

# Ter Beke

27 February 2006

## Promising 2006

Food Producers &amp; Processors

Current price €63.00

**Outperform**

Belgium

Target price €80.00

Rating Unchanged

Performance over	1m	3m	12m
Absolute	-3%	-2%	-7%
Rel. BEL20	-10%	-15%	-28%
Relative to sector	-3%	-2%	-22%
12m Hi/Lo	€70.20/62.90		
Reuters	TERB.BR		
Bloomberg	TERB BB		
Market Cap	€86m		
Next corporate event	General Assembly 05 : 24 May 2006		

FY/e 31.12	2005	2006E	2007E	2008E
Sales (€m)	236.2	245.7	255.5	265.7
EBITDA (€m)	21.6	22.8	24.0	25.0
Net earnings (€m)	5.9	6.3	6.7	7.1
Current EPS* (€)	4.35	4.60	4.88	5.18
Published EPS (€)	4.35	4.60	4.88	5.18
Dividend per share (€)	2.10	2.20	2.30	2.40
P/E (x)	15.3	13.7	12.9	12.2
Dividend yield (%)	3.2%	3.5%	3.7%	3.8%
EV/EBITDA (x)	5.4	4.9	4.6	4.3

Source: KBC Securities

\*Adjusted for goodwill and exceptionals

Ter Beke's FY05 results came out in line with our forecasts with net profits up 18.2% to €5.95m (our forecast: €6.00m). Recently, the share price has been negatively impacted by avian flu fears. Note however that so far Ter Beke's order book has not been affected by these fears. Moreover, poultry represents only a small portion of Ter Beke's product assortment. The outlook for 2006 is promising because:

- The improving sales momentum of 2H05 is expected to continue in 2006;
- Come a Casa's introduction in France has been a success;
- Pre-packaged processed meat sales are rising sharply;
- The food service channel also offers new growth opportunities.

Given the above, we believe that the current share price weakness offers an excellent opportunity to buy the stock. The proposal to increase the gross DPS by 5% to €2.10 underlines the board's confidence in the group's prospects.

### Ter Beke's FY04 results (€m)

	2004	2005	% change	KBC forecast
Net turnover	200.04	236.24	18.1%	240.00
EBITDA	20.86	21.63	3.7%	22.06
EBITDA margin	10.4%	9.2%		9.2%
Operating profit	10.17	10.70	5.2%	10.70
Operating margin	5.1%	4.5%		4.5%
Financial result	-0.82	-1.37	66.7%	-1.22
Pretax profits	9.35	9.33	-0.2%	9.48
Taxes	-4.32	-3.38	-21.7%	-3.48
Implied tax rate	46.2%	36.3%		36.7%
Reported net profits	5.03	5.95	18.2%	6.00
Current net profits	6.78	5.95	-12.3%	6.00
Reported EPS (€)	3.69	4.35	17.8%	4.40
Current EPS (€)	4.97	4.35	-12.6%	4.40

Source: Ter Beke and KBC Securities

## Improving sales momentum

Sales rose by 18.1% to € 236.2m (our forecast: € 240.0m). We estimate that Langeveld/Sleegers contributed € 34m to group sales. This Dutch slicing and packaging company has been included in Ter Beke's consolidated figures since 1 January 2005. The following table shows that sales growth picked up from 15.6% in 1H05 to 20.6% in 2H05 as advertising and marketing efforts are paying off.

Half year results (IFRS)(€m)						
	1H04	2H04	2004	1H05	2H05	2005
<b>Sales</b>	<b>100.0</b>	<b>100.0</b>	<b>200.0</b>	<b>115.5</b>	<b>120.7</b>	<b>236.2</b>
% change				15.6%	20.6%	18.1%
<b>EBITDA</b>	<b>9.9</b>	<b>11.0</b>	<b>20.9</b>	<b>9.3</b>	<b>12.4</b>	<b>21.6</b>
EBITDA margin %	9.9%	10.9%	10.4%	8.0%	10.2%	9.2%
<b>Operating profits</b>	<b>4.7</b>	<b>5.5</b>	<b>10.2</b>	<b>3.9</b>	<b>6.8</b>	<b>10.7</b>
Operating margin %	4.7%	5.5%	5.1%	3.4%	5.6%	4.5%
Financial result	-0.4	-0.4	-0.8	-0.6	-0.8	-1.4
<b>Pretax profit</b>	<b>4.3</b>	<b>5.1</b>	<b>9.4</b>	<b>3.3</b>	<b>6.0</b>	<b>9.3</b>
Taxes	-1.9	-2.4	-4.3	-1.2	-2.2	-3.4
Tax rate	44.8%	47.5%	46.2%	36.2%	36.3%	36.3%
<b>Net profits</b>	<b>2.4</b>	<b>2.7</b>	<b>5.1</b>	<b>2.1</b>	<b>3.8</b>	<b>5.9</b>

Source: Ter Beke, KBC Securities

The processed meat division continues to record a sharp rise in pre-packaged meat sales at the detriment of over-the-counter products. Ter Beke is well positioned to benefit from this trend following the acquisition of Langeveld/Sleegers.

The fresh Mediterranean ready meals division reported higher sales despite the loss of a contract in Spain. Come a Casa re-launched its "Naturalmente" product line in 1H05 and the "Equilibre" line was introduced in 2H05. The "Equilibre" line was created in response to consumers' growing focus on healthy and balanced nutrition. Its products contain more vegetables and fruit and less fat and salt. In France, Come a Casa received the "Saveur de l'Année 2005" award for its quality and innovation. Come a Casa's introduction in France proved to be a success. This is illustrated by Ter Beke's client base which includes all the major food retailers in France.

The group is making progress in the food service channel through new contracts and partnerships. Ter Beke's presence at the Horeca Expo, the Belgian foodservice and catering exhibition, led to significant introductions.

