Company report

Belgium

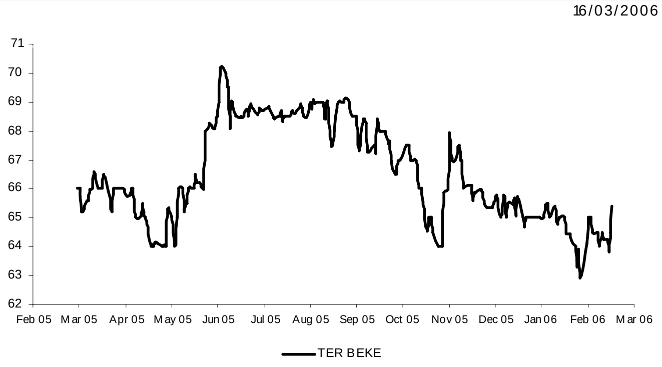
17 March 2006

Ter Beke

Accumulate

(vs Hold)

Food & Beverage



Source: Datastream

Benchmark rebased to stock price

Price

EUR 65.40

Fair value

-

Reuters/Bloomberg	TERB.BR/TERB BB

(EUR)	12/02	12/03	12/04	12/05	12/06e
Sales (m)	179	190	200	236	293
EBITDA (m)	19.9	21.5	20.9	21.6	24.6
EBIT (m)	6.9	8.7	10.2	10.7	11.7
Net profit (reported) (m)	3.5	4.2	5.0	5.9	6.5
Net debt/(cash) (m)	32	33	15	30	39
EPS (adj.)	5.24	5.91	5.52	4.35	3.80
CFPS	17.87	18.08	17.61	12.43	11.33
BVPS	20.40	24.37	45.09	33.13	28.55
DPS	1.54	1.80	2.67	2.80	1.76
Int. cover(EBITDA/Fin. int	8.4	10.3	24.9	14.9	15.0
EV/EBITDA	3.49	3.50	3.26	5.62	6.17
EV/EBIT	10.1	8.6	6.7	11.4	12.9
P/E (adj.)	7.7	7.9	10.4	15.3	17.2
Dividend yield (%)	3.8	3.9	4.6	4.3	2.7
ROCE (%)	10.8	12.3	8.9	9.7	8.2

Share price on 16/03/2006 (EUR)	65.40
Market capitalisation (EURm)	112.0
No. of shares (m)	1.7
Free float	29.4%
Daily avg. no. trad. sh. 12 mth	400
Daily avg. trad. vol. 12 mth (m)	0.03
Price high 12 mth (EUR)	70.20
Price low 12 mth (EUR)	62.90
Abs. perf. 1 mth	1.5%
Abs. perf. 3 mth	-0.8%
Abs. perf. 12 mth	-0.9%
DJ Stoxx or EuroStoxx 50	No
EPS 06-04 CAGR	-17.0%

Jumping to the number one position in processed meats

- Yesterday Ter Beke announced it **plans to merge its processed meats division with its Belgian peer Pluma.** The merged entity becomes the market leader in Belgium and will form the basis for further growth in a consolidating market. Ter Beke will pay EUR 5.5m in cash and will issue 342k shares. The merger is expected to contribute to the group's FY06 results.
- **Ter Beke plans to move to the "continuous" market** of Euronext Brussels (currently listed on the "fixing" segment). The 29% **free-float is expected to decrease to 23%** after the merger of the processed meats division with Pluma.
- **FY05 turnover increased by 18.1%** to EUR 236.2m vs. EUR 200.0 in FY04, mainly thanks to the acquisition of Langeveld Sleegers in Jan. 2005. **EBIT was better than expected** with an increase of 5.2% to EUR 10.7m leading to an operating margin of 4.5%. **Net result came out at EUR 5.9m vs. EUR 5.0m in FY04** (+18.3%) helped by a lower tax rate.
- As not all aspects of the merger are quantifiable yet, we still lack visibility on the enlarged processed meats division. We tried to model the new division awaiting additional information after the final merger agreement which is planned for the end of May. Based on preliminary and partial information **we estimate a new fair value in the range of EUR 71 to EUR 78 per share,** to compare to EUR 67.7 previously. **Hence, we raise our recommendation from Hold to Accumulate.**

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Investment case:
from a turn-around story…
…to a value stock with a growth initiative

A fresh food group specialising in fresh Mediterranean ready meals and processed meats products

Ter Beke is a Belgian fresh food group which specialises in the development, production and sale of fresh Mediterranean ready meals, processed meats products in the Benelux and pâté in Western-Europe. The product portfolio basically consists of salami, cooked ham, pâté, and a range of fresh chilled ready meals as lasagne, pastas and pizzas. The company is active on seven different sites including five in Belgium, one in the Netherlands and one in France.

The **Processed Meats Division** operates mainly in the Benelux with two production units and a slicing unit. In the Netherlands Ter Beke is active as a full service contract slicer and packager for processed meats thanks to the acquisition of Langeveld Sleegers in January 2005.

