

Bekaert

21 March 2006

Strong results + dividend surprise

Engineering & Machinery

Current price € 83.65

Outperform

Belgium

Target price € 90.00

Rating Unchanged

Performance over	1m	3m	12m
Absolute	-2%	9%	29%
Rel. BEL20	-6%	-4%	1%
Relative to sector	-2%	5%	7%
12m Hi/Lo	€ 87.80/55.40		
Reuters	BERTL.BR		
Bloomberg	BEKB.BB		
Market Cap	€ 1,800m		
Next corporate event			
General Assembly 05 : 10 May 2006			

FY/e 31.12	2005	2006E	2007E	2008E
Sales (€ m)	1,914.3	2,030.3	2,131.8	2,218.7
EBITDA (€ m)	257.4	267.0	277.4	288.7
Net earnings (€ m)	189.9	132.6	136.5	145.6
Current EPS* (€)	6.97	6.64	6.82	7.24
Published EPS (€)	8.82	6.16	6.34	6.76
Dividend per share (€)	3.00	2.15	2.15	2.30
P/E (x)	9.4	12.6	12.3	11.6
Dividend yield (%)	4.6%	2.6%	2.6%	2.8%
EV/EBITDA (x)	6.4	7.6	7.2	6.7

Source: KBC Securities

*Adjusted for goodwill and exceptionals

Bekaert reported strong FY05 results, on top of which management is proposing to pay a gross dividend of € 3 per share, including € 1 per share related to the disposal of Bekaert Fencing systems, payable as from 17 May. Consolidated and combined sales increased by 10% and 14% to € 1,914m and € 3,085m. Result from operations landed at € 136.3m vs. our estimate of € 145.6m. However, there was a substantial impact from € 32m in non-recurring charges, of which € 13.7m non-cash. REBIT amounted to € 168m, exceeding our € 160.6m estimate. REBIT from advanced wire products was € 187m, which translates into an impressive 11.4% margin. Advanced materials and advanced coatings contributed € 13m and € 3m to REBIT. The contribution from associates was € 56.9m, in line with expectations. Result from continuing operations amounted to € 135.7m vs. € 141.3m in 2004 and our estimate of € 132.9m. The consolidated net result (after result from discontinuing operations) came to € 189.9m vs. € 167.6m in 2004 and our estimate of € 187.0m.

Management said that 2006 has started well, but remains very prudent on the outlook. Competition is expected to intensify worldwide and raw materials and energy costs are set to rise. In the mature markets, especially Europe, Bekaert is witnessing a slight weakening of demand for some products. We are fairly pleased with Bekaert's 2005 performance overall. The results were of good quality and slightly ahead of our expectations. We confirm our Outperform rating with target price of € 90 per share. Following an update of our scenario, EPS 06 and 07 estimates have been raised from € 6.27 and € 6.37 to € 6.64 and € 6.82.

Combined sales 2005 by activity platform

Advanced wire products	+14%	Advanced Materials	+21%
Wire Europe	-7%	Fibre technologies	+23%
Wire North America	-4%	Combustion technologies	+26%
Wire Latin America	+26%	Composites	+2%
Wire Asia	+24%		
Building products	+12%	Advanced coatings	+4%
Steel cord China	+39%	Industrial coatings	-4%
Steel cord others	+15%	Specialised films	+11%
Other advanced wire products	+19%		

Source: Bekaert

Earnings review

Bekaert reported strong FY05 results. Consolidated and combined sales increased by 10% and 14% to € 1,914m and € 3,085m. Result from operations landed at € 136.3m, some way short of our € 145.6m estimate. However, there was a substantial impact from non-recurring charges amounting to € 32m, of which € 13.7m were non-cash. REBIT amounted to € 168m, beating our € 160.6m forecast. The contribution from associates was € 56.9m, in line with expectations. Result from continuing operations amounted to € 135.7m vs. € 141.3m in 2004 and our estimate of € 132.9m. Consolidated net result (after result from discontinuing operations, i.e. the € 54m capital gain on the sale of Bekaert Fencing NV) amounted to € 189.9m vs. € 167.6m in 2004 and our estimate of € 187.0m. Overall, the results were of good quality and slightly exceeded expectations.

Bekaert: key figures (in € m)

	FY04	1Q05	2Q05	1H05	3Q05	4Q05	2H05	FY05
Sales	1,742	462	509	971	469	474	943	1,914
Advanced wire products	1,501	400	440	840	402	398	800	1,640
Advanced materials	141	32	31	63	35	43	78	141
Advanced coatings	127	30	37	67	33	33	66	133
Others	-27	0	1	1	-1	0	-1	0
REBIT	113.0			94.3			73.7	168.0
margin %	6.5%			9.7%			7.8%	8.8%
Result from operations	139.0			85.3			51.0	136.3
Interest income & expenses	-15.6			-11.2			-15.7	-26.9
Non-operating income & expenses	-4.9			3.3			8.4	11.7
Income taxes	-18.4			-21.6			-8.6	-30.3
Result from ordinary activities after taxes	100.1			55.7			35.0	90.7
Share in the result of joint ventures and associates	53.5			27.7			29.2	56.9
Minority interests	-12.3			-7.3			-4.7	-12.0
Consolidated net result of the group	141.3			76.2			59.5	135.7
Discontinued operations	26.3			54.2				54.2
Total consolidated net result of the group	167.6			130.4			59.5	189.9

