

Bekaert

18 July 2003

Earnings preview

Engineering & Machinery			Current price	€ 43.00	Neutral			
Belgium			Target price	€ 45.00	Rating unchanged			
Performance over	1m	3m	12m	FY/e 31.12	2002	2003E	2004E	2005E
Absolute	5%	9%	-6%	Sales (€m)	1,863	1,785	1,888	1,972
Rel. BEL20	4%	3%	8%	EBITDA (€m)	209	255	267	276
Rel. sector	-4%	-10%	-4%	Pre-Tax* (€m)	42	86	108	119
12-m- Hi/Lo	€ 49.90/31.30			Adj EPS* (€)	-1.55	4.13	4.78	5.09
Reuters	BERTt.BR			EPS (€)	-2.24	3.85	4.28	4.59
Bloomberg	BEKB BB			DPS (€)	1.68	1.75	1.95	1.90
Market Cap	€ 959m			P/E* (x)	-	10.4	9.0	8.4
Next corporate event				Yield (%)	3.9	4.1	4.5	4.4
Conference Call 03 on 28 July 2003				EV/EBITDA (x)	6.6	5.2	4.9	4.6

Source: KBC Securities

*Adjusted for goodwill and exceptionals

On Jul-28, Bekaert is to release its 1H03 results. Despite the USD decline, we are quite positive with estimates at the high end of consensus. In the absence of major optimisation charges and against a strong operating performance, lower financial charges plus a € 5m "capital gain", we count on a profit -group share- at € 50m or € 2.26 per share, compared to € 0.43 per share over the 1H02.

Surprise us!

Monday, Jul-28, before opening, Bekaert is to release its set of 1H03 results. As we will outline in this Flash, we are pretty optimistic with estimates out of consensus range counting on Bekaert to beat the market expectations.

At its AGM, Bekaert already gave some idea about the business at the start of 2003. **Sales** over the 1Q03 **declined** by 7.2% but would have increased by 2.2% at constant exchange rates. Sales of the Wire business decreased by 16% of which about 8% due to the lower USD and roughly 5% on discontinued activities, leaving an organic decline of about 3%. Sales of the Fencing business (the former Merchant Products Europe) remained stable (no USD effect) while a very high activity level in Steel cord could limit the decline in sales to 2.2%. Sales of the BAM were at the same level as the previous year but would have observed a 8-9% rise at constant exchange rates.

Although no precise figures were given in the quarterly update, all units seem to have increased their contribution to the operational and bottom line result. This, despite the lower USD, illustrating an **impressive improvement of the underlying profitability**. Especially Steel cord and the equity consolidated activities in Latin America performed very well. Sales of Fencing were flat but due to an improved mix increased their profitability. On the other hand, trading in wire was much weaker. Consolidated profit increased "substantially" and overall order book was "good" - "substantially" and "good" might be interpreted as above 10%.

Despite a good 1Q and promising order book, Bekaert remained very prudent for the rest of the year, not giving any outlook. However, in the absence of major optimisation charges and losses at the solar cells, with lower financial charges and a capital gain of \$ 6m, we are positive about the current year.

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For the **1H03**, our scenario counts on a **top-line decline of 4.8%** to € 939.3m. This is mainly to be explained by the lower USD but also some weakness at the wire business. Without major restructuring charges, we expect a **jump in operating result from € 20.8m to € 59.0m**. On a comparable basis, we count on an operating result at € 61.4m or a margin of 6.5%. As Bekaert realised an operating margin -before restructuring- of 6.9% over the 1H02 and stated that all units increased their contributions to the 1Q03 operating result, this might prove too conservative.

After having made a € 84m impairment in 2002, Bekaert disposed its **solar cell interest** for \$ 6m in the 1H03. This implies that as from 2003 the solar cells will **no longer make a negative contribution** (€ 2.4m, € 6.1m and € 8m over 2000-02) to the equity-consolidated result. Ironically, regarding the lost investments, Bekaert is even to post a **capital gain** of about € 5m in the 1H03!

All this, brings us to a spectacular increase in the net profit -group share- from € 9.4m to € 50.0m or € 2.26 per share. For the full year, we count on a net profit -group share- at € 85.3m or an increase in the 'reported' EPS from € -2.24 to € 3.85! Before goodwill depreciation and exceptionals, our EPS estimate stands at € 4.13 compared to € -1.55 in 2002.

As we do not see Bekaert substantially outperform the Belgian market in the coming 12 months, we keep our rating unchanged at "neutral" with a price target of € 45. The average of our valuation models used, points to a theoretical fair price of € 47.15 per share. However, anticipating very nice 1H03 results, **momentum** could be there from a shorter-term perspective.

Earnings preview					
	2001	1H02	2002	1H03e	2003e
Sales	1796	986	1863	939.3	1785
Growth	+2.3%	+5.9%	+3.8%	-4.8%	-4.2%
Comparable op. result	60.3	68.3	123.8	61.4	111.1
Margin	3.4%	6.9%	6.6%	6.5%	6.2%
Operating result	59.5	20.8	64.2	59.0	106.1
Financial result	-30.4	-20.7	-32.9	-15.8	-27.0
Other	5.0		-100.6	5.0	5.0
Taxes	4.6	-0.9	7.4	-9.2	-16.8
Equity consolidated	12.5	11.8	19.1	14.5	25.0
Net profit group share	47.6	9.4	-49.5	50.0	85.3
EPS – reported	2.15	0.43	-2.24	2.26	3.85
EPS*	2.76	0.87	-1.37	2.60	4.54
EPS**	3.20	0.51	-1.55	2.40	4.13

Source: Bekaert, KBC Securities

* before goodwill amortisation ** before goodwill amortisation and exceptionals

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