

Bekaert

11 February 2003

2002 trading update

Engineering & Machinery

Current price € 34.30

Accumulate

Belgium

Target price € 45.00

Rating unchanged

Performance over	1m	3m	12m
Absolute	-21%	-11%	-20%
Rel. BEL20	-11%	1%	26%
Rel. sector	-10%	-2%	13%
12-m- Hi/Lo	€ 50.90/34.00		
Reuters	BERTt.BR		
Bloomberg	BEKB BB		
Market Cap	€ 758m		
Next corporate event	Analyst Meeting 02 on 13 March 2003		

FY/e 31.12	2001	2002E	2003E	2004E
Sales (€m)	1,796	1,901	1,953	2,008
EBITDA (€m)	192	195	238	260
Pre-Tax* (€m)	34	-62	98	104
Adj EPS* (€)	2.38	1.99	4.51	4.76
EPS (€)	2.15	-2.26	3.94	4.18
DPS (€)	1.68	1.68	1.75	1.95
P/E* (x)	14.3	17.2	7.5	7.1
Yield (%)	4.9	4.9	5.1	5.7
EV/EBITDA (x)	6.5	5.0	3.8	3.2

Source: KBC Securities

*Adjusted for goodwill and exceptionals

In its trading update, Bekaert reassured with a 60% rise in the operating result, before restructuring. However the statement was dominated by the €60m restructuring charges and €84m impairment on the solar energy business. Adjusting our price target from €48 to 45 per share, we regard the sharp drop in recent days as excessive. At current levels, we see significant upward potential for the share and confirm our Accumulate rating.

2002 trading update

Yesterday, Bekaert released its FY02 trading update and hosted an analyst meeting. After the sharp drops of the past days, with some 'panic' in the market, the message was better than anticipated.

Bekaert confirmed that, despite the lower US\$, consolidated sales over 2002 were above the 2001 level with all business units exceeding their level over 2001. At the Wire business, most segments made progress, with the high carbon specialities increasing their market share and a strong performance for low carbon specialities in nylon coated wires. The merchant products had already seen improved results thanks to the optimisation measures pushed through in 1H02. According to Bekaert, the Steel Cord business continued to perform strongly worldwide, with significant growth in China and Brazil. In Advanced Materials (BAM), there was brusque business at Specialty Films (BSF) and substantial growth in Advanced Coatings and Combustion Technology.

Results from operations, before restructuring charges, are expected 60% above the 2001 level at around €112m (margin est. at 5.9%), slightly exceeding our anticipated €108m and well above the consensus range (around €100m). Compared to 2H01, margin improved from 0.7% to 4.8% (6.9% in 1H02). Next to the €48m restructuring charges booked in 1H02 (mainly on the optimisation programme at the Merchant Products), Bekaert added an additional €12m, bringing the result from operations to an estimated €52m.

Strict application of IFRS 36 (which values the business at the highest of 'the net selling price' or 'the value in use'), led to Bekaert booking a **net impairment of €84m** (3.8 per share) **on its investments in the solar energy business** (60% in the Bekaert ECD JV and 19% in Unisolar), which values the remaining assets at zero! Bekaert already had announced in its quarterly update that due to higher than anticipated expenses, the solar energy operations needed more funding and would take longer to reach break even (originally expected by 2003). Nevertheless, Bekaert remains committed to the solar business and is continuing its quest for a third partner. This revaluation exercise highlights Bekaert's cautious accounting policy.

The €84m impairment is allocated to the original investment in United Solar (at cost) and the original investment in Bekaert ECD less accumulated consolidated losses and bridging loans. Although clearly a non-cash issue, it is clear that most of the investments made are lost. By setting the remaining value at 0, Bekaert illustrates not being prepared for further investments in this business. More disappointing for investors might be the fact that even up until a few months ago, Bekaert used its investments in the solar energy sector as an illustration of its strategy to shift from its lower growth, traditional business towards the higher growth, high margin Advanced Materials. However, Bekaert seems to have swallowed the pill and is now fully focused on growth in its traditional businesses (mainly Steel Cord) in faster growing markets like China or Eastern Europe.

At the Bottom line, Bekaert expect to publish a net loss of almost €50m. However, taking into account the still excellent operational performance, the dividend will be maintained at €1.68 per share (to be paid on May 21), implying an attractive gross yield of 4.9% at yesterday's closing. Visibility remains very low although order inflow, after a dip in December, has returned to pre-December levels. The definitive 2002 results will be released on March 13.

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