

Small and mid cap

Bekaert		Luc Struelens			
			2005	2006F	2007F
Recommendation	Hold	Sales (€m)	1,914.3	2,051.6	2,239.7
Price (€)	71.1	EBITDA (€m)	257.4	262.1	285.5
Target price (€)	88.50	Net attr. profit (€m)	189.9	133.1	145.0
Market cap (€m)	1,525	Adj. EPS (€)	6.32	6.20	6.76
Net debt '06F (€m)	328	Dividend (€)	3.00	2.25	2.40
EV '06F (€m)	1,854	Adj. PER	11.2	11.5	10.5
Gearing '06F	27%	EV/EBITDA	7.2	7.1	6.6
		Yield (%)	4.2%	3.2%	3.4%

Company data, ING estimates

Bekaert: Preview 1H06 results

Bekaert will report 1H06 results on Friday 28 July, prior to market opening. An analysts' meeting is scheduled the same day at 2PM CET. The table below summarises our 1H06 forecasts.

Bekaert: Preview 1H06 results

	1H06F	YoY evol.	1H05
Sales (€m)	1017.0	4.8%	970.6
EBIT (€m)	78.6	-7.9%	85.27
<i>as % of sales</i>	<i>7.7%</i>		<i>8.8%</i>
Equity affiliates (net) (€m)	29.2	5.4%	27.7
Fin. & non-oper. Inc. & exp. (€m)	-9.8	23.4%	-7.9
Taxes (€m)	-19.7	-8.9%	-21.6
Current net profit (€m)	72.8	-4.4%	76.2
<i>as % of sales</i>	<i>7.2%</i>		<i>7.8%</i>
Adj. EPS (€)	3.39	-4.4%	3.55

Source: Company data, ING estimates

- 1H06F sales are expected to rise 4.8% YoY, marking slightly higher YoY growth in 2Q06 compared with 1Q06 (+3.8% YoY), mainly as 2Q05 is a much easier comparison basis than 1Q05. We do not expect much higher growth in view of the intensified competitive environment Bekaert is facing.
- We expect 1H06 gross margin to improve on a sequential basis (2H05 gross margin slipped 290bp compared with 1H05) as we anticipate a slight positive revaluation of inventory under IFRS due to the further increase of raw material prices. On the other hand, we believe that Bekaert will have had increasing difficulty in passing on higher raw material (and energy) prices in its selling prices. As such, we still expect a decreasing gross margin YoY, which should cause 1H06F EBIT to decline 7.9% YoY to €78.6m.
- The contribution from Latin American activities should continue to rise (ING estimate +5.4% YoY up to €29.2m) after the 23% YoY sales increase during 1Q06 and aided by the 18% YoY appraisal of the Brazilian Real in 1H06.
- We expect the 7.9% YoY decline at the EBIT level to remain relatively stable moving down the P&L, bringing Bekaert's net earnings from continuing operations to decline 4.4% YoY from €76.2m to €72.8m, which corresponds to a 1H06F EPS of €3.39. As a reminder: Bekaert recorded a sizeable capital gain on the disposal of the Fencing division in its 1H05 results. As a result, Bekaert's 1H06 net result should decline drastically (from €103.2m to €72.8m).

Investment case

The main elements to attract investors' attention in Friday's announcement are in our view: (1) the performance of advanced wire products in the different regions (China, LAM, US and Europe) and their respective outlook statements; (2) Bekaert's (gross) margin evolution (so as to assess the company's pricing power). Ahead of Bekaert's 1H06 results, we maintain our HOLD recommendation and our €88.50 (DCF-based) TP on the stock.

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