Flash

# Bekaert

5 March 2002

## FY01 Earnings preview

**Engineering & Machinery**

**Belgium**

**Current price** € 41.95

**Target price** € 35.00

**Reduce**

Unchanged

| Performance over | 1m | 3m | 12m |
|---|---|---|---|
| Absolute | -1% | 21% | -14% |
| Rel. BEL20 | -1% | 13% | -8% |
| Rel. sector | -11% | 8% | -11% |
| 12-m- Hi/Lo | | | € 48.58/29.94 |
| Reuters | | | BERTt.BR |
| Bloomberg | | | BEKB BB |
| Market Cap | | | € 935.5m |
| Next corporate event | | | |
| Results FY01 on 7 March 2002 | | | |

| FY/e 31.12 | 2000 | 2001E | 2002E | 2003E |
|---|---|---|---|---|
| Sales (€m) | 1,756.3 | 1,783.0 | 1,989.3 | 2,121.3 |
| EBITDA(€m) | 229.5 | 211.1 | 227.0 | 249.0 |
| Pre-Tax* (€m) | 102.6 | 47.3 | 73.8 | 101.7 |
| Adj EPS* (€) | 4.80 | 2.47 | 3.66 | 4.57 |
| EPS (€) | 4.20 | 1.68 | 2.77 | 3.78 |
| DPS (€) | 1.68 | 1.68 | 1.68 | 1.75 |
| P/E* (x) | 10.5 | 17.0 | 11.5 | 9.2 |
| Yield (%) | 3.3 | 4.0 | 4.0 | 4.2 |
| EV/EBITDA(x) | 5.1 | 5.1 | 4.6 | 3.9 |

*Source: KBC Securities* **Adjusted for goodwill and exceptionals*

**Bekaert is to release its FY01 results on Thursday 7 March. We are not overly optimistic since Bekaert has already said it foresees a 50% drop in net profit for 2001. However, the announcement should provide an opportunity to assess the outlook for this year and look ahead to 2003. 2002 could be a turning point for Bekaert. Economies are picking up and the focus on technology will pay off eventually. The opening of the new solar energy facility in the US later this year may trigger the interest of investors and support the share price. We have a Reduce on the stock but will review the rating and the price target on Friday morning.**

### Bekaert expects 50% drop in net profit

To cut a long story short. Bekaert said in May last year that demand was down in particular in the US and that for 2001 a one third drop in net profit was likely. The situation worsened later on. In September 2001 it was said that net profit could drop about 50%. This was confirmed in January. The results, which will be published on Thursday, will therefore be poor. What is more important however is the current outlook and here we feel much more optimistic:

**Earnings outlook**

| | | 1999a | 2000a | 2001e | 2002e | 2003e |
|---|---|---|---|---|---|---|
| Sales | | 1,764.7 | 1,756.3 | 1,783.0 | 1,989.3 | 2,121.3 |
| | *Growth* | *-0.1%* | *-0.5%* | *1.5%* | *11.6%* | *6.6%* |
| EBITDA | | 245.5 | 229.5 | 211.1 | 227.0 | 249.0 |
| | *EBITDA %* | *13.9%* | *13.1%* | *11.8%* | *11.4%* | *11.7%* |
| EBIT | | 100.7 | 113.6 | 63.8 | 91.0 | 112.8 |
| | *EBIT %* | *5.7%* | *6.5%* | *3.6%* | *4.6%* | *5.3%* |
| Consolidated profit | | 84.7 | 97.1 | 39.9 | 64.1 | 87.3 |
| Current net profit | | 84.9 | 107.5 | 55.5 | 82.1 | 102.6 |
| Current cash flow | | 206.7 | 237.7 | 180.1 | 202.8 | 217.3 |
| | *Growth* | *52.4%* | *15.0%* | *-24.2%* | *12.6%* | *7.1%* |
| EPS | | 3.78 | 4.78 | 2.47 | 3.66 | 4.57 |
| | *Growth* | *58.3%* | *26.6%* | *-48.3%* | *47.9%* | *24.9%* |
| CFPS | | 9.20 | 10.58 | 8.02 | 9.03 | 9.68 |
| | *Growth* | *52.4%* | *15.0%* | *-24.2%* | *12.6%* | *7.1%* |