Source: Bekaert

Advanced wire products

Consolidated and combined sales of advanced wire products increased from a restated € 1,501m and € 2,413m to € 1,640m and € 2,750m. While the combined sales of wire Europe and wire North America were down by 7% and 4%, the combined sales of wire Latin America, wire Asia, building products, steel cord China, steel cord others and other advanced wire products increased by 26%, 24%, 12%, 39%, 15% and 19%. In the mature markets of Western Europe and North America, Bekaert saw demand for its advanced wire products weaken noticeably, especially in the automotive industry. In contrast, the company saw significant growth in Latin America and all its activities in Asia, particularly in China. Demand for steel cord products was strong. As a reminder, Bekaert has increased its steel cord capacity in China to about 120k tonnes p.a. and announced a further capacity increase of about 50%. We understand the Jiangying, Shenyang and Weihai steel cord plants had a capacity at year-end 2005 of respectively 60 to 70k tonnes p.a., 40k tonnes p.a. and 10k to 20k tonnes p.a. As such, most of the extra increases in capacity will come at the Shengyang and Weihai plants. Bekaert will also continue to reinforce its position in Central and Eastern Europe, including Russia. With this in mind, talks are underway with Uralkord on an exclusive cooperation deal. We welcome both the capacity hike in China and the decision to enter the Russian market as sound reinvestments of the proceeds from the Fencing disposal.

In 2005, Bekaert continued to feel the significant impact of volatile raw materials markets worldwide. In contrast to 2004, when customers built up their inventories because of supply problems, 2005 saw customers running down their stocks, which translated into a slow-down in demand on some markets. While the application of inventory valuation rules had a positive impact of € 35m in 2004, the impact on the 2005 operating result was limited. Bekaert continued to optimise its product portfolio, which has resulted in € 16m of non-recurring charges at advanced wire products. The result from operations fell from € 181m to € 171m. However, REBIT increased from € 150 (excluding inventory revaluation) to € 187m, which corresponds to a firm margin of 11.4%. EBITDA was € 256m, down slightly from € 259m in 2004.

Advanced materials and coatings

Sales of advanced materials increased by 21% from € 117 to € 141m. The increase by segment was 23% at fibre technologies, 26% at combustion technologies and 2% at composites. In combustion technologies, environment-friendly heating equipment for the residential sector performed strongly. The same was true for the industrial applications, partly thanks to the acquisition of Solaronics, which was only consolidated over nine months in 2004. By the end of 2005, with the acquisition of Shell's 25% interest, Bekaert owned 100% of the combustion technologies.

Result from operations was hit by € 8m in impairment losses and declined from € 8 to € 5m. REBIT increased from € 10 to € 13m, or a margin of 9.2%. EBITDA was up from € 15 to € 20m.

Sales of advanced coatings increased from € 127 to € 133m. This breaks down as a 4% decline in sales at industrial coatings and an 11% hike in sales of specialised films. In industrial coatings, there was growth in diamond-like coatings, which are used for example on engine components for racing cars, but sputter products, where demand is largely project-driven, had a difficult year. Specialized films performed strongly, mainly thanks to substantial growth in Asia. Result from operations was a negative € -4m compared to a negative € -8m in 2004. Bekaert recorded a € 7m non-recurring charge related to the relocation of its worldwide production capacity in sputtered films. REBIT came to € 3m, up from a negative € -2m in 2004. EBITDA was flat at € 13m.

Balance sheet

Net financial debt fell from € 368.7m to € 271.7m. Bekaert's new method for calculating net financial debt includes all derivatives, which effectively fixes the amount to be repaid. The new method reduces represented net financial debt by € 16.4m in 2005 and € 40.6m in 2004. Equity amounted to 51% of total assets and the gearing ratio was 24% compared with 38% at the end of 2004.

EBITDA and cash flow amounted to € 257m. Cash proceeds from the sale of Bekaert Fencing amounted to € 86.5m. Investments in property, plant and equipment totalled € 141.9m, mainly due to the expansion of production capacity in various growth markets, especially in China. Over 2005, Bekaert purchased # 585k own shares at an average price of € 61.04 per share, of which # 576.6k were cancelled. In order not to further reduce the free float, management said it will limit further share buybacks in the near future. As such, the group announced a total gross dividend of € 3 per share, payable as from 17 May. The dividend includes an exceptional payout of € 1 per share related to the divestment of Bekaert Fencing NV.

Outlook

Management said that 2006 has started well but also highlighted the prospect of intensifying competition around the world and higher costs for both raw materials and energy. In the mature markets, especially in Europe, Bekaert said it is witnessing a slight weakening of demand for some products.

We have refreshed our scenario and increased our adjusted EPS 06 and 07 estimates from € 6.27 and € 6.37 to € 6.64 and € 6.82. Our 2006 scenario now banks on a 6.1% increase in turnover to € 2,030.3m, REBIT of € 159.6m (down from € 136.3m) but a higher result from operations of € 144.6m against € 136.3m in 2005. This is because the 05 numbers were impacted by significant one-off charges. The contribution of associates is estimated at € 55.2m and the result from continuing operations at € 132.6m against € 135.7m over 2005.

Bekaert reported good-quality results for 2005, slightly beating expectations. The group also pleased investors with the surprise announcement of a total gross dividend of € 3 per share, in which € 1 per share is a one-off related to the Fencing disposal. In 2004, Bekaert paid a gross dividend of € 2 per share, including a € 0.125 exceptional, while share buybacks over 2005 totalled € 1.65 per share. Bekaert's rock-solid balance sheet enables the company to reward shareholders while preserving its ability to exploit growth opportunities. We warmly welcomed the investments in steel cord capacity in China and the decision to further increase Chinese capacity as an excellent way of reinvesting the proceeds of the Fencing disposal. Bekaert is also actively looking to enter the Russian market and exclusive talks are underway with Uralkord for the possible opening of new production plants. Although the Russian steel cord market is still young it is important for Bekaert to take a position on what could become a growth market. The shares have come under pressure since the FY05 results, although only at low volumes. We reiterate our Outperform rating with target price of € 90 per share.