

Bekaert

19 March 2004

Share selling excessive

Engineering & Machinery

Current price € 44.65

Outperform

Belgium

Target price € 52.00

Rating unchanged

Performance over	1m	3m	12m
Absolute	-6%	-10%	25%
Rel. BEL20	-1%	-17%	-11%
Rel. sector	1%	-9%	-7%
12m Hi/Lo	€ 51.95/32.85		
Reuters	BERTt.BR		
Bloomberg	BEKB BB		
Market Cap	€ 985m		
Next corporate event	General Assembly03 on 12 May 2004		

FY/e 31.12	2002	2003E	2004E	2005E
Sales (€ m)	1,863	1,797	1,804	1,882
EBITDA (€ m)	209	265	263	284
Pre-Tax* (€ m)	42	86	88	109
Adj EPS* (€)	-1.55	4.80	4.31	4.90
EPS (€)	-2.24	3.85	3.86	4.44
DPS (€)	1.68	1.75	1.75	1.85
P/E* (x)	-	9.3	10.4	9.1
Yield (%)	3.8	3.9	3.9	4.1
EV/EBITDA (x)	6.7	5.1	5.2	4.7

Source: KBC Securities

*Adjusted for goodwill and exceptionals

Bekaert published its FY03 results yesterday, re-assuring markets after the heavy selling of the share that followed the quarterly update in February. The results mark the welcome introduction by Bekaert of detailed segment reporting. What Bekaert refers to as the 'comparable' operating result (before optimisation charges) stabilised at € 121.7m (from € 123.8m), translating into a margin of 6.8% (up from 6.6%). The operating performance by division varied: Fencing posted a solid EBIT margin at 6.6% while Coatings put in a lacklustre performance. The equity consolidated companies did well (after goodwill), jumping sharply from € 19.1m to € 32.0m, exceeding our € 28.9m estimate. The bottom line figure of € 85.2m far outstrips our estimate of € 76.1m and the consensus of around € 71.6m, thanks to a one-off reduction in tax.

We upped our rating in anticipation of better than expected FY03 results, viewing the sharp drop in the share price since February as excessive. In light of yesterday's press release, we still regard the offloading of the share as excessive. In addition, the 15% upside potential against our target price has prompted us to include Bekaert in our selection of top-picks. Bekaert proposed a 4% increase in the gross dividend per share to € 1.748, which translates into an attractive yield of around 4%. This should underpin the shares.

However, we remain realistic with regards to 2004. Yesterday's results highlighted the significant impact of the weaker USD, which Bekaert quantifies at € 26m on the 2003 result from operations. Taking into account current levels, the effect of a further softening in the USD in 2004 should not be underestimated. In addition, sharp spikes in raw material prices are weighing on margins since these price increases can only be partially passed on with 0 to 3 month time lag. Finally, Bekaert will pay tax at a slightly higher rate in 2004. For this year, we expect a comparable operating result of € 119.9m, equivalent to a margin of 6.6%. Bottom line, we expect the group to post € 85.2m, with reported EPS of € 3.86. However, once an update of our forecasts based on new segment data is complete, we cannot rule out minor changes to these estimates in the near future.

FY03 net consolidated result at € 85.2m

Bekaert published its FY03 results yesterday. They met expectations for operating income, with a lower operating result but higher than expected contribution of associates. The bottom line outstripped most forecasts thanks to lower taxes. The results are summarised below:

Bekaert 2003 results					
	1H02	2002	1H03	2003	2004E
Sales	986	1,863	933	1,797	1,823
Growth	+5.9%	+3.8%	-5.4%	-3.6%	0.4%
Comparable op. result	68.3	123.8	72.7	121.7	119.9
Margin	6.9%	6.6%	7.8%	6.8%	6.6%
Operating result	20.8	64.2	68.3	111.8	112.4
Financial result	-20.7	-32.9	-18.3	-32.3	-30.0
Other		-100.6	-9.5	-10.7	
Taxes	-0.9	7.4	-9.3	-8.2	-18.0
Equity consolidated	11.8	19.1	18.0	32.0	27.2
Net profit group share	9.4	-49.5	43.7	85.2	85.2
EPS – reported	0.43	-2.24	1.98	3.85	3.86
EPS*	0.51	-1.55	2.60	4.80	4.31

Source: Bekaert, KBC Securities

* before goodwill amortisation

Sales declined by 3.6% to € 1,797m but would have risen by 4.1% at constant currencies. At constant currencies, organic growth amounted to 2.4% while acquisitions added 1.7% net. Including JVs, combined sales dropped by 6.8% but would have risen by 3.2% at constant currencies.

- In **Advanced wire products**, which include what was previously the steel cord and steel wire division, consolidated sales declined by 0.8% to € 1,196m but would have increased by 8% at constant currencies. Combined sales were down 5.3% to € 1,942m (+7% at constant currencies). In the wire business platforms, Bekaert observed weak markets in Europe and North America but significant growth in Asia and Central & Eastern Europe. The Latin American wire business (associates) did very well, also because of higher exports. The opposite occurred in European wire markets, where business suffered from cheap imports. Building products managed to maintain their level of activity while demand for steel cord products was robust worldwide.
- **Fencing** observed an 8.5% drop in consolidated sales to € 383m, due in part to closures of lower margin businesses in 2002.
- Consolidated sales of **Advanced materials** increased by 5.5% to € 103m (+8% at constant currencies). Sales at the combustion technologies business platform grew particularly strongly. Consolidated sales of **Advanced coatings** were 6.5% down at € 112m. This is largely because more than half of sales are generated in the US (BSF). At constant currencies, the sales would have risen by 7%.

