Morning Note - Eurozone

6 December 2002

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Company	Comment	Recommendation	Price (at close)	Target Price
Arinso	Arinso increases its base in Germany	Accumulate	€ 7.69	€ 12.00
Bekaert	A new wind blowing	Accumulate	€ 41.05	€ 48.00
Deceuninck	Uniplast subsidiary shut down	Accumulate	€ 19.80	€ 26.00
Dexia	Encouraging signs for Q4	Buy	€ 11.34	€ 16.00
ENI	New acquisition natural gas	Buy	€ 14.12	€ 19.00
Heineken	Options on Heineken Holding	Accumulate	€ 37.20	€ 48.00
Interbrew	Not a profit warning	Accumulate	€ 21.19	€ 27.00
Option	Option restructures	Sell	$ 1.68	$ 1.00
Telindus	Company visit	Accumulate	€ 4.50	€ 5.10
Electronics	Positive momentum. Valuations too high			

Changes in recommendation

Company	From	To

Changes in EPS forecast

Company	From		To	
	2002E	2003E	2002E	2003E
Telindus (€)	-0.22	0.24	-0.23	0.23

Key figures

(at close)	Price	DTD	MTD	YTD
AEX	339.3	-1.2%	-4.3%	-32.8%
BEL20	1 976.6	-1.4%	-3.2%	-25.0%
CAC40	3 158.0	-1.3%	-2.8%	-32.0%
DAX30	3 224.7	-2.9%	-3.8%	-38.0%
FTSE100	4 032.4	-0.4%	-2.7%	-23.4%
EUROSTOXX50	2 527.2	-1.9%	-3.3%	-33.4%
STOXX50	2 552.9	-1.3%	-2.8%	-30.7%
NECI	3 022.3	0.2%	5.7%	-62.7%
DJIA	8 623.3	-1.3%	-0.6%	-14.2%
S&P500	906.6	-1.2%	-1.0%	-21.7%
NASDAQ Comp	1 410.7	-1.4%	0.7%	-30.2%
EUR/USD	1.00	-0.1%	0.0%	12.8%
EUR/GBP	0.64	-0.2%	-0.6%	1.7%
Bel govt	4.5%	0.0 bp	-0.2 bp	-0.5 bp
French govt	4.4%	0.0 bp	-0.2 bp	-0.5 bp
Neth govt	4.4%	0.0 bp	-0.2 bp	-0.4 bp

Source: KBC Securities

Corporate calendar

	Company	Event
06.12.02	Artwork Systems	Results FY02
09.12.02	Ubizen	General Assembly
10.12.02	Befimmo	General Assembly
11.12.02	Remy Cointreau	Results 1H02
13.12.02	Corp. Mapfre	Payment div. IN02
19.12.02	Dolmen	Results 1H
	Befimmo	Payment div. FY02

Arinso
ARIN.BR / ARIN BB

Softw. & IT Services
Belgium

Current price	€ 7.69
Target price	€ 12.00
Market cap	€ 112 m
Free float	18%

	EPS*(€)	P/E
FY01	0.69	16.03
FY02E	0.62	12.38
FY03E	0.84	9.20

*Adjusted for goodwill and exceptionals

Arinso increases its base in Germany

Accumulate
Unchanged

Yesterday, Arinso International announced it has acquired the German IT2 Information Systems. IT2 is especially active in the field of SAP HR and provides services to large clients in the banking and public sector. The company is expected to generate approx. €3.5m in sales this year and employs 30 people. Via this acquisition, Arinso is able to double its size in Germany.

The integration is expected to be competed before the end of 2002. Arinso will operate from three offices covering the complete German market.

We welcome Arinso's focus on external growth opportunities like IT2. Arinso's solid financial position allows it to consolidate and take advantage of the current valuations of IT services companies.

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Bekaert
BERTt.BR / BEKB BB

Engineering
Belgium

Current price	€ 41.05
Target price	€ 48.00
Market cap	€ 915 m
Free float	60%

	EPS*(€)	P/E
FY01	2.38	17.08
FY02E	2.27	18.05
FY03E	4.51	9.10

*Adjusted for goodwill and exceptionals

A new wind blowing

Accumulate
Unchanged

Bekaert hosted a very interesting analyst's day yesterday.

The focus was in the first place on how technology (focused on the two strategic pillars Coating technologies and Material transformation) would take the group forward. The approach is now however much more driven by customer needs and profitability. Technological innovation, a better product mix, high quality standards, reduction of the cost base should allow the group to improve its profit margins and to go for "sustainable profitable growth" and "shareholder value".

The group also announced that it is taking a closer look at China (only 6.7% of Sales today) to expand, initially in steel cord (from 41,000 ton to 100,000 tons). The capex program amounts to € 180-200m - which is substantial for Bekaert - to be spent in 2003-2005 (probably with joint venture partners).

Outlook: CEO De Wilde again stressed the economic uncertainty and the low visibility. 2002 will be a modest year we feel taking into account restructuring charges amongst others for the Handling division. 2003 should however be much better if all the measures taken are reflected in the bottom line figures and assuming that no exceptional set-backs would again hit profitability.
We firmly reiterate our Accumulate rating.

