

Bekaert

25 July 2006

Earnings preview

Engineering & Machinery

Current price €71.40

Accumulate

Belgium

Target price €90.00

Rating Unchanged

Performance over	1m	3m	12m
Absolute	-5%	-22%	14%
Rel. BEL20	-9%	-18%	-3%
Relative to sector	-5%	-22%	0%
12m Hi/Lo	€99.60/63.85		
Reuters	BERTt.BR		
Bloomberg	BEKB BB		
Market Cap	€1,537m		
Next corporate event	Results 1H06 : 28 July 2006		

FY/e 31.12	2005	2006E	2007E	2008E
Sales (€m)	1,914.3	1,986.7	2,131.8	2,218.7
EBITDA (€m)	257.4	263.0	277.4	288.7
Net earnings (€m)	189.9	128.7	130.8	140.0
Current EPS* (€)	6.97	6.46	6.55	6.98
Published EPS (€)	8.82	5.98	6.08	6.50
Dividend per share (€)	3.00	2.15	2.15	2.30
P/E (x)	9.4	11.1	10.9	10.2
Dividend yield (%)	4.6%	3.0%	3.0%	3.2%
EV/EBITDA (x)	6.4	6.6	6.3	5.8

Source: KBC Securities

*Adjusted for goodwill and exceptionals

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Bekaert will release its 1H06 results on Friday 28 July, before market. At the first quarter trading update, Bekaert remained very prudent with regards to the outlook while referring to intensifying competition worldwide and the uptrend in raw material prices. Sales increased by 4% but declined by 2% if we exclude acquisitions and the currency effect. Taking into account further rises in raw material prices in 2Q06, it will be interesting to see to which extent Bekaert was able to defend its margins. In our scenario for the first half, we count on a result from operations of €82.8m (from €85.3m) with a net result from continuing operations of €73.5m (from €76.2m) or €3.42 per share.

In the first quarter of 2006, Bekaert achieved consolidated sales of €481m and combined sales of €795m, up 4% and 9% y/y. Over 1Q, Bekaert recorded an organic sales decline of 2% while the effect of acquisitions less divestments added 2% and currency movements had a positive impact of 4%.

Combined sales of Advanced wire products increased by 10%, partly due to the positive impact of currency movements. Sales at Wire Latin America surged by 23%, helped by strong local currencies.

Sales at Wire Europe fell 6% while Wire North America sales gained 9%. In Europe, Bekaert faced lower demand for most of its wire products, after a strong 1Q05, while demand in North America, mainly for cable strands and fencing products, was higher. Sales of building products increased by 10%, despite the very long winter in most European countries.

The main disappointment in the trading update was the 4% decline in sales at the key steel cord others division. European steel cord sales were lower against a strong 1Q05. With the acquisition of Delta Wire, a major US supplier of bead wire, Bekaert wants to bolster market share growth in North America. The company has also launched discussions on an exclusive cooperation with the Russian company Uralkord. We look forward to an update regarding progress on this matter. Bekaert achieved strong sales growth in Steel cord China (+ 43% y/y) where a major investment program is ongoing.

At the trading update, Bekaert added little to the comment that 2006 had started well compared to a very strong 1Q05. The full-year forecasts remained cautious however, reflecting intensifying competition worldwide and the continuing uptrend in raw material prices.

In the 2Q06, wire rod prices have increased further so it will be interesting to see to which extent Bekaert was able to price through increased raw material prices. The currency effect, which amounted to 4% in 1Q, should be rather limited in 2Q taking into account an average US\$ of 1.2577/€ over the quarter (compared to US\$ 1.2596/€ in 2Q05).

We anticipate 2Q sales of €529m bringing our estimate for the 1H06 sales at €1,010m, up 4.1% y/y. REBIT is expected at €90.3m, down from €94.3m. This corresponds to a REBIT margin of 8.9%, down from 9.7%. Contribution from associates and joint ventures is expected to firm further from €27.7m to €28.9m. This brings us to a consolidated net result from continuing operations of €73.5m or €3.42 per share, down from €76.2m.