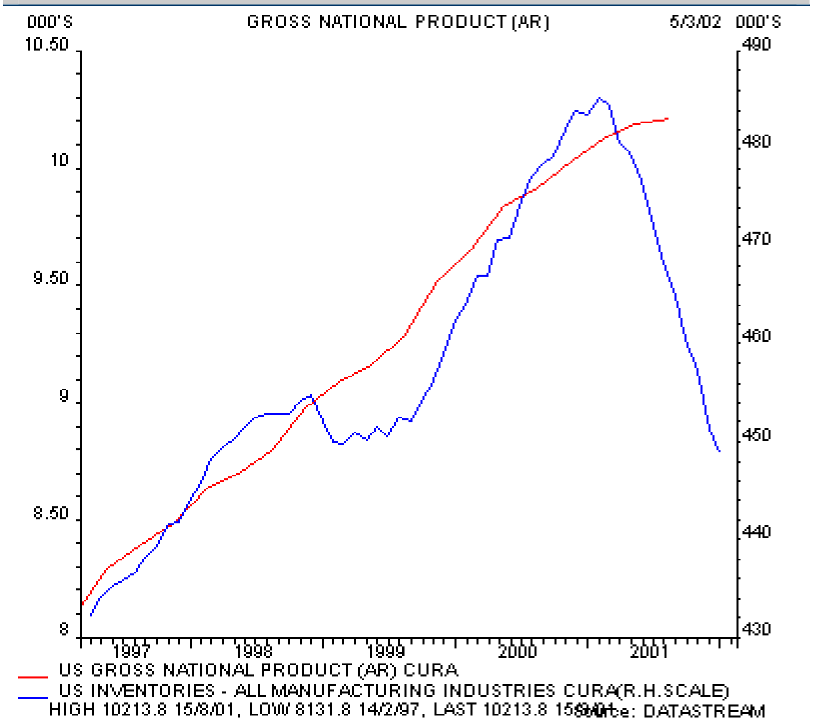
*Source : KBC Securities*

## Outlook: plenty of reasons to become optimistic

- ***Economic indicators are up***: economic data published over the past few weeks (e.g. Index of Leading Indicators and both consumer and industrial confidence indicators) clearly suggest that demand is picking up. US manufacturing grew in February for the first time in 19 months. We think Bekaert should benefit from this in the very near future;
- ***Automotive is becoming less pessimistic***: the automotive sector is an important sector for Bekaert. The sector as a whole held up well last year but the industry expects a decline this year. However, industry watchers are becoming increasingly upbeat. GM has already raised its estimates for the US car industry twice this year. The 'problems' in the car industry as far as Bekaert is concerned had in our view to do with de-stocking which was an obstacle for the industry in general;
- ***Industry stocks are low***: recent data show that the stocks in the US industry are extremely low (see graph below) which means that industrial production will have to rise fast when demand picks up. This will inevitably lead to strong sales growth for Bekaert products later this year.
- ***Technology focus***: Bekaert is on a **two-track policy**. The group wants to keep the mature businesses (steel cord and steel wire mainly) in top shape and on the other hand build up its position in the new focus of development, namely *Bekaert Advanced Materials (BAM)*. We expect BAM to continue its fast profitable growth which should lead to higher profitability for Bekaert.
- ***More acquisition minded***: over the last two years, Bekaert has shown that it is no longer afraid of more aggressive expansion. The solar energy project in 2000 and the window films business has proved that. Therefore we now expect Bekaert, more than in the future, to pursue growth through acquisitions.

All in all, **we foresee a more optimistic news flow over the coming months**.

**US Inventories versus US GNP**




*Source : Datastream*

### Share price still in doubt so it seems

Bekaert has been underperforming the market and has been trading in the € 40-42 range over the past few months. The attractive dividend yield (we expect Bekaert to keep its FY01 dividend flat at €1.68/share) supported the share price. One could expect however that the worst is over for Bekaert and that improving market conditions and its new focus on technology will make investors discover this value play. Probably that will be the case after Thursday.

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