Free cash flow	(73.3)	304.9	109.5	111.5
<b>Balance sheet</b>				
Cash & cash equivalents	102.5	46.0	48.3	50.7
Trade receivables	385.2	326.1	347.8	362.5
Other current operating assets	478.7	369.0	383.5	399.7
Total current assets	966.4	741.1	779.6	812.9
Goodwill	76.0	76.0	76.0	76.0
Tangible fixed assets	791.6	758.3	779.6	799.8
Total fixed assets and L/T investments	1,222.9	1,242.2	1,313.8	1,385.3
Total assets	2,189.3	1,983.4	2,093.4	2,198.3
Trade payables	250.8	223.6	238.5	248.5
Other current liabilities	202.5	192.0	204.9	214.9
L/T non-interest bearing Liabilities	216.4	162.4	162.4	162.4
Debt	561.1	239.5	225.5	213.7
Total liabilities	1,230.8	817.6	831.3	839.5
Minority interests	0.0	0.0	0.0	0.0
Shareholders equity	909.7	1,104.9	1,191.1	1,279.2
Total liabilities & group equity	2,189.3	1,983.4	2,093.4	2,198.3
<b>Solvency ratios</b>				
Gearing (%)	50.4	17.5	14.9	12.7
Group equity/total assets (%)	41.6	55.7	56.9	58.2
Net debt/EBITDA (x)	1.4	0.8	0.7	0.6
<b>Valuation ratios</b>				
EV/turnover (x)	0.9	0.9	0.8	0.8
EV/EBITDA (x)	6.2	6.6	6.6	6.4
Adj PER (x)	8.6	11.5	11.1	10.7
Yield (gross) (%)	2.9	2.9	3.1	3.3

All sources: Company data, ING estimates