Bekaert: key figures (in €m)								
	1Q05	2Q05	1H05	FY05	1Q06	2Q06E	1H06E	FY06E
Sales	462	509	971	1,914	481	529	1,010	1,987
Advanced wire products	400	440	840	1,640	415	455	870	1,697
Advanced materials	32	31	63	141	36	36	72	152
Advanced coatings	30	37	67	133	31	37	68	137
Others	0	1	1	0	-1	1	0	0
REBIT			94.3	168.0			90.3	150.6
REBIT margin %			9.7%	8.8%			8.9%	7.6%
Result from operations (after restructuring)			85.3	136.3			82.8	135.6
Interest income & expenses			-11.2	-26.9			-10.5	-21.0
Non-operating income & expenses			3.3	11.7			0.0	0.0
Income taxes			-21.6	-30.3			-21.1	-32.4
Result from ordinary activities after taxes			55.7	90.7			51.1	82.2
Share in the result of joint ventures & associates			27.7	56.9			28.9	57.8
Minority interests			-7.3	-12.0			-6.5	-11.4
Consolidated net result of the group			76.2	135.7			73.5	128.7
Discontinued operations			54.1	54.2			0.0	0.0
Total consolidated net result of the group			130.3	189.9			73.5	128.7
EPS - adjusted			3.47	6.97			3.65	6.46
EPS - reported			5.94	8.82			3.42	5.98

