

Bekaert

4 August 2004

Strong performance over the 1H04

Engineering & Machinery

Current price € 51.25

Outperform

Belgium

Target price € 56.00

Rating unchanged

Performance over	1m	3m	12m
Absolute	7%	9%	25%
Rel. BEL20	6%	8%	3%
Rel. sector	3%	4%	1%
12m Hi/Lo	€ 51.95/40.05		
Reuters	BERTt.BR		
Bloomberg	BEKB BB		
Market Cap	€ 1,123.4m		
Next corporate event			
Results 3Q FY04 on 8 November 2004			

FY/e 31.12	2003	2004E	2005E	2006E
Sales (€ m)	1,797	1,983	2,057	2,123
EBITDA (€ m)	265	293	298	315
Pre-Tax* (€ m)	86	120	122	142
Adj EPS* (€)	4.80	5.17	5.25	5.89
EPS (€)	3.85	4.60	4.79	5.44
DPS (€)	1.75	1.75	1.85	2.00
P/E* (x)	10.6	9.8	9.7	8.6
Yield (%)	3.4	3.4	3.6	3.9
EV/EBITDA (x)	5.9	5.6	5.4	4.9

Source: KBC Securities

*Adjusted for goodwill and exceptionals

On Monday, Bekaert reported very strong result, smashing expectations. The consensus was looking for sales of € 1,020m (KBCS: € 1,026m), EBIT of € 71.7m (KBCS: € 71.6m) and a net result of € 50.3m (KBCS: € 53.3m). Bekaert reported an impressive sales growth of 17.5% to € 1,096m. Organic growth was 19%, of which about 15% was volume growth.

Result from operations ended at € 103.3m, up from € 68.3m in the 1H03. This led to an operating margin (before non-recurring items) of 9.8%, compared to the record-high 7.8% observed over the 1H03. However, one should note that the operating result was positively impacted by a (undisclosed) revaluation of stocks. Before the revaluation of stocks, operating margin is estimated in a range from 7.5% to 8.5%. However, even taking into account this revaluation, Bekaert seems to have been very successful in managing the impact of surging steel rod prices on margins. For the 2H04, the impact of increased raw materials prices on margins might be more pronounced.

Bekaert said the current level of the order book was “good” and described the outlook for the group as “favourable”. However, coping with increased steel rod prices remains a major challenge going forward. In addition, early order intake by clients anticipating future price increases could affect order intake in the 2H04. Despite the somehow slower growth in China, following the government’s measures to cool down its economy, Bekaert remains committed to its target to increase its Chinese steel cord capacity to about 120k ton by early 2005.

Bottom line, Bekaert reported a net result of € 78.7m (€ 3.57 per share), up from € 43.7m. All in all, we were positively surprised by Bekaert’s 1H04 results. Hence, we confirm our ‘outperform’ rating on Bekaert and upped the target price from € 52 to € 56 per share. We also increased our (adj) EPS 04 estimate by 17% to € 5.17 and kept our EPS 05 estimate unchanged at € 5.25.

BEKAERT' 1H04 net consolidated result at € 78.8m

Bekaert reported 1H04 results on Monday, beating every expectations with really stunning results. Sales came out at € 1,096.3m (+17.5%), results from operations at € 103.3m (margin up from 7.3% to 9.4%) and the net result, group share, increased from € 43.7m to € 78.8m.

BEKAERT Key figures:					
	2002	1H03	2003	1H04	2004E
Sales	1,863	933	1,797	1,096	1,983
Growth	+3.8%	-5.4%	-3.6%	+17.5%	+10.4%
Comparable op. result	123.8	72.7	121.7	107.3	148.1
Margin	6.6%	7.8%	6.8%	9.8%	7.5%
Operating result	64.2	68.3	111.8	103.3	140.6
Financial result	-32.9	-18.3	-32.3	-13.7	-26.3
Other	-100.6	-9.5	-10.7	-2.7	-2.7
Taxes	7.4	-9.3	-8.16	-26.7	-36.5
Equity consolidated	19.1	18.0	32.0	24.0	34.3
Net profit group share	-49.5	43.7	85.2	78.8	101.5
EPS – reported	-2.24	1.98	3.85	3.57	4.60
EPS*	-1.37	2.17	4.32	3.81	5.07
EPS**	-1.55	2.60	4.80	3.93	5.17

Source: Bekaert, KBC Securities

* before goodwill amortisation ** before goodwill amortisation and exceptionals

Bekaert posted an impressive sales growth of 14% in the 1Q04. This was partially explained by the effect of clients shifting orders forward in anticipation of price increases (discounting for increased raw materials prices). However, Bekaert reported an amazing growth of 17.5% over the 1H04. So maybe we might see the effect of orders having been shifted forward in the 2H04. The organic growth stood at about 19%, with slightly below 5% on pricing and about 15% on volumes. Net external growth accounted for 4% while there was a negative 5% currency effect.