Differentiated multi-channel approach of the market:

- Processed meats in the Benelux,
- Pâté in the UK

After the acquisition of Pluma, announced yesterday and planned to be closed on 18 May 2006, the company becomes market leader in processed meats in Belgium with a 17% market share. The merged entity Ter Beke-Pluma mainly targets the Benelux market with processed meats and the UK with pâté. Pluma adds 2 production units in Belgium (Wommelgem and Herstal) and one slicing centre to the group. We estimate that about 90% of Pluma's sales are made under private labels, however Pluma also markets its products under its own brand names "Pluma" and "La Rochette".

- Fresh Mediterranean ready meals in Europe

The **Chilled Ready Meals division** markets its products throughout the European Union and Switzerland. This division accounts for EUR 106m of sales (basis FY05) and has 3 production units employing 650 people. Ter Beke is market leader in fresh lasagne in Europe. For both of these divisions Ter Beke uses a differentiated, multi-channel approach based on private labels, consumer brands such as 'Come a Casa' (ready meals – pasta dishes), Vamos (lasagne), Pronto (pizza), 'L'Ardennaise', 'Les Nutons' and the Daniel Coopman (processed meats) trademarks. This approach with a strengthened focus on the food service channel offers new growth opportunities.

Ter Beke's business strategy: the turn-around story has ended

Close to zero growth in meat consumption in Western Europe, some food crises in the Western European meat industry and growing importance of convenience food were the key drivers to review the strategic plans of Ter Beke.

The turn-around story after the severe crises Ter Beke witnessed at the end of the nineties has finally ended.

The company **diversified into fresh ready meals in recent years and focuses on added value in its processed meats devision by offering slicing and packaging services**. After the severe effects of the dioxin crisis at the end of the nineties, Ter Beke was able to **return to profitability** thanks to the strategy of reorienting to fresh ready meals and to added-value services in processed meats (slicing, packaging). This strategy was possible thanks the emission of automatic convertible bonds and by a mix of several well chosen strategic acquisitions.

A value stock with growth initiative

Thus, although the company is active in a slow growth business, Ter Beke managed to generate above average bottom line growth rates thanks to the combination of healthy internal and external growth and a focus on particular growth segments within its sector.

In search for growth in a consolidating processed meats market in the Benelux, last year Ter Beke acquired Langeveld Sleegers, one of the most important companies (top 3) in the Netherlands in the area of slicing and packaging of processed meats for the self-service channel.

Ter Beke is fighting dilution by using its renewed financial flexibility for new investments in production capacity and external growth.

The company's main attraction points are **stable cash flows and low risk**. The conversion of the ACD has lead to a 50% increase in number of shares. Ter Beke **fights this huge dilution by using its renewed financial flexibility to proceed to new investments in the business and for external growth for both of its divisions.**

Given the current market parameters, we estimate Ter Beke's fair value at EUR 71 to EUR 78 per share. The Pluma acquisition which has been announced yesterday could be a trigger to move the stock higher. We expect that, thanks to potential synergies, the merger between Ter Beke's Processed Meats Division and Pluma to be earnings enhancing on an EPS level as from FY07. Therefore, given the potential upside we raise our recommendation on the share from Hold to 'Accumulate'.

Business lines and brands

Ter Beke is building progressively a divisional structure for its 2 core activities: chilled ready meals and processed meats.

The merger with Pluma allows Ter Beke to accelerate the divisional approach.

Processed meats (55% of sales)

- Main products: salami, ham, pâté and poultry

Processed meats was Ter Beke's first core business.

For its processed meats products, the group concentrates its sales and marketing strategy on the Benelux and to a lesser extent to the U.K.

About 50% of the sales in processed meats are branded. Through the label 'L'Ardennaise' Ter Beke markets a range of pre-sliced processed meats such as chicken strips and its variations, salami, pâté, ham, chicken and turkey filets for the distribution sector. With the 'Daniel Coopman' brand name for processed meat products in bulk packaging the company targets a clientele of the over the counter market, mainly butchers. The exclusivity label 'Les Nutons' is being used for pâté distribution for Albert Heijn.

Stable cash flows in a slightly declining market.

The merger with Pluma adds 2 production units in Belgium (Wommelgem and Herstel) and one slicing centre to the group. We estimate that about 90% of Pluma's sales are made under private labels, however Pluma also markets its products under its own brand names "Pluma" and "La Rochette".

Although the processed meats sector operates in a highly competitive environment, it is able to generate steady and stable cash flows. However, growth might be a problem. In Western Europe meat consumption is stable at best and in the long term even slightly declining.

Main trends:
- decline of over-the-counter products
- sharp increase of pre-packaged processed meats.

Without minimizing the effect of hog price cycles on earnings, **we believe the processed meats division's sales and earnings to grow steadily during the coming years** as it will fully reap the fruits of its substantial sales and marketing efforts and the strategic choice to differentiate towards slicing and packaging.

Within this market, which on the whole is stable, we distinguish two dominant trends: firstly, the sharp increase in pre-packaged processed meats and secondly, the rapid decline in over-the-counter products. In particular the Langeveld Sleegers acquisition was a smart move to profit from the evolution towards the increasing market share of pre-packed sliced processed meats. After the Pluma merger, Ter Beke-Pluma will cover the full range of processed meats products.

Fresh Mediterranean ready meals (45% of sales)

- Main products: lasagne, pizza and other pasta products

The fresh ready meals segment is faster growing.

