

Bekaert

14 March 2005

Earnings preview

Engineering & Machinery

Current price € 64.75

Outperform

Belgium

Target price € 68.00

Rating Unchanged

Performance over	1m	3m	12m
Absolute	6%	13%	44%
Rel. BEL20	6%	6%	12%
Relative to sector	1%	-2%	8%
12m Hi/Lo	€ 66.55/43.50		
Reuters	BERTt.BR		
Bloomberg	BEKB BB		
Market Cap	€ 1,416m		
Next corporate event			
Analyst Meeting 04 : 17 March 2005			

FY/e 31.12	2003	2004E	2005E	2006E
Sales (€ m)	1,797.0	2,173.0	1,798.3	1,874.7
EBITDA (€ m)	239.1	306.1	258.2	271.0
Net earnings (€ m)	85.2	129.0	166.3	130.3
Current EPS* (€)	4.80	6.45	5.53	6.45
Published EPS (€)	3.85	5.85	7.60	5.96
Dividend per share (€)	1.75	4.00	2.00	2.00
P/E (x)	8.6	10.0	11.7	10.0
Dividend yield (%)	4.2%	6.2%	3.1%	3.1%
EV/EBITDA (x)	1.7	6.2	5.8	5.4

Source: KBC Securities

*Adjusted for goodwill and exceptionals

Bekaert will report its 2004 results on Thursday, 17 March, before market opening. The company already stated in its trading update that consolidated sales increased by 20.9% to € 2,173m. Organic growth amounted to 22%, while the effect of acquisitions & divestments and adverse currency movements amounted to resp. 3% and 4%. Including associates, combined sales increased by 20.1% to € 3,144m. Double-digit growth figures were recorded in all business segments with advance wire products, fencing, advance materials and advance coatings recording 20.9%, 18.4%, 13.0% and 12.8% in consolidated sales.

Sales in 4Q04 amounted to a solid € 538m, up by 28% y/y. Following growth acceleration in 3Q04, further acceleration was recorded in 4Q04. In absolute numbers, 4Q04 sales equalled 3Q04, which is quite unusual taking into account the more traditional pattern of de-stocking at the clients and seasonal maintenance shutdowns at the Bekaert plants in December. Over the year, about half of the sales growth was volume driven.

We reacted on the quarterly update with an increase in our estimates and target price, while confirming our outperform rating. We now count on REBIT of € 183.1m vs. € 121.7m in 2003 or a spectacular increase in the margin from 6.8% to 8.4%. The operating result (after optimisation charges) is expected at € 178.1m, up from € 111.8m in 2003. Bottom line, we count on a 51% increase in the net earnings, group share, to €129m. Reported and current 04 EPS are estimated at € 5.85 and € 6.45 per share.

Although Bekaert did not comment on margin evolution in 2H04, it seems the company was very successful in pricing through increased raw material prices and maintaining supplies to customers. As such, we wouldn't be surprised if Bekaert were to come out with a positive earnings surprise on Thursday. For 2005, Bekaert considers the outlook to be favourable despite continuing challenges in the raw materials market.

Besides the margin evolution, the market is expecting some guidance on the strategy following the disposal of the Fencing business to Gilde for a total enterprise value of € 281.5m, based on € 118m in debt, pension fund liabilities of € 54m and the balance in cash. The capital gain on the sale will add € 56m to 2005 net earnings.

We are quite enthusiastic about the deal since it will further raise Bekaert's growth profile, which should result in a revaluation on the stock market. Bekaert Fencing was the business with the lowest growth potential. The group can now move into top gear with the expansion of its Advanced Wire Products division. We expect that Bekaert will consolidate its world leadership position and will enter new geographical markets, possibly including Russia.

Gearing should now have dropped dramatically, as €118m in debt from the Fencing division will have disappeared from the balance sheet. Furthermore, cash proceeds related to the disposal are close to €110m and equity increased by 56m. Even if Bekaert opts to go down the growth path, we believe the balance sheet structure can be optimised in the short-term. As such, we have assumed an increase of the ordinary dividend from €1.75 to €2.0 per share and an additional €2.0 extraordinary dividend. However, one should note that our high dividend expectation is not based on any indication from the company.

