

Ter Beke

14 March 2005

Strong earnings growth in 2004

Food Producers & Processors

Current price € 66.50

Outperform

Belgium

Target price € 80.00

Rating Unchanged

Performance over	1m	3m	12m
Absolute	1%	10%	14%
Rel. BEL20	1%	3%	-11%
Relative to sector	-1%	1%	14%
12m Hi/Lo	€ 68.15/55.10		
Reuters	TERB.BR		
Bloomberg	TERB BB		
Market Cap	€ 91m		
Next corporate event	General Assembly 04 : 26 May 2005		

FY/e 31.12	2004	2005E	2006E	2007E
Sales (€ m)	206.3	249.6	259.6	269.9
EBITDA (€ m)	21.1	24.8	26.9	28.4
Net earnings (€ m)	5.0	6.0	6.4	7.0
Current EPS* (€)	6.92	5.66	5.94	6.50
Published EPS (€)	3.70	4.40	4.68	5.11
Dividend per share (€)	2.00	2.20	2.45	2.70
P/E (x)	8.3	11.7	11.2	10.2
Dividend yield (%)	3.5%	3.3%	3.7%	4.1%
EV/EBITDA (x)	4.4	4.8	4.3	3.9

Source: KBC Securities

*Adjusted for goodwill and exceptionals

Ter Beke's current net profits rose from € 5.4m in 2003 to € 6.3m (in line with our forecast) in 2004 representing a 16.5% rise. Net sales increased by 8.5% (forecast +7.7%) to € 206m and the operating margin improved from 5.2% to 5.5% (5.4% forecast). About 1/3 of the sales' increase is due to the acquisition of DiPasto (France) which was included for 12 months in 2004 versus 6 months in 2003. Higher than expected operating profits were offset by slightly higher than anticipated net financial charges and taxes. Current EPS increased by 16.3% to € 6.92 (€ 6.89 forecast). Last year, the group invested more than € 19m (9% of sales!) in the expansion and further modernisation of its production facilities. The board proposes to distribute a gross DPS of € 2.00 (+11%).

Even though management has not given a guidance yet for 2005, we are optimistic about the group's earnings growth potential. Management does not expect any major fluctuations in raw material prices in the short term. The acquisition of Langeveld Slegers should have a positive impact on consolidated net profits from 2005 onwards. The de-leveraging of the balance sheet following the automatic conversion of the convertible bonds (€ 25.63m) at the end of 2004 will also have positive impact on this year's figures. We expect that the group will continue to look for opportunities to enhance earnings through acquisitions in order to partly offset the dilutive impact of the conversion of the convertible bonds. The number of shares rose from 912,344 to 1,363,167 as a result of this. We estimate the group's net debt level at € 28m following the acquisition of Langeveld implying a gearing level¹ of 50%.

There are no developments with regard to the ongoing dispute with the tax authorities concerning Ter Beke's own reinsurance company.

Our target price of € 80 implies an EV/EBITDA multiple of 5.5 for 2005. We consider this multiple to be conservative because the prevailing multiples in the industry are typically 6-7x EBITDA for ready chilled meals and 5-6x for processed meats. Furthermore, Ter Beke has state-of-the-art production facilities. Since 1998, Ter Beke's cumulative investments reached 6.8% of sales. This is significantly higher than the industry average (4%).

¹ Net debt/equity

Business description

Ter Beke produces processed meats and fresh Mediterranean ready meals such as lasagne, cannelloni and tagliatelle. Fresh Mediterranean meals represented 66% of sales volumes and 52% of turnover in 2004. The group maintained its leadership position in chilled lasagne. The processed meats market remained stable last year but the pre-sliced and pre-packaged processed meats segment is growing.

Fresh Mediterranean ready meals

The group continues to invest in brand development and the expansion of its assortment. For example, several new products were launched last year, such as deep pan pizza, fresh soups and new pasta meals. In 2004 Ter Beke stepped up its investments in Come a Casa, its consumer brand. Brand recognition continued to rise thanks to major promotional campaigns in Belgium and Ireland. This year Ter Beke will increase Come a Casa's advertising and promotional spending in France in order to reinforce its position.

Processed meats

Ter Beke's processed meat sales rose in 2004 thanks to innovations in terms of assortment and packaging technologies. For instance, Ter Beke's pâté has been a success in the Netherlands and the UK. The recent acquisition of Langeveld reinforces Ter Beke's know-how in the field of packaging and slicing.

FY04 results

Operating profits were higher than expected but this was mainly due to lower than anticipated depreciation charges as some assets were fully depreciated/amortized by 2004. At the same time, several investment projects weren't completed until 2H04. EBITDA (+0.8%) came out lower than our forecast. This sluggish growth in EBITDA is due to increased commercial spending related to Come a Casa.