For its fresh Mediterranean ready meals division, Ter Beke focuses mainly on Belgium, the Netherlands, France and Spain.

In 2005 Ter Beke confirmed its **European market leadership in fresh ready lasagne**. **The other fresh Mediterranean ready meals (cannelloni, tagliatelle, etc.) grew slightly** during past year, thanks to the strategy which is aimed at brand development on the one hand and the production of distribution brands on the other.

Ter Beke is investing heavily in building a strong brand name, namely 'Come a Casa'.

In this segment too Ter Beke is heavily investing to establish a strong brand name. **Some four years ago it launched its flagship consumer brand name 'Come a Casa'.** This brand identity is established around the values natural and freshness. The 'Come a Casa' brand has conquered its place in the Belgian market. In FY05 Ter Beke launched a marketing campaign with a focus on in-store promotions. In 2006 Ter Beke will continue develop this brand and will also build up a position in the French and Dutch markets.

In the range of fresh ready meals, margins are somewhat under pressure. The pizza market is very competitive, as multinational groups occupy dominant positions, though mainly in frozen products. While the lasagne market seemed to develop favourably during last years, new competition is also developing in the market with low-price lasagne. Ter Beke did not disclose margins per business line, but we expect the company to release this information as of the publication of the FY05 annual report (first time in IFRS).

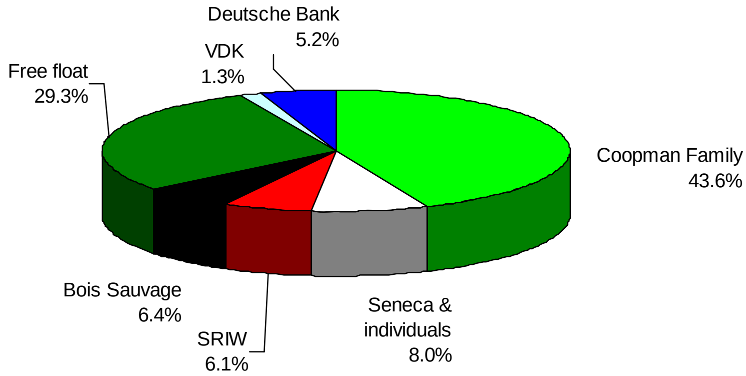
Shareholding structure

As a result of the merger of Ter Beke's Processed Meats Division with Pluma, Pluma will be contributed to Ter Beke NV and 342,254 new Ter Beke shares will be issued. These shares will have the same rights and obligations as the existing shares, but they are not entitled to dividends over FY05, payable on 15 June 2006.

Thus, as of 16 June 2006 the total number of listed Ter Beke shares amounts to 1,711,271 vs. 1,369,017 earlier. In our scenario for FY06 and according to IFRS regulation, we accounted a time-weighted average number of share of 1.6m shares.

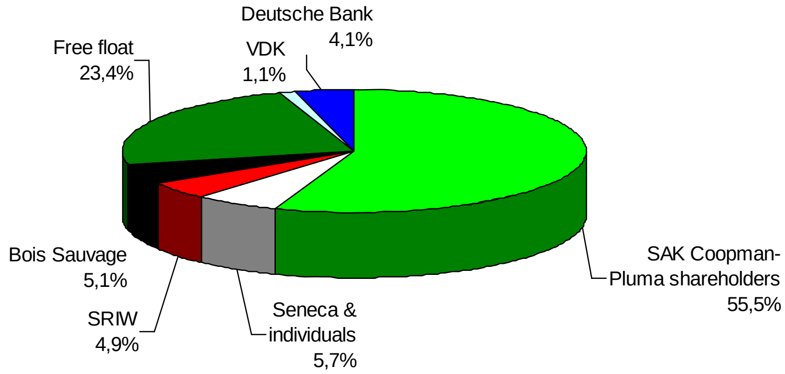
The Coopman Family and Pluma shareholders form together a new company (Dutch Stichting Administratiekantoor) that holds 55% of Ter Beke (split over 64% Coopman – 36% Pluma shareholders).

Structure of shareholdings before the Pluma deal



Source: Company data, Degroof Research

Structure of shareholdings after the Pluma deal



Source: Company data, Degroof Research

Possible future dilution:

In recent years Ter Beke emitted warrants that were granted to key employees whom management wish to tie to the company in the long term. If all of the 32,700 warrants were actually converted, this would result in an additional 1.9% dilution.

Comments on FY05 results

FY05 turnover increased by 18.1% to EUR 236.2m vs. EUR 200.0 in FY04, mainly thanks to the acquisition of Langeveld Sleegers in January 2005. In the same consolidation circle, a slight sales increase has been recorded. The company didn't release yet detailed numbers on its two main divisions. In line with the trend of recent years, in the processed meats sector Ter Beke witnessed a sharp rise in the sale of pre-packaged processed meats and a simultaneous decline in the sale of over-the-counter products. The turnover increase in the sector of fresh Mediterranean ready meals continued the trend of recent years. The loss of a contract with a major Spanish retailer prevented stronger growth. In the food service channel, Ter Beke is steadily expanding via new contracts and cooperations, primarily aimed at professional kitchens, schools and hospitals.