BEKAERT key figures (€ m)

	2H03	2003	1H04	2H04E	2004E
Sales	864	1,797	1,096	1,076	2,173
Growth	-1.5%	-3.6%	+17.5%	+24.6%	+20.9%
Comparable op. result	49.0	121.7	107.3	75.8	183.1
Margin	5.7%	6.8%	9.8%	7.0%	8.4%
Operating result	43.5	111.8	103.3	74.8	178.1
Financial result	-14.0	-32.3	-13.7	-13.5	-27.2
Other	0.0	-10.7	-2.7	0.0	-2.7
Taxes	1.1	-8.16	-26.7	-20.5	-47.2
Equity consolidated	14.1	32.0	24.0	11.9	35.9
Net profit group share	42.7	85.2	78.8	50.3	129.0
EPS – reported	1.93	3.85	3.57	2.28	5.85
EPS – adjusted	2.11	4.80	3.93	2.52	6.45

Source: Bekaert, KBC Securities

Financial data

Income statement (€ m)	2003	2004E	2005E	2006E
Sales	1,797.0	2,173.0	1,798.3	1,874.7
EBITDA	239.1	306.1	258.2	271.0
EBITA	122.2	188.8	153.9	165.6
EBIT	111.8	178.1	143.2	154.9
Pre-tax earnings	68.8	148.3	181.8	150.6
Net earnings	85.2	129.0	166.3	130.3
Current earnings before goodwill	106.3	142.4	121.0	141.0
Current cash flow	223.2	259.7	225.3	246.4
Balance sheet (€ m)	2003	2004E	2005E	2006E
Goodwill and other intangible assets	72.2	72.2	72.2	72.2
Tangible assets	804.8	867.1	694.6	730.5
Associates and other financial assets	276.7	276.7	276.7	276.7
Net working capital	304.1	359.3	325.6	339.5
Net debt	418.3	486.5	93.5	50.7
Provisions and other liabilities	217.2	218.2	219.2	220.2
Minorities	43.3	50.9	58.1	63.1
Equity	779.0	819.7	998.2	1,084.7
Capital employed, incl. cum goodwill	1,541.4	1,494.5	1,660.6	1,408.8
Balance sheet total	1,925.8	2,153.5	1,875.8	1,955.7
Cash flow statement (€ m)	2003	2004E	2005E	2006E
Cash flow from operations	167.6	138.2	405.0	219.6
Net capital expenditure	141.3	206.4	12.0	176.8
Free cash flow (before acquisitions)	308.9	344.6	417.0	396.4
Acquisitions and disposals	134.9	165.0	145.0	130.0
Dividend payments	39.8	41.4	94.5	46.8
Shares issues	0.0	0.0	0.0	0.0
Other	-457.4	-619.2	-263.5	-530.5
Change in net debt	-26.3	68.2	-393.0	-42.8
Performance criteria	2003	2004E	2005E	2006E
Sales growth	-3.6%	20.9%	-17.2%	4.3%
EBITDA margin	13.3%	14.1%	14.4%	14.5%
EBITA margin	6.8%	8.7%	8.6%	8.8%
EBIT margin	6.2%	8.2%	8.0%	8.3%
Net debt / equity	53.7%	59.4%	9.4%	4.7%
Net debt / EBITDA	1.7	1.6	0.4	0.2
EBITDA / net interest	7.4	11.3	14.8	63.8
Pay-out ratio	45.4%	68.4%	26.3%	33.6%
Net return on equity (avg.)	10.6%	16.1%	18.3%	12.5%
Return on capital employed (avg.)	6.4%	8.7%	6.8%	7.6%
Per share data (€)	2003	2004E	2005E	2006E
Weighted average number of shares (m)	22.12	22.07	21.87	21.87
Published EPS	3.85	5.85	7.60	5.96
Current EPS, before GW	4.80	6.45	5.53	6.45
Current CFPS	10.09	11.77	10.30	11.27
Free cash flow per share	13.97	15.61	19.06	18.12
Net book value per share	35.21	37.14	45.64	49.59
Current EPS (before GW): y/y growth	53.0%	34.3%	-14.2%	16.5%
Current CFPS: y/y growth	3.4%	16.6%	-12.5%	9.4%
Current EPS (before GW), fully diluted	-	-	-	-
Dividend per share (€)	1.75	4.00	2.00	2.00
Valuation data	2003	2004E	2005E	2006E
Reference share price (€)	41.42	64.75	64.75	64.75
Reference market capitalisation (€ m)	0.0	1,429.1	1,416.3	1,416.3
Enterprise value (€ m)	400.2	1,905.0	1,506.4	1,468.7
P/E	8.6	10.0	11.7	10.0
P/CF (x)	4.1	5.5	6.3	5.7
P/NBV (x)	0.0	1.7	1.4	1.3
Dividend yield (%)	4.2%	6.2%	3.1%	3.1%
EV/sales (x)	0.2	0.9	0.8	0.8
EV/EBITDA (x)	1.7	6.2	5.8	5.4
EV/Capital employed (x)	0.3	1.3	0.9	1.0

Source: KBC Securities

*Historic valuation data are based on historic prices

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