Sales per segment

	Combined sales			Consolidated sales		
Advanced wire products	1,942	74.2%	-5.3%	1,196	66.6%	-0.8%
Fencing systems Europe	455	17.4%	-8.5%	383	21.3%	-8.5%
Advanced materials	103	3.9%	5.5%	103	5.7%	5.5%
Advanced coatings	117	4.5%	-7.3%	112	6.2%	-6.5%
TOTAL	2,618	100%	-6.8%	1,797	100%	-3.6%

Source: Bekaert, KBC Securities

The comparable **operating result** (before optimisation charges) declined slightly from € 123.8m to € 121.7m with the margin improving from 6.6% to 6.8%. The operating result climbed from € 64.2m to € 111.8m, thanks to a fall in restructuring charges to € 9.9m from € 59.6m in 2002. At constant currencies, Bekaert estimates the operating result after optimisation charges at € 138m. This is the first time Bekaert has published operating results by segment, thereby revealing the surprisingly solid margins in the Fencing business. Margins at Advanced coatings did not live up to expectations however.

- The comparable operating result at **Advanced wire products** fell from € 132.3m to € 123.7m with the margin, before overheads, down from 11% to 10.3%. Non adjusted EBITDA declined from € 217.7m to € 206.5m. The wire business suffered from margin pressure due to increased raw materials prices and cheaper imports into Europe. While the impact of higher wire rod prices were felt from September at Wire North America, it did not feed through to Wire Europe until early 2004. Margins in steel cord remained firm and the increased share of steel cord in total sales should have had a beneficial effect on margins.
- The comparable operating result at **Fencing** improved by € 7.5m, on the back of the cost saving measures implemented in 2002 (when optimisation charges of € 28.3m were booked). Further estimated cost savings of between € 5m and € 7.5m on the back of the optimisation might materialise in 2004. Before overheads, the margin improved from 4.7% to 7.0%. Non adjusted EBITDA jumped steeply from € 10.1m to € 43.7m.
- The comparable operating result at **Advanced materials** slipped from € 10.4m to € 9.0m with the margin down from 10.6% to 6.9%. Non adjusted EBITDA fell from € 13.7m to € 7.3m. The comparable operating result at **Advanced coatings** was in sharp decline from € 5.9m to operational break-even. Even the 2002 margin of 5.9% is way below our previous estimate for this division. Non adjusted EBITDA declined from € 22.9m to € 11.8m. The unit had a very difficult year due to very weak demand in North America. Remember that Bekaert acquired BSF in June 2001 for about \$ 122m in cash.

Adjusted result from operations per segment (€ m)

	2002				2003			
	Revenue	EBITDA	EBIT	Margin	Revenue	EBITDA	EBIT	Margin
Advanced wire products	120.9	11.4	132.3	11.0%	121.2	2.5	123.7	10.3%
Fencing systems Europe	-8.8	28.3	19.5	4.7%	25.4	1.6	27.0	7.0%
Advanced materials	2.1	8.3	10.4	10.7%	7.7	1.3	9.0	8.7%
Advanced coatings	3.0	2.9	5.9	4.9%	-2.1	1.9	-0.2	0.0%
Other	-52.9	8.7	-44.2	-	-40.5	2.6	-37.9	-
TOTAL	64.2	59.6	123.8	6.6%	111.8	9.9	121.7	6.8%

Source: Bekaert, KBC Securities

Net financial charges ended at € 30m and Bekaert booked **€ 10.7m** in “other” **non-recurring charges**. These consist of the net of a \$ 6m capital gain on the solar cells, pension fund provisions and several smaller non-operating charges, the € 5.8m impairment on the handling division being the most important. A much **lower tax bill** of € 8.2m had a balancing effect, but this should also be regarded as a one-off. Contribution from **associates**, after goodwill amortization, jumped from € 19.1m to € 32.0m, exceeding the € 28.9m we pencilled in. Bottom line, Bekaert posted a net consolidated result of **€ 85.2m**, exceeding the € 76.1m anticipated thanks to the lower taxes.

Bekaert proposes a 4% increase in the gross **dividend** per share to € 1.748, payable as from 19 May.

Investments (including associates) came out at € 140m and should be estimated close to € 200m for 2004. **Shareholder equity**, year-end, amounts to € 778.95m or **€ 35.3 per share**. Net financial debt remained constant at € 364m, equivalent to gearing of 44%.

Weak USD and rising raw material prices demand a cautious outlook

As in February, Bekaert remains prudent for 2004, referring to the weak USD and margin pressures due to rising raw material prices, which will take time to feed through. However, the overall message given was upbeat. While the North American and European markets remain uncertain, continued growth is expected for the business in Central Europe, Asia and Latin America. Orders for Advanced wire products are up slightly, with in particular a continued strong demand for steel cord products. The Fencing business has made a good start to the season and Bekaert has raised its forecasts for Advanced materials & coatings.

2004 has the potential to be a good year with efficiency gains offsetting the impact of the weaker USD and inflated raw materials prices. We expect a comparable operating result of € 119.9m, almost flat y-o-y. Taxes are anticipated at € 18.0, substantially above the exceptional low amount paid in 2003. However, the 2003 figures were burdened by € 10.7m of "other" non-recurring charges, which are not expected for 2004. In balance, our estimate for the 2004 net consolidated result stands at € 85.2m, equivalent to reported EPS at € 3.86.

Since the quarterly update in February, the Bekaert share has come under severe pressure, tumbling from a high € 52 per share. We still regard this selling as excessive and have upped our rating from Neutral to Outperform. Our 12 month target price is confirmed at € 52 per share.

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