Depreciations increased by about EUR 2m primarily because of the acquisition of Langeveld Sleegers early 2005. EBIT was better than expected with an increase of 5.2% to EUR 10.7m vs. EUR 10.2m in FY04, leading to an operating margin of 4.5%, compared to 5.1% in FY04 and our estimate of 4.4%. Margins remained under pressure as expected.

Net result came out at EUR 5.9m vs. EUR 5.0m in FY04 (+18.3%) helped by a lower tax rate of 36.3%, which is mainly the consequence of the impairments on goodwill in 2004, which constituted a non-deductible tax expense.

Key lines P&L (EUR m)	FY04 IFRS restated	1H05a	2H05	FY05a	% y-o-y	FY05e	% vs. exp.
Net sales	200.0	115.5	120.7	236.2	18.1%	237.5	-0.5%
Processed meats (est.)	96.1	62.4	69.3	131.7	37.1%	131.9	-0.2%
Fresh ready meals (est.)	104.0	53.1	51.4	104.6	0.6%	105.6	-0.9%
EBITDA	20.9	9.3	13.3	22.6	8.3%	22.2	1.6%
EBITDA margin	*10.4%*	*8.0%*	*11.0%*	*9.6%*		*9.4%*	
EBIT	10.2	3.9	6.8	10.7	5.2%	10.3	3.5%
EBIT margin	*5.1%*	3.4%	5.6%	4.5%		4.4%	
Financial result	-0.8	-0.6	-0.8	-1.4	66.7%	-1.0	32.7%
Result from ordin. act.	9.4	3.3	6.0	9.3	-0.2%	9.3	0.3%
Taxes	4.3	1.2	2.2	3.38	-21.7%	3.44	-1.7%
Net result	5.0	2.1	3.8	5.9	18.3%	5.9	1.5%
Adj. Net result	5.0		5.9	5.9	18.3%	5.9	1.5%
Adj. EPS	*3.7*	*2.3*	2.1	*4.4*	17.9%	*4.3*	1.5%

Source: Company data, Degroof research

We understood from contacts with Ter Beke's management that the current avian flu concerns in Western Europe did not affect the company's sales figures. Despite the weaker 1H05, Ter Beke managed to deliver a good set of FY05 results with both strong top line and bottom line growth in line with expectations.

The Pluma acquisition

On 16 March 2006, Ter Beke announced it signed an agreement which should lead to the merger of its processed meats division with Pluma by the end of May 2006. Pluma is currently the number 3 on the Belgian processed meats market with a market share of 8% and sales of around EUR 100m (basis 2005) of which 70% in pre-sliced consumer packs. Ter Beke, currently the number two on the market with a 9% market share thus becomes market leader in processed meats.

The impact of the acquisition

- **Strategic importance**

- The acquisition gives Ter Beke a critical scale in processed meats, in particular in the field of pre-packaged processed meats, which is important for further growth in the consolidating market. Furthermore, Pluma aims mainly the Benelux market with pâté in the UK and Germany. This fits well with Ter Beke's focus on the Benelux for its processed meats business. Moreover, overlap is very limited in terms of customer base.

- **Organisational impact**

- Interaction between Ter Beke and Pluma will not only come from sharing know-how in production and recipes for processed meats products, slicing and packaging. We also see important synergies for the supply chain and logistics.
- Most important is that the merged group covers the whole processed meats market for all of the most important product categories.

Full product range : sum of strenghts

Product category	Ter Beke	Pluma	Ter Beke-Pluma
Cooked ham	(x)	X	X
Salami	X	(x)	X
Poultry	X	(x)	X
Pâté	X	X	X
Cooked products	(x)	X	X
Dried & Cured		(x)	(x)
Competention	Ter Beke	Pluma	Ter Beke-Pluma
Slicing & Packaging	X	X	X

Legend: X = competitive strong position

(x) = presence without strong position

Source: Company data

- **Financial impact**

The acquisition is accretive as of FY06.

- This acquisition was announced on 16 March 2006, but for the time being the exact date of consolidation is unsure. In our scenario we accounted Pluma for 7 months in FY06.

- At first sight, cost synergies seem to be rather limited in the respective production plants, albeit we estimate there certainly would be some possibilities.
- Thanks to this acquisition Ter Beke is adding approximately EUR 100m to its consolidated turnover (based on FY05 figures). The Pluma deal will make a positive contribution to Ter Beke's consolidated FY06e result and moreover, it is estimated to create important economies of scale as Ter Beke's processed meats division doubles its purchasing power which could have an impact on the groups gross margin.

Valuation Pluma:

On the basis of valuation multiples generally applied in the sector (currently around 4.5x to 5x EBITDA), a sales figure of EUR 100.0m (basis FY05, ended 30 June 2005) and assuming a similar EBITDA margin for Pluma as for Ter Beke's, we estimate Pluma's enterprise value at about EUR 44m.

Pluma will be brought in 100% into Ter Beke in exchange for 342,254 shares to be newly issued. With the capital increase this package will represent 20% of the new total number of listed shares (1,711,271) of Ter Beke. The take-over is paid in cash (EUR 5.5m and shares). EUR 5.5m and 342k Ter Beke shares at the current market price of EUR 65 per share would value Pluma at about EUR 28m equity value. Hence we come to an estimated net debt for Pluma of about EUR 16m.