Source: Company data, KBC Securities estimates

Financial data

Income statement (€m)	2003	2004	2005	2006E	2007E	2008E
Sales	1,797.0	2,173.2	1,914.3	1,986.7	2,131.8	2,218.7
EBITDA	239.1	316.7	257.4	263.0	277.4	288.7
EBITA	122.2	194.1	136.3	135.6	145.8	155.7
EBIT	111.8	185.1	136.3	135.6	145.8	155.7
Pre-tax earnings	68.8	154.5	175.2	114.7	125.8	138.8
Net earnings	85.2	167.6	189.9	128.7	130.8	140.0
Current earnings before goodwill	102.3	143.1	150.7	139.0	141.1	150.2
Current cash flow	219.2	265.7	271.9	266.4	272.8	283.2
Balance sheet (€m)	2003	2004	2005	2006E	2007E	2008E
Goodwill and other intangible assets	70.9	76.0	76.0	76.0	76.0	76.0
Tangible assets	806.1	834.1	849.2	894.1	934.5	943.4
Associates and other financial assets	276.7	312.9	306.3	306.3	306.3	306.3
Net working capital	302.1	410.6	403.8	402.6	433.7	450.0
Net debt	418.3	458.6	320.5	281.9	268.6	203.4
Provisions and other liabilities	215.2	216.4	184.4	184.4	184.4	184.4
Minorities	43.3	48.8	51.1	51.1	51.1	51.1
Equity	779.0	909.7	1,079.2	1,161.6	1,246.3	1,336.8
Capital employed, incl. cum goodwill	1,541.4	1,494.5	1,685.8	1,635.2	1,733.4	1,796.7
Balance sheet total	1,925.8	2,189.3	2,231.7	2,215.1	2,311.1	2,364.7
Cash flow statement (€m)	2003	2004	2005	2006E	2007E	2008E
Cash flow from operations	167.6	167.1	222.4	214.1	217.6	231.5
Net capital expenditure	-134.9	-166.0	-145.1	-165.0	-150.0	-120.0
Free cash flow (before acquisitions)	32.7	1.1	77.2	49.1	67.6	111.5
Acquisitions and disposals	0.0	0.0	65.3	0.0	0.0	0.0
Dividend payments	-39.8	-41.4	-52.2	-64.6	-46.3	-46.3
Shares issues	0.0	0.0	0.0	0.0	0.0	0.0
Other	33.4	0.0	47.7	54.1	0.0	0.0
Change in net debt	-26.3	40.3	-138.0	-38.6	-13.3	-65.2
Performance criteria	2003	2004	2005	2006E	2007E	2008E
Sales growth	-3.6%	20.9%	-11.9%	3.8%	7.3%	4.1%
EBITDA margin	13.3%	14.6%	13.4%	13.2%	13.0%	13.0%
EBITA margin	6.8%	8.9%	7.1%	6.8%	6.8%	7.0%
EBIT margin	6.2%	8.5%	7.1%	6.8%	6.8%	7.0%
Net debt / equity	53.7%	50.4%	29.7%	24.3%	21.6%	15.2%
Net debt / EBITDA	1.7	1.4	1.2	1.1	1.0	0.7
EBITDA / net interest	7.4	11.9	9.6	12.5	13.9	17.1
Pay-out ratio	45.4%	26.1%	34.2%	36.0%	35.4%	35.4%
Net return on equity (avg.)	10.6%	19.9%	19.1%	11.5%	10.9%	10.8%
Return on capital employed (avg.)	6.4%	10.5%	6.4%	6.1%	6.4%	6.5%
Per share data (€)	2003	2004	2005	2006E	2007E	2008E
Weighted average number of shares (m)	22.12	21.87	21.63	21.53	21.53	21.53
Published EPS	3.85	7.66	8.82	5.98	6.08	6.50
Current EPS, before GW	4.62	6.54	6.97	6.46	6.55	6.98
Current CFPS	9.91	12.15	12.57	12.37	12.67	13.15
Free cash flow per share	1.48	0.05	3.57	2.28	3.14	5.18
Net book value per share	35.21	41.59	49.89	53.95	57.89	62.09
Current EPS (before GW): y/y growth	47.2%	41.5%	6.5%	-7.4%	1.5%	6.4%
Current CFPS: y/y growth	1.5%	22.6%	3.5%	-1.6%	2.4%	3.8%
Current EPS (before GW), fully diluted	4.62	6.54	6.94	6.46	6.55	6.98
Dividend per share (€)	1.75	2.00	3.00	2.15	2.15	2.30
Valuation data	2003	2004	2005	2006E	2007E	2008E
Reference share price (€)	41.42	50.14	65.18	71.40	71.40	71.40
Reference market capitalisation (€m)	916.2	1,096.7	1,403.3	1,537.3	1,537.3	1,537.3
Enterprise value (€m)	1,316.3	1,507.6	1,653.0	1,748.4	1,735.1	1,669.9
P/E	9.0	7.7	9.4	11.1	10.9	10.2
P/CF (x)	4.2	4.1	5.2	5.8	5.6	5.4
P/NBV (x)	1.2	1.2	1.3	1.3	1.2	1.1
Dividend yield (%)	4.2%	4.0%	4.6%	3.0%	3.0%	3.2%
EV/sales (x)	0.7	0.7	0.9	0.9	0.8	0.8
EV/EBITDA (x)	5.5	4.8	6.4	6.6	6.3	5.8
EV/Capital employed (x)	0.9	1.0	1.0	1.1	1.0	0.9

Source: KBC Securities

*Historic valuation data are based on historic prices

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Stock rating	Definition
BUY	Expected total return (including dividends) of 10% or more over a 6-month period
ACCUMULATE	Expected total return (including dividends) between 0% and 10% over a 6-month period
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Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	41.90%	62.50%
ACCUMULATE	45.60%	37.50%
REDUCE	10.30%	0.00%
SELL	2.20%	0.00%

Bekaert is an international group with its core competencies in metal transformation and coating technologies.

The price target for Bekaert is based on following parameters: Discounted Cash Flow (DCF), Absolute Multiples, Peer Group Multiples

The risks which may impede the achievement of our price target are: Evolution on the raw materials markets, currencies, global economic outlook, capacity additions

Any reference made to a DCF valuation for Bekaert is based on the following parameters: a forecast period from 2006 until 2015, a perpetual growth rate of 1.5% and a calculated WACC of 8.5%.

Below is an overview of the stock ratings and target price history in the last 12 months for the stock described in this report.

Date	Rating	Target price
27-APR-06	Accumulate	€ 90.00
17-FEB-06	Outperform	€ 90.00
31-JAN-06	Outperform	€ 85.00
24-NOV-05	Outperform	€ 78.00
13-OCT-05	Outperform	€ 74.00
02-AUG-05	Neutral	€ 68.00

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