

Ter Beke

21 March 2006

The perfect fit

Food Producers & Processors

Current price €65.50

Outperform

Belgium

Target price €80.00

Rating Unchanged

Performance over	1m	3m	12m
Absolute	2%	-1%	0%
Rel. BEL20	-2%	-12%	-21%
Relative to sector	2%	0%	-14%
12m Hi/Lo	€70.20/62.90		
Reuters	TERB.BR		
Bloomberg	TERB BB		
Market Cap	€90m		
Next corporate event	Roadshow 06 : 22 March 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	14.2	13.4	12.6
Dividend yield (%)	3.2%	3.4%	3.5%	3.7%
EV/EBITDA (x)	5.4	5.1	4.7	4.5

Source: KBC Securities

*Adjusted for goodwill and exceptionals

Ter Beke will become the largest processed meat producer with a market share of 17% in Belgium following the merger with Pluma. The activities of the two groups are complementary in terms of product range and customer base. Moreover, we anticipate significant synergies. Ter Beke's turnover will rise by about 40% on the back of this merger. The new group will be well positioned to grow in a consolidating industry. We anticipate that the merger will have a positive impact on the group's EPS from 2007 onwards. The closing of the transaction is planned for 18 May 2006. The price tag amounts to €27.6m including €5.5m cash and 342,254 new Ter Beke shares.

The group's financial structure will remain strong following the announced merger. Ter Beke's management reiterated the international growth strategy for the ready meals activities (€106m sales in 2005). This year the company will increase its investments in the Come a Casa brand. We anticipate positive news (e.g. partnership in Spain) from this division during the course of this year.

We have not updated our spreadsheet yet on the back of the merger because it is not clear yet from which date onwards Pluma will be included in Ter Beke's consolidated figures. Furthermore, restatements under IFRS make it difficult to forecast Pluma's contribution in 2006.

We maintain our Outperform rating for the following reasons:

- The perfect fit of Ter Beke's and Pluma's activities and potential synergies;
- International expansion opportunities for the ready meals division;
- New growth opportunities in the food service channel;
- We anticipate positive news related to new slicing/packaging contracts.

The perfect fit

Ter Beke's and Pluma's processed meat activities are complementary in terms of customer base, product range and production facilities. Both groups are mainly active in the Benelux. In 2005, Ter Beke's processed meat sales reached € 130m. Pluma's sales amounted to € 100m. The merged group will be the leader on the Belgian market with a market share of 17%. Imperial Meat Products, a Sara Lee subsidiary, has a 12% share. In the Benelux, Ter Beke will occupy the third place. The following table illustrates that Pluma's product range represents a perfect fit. Whereas Ter Beke has been focused on salami and poultry, Pluma has a strong position in cooked ham. Suppliers with a full product range enjoy a competitive advantage when negotiating contracts with large food retailers. The merger with Pluma should therefore enhance the group's competitive position.

Product range	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)
Slicing & Pacakaging	X	X	X

Source: Ter Beke

X = competitive strong position

(x) = presence without strong position

Ter Beke's and Pluma's customer bases are also complementary. For example, in the UK, Ter Beke supplies pâté to Tesco and Waitrose. Pluma on the other hand sells pâté to Asda. The new group will have a dominant of the UK pâté market. Unlike Ter Beke, Pluma also sells pâté in Germany. In the Benelux, Pluma focuses on large food retailers and discounters. In addition to these channels, Ter Beke has a strong presence in other channels including the wholesalers, butchers and foodservice.

The new group will be well positioned to grow in the consolidating processed meat industry. Today, the top 3 players occupy 30% of the Belgian market. In the Netherlands, the top 3 producers control 70%. Critical mass and economies of scale are paramount in this industry because of increasing requirements of the food retailers. These requirements relate to product assortment, product innovation, IT and supply chain integration and packaging techniques. We therefore expect further consolidation in Belgium during the coming years.