Our estimate of Pluma's enterprise value

Pluma acquisition	FY05
Sales (EUR m)	100.0
EBITDA (EUR m) - assuming a margin similar to Ter Beke's	9.2
EV/EBITDA (avg multiple within the sector)	4.8
Implied EV (EUR m)	43.7
Estimated transaction price (EUR m)	27.7
Implied net debt (EUR m)	16.0

Source: Degroof research

Financial outlook

Sales

At the occasion of the release of the FY05 results management gave little guidance for FY06; they just indicated that “market conditions remaining the same, endogenous growth in turnover may be expected”. We slightly revised our sales estimate for the Mediterranean fresh ready meals division to EUR 109m, compared to our estimate of EUR 106m last year.

Despite a slight decline of the total processed meats market in 1H05, Ter Beke’s processed meats division managed to realize the expected internal growth (i.e. apart from the effects of the takeover of the slicing and packaging company Langeveld/Sleegers as of 1 January).

In our scenario we penciled in sales of EUR 100.0m for Pluma (stable compared to FY05) to be accounted for 7 months. On the consolidated level we expect strong top line growth thanks to the Pluma deal. We pencilled in Pluma’s sales accounting for some 29% of consolidated FY06 turnover and 43% of Ter Beke’s processed meats division.

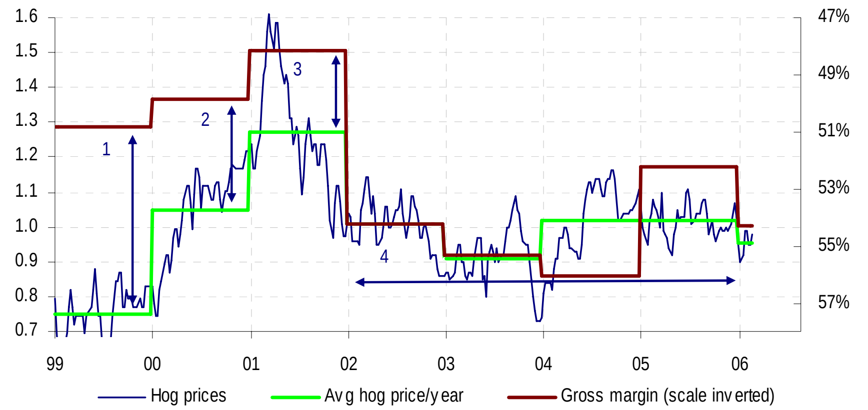
For the ready meals division Ter Beke is planning to strengthen its position in the French market with its Come a Casa brand and is expanding in the Out-of-Home segment. In order to meet an expected increase in demand, the company invested heavily in the Di Pasto plant in France and doubled the capacity. However, 2H05 ready meal sales remained slightly below expectations due to the loss of a contract with a major Spanish retailer. We choose to remain cautious and pencilled in for the chilled ready meals division a 3.0% CAGR for the next 5 years. On a consolidated level we bank on a CAGR of 2.4% for the FY06-FY15 period.

Operating result

- Raw material prices

We witness a close relationship between Ter Beke’s consolidated gross margin and evolution of the hog prices in recent years.

Ter Beke’s sensibility to hog prices



1 - 1999: Dioxin crisis and below normal hog prices due to the sudden fall of demand
2 - 2000: Aftermath dioxin crisis: return to normal hog prices but margins still affected
3 - 2001: renewed BSE scare (mad cow disease) - hog prices peak due to shortage of pork, thus depressing gross margin
4 - 2002-2005: normalized situation

Source: Westvlees, Degroof research

It is in this sector a well-known fact that hog prices show a cyclical movement over periods of three to five years. This cyclical pattern has been disturbed at the end of the nineties with high prices in 1996 and 1997 due to a BSE outbreak in the cattle sector. In the year 1999 prices reached historic lows due to a decline in demand.

By increasing its fresh ready meals sales and after the acquisition of Langeveld Sleegers, Ter Beke became less sensible to these hog price movements in general. **However, we estimate that the Pluma deal will significantly increase the group's sensitivity to hog prices.**

Other important ingredients for Ter Beke are poultry, tomatoes (supply is assured through long term contracts), cheese, wheat and various packaging raw materials as cardboard, plastics and aluminium.

About the most important raw material meats we saw that in general poultry prices remained relatively stable throughout 2005 and dropped at the end of FY05 and early 2006, caused by avian flu scare in Western Europe. On average hog prices remained stable in FY05 compared to FY04, showing a rise of about 0.5% (Source: Westvlees). Year-to-date we witness on average very slightly declining hog prices, and a drop of poultry prices.

- Margin evolutions

Recently, management stated that from the customer side, major retailers are continuing to push for price reductions, which is putting the margins under pressure. For FY06 we expect a gross margin of 54%. We expect Ter Beke to reach a consolidated EBITDA of EUR 24.6m in FY06e (+11.7%). We assumed a normalised 9.7% EBITDA margin in FY15.

Investments

Apart from the acquisition of Pluma, we pencilled in EUR 13.5m investment budget for FY06. Ter Beke is currently finalising its expansion plans for fresh ready meals in Alby-sur-Chéran (France), its investment in a state-of-the-art automated pasta line in Marche-en-Famenne (Belgium) and the modernisation of its production facilities for processed poultry meats in Ruiselede (Belgium).