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Deceuninck

DECBt.BR / DECB BB

Construction
Belgium

Current price	€ 19.80
Target price	€ 26.00
Market cap	€ 427 m
Free float	52%

	EPS*(€)	P/E
FY01	1.27	12.96
FY02E	1.38	14.38
FY03E	1.56	12.68

*Adjusted for goodwill and exceptionals

Uniplast subsidiary shut down

Accumulate
Unchanged

Yesterday, Deceuninck announced the closure of its Uniplast subsidiary in Estaimpuis, Belgium. Uniplast was part of Deceuninck's fourth business unit, called "Delta", which is the umbrella unit for all new projects. Uniplast generated sales of €2.36m last year but the bottom line was below targets. We could not reach management anymore to have an idea of the impact on Deceuninck's bottom line. Any shut down costs will likely be charged to P&L this year, but the impact for the coming years will probably be positive. The "Delta" unit has now become rather small (FY01 sales of the total unit were €3.5m). Rating and price target maintained.

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Dexia

DEXI.BR / DEXB BB

Banks
Belgium

Current price	€ 11.34
Target price	€ 16.00
Market cap	€ 13 237 m
Free float	45%

	EPS (€)	P/E
FY01	1.26	13.87
FY02E	1.12	10.15
FY03E	1.23	9.33

Encouraging signs for Q4

Buy
Unchanged

Q3 earnings fell 36% to €175m. The contraction is due to 1) operational factors: -15%, 2) non-allocated factors: -141% and 3) exceptional items: -26%. Revenues and costs dropped respectively 15% and 8%. Operating income before exceptionals fell 25% in Q3 but only 2% over the first nine months. Excluding exceptionals, the cost of risk is stable at only 6bp for the entire group. It fell 35% in the core business.

The key exceptional item was the €136m loss on the share portfolios in Q3, ¾ of which had a direct impact on NBI. This loss outstrips the €105m drop in profit seen in Q3. Nevertheless, at 5/12/02, losses on the portfolio had fallen by €134m compared to the level when the books were closed. The drop in earnings was felt primarily in two businesses: market activities, where revenues plummeted 83% as allocated capital was reduced (lower revenues from excess capital) and bond spreads widened and; asset management, which underpins the Dutch division, where the Legio Lease provision pushed earnings down by 78%.

The LEGIO LEASE provision has finally had no net impact: it breaks down as a €410m provision, a fiscal profit of €321m and a release from FGBR of €89m. The application criteria have been tightened up and should now see no further adjustments.

According to management, compared to the first nine months, operating conditions in Q4 should improve, which should make it possible to limit the fall in net profit over the year to 10%. ROE in Q3 settled at 16% and Tier 1 remained at 9.2% (it will not be impacted by the Legio Lease provision).

In light of these factors, the share's valuation still does not seem to reflect the fair value.

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ENI

ENI.MI / ENI IM

Oil & Gas
Italy

Current price	€ 14.12
Target price	€ 19.00
Market cap	€ 56 497 m
Free float	66%

	EPS*(€)	P/E
FY01	1.48	9.55
FY02E	1.33	10.60
FY03E	1.39	10.19

*Adjusted for goodwill and exceptionals

New acquisition natural gas

Buy
Unchanged

ENI has paid €440m for a 50% stake in Union Fenosa Gas, a subsidiary of Union Fenosa, one of Spain's largest electricity producers.

The operation is in line with ENI's gas strategy: ENI is seeking to boost gas sales outside Italy in the face of growing competition on the home market. Union Fenosa Gas has a client base of 3 million on the fast growing Spanish market.

Union Fenosa Gas also owns strategic assets:
A long-term purchase agreement with qatargas
A stake in a liquefaction terminal under construction in Egypt
A stake in two regasification terminals under contruction in Spain
Part of a contract with Sonatrach that Gas Natural has been obliged to sell to UFG. This contract covers the delivery of gas by pipeline from Algeria to Spain.

In 2001, Union Fenosa Gas only sold 280m cubic metres of gas in a market still largely dominated by Gas Natural. With the opening of the Spanish market and the application of ENI's resources, this figure should grow rapidly.

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Heineken

HEIN.AS / HEIA NA

Beverages
Netherlands

Current price	€ 37.20
Target price	€ 48.00
Market cap	€ 14 582 m
Free float	50%

	EPS*(€)	P/E
FY01	1.82	24.73
FY02E	2.09	17.77
FY03E	2.22	16.72

*Adjusted for goodwill and exceptionals

Options on Heineken Holding

Accumulate
Unchanged

Euronext is launching options on Heineken Holding shares. Heineken holding controls 50.005% of Heineken NV and is a control structure for the Heineken family. The options will likely stimulate trading in Heineken Holding, which trades at a 35% discount to Heineken NV. We are **maintaining our rating and price target**.