We expect that the improved sales momentum will continue in 2006.

## Operating profits exactly in line with our forecast

Operating profits rose by 5.2% to € 10.7m in 2005. Note however that the 2004 results were hit by a € 1.75m goodwill impairment charge. Excluding this charge, operating profits would have declined by 10.3% in 2005. This decline is mainly due to higher depreciation charges and increased advertising and marketing efforts related to Come a Casa. The group did not report any goodwill impairment for 2005.

## Net profits up 18.2%

Net profits rose by 18.2% to € 5.95m versus our forecast of € 6.00m. The increase in net financing costs (+ € 0.5m) was steeper than we anticipated. Financial charges rose on the back of the group's investment program (€ 13m or 5.5% of 2005 sales) and the acquisition of Sleegers/Langeveld. The group's financial gearing reached 64% at the end of 2005. The implied tax rate fell from 46.2% in 2004 to 36.3% in 2005 because of the non-deductibility of the € 1.75m impairment charge in 2004.

## Financial data

<b>Income statement (€m)</b>	<b>2004</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
Sales	200.0	236.2	245.7	255.5	265.7
EBITDA	20.9	21.6	22.8	24.0	25.0
EBITA	10.2	10.7	11.3	12.1	13.0
EBIT	10.2	10.7	11.3	12.1	13.0
Pre-tax earnings	9.4	9.3	10.0	10.6	11.3
Net earnings	5.0	5.9	6.3	6.7	7.1
Current earnings before goodwill	6.8	5.9	6.3	6.7	7.1
Current cash flow	17.5	16.9	17.8	18.6	19.1
<b>Balance sheet (€m)</b>	<b>2004</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
Goodwill and other intangible assets	12.6	20.2	20.2	20.2	20.2
Tangible assets	52.6	62.4	64.9	67.1	69.1
Associates and other financial assets	1.4	1.9	1.9	1.9	1.9
Net working capital	-6.1	-3.6	-3.7	-3.9	-4.0
Net debt	13.7	28.9	27.8	26.1	24.0
Provisions and other liabilities	5.7	6.8	6.8	6.8	6.8
Minorities	0.0	0.0	0.0	0.0	0.0
Equity	41.1	45.4	48.8	52.4	56.4
Capital employed, incl. cum goodwill	68.7	88.6	90.9	92.9	94.7
Balance sheet total	111.9	140.9	146.5	152.3	158.5
<b>Cash flow statement (€m)</b>	<b>2004</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
Cash flow from operations	15.9	15.0	17.9	18.7	19.2
Net capital expenditure	-19.8	-13.0	-14.0	-14.0	-14.0
Free cash flow (before acquisitions)	-4.0	2.0	3.9	4.7	5.2
Acquisitions and disposals	0.1	-12.0	0.0	0.0	0.0
Dividend payments	-1.6	-1.7	-2.9	-3.0	-3.1
Shares issues	0.0	0.0	0.0	0.0	0.0
Other	-0.3	0.0	0.0	0.0	0.0
Change in net debt	5.8	15.2	-1.1	-1.7	-2.1
<b>Performance criteria</b>	<b>2004</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
Sales growth	5.2%	18.1%	4.0%	4.0%	4.0%
EBITDA margin	10.4%	9.2%	9.3%	9.4%	9.4%
EBITA margin	5.1%	4.5%	4.6%	4.8%	4.9%
EBIT margin	5.1%	4.5%	4.6%	4.8%	4.9%
Net debt / equity	33.3%	63.6%	57.0%	49.8%	42.6%
Net debt / EBITDA	0.7	1.3	1.2	1.1	1.0
EBITDA / net interest	25.4	15.8	16.8	15.6	14.5
Pay-out ratio	33.5%	48.3%	47.8%	47.2%	46.3%
Net return on equity (avg.)	12.6%	13.8%	13.4%	13.2%	13.0%
Return on capital employed (avg.)	9.3%	7.6%	7.9%	8.2%	8.6%
<b>Per share data (€)</b>	<b>2004</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
Weighted average number of shares (m)	1.36	1.37	1.37	1.37	1.37
Published EPS	3.69	4.35	4.60	4.88	5.18
Current EPS, before GW	4.97	4.35	4.60	4.88	5.18
Current CFPS	12.81	12.33	13.00	13.56	13.95
Free cash flow per share	-2.90	1.49	2.88	3.44	3.83
Net book value per share	30.15	33.14	35.63	38.31	41.19
Current EPS (before GW): y/y growth	-16.4%	-12.6%	5.8%	6.1%	6.2%
Current CFPS: y/y growth	-27.6%	-3.7%	5.4%	4.3%	2.9%
Current EPS (before GW), fully diluted	4.97	4.35	4.60	4.88	5.18
Dividend per share (€)	2.00	2.10	2.20	2.30	2.40
<b>Valuation data</b>	<b>2004</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
Reference share price (€)	57.44	66.30	63.00	63.00	63.00
Reference market capitalisation (€m)	78.3	90.8	86.2	86.2	86.2
Enterprise value (€m)	90.6	117.7	112.1	110.4	108.3
P/E	11.5	15.3	13.7	12.9	12.2
P/CF (x)	4.5	5.4	4.8	4.6	4.5
P/NBV (x)	1.9	2.0	1.8	1.6	1.5
Dividend yield (%)	3.5%	3.2%	3.5%	3.7%	3.8%
EV/sales (x)	0.5	0.5	0.5	0.4	0.4
EV/EBITDA (x)	4.3	5.4	4.9	4.6	4.3
EV/Capital employed (x)	1.3	1.3	1.2	1.2	1.1

Source: KBC Securities

\*Historic valuation data are based on historic prices

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