To be on the save side we used in our scenario an average capex of EUR 20m for the next five years, based on an average of 5.7% of sales.

Tax claim

Ter Beke has an ongoing dispute with the Belgian tax administration about the deductibility of insurance premiums paid to a Belgian insurance company that reinsured part of the risks through a Luxembourg based reinsurance company which belongs to the Ter Beke group. The company shows very confident in this dispute that originates in 1996 and did not take any provisions.

Ter Beke lodged a notice of objection with the relevant authorities and sues the tax authorities to remove these levies. No major news about this issue is to be expected before 1Q07. The total potential income tax charge amounts to EUR 9.5m.

Valuation

The DCF model leads to a fair value of EUR 75 per share.

We used a discounted cash flow model for the valuation of Ter Beke. Given the current market parameters (see details below), this valuation model leads to a fair value of EUR 128m or EUR 75 per share. As displayed on the table below, we use a market risk premium of 4.0%, a risk free rate of 4.5% and an estimated β of 1.04. This leads to a required rate of return of 8.66%. A conservative long-term growth rate of 1.0% (from 2015 onwards) was applied to the NOPLAT in calculating Ter Beke's discounted terminal value.

WACC & DCF analysis

WACC & DCF ANALYSIS

Free Risk Rate (FRR)	4.5%	**Cumulated DCF**	**64.2**	**- Net Financial Debt**	**(39.3)**
Company Risk Factor or Beta (CRF)	1.04			- Minorities (estimated value)	0.0
Mkt Risk Premium (MRP)	4.0%	**Perpetual Growth Rate (g)**	**1.0%**	+ Associates	0.1
Cost of Equity (Ke or COE)	**8.66%**	Normalised Annual CF	13.5	- Pension underfunding & provisions	(12.6)
Cost of Debt (gross)	6.0%	Terminal Value @ 12/2016	235.0	- Off-balance sheet commitments	0.0
Debt tax rate	25%	Disc. Rate of Terminal Value	0.49		
Cost of Debt net (Kd or COD)	**4.50%**	**Discounted Terminal Value**	**115.6**	**Equity Market Value (EUR m)**	**127.9**
Target gearing (D/E) or % Kd	45.0%			Number of shares (m)	1.7
% Ke	55.0%	Financial assets	-	**Fair Value per share (EUR)**	**74.76**
Normative Tax Rate	**30.0%**	**Enterprise Value (EUR m)**	**179.8**	Price (EUR) *16/03/2006*	65.00
WACC	**6.79%**	***DCF reliability rate***	***36%***	***Potential upside (downside)***	***15.0%***

Source: Company data, Degroof Research

Sensitivity analysis of the DCF valuation

We have carried out a sensitivity analysis on our DCF valuation of Ter Beke applying several perpetual growth rate levels ranging from 0.7% to 1.3% ("Sensitivity input 1") and applying different normalised EBITDA margin levels ranging from 9.4% to 10.0% ("Sensitivity input 2"). The results of this analysis are displayed in the table below.

Sensitivity analysis

Sensitivity input 1	*Avg*	*Tick*
g	***1.0%***	***0.1%***
WACC	***6.79%***	***0.1%***

WACC	**Perpetual growth rate (g)**						**1**
74.76	**0.7%**	**0.8%**	**0.9%**	**1.0%**	**1.1%**	**1.2%**	**1.3%**
7.06%	66.65	67.56	68.51	**69.49**	70.49	71.52	72.59
6.97%	68.24	69.19	70.18	**71.19**	72.23	73.31	74.42
6.88%	69.88	70.87	71.89	**72.95**	74.03	75.15	76.30
6.79%	**71.58**	**72.61**	**73.67**	**74.76**	**75.89**	**77.05**	**78.25**
6.70%	73.32	74.39	75.50	**76.63**	77.81	79.02	80.27
6.61%	75.12	76.24	77.38	**78.57**	79.79	81.05	82.36
6.52%	76.98	78.14	79.33	**80.57**	81.84	83.16	84.52

Sensitivity input 2	*Avg*	*Tick*
Normalised EBITDA Margin	***9.7%***	***0.1%***
WACC	***6.79%***	***0.1%***

WACC	**Normalised EBITDA Margin**						**2**
74.76	**9.4%**	**9.5%**	**9.6%**	**9.7%**	**9.8%**	**9.9%**	**10.0%**
7.06%	66.00	67.16	68.32	**69.49**	70.65	71.81	72.97
6.97%	67.62	68.81	70.00	**71.19**	72.38	73.57	74.76
6.88%	69.29	70.51	71.73	**72.95**	74.17	75.38	76.60
6.79%	**71.01**	**72.26**	**73.51**	**74.76**	**76.01**	**77.26**	**78.51**
6.70%	72.79	74.07	75.35	**76.63**	77.91	79.19	80.48
6.61%	74.63	75.94	77.25	**78.57**	79.88	81.19	82.51
6.52%	76.53	77.87	79.22	**80.57**	81.91	83.26	84.61

Source: Company data, Degroof Research

Recommendation

On one side the Automatic Convertible Debt that matured in December 2004 lead to a huge dilution by increasing the number of share by 49%, but on the other side it also lead to new financial room for the acquisition of Langeveld Sleegers early 2005 and the merger of Ter Beke's Processed Meats Division with Pluma that is planned for the end of May 2006.