Ter Beke will become the largest packager of processed meat as a result of the merger because 70% of Pluma's sales consist of pre-sliced consumer packs. Demand for processed meat has been stable during the last few years but the pre-packaged segment has been gaining market share at the detriment of over-the-counter products. Food retailers are increasingly outsourcing this activity. Last year, Ter Beke already acquired Langeveld-Slegers in response to this trend. Langeveld-Slegers is a Dutch service company specialized in slicing and packaging of processed meat.

The merger will also result in major synergies in the field of purchasing, logistics, marketing and product development.

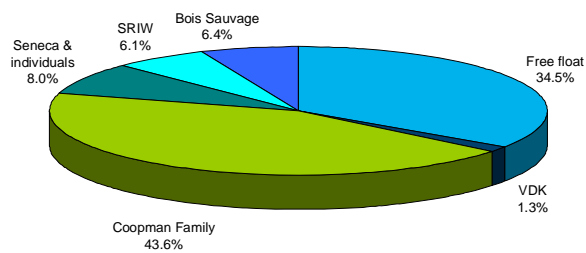
Terms of the deal

Under IFRS the merger will be considered as a contribution in kind, whereby the Pluma shareholders will contribute their shares in exchange for 342,254 new Ter Beke shares and €5.5m in cash. In other words, the price tag equals €27.58m, if one takes the share price of Ter Beke on 15 March 2006 (day prior to the announcement). The terms do not include any earn-out clause. The new shares will be listed from 16 June onwards. They will be entitled to the dividend of FY06.

Ter Beke's shareholders' structure

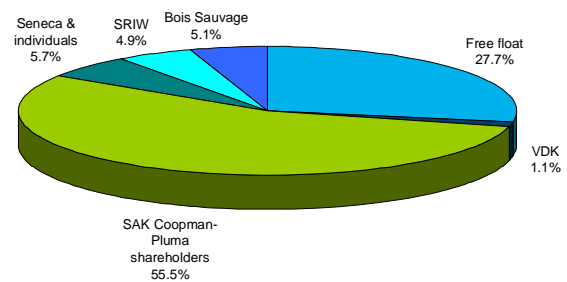
Ter Beke's outstanding shares will increase from 1,369,017 to 1,711,271 (+20%) as a result of the merger. The founding family of Ter Beke and the major Pluma shareholders are establishing a joint trust (Dutch "Stichting Administratiekantoor") for their 55.5% stake in the merged group. Ter Beke's founding family (Coopman) will have a 64% stake in the trust. A shareholders' agreement foresees a 3-year stand-still at the level of the trust.

Before merger



Source: Ter Beke

After merger



Source: Ter Beke

Financial data

Income statement (€m)	2004	2005	2006E	2007E	2008E
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
Balance sheet (€m)	2004	2005	2006E	2007E	2008E
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
Cash flow statement (€m)	2004	2005	2006E	2007E	2008E
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
Performance criteria	2004	2005	2006E	2007E	2008E
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%
Per share data (€)	2004	2005	2006E	2007E	2008E
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
Valuation data	2004	2005	2006E	2007E	2008E
Reference share price (€)	57.44	66.30	65.50	65.50	65.50
Reference market capitalisation (€m)	78.3	90.8	89.7	89.7	89.7
Enterprise value (€m)	90.6	117.7	115.5	113.8	111.7
P/E	11.5	15.3	14.2	13.4	12.6
P/CF (x)	4.5	5.4	5.0	4.8	4.7
P/NBV (x)	1.9	2.0	1.8	1.7	1.6
Dividend yield (%)	3.5%	3.2%	3.4%	3.5%	3.7%
EV/sales (x)	0.5	0.5	0.5	0.4	0.4
EV/EBITDA (x)	4.3	5.4	5.1	4.7	4.5
EV/Capital employed (x)	1.3	1.3	1.3	1.2	1.2

Source: KBC Securities

*Historic valuation data are based on historic prices

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