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Interbrew
INTB.BR / INTB BB

Beverages
Belgium

Current price	€ 21.19
Target price	€ 27.00
Market cap	€ 9 088 m
Free float	23%

	EPS*(€)	P/E
FY01	1.44	20.32
FY02E	1.40	15.10
FY03E	1.67	12.66

*Adjusted for goodwill and exceptionals

Not a profit warning

Accumulate
Unchanged

Interbrew's share price drop yesterday was apparently inspired by some unfortunate communication by the company. **Interbrew confirms its FY02 EPS forecast of € 1.5 and says EBIT will be in line with consensus (€ 835m)**. This EBIT will probably break down differently – and be slightly lower quality – than we expected. EBITDA before UK restructuring is expected to come out at €1.465bn, a bit lower than the €1.5bn consensus forecast. On the other hand, depreciation charges will not be as high as expected, which results in EBIT in line with consensus estimates. The lower EBITDA is the result of forex (CAD and RUR mainly) and additional pension costs. The company also revised its **capex forecasts down to € 520m** for the coming three years and expects its tax rate also to be slightly lower than we anticipated. Both enhance our DCF valuation. We will be making minor changes to our model today, but we believe yesterday's price drop and the accompanying press attention **is a storm in a teacup**. The company has become good value at current prices (EV/EBITDA 03 of 7.2) and the share price should benefit when investors start to favour lower beta stocks. **We are maintaining our rating and price target.**

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Option
OPIN.ED / OPIN ES

Softw. & IT Services
Belgium

Current price	$ 1.68
Target price	$ 1.00
Market cap	$ 14 m
Free float	51%

	EPS*(€)	P/E
FY01	-1.44	-
FY02E	-0.38	-
FY03E	-0.24	-

*Adjusted for goodwill and exceptionals

Option restructures

Sell
Unchanged

Option announced that it would cut back on its R&D activities in the UK (Cambridge), which are described by Option as having a "worldwide reputation for fundamental research and development in the fields of GSM, GPRS and 3G". The collective redundancy plan is to be carried out from January till July 2003. The annual cost of this UK activity, that employed 23 people, was £2m.

This news should not surprise given the difficult market conditions. On the other hand, Option announced its 3Q02 results only on November 20th (hardly 2 weeks ago), without giving any indication of the need for further cuts. On the contrary, one of its targets was to "continue to invest in R&D". By this measure, Option is able to lower its quarterly sales break-even point of €10m. Thus, at stable sales, the EBITDA should increase. But there is still no guarantee that sales won' t drop, thereby neutralizing the positive impact from EBITDA. In the short term the €4m cash position should cover the staff cuts, but it is still interesting to note that the latest capital round was, probably unintentionally, used to offset exceptional items such as the Xoceco write-off and the current restructuring. Sell.

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Telindus

TELB.BR / TEL BB

IT Hardware
Belgium

Current price	€ 4.50
Target price	€ 5.10
Market cap	€ 182 m
Free float	61%

	EPS*(€)	P/E
FY01	0.01	890.79
FY02E	-0.23	-
FY03E	0.23	19.49

*Adjusted for goodwill and exceptionals

Company visit

Accumulate
Unchanged

We recently visited Telindus for an update on the restructurings and the shift to services. We believe that, despite potentially more lay-offs abroad as announced by management in October, Telindus will start to benefit fully from the cost savings. And secondly, Telindus is successfully shifting to services thanks to an order intake growing at a double-digit pace and several impressive contracts. Telindus is able to attract service contracts worth more than € 20m that are gradually being reflected in earnings. The telco's shift in focus towards opex (rather than capex) is also creating opportunities.

November and December will decide whether 2H02 will be in line or surprise positively. In 2002, Telindus Belgium has outperformed the group's overall performance. Our first indications are that Telindus will meet at least its own targets (EBIT 2H02 break-even, sales 2002 -12% to -14%).

On the basis of a **minimal valuation** (per Telindus share), the 5% stake in Mobistar is worth € 2.00, the net cash 2002 will be € 1.20 and the sale& leaseback of the new HQ could generate € 0.75 or **€ 3.95** together. Based on a DCF, a peer group comparison and a macro-economic model, our **valuation range is between € 5.0 and € 11.0**. We are maintaining our Accumulate rating (it is still difficult to estimate the correct timing of a positive earnings surprise) but we are **raising our target price from € 4.20 to € 5.10** to reflect our improved confidence. More details follow in a new company note.

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Electronics

Positive momentum. Valuations too high

Facts

In line with market expectations, Intel has raised its revenue forecast for Q4. The group is now looking at somewhere between 6.8 and 7 billion dollars. The gross margin will also be the top of the forecast range (49%, give or take 1%).

AMD has also raised its forecast: Q4 will be up 35% vs Q3 (compared to 25% previously estimated).

Fairchild Semiconductor has also raised its sales forecast for Q4 from a negative range between -4 and -6% to a range between 0 and -3%.

Our opinion

These forecasts are generally unsurprising and reflect the standard end-of-year seasonality as sales of PCs, mobile phones, digital cameras and general consumer electronics accelerate.

*Adjusted for goodwill and exceptionals

In our opinion these revised forecasts have no value as indicators of market conditions beyond Q402.

There is still no sign of a recovery in investment in the semiconductor industry, and we do not expect to see one until H2 03.

In our view the sector is still over-valued.

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