We tried to model the new entity, supposing a change of control as of end May and have adapted our scenario accordingly. As not all aspects on the valuation of Pluma are quantifiable yet, we will lack visibility on the newly created processed meats division of the group until the final merger agreement at the end of May and will have to adjust our valuation model later this year. Management stated that in the short run the merger will make a positive contribution to the profit of the group. Because of the dilution created after the capital increase, we expect the deal to be earnings enhancing on an EPS level as from next year.

Given the current market parameters, we estimate Ter Beke's fair value at EUR 71 to EUR 78 per share. The Pluma acquisition which has been announced yesterday could be a trigger to move the stock higher. Therefore, given the potential upside we raise our recommendation on the share from Hold to 'Accumulate'.

SWOT analysis

Strengths	**Weaknesses**
• Strong brand names + strong logistics (traceability, quality standards) constitute major entry barriers • No forex risks • Management is committed and financially involved	• Low liquidity and low visibility (no figures available per division) • Pork price is still a major determinant of cost price • Declining meat consumption • Negative image of food industry due to earlier food crises
Opportunities	**Threats**
• Geographic expansion of sales in Southern and Northern Europe • Product innovation in reaction on evolving consumer preferences • Internal and external growth in the ready meal segment and processed meats	• A major food crisis (hog fever, avian flu...) • Price pressure from super-markets and major retailers • Increasing competition of large food groups • Dispute with the tax administration.

Financial calendar

Early May 2006	1Q06 business update
18 May 2006	EGM - closing date merger Ter Beke Processed Meats Division with Pluma
24 May 2006	AGM
15 June 2006	Dividend payment of EUR 2.10 gross
16 June 2006	Additional listing of 342,254 new Ter Beke shares of the capital increase related to the Pluma deal
8 September 2006	Release of the 1H06 results (after market hours)