Ter Beke's FY04 results (€ m)				
	2003	2004	% change	KBC forecast
Net turnover	190.21	206.33	8.5%	204.95
EBITDA	20.62	20.78	0.8%	22.56
Operating profit	9.92	11.40	14.9%	11.09
Financial result	-2.09	-2.19	-4.8%	-1.98
Goodwill amortization	-1.21	-1.27	-5.0%	-1.27
Current pretax	6.62	7.94	19.9%	7.84
Exceptional result	0.05	0.05		0.01
Pretax profits	6.67	7.99	19.8%	7.85
Taxes	-2.46	-2.95	-19.7%	-2.83
Reported net profits	4.20	5.04	19.9%	5.02
Current net profits	5.42	6.31	16.5%	6.27
Avg number shares	911.09	912.3	0.1%	910.93
Current EPS (€)	5.95	6.92	16.3%	6.89

Source: Ter Beke and KBC Securities

Investment program

Ter Beke's capex reached € 19m in 2004. We are forecasting € 14m for 2005. The following table shows an overview of the projects which were completed last year and the plans for 2005.

Main investment projects

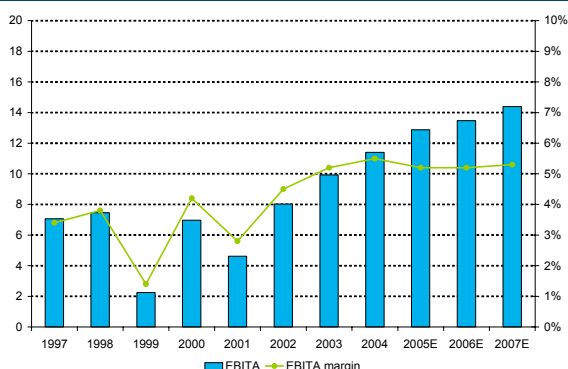
Description	Location	Completion
Upgrading production facility for maturing and drying salami	Waarschoot (Belgium)	2Q04
R&D Centre for fresh Mediterranean ready meals	Marche-en-Famenne (Belgium)	4Q04
Modernisation and expansion packaging capacity for pâté	Marche-en-Famenne (Belgium)	4Q04
Modern slicing/packaging equipment for processed meats	Veurne (Belgium)	Dec-04
New shipping platform	Wanze (Belgium)	1Q05
Modernisation/expansion pasta production	Alby-sur-Chéran (France)	2Q05
New fully automated pasta line	Marche-en-Famenne (Belgium)	2Q05
Modernising production facility for processed poultry meats	Ruiselede (Belgium)	2Q05
Modernisation/expansion pasta production	Alby-sur-Chéran (France)	2Q05

Source: Ter Beke

Forecast FY05

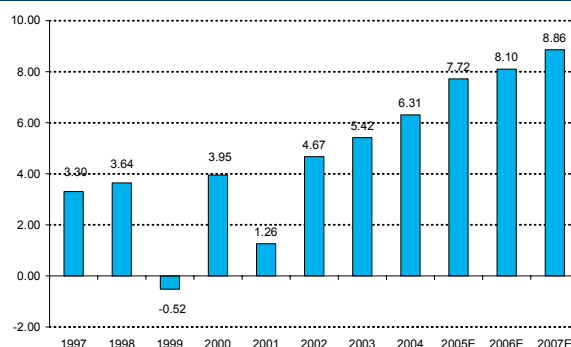
We are forecasting 4% sales growth for 2005. The acquisition of Langeveld is expected to contribute € 35m in sales this year. The operating margin should decline slightly on the back of increased depreciation as a % of sales following the completion of several major investment programs and a major commercial campaign for Come a Casa in France. We are therefore anticipating an EBITA margin of 5.2% in 2005 versus 5.5% in 2006. The group's net debt level fell from € 32.67m (including convertibles) at the end of 2003 to € 12.95m at the end of 2004. We estimate that net debt rose to € 28m following the acquisition of Langeveld. The interest rate on the convertible bond issue (automatic conversion on 29 December 2004) equalled 6%. We expect that Ter Beke's financing cost will come down sharply in 2005 thanks to the low level of interest rates. Our forecasts include a net financial result of € 1.5m versus € 2.2m in 2004. The expected 22% rise in current net profits will be more than offset by the 50% rise in the number of outstanding shares. We are assuming an 18% decline in current EPS to € 5.66 (old forecast: € 5.45) versus € 6.92 in 2004.