- In **Advanced wire products**, sales increased by 20.6% to € 751m (67% of the total consolidated sales). Combined sales (including associates) increased by 16.2%. Although that there might have been some effect of increased order intake by customers in anticipation of price increases, Bekaert especially observed a much stronger economic environment in Europe and North America (with the exception of wires for the textile and automotive sector). The associates in Latin America again performed very well. Demand for steel cord remained high worldwide with only growth in China slower than expected (steel cord sales in China up 1% or 11% at constant currencies). Although the growth in China might be lower in the short term, the credit tightening measures from the Chinese government could benefit Bekaert (slowing down speculative investments from competitors). At the moment, Bekaert is increasing its steel cord capacity in China to about 120k ton by early next year, investing about € 200m.
- **Fencing systems Europe** posted a strong 14.1% growth in consolidated sales to € 248m (22% of consolidated sales). The unit posted a major volume increase thanks to a strong season and the further development of project activities in the fencing business.
- Sales in **Advanced materials** increased by 3.8% to € 54m (5% of consolidated sales). However, one should note that Bekaert has divested the composite profile business. Sales in fibre technologies were up by 11%, while sales in combustion technologies increased by 40%, principally due to the acquisition of Solaronics. Consolidated sales in **Advanced coatings** were up 24.2% to € 67m, partially as a result of the increased stake in Sorevi and in Precision Surface Technology. In industrial coatings, sales were up 25% while sales of specialised films increased by 10%.

1H04 Sales per segment (€ m)

	Consolidated sales			Combined sales		
	Value	%	% change	Value	%	% change
Advanced wire products	751	67%	+20.6%	1,169	74%	+16.2%
Fencing systems Europe	248	22%	+14.1%	282	18%	+8.5%
Advanced materials	54	5%	+3.8%	54	4%	+3.8%
Advanced coatings	67	6%	+24.2%	67	4%	+15.8%
Other/Intersegment	-24			-27		
TOTAL	1,096	100%	+17.5%	1,545	100%	+13.4%

Source: Bekaert

We were especially looking forward to the **impact of increased steel rod prices on the margins** in the 1H04. Compared to the record-high operating margin (before non-recurring items) of 7.8%, we were counting on a margin of 7.4%. However, Bekaert reported a 51.2% increase in the result from operations at € 103.3m. Before non-recurring items, the operating margin improved from the record-high 7.8% to 9.8%! However, one should note that the 1H04 **result from operations has been positively impacted by a revaluation of stocks**. Excluding the revaluation of stocks (the absolute amount has not been disclosed), the operating margin (before non-recurring items) is expected in the range of 7.5% to 8.5%. So, Bekaert did an incredible job in managing the impact of increased raw material prices. However, this does not exclude pressure on margins in the 2H04 and beyond.

Result from operations per segment (€ m)

	1H03			1H04		
	EBIT	EBIT (adj.)	margin	EBIT	EBIT (adj.)	margin
Advanced wire products	71.6	73.1	11.7%	94.4	97.8	13.0%
Fencing systems Europe	17.2	18.1	8.3%	31.5	31.6	12.8%
Advanced materials	4.7	4.9	9.4%	4.9	5.0	9.2%
Advanced coatings	-1.8	0	0%	-0.1	-0.1	-0.2%
TOTAL	68.3	72.7	7.8%	103.3	107.3	9.8%

Source: Bekaert

Most spectacular was the evolution in margins with “Fencing systems Europe”. However, it would have been very interesting to have an idea about the impact of revaluation of stocks at this unit. Also note that Bekaert has taken an impairment of € 5.6m on the handling unit (book value is nil now). We would not be surprised if a solution for this unit is near. The result from operations at the advanced coatings was impacted by an extra R&D expense of € 4.1m.

Net financial charges declined from € 18.3m to € 13.7m and the “other” non-recurring charges stood at € 2.7m compared to € 9.5m over the 1H03. Taxes went up quite sharply from € 9.3m to € 26.7m (tax rate of 30.7%). The contribution from associates (before goodwill amortisation) increased by 30% from € 19.9m to € 25.9m. Bottom line, Bekaert posted a net consolidated result at € 78.8m, up from € 43.7m.

Bekaert expects that raw materials markets will remain a major challenge and may affect order intake in the 2H04. Despite a slow down in growth in China, Bekaert described the outlook as “favourable”. The order book was said to be “strong” however without giving indications about the year on year evolution.

Although remaining very prudent about the 2H04 (margin pressure, possible shift in volumes from 2H04 to 1H04 in anticipation of price increases), **we substantially upped our 2004 scenario**. Estimates for the annual sales, EBIT and net result have been upped from € 1,899m, € 116.2m and € 87.6m to € 1,983m, € 140.6m and € 101.5m. We now look for an adjusted EPS 04 of € 5.17 compared to € 4.42 before. Our 2005 estimates remained unchanged.

Wouter Vanderhaeghen
+32 2 417 29 62

wouter.vanderhaeghen@kbcsecurities.be

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Brussels
+32 2 417 44 04

London
+44 20 7283 9666

New York
+1 212 845 22 89

Paris
+33 1 53 05 35 55