Ter Beke: Summary tables

PROFIT & LOSS (EURm)	2001	2002	2003	2004	2005	2006e	CAGR 06/01
Sales	**166.6**	**178.9**	**190.2**	**200.0**	**236.2**	**293.3**	***12.0%***
EBITDA	**13.7**	**19.9**	**21.5**	**20.9**	**21.6**	**24.6**	***12.5%***
Depreciation & Provisions	-9.1	-11.9	-11.6	-10.7	-10.9	-12.9	
Goodwill Amortisation	-1.2	-1.2	-1.2	0.0	0.0	0.0	
EBIT	**3.5**	**6.9**	**8.7**	**10.2**	**10.7**	**11.7**	***27.6%***
Net Financial Interest	-2.8	-2.4	-2.1	-0.8	-1.5	-1.6	
Other Financials	-0.3	-0.2	0.0	0.0	0.1	0.1	
Associates	0.0	0.0	0.0	0.0	0.0	0.0	
Extraordinary Items	1.3	0.1	0.0	0.0	0.0	0.0	
Earnings Before Tax (EBT)	**1.6**	**4.4**	**6.7**	**9.4**	**9.3**	**10.2**	***44.2%***
Tax	-0.3	-0.8	-2.5	-4.3	-3.4	-3.7	
Tax rate	*19.8%*	*18.8%*	*36.9%*	*46.2%*	*36.3%*	*36.0%*	
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	
Net Profit (reported)	**1.3**	**3.5**	**4.2**	**5.0**	**5.9**	**6.5**	***37.8%***
Net Profit (adj.)	1.2	4.8	5.4	5.0	5.9	6.5	
CASH FLOW (EURm)							
Net profit (reported) + Minorities	1.3	3.5	4.2	5.0	5.9	6.5	
Non cash items	10.0	12.7	12.3	11.0	11.1	12.9	
Cash Flow	**11.3**	**16.3**	**16.5**	**16.0**	**17.0**	**19.4**	***11.3%***
Change in Net Working Capital	2.0	8.0	-4.2	-0.6	-5.0	-1.6	
Capex	-8.4	-11.8	-12.3	-19.8	-12.5	-17.6	
Operating Free Cash Flow (OpFCF)	**4.9**	**12.4**	**0.0**	**-4.4**	**-0.5**	**0.2**	***-45.1%***
Net Financial Investments	0.0	-0.4	0.0	0.0	-11.8	-5.5	
Dividends	-0.1	-1.3	-1.5	-1.6	-2.4	-3.8	
Other (incl. Capital Increase)	-1.5	-0.6	1.3	23.5	-0.3	0.0	
Free Cash Flow	**3.3**	**10.2**	**-0.2**	**17.5**	**-15.0**	**-9.1**	***R-***
NOPLAT	4.1	6.8	6.8	5.5	6.8	7.5	
BALANCE SHEET & OTHER ITEMS (EURm)							
Net Tangible Assets	41.0	41.8	41.8	52.6	61.5	71.8	
Net Intangible Assets (ex Goodwill)	3.6	3.4	3.2	3.4	10.0	10.0	
Goodwill	12.3	11.1	11.7	9.2	10.2	10.2	
Net Financial Assets & Other	0.1	0.1	0.0	1.4	2.1	0.1	
Total Fixed Assets	**56.9**	**56.4**	**56.8**	**66.5**	**83.8**	**92.0**	***10.1%***
Net Working Capital	4.6	-3.4	0.8	0.1	4.4	8.0	
Total capital invested/employed	61.5	53.0	57.5	65.3	86.1	99.9	
Shareholders Equity	**16.7**	**18.6**	**22.2**	**41.1**	**45.4**	**48.9**	***24.0%***
Minorities Equity	0.0	0.0	0.0	0.0	0.0	0.0	
Net Debt	**42.6**	**32.5**	**32.7**	**15.2**	**30.3**	**39.3**	***-1.6%***
Provisions	2.3	2.0	2.7	10.3	12.6	12.6	
Other Liabilities	0.0	0.0	0.0	0.0	0.0	-0.8	
Total Market Cap	**27.8**	**36.9**	**42.5**	**52.4**	**90.8**	**111.9**	
Entreprise Value (EV adj.)	70.5	69.5	75.3	68.0	121.5	151.7	
MARGINS AND RATIOS							
Sales growth	*1.0%*	*7.4%*	*6.3%*	*5.2%*	*18.1%*	*24.2%*	
EBITDA growth	*-16.0%*	*45.4%*	*8.1%*	*-3.0%*	*3.7%*	*13.7%*	
EBIT growth	*-40.5%*	*98.1%*	*26.9%*	*16.8%*	*5.2%*	*9.6%*	
EBITDA margin	***8.2%***	***11.1%***	***11.3%***	***10.4%***	***9.2%***	***8.4%***	
EBIT margin	*2.1%*	*3.8%*	*4.6%*	*5.1%*	*4.5%*	*4.0%*	
Debt/Equity (gearing)	***255.6%***	***174.8%***	***147.3%***	***37.0%***	***66.7%***	***80.5%***	
Debt/EBITDA	3.1	1.6	1.5	0.7	1.4	1.6	
Interest cover (EBITDA/Fin.interest)	5.0	8.4	10.3	24.9	14.9	15.0	
ROCE	*6.2%*	*10.8%*	*12.3%*	*8.9%*	*9.7%*	*8.2%*	
WACC	*6.8%*	*6.8%*	*6.8%*	*6.8%*	*6.8%*	*6.8%*	
ROCE/WACC	**0.9**	**1.6**	**1.8**	**1.3**	**1.4**	**1.2**	
EV/CE	1.08	1.11	1.36	1.11	1.73	1.65	
OpFCF/CE	*7.5%*	*19.8%*	*0.0%*	*-7.2%*	*-0.7%*	*0.3%*	
EV/Sales	0.42	0.39	0.40	0.34	0.51	0.52	
EV/EBITDA	**5.2**	**3.5**	**3.5**	**3.3**	**5.6**	**6.2**	
EV/EBIT	20.4	10.1	8.6	6.7	11.4	12.9	
P/E (adj.)	**23.0**	**7.7**	**7.9**	**10.4**	**15.3**	**17.2**	
P/CF	2.5	2.3	2.6	3.3	5.3	5.8	
P/BV	1.7	2.0	1.9	1.3	2.0	2.3	
OpFCF yield	***17.8%***	***33.7%***	***0.1%***	***-8.4%***	***-0.6%***	***0.2%***	
Payout ratio	*92.8%*	*39.7%*	*39.0%*	*48.4%*	*64.4%*	*46.2%*	
Dividend yield (gross)	***4.4%***	***3.8%***	***3.9%***	***4.6%***	***4.3%***	***2.7%***	
PER SHARE DATA (EUR)							
EPS (reported)	1.44	3.88	4.61	5.52	4.35	3.80	***21.5%***
EPS (adj.)	**1.33**	**5.24**	**5.91**	**5.52**	**4.35**	**3.80**	***23.4%***
CFPS	12.44	17.87	18.08	17.61	12.43	11.33	***-1.9%***
BVPS	18.31	20.40	24.37	45.09	33.13	28.55	***9.3%***
DPS	**1.33**	**1.54**	**1.80**	**2.67**	**2.80**	**1.76**	***5.7%***

Source: Company, Bank Degroof estimates

2005 restated as IFRS proforma

Recommendation system

From the 18th October 2004, the Members of ESN use a **New Recommendation System**.

Absolute Recommendation System

The new ESN Recommendation System is **Absolute**. It means that each stock is rated on the basis of a total return, measured by the upside potential (including dividends) over a 6 months time horizon.

Spectrum of recommendations

The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: **Buy, Accumulate (or Add), Hold, Reduce and Sell (in short: B, A, H, R, S)**.

Meaning of each recommendation

Meaning of each rating or recommendation:

Buy:	the stock is expected to generate a total return of **over 15%** during the next 6 months time horizon.
Accumulate:	the stock is expected to generate a total return of **5% to15%** during the next 6 months time horizon.
Hold:	the stock is expected to generate a total return of **0% to 5%** during the next 6 months time horizon
Reduce:	the stock is expected to generate a total return of **0 to -15%** during the next 6 months time horizon
Sell:	the stock is expected to generate a total return **below -15%** during the next 6 months time horizon

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