EBITA and EBITA margin (€ m)



Source: Ter Beke and KBC Securities

Current net profits



Source: Ter Beke and KBC Securities

Financial data

Income statement (€ m)	2002	2003	2004	2005E	2006E	2007E
Sales	178.9	190.2	206.3	249.6	259.6	269.9
EBITDA	18.8	20.6	21.1	24.8	26.9	28.4
EBITA	8.0	9.9	11.4	12.9	13.5	14.4
EBIT	6.9	8.7	10.1	11.1	11.7	12.5
Pre-tax earnings	4.4	6.7	8.0	9.6	10.2	11.1
Net earnings	3.5	4.2	5.0	6.0	6.4	7.0
Current earnings before goodwill	4.7	5.4	6.3	7.7	8.1	8.9
Current cash flow	15.5	16.1	16.0	19.7	21.6	22.8
Balance sheet (€ m)	2002	2003	2004	2005E	2006E	2007E
Goodwill and other intangible assets	14.5	14.9	12.7	16.8	14.1	11.2
Tangible assets	41.8	41.8	52.1	65.1	66.6	67.6
Associates and other financial assets	0.1	0.0	0.0	0.0	0.0	0.0
Net working capital	-4.4	-1.0	1.4	0.0	0.7	0.6
Net debt	32.7	32.7	14.2	26.7	23.1	17.8
Provisions and other liabilities	0.9	0.9	1.0	1.2	1.2	1.2
Minorities	-	-	-	-	-	-
Equity	18.4	22.2	51.1	54.1	57.1	60.4
Capital employed, incl. cum goodwill	60.1	66.1	78.1	89.9	91.5	91.7
Balance sheet total	108.0	104.8	118.6	145.0	147.1	147.8
Cash flow statement (€ m)	2002	2003	2004	2005E	2006E	2007E
Cash flow from operations	23.2	11.0	13.5	18.0	20.6	22.6
Net capital expenditure	-11.8	-12.3	-19.0	-14.0	-14.0	-14.0
Free cash flow (before acquisitions)	11.4	-1.3	-5.5	4.0	6.6	8.6
Acquisitions and disposals	0.4	0.1	0.0	0.0	0.0	0.0
Dividend payments	-1.2	-1.4	-1.6	-1.8	-3.0	-3.3
Shares issues	-	-	-	-	-	-
Other	-0.5	2.6	0.0	-11.5	0.0	0.0
Change in net debt	-10.1	0.0	-18.5	12.5	-3.6	-5.3
Performance criteria	2002	2003	2004	2005E	2006E	2007E
Sales growth	7.4%	6.3%	8.5%	21.0%	4.0%	4.0%
EBITDA margin	10.5%	10.8%	10.2%	10.0%	10.4%	10.5%
EBITA margin	4.5%	5.2%	5.5%	5.2%	5.2%	5.3%
EBIT margin	3.8%	4.6%	4.9%	4.5%	4.5%	4.6%
Net debt / equity	177.3%	147.3%	27.8%	49.4%	40.5%	29.5%
Net debt / EBITDA	1.7	1.6	0.7	1.1	0.9	0.6
EBITDA / net interest	7.9	9.9	9.6	16.4	17.3	20.9
Pay-out ratio	39.6%	39.0%	36.2%	50.0%	52.4%	52.8%
Net return on equity (avg.)	20.2%	20.7%	13.8%	11.4%	11.5%	11.8%
Return on capital employed (avg.)	7.5%	10.4%	10.4%	10.1%	9.8%	10.4%
Per share data (€)	2002	2003	2004	2005E	2006E	2007E
Weighted average number of shares (m)	0.91	0.91	0.91	1.36	1.36	1.36
Published EPS	3.88	4.61	3.70	4.40	4.68	5.11
Current EPS, before GW	5.15	5.95	6.92	5.66	5.94	6.50
Current CFPS	17.07	17.68	17.54	14.44	15.82	16.75
Free cash flow per share	12.56	-1.45	-6.00	2.94	4.81	6.34
Net book value per share	20.31	24.36	56.00	39.68	41.91	44.32
Current EPS (before GW): y/y growth	268.1%	15.4%	16.3%	-18.1%	5.0%	9.4%
Current CFPS: y/y growth	48.2%	3.6%	-0.8%	-17.7%	9.6%	5.8%
Current EPS (before GW), fully diluted	4.97	5.72	6.65	5.52	5.79	6.33
Dividend per share (€)	1.53	1.80	2.00	2.20	2.45	2.70
Valuation data	2002	2003	2004	2005E	2006E	2007E
Reference share price (€)	40.22	46.54	57.44	66.50	66.50	66.50
Reference market capitalisation (€ m)	36.6	42.4	78.3	90.7	90.7	90.7
Enterprise value (€ m)	70.0	75.9	93.4	118.5	115.0	109.7
P/E	7.8	7.8	8.3	11.7	11.2	10.2
P/CF (x)	2.4	2.6	3.3	4.6	4.2	4.0
P/NBV (x)	2.0	1.9	1.5	1.7	1.6	1.5
Dividend yield (%)	3.8%	3.9%	3.5%	3.3%	3.7%	4.1%
EV/sales (x)	0.4	0.4	0.5	0.5	0.4	0.4
EV/EBITDA (x)	3.7	3.7	4.4	4.8	4.3	3.9
EV/Capital employed (x)	1.2	1.1	1.2	1.3	1.3	1.2

Source: KBC Securities

*Historic valuation data are based on historic prices

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