

Ter Beke

22 September 2006

Investing in future growth

Food Producers & Processors

Current price €64.80

Accumulate

Belgium

Target price €71.00

Rating Downgraded

Performance over	1m	3m	12m
Absolute	0%	-1%	-6%
Rel. BEL20	-4%	-12%	-24%
Relative to sector	0%	-1%	-9%
12m Hi/Lo	€69.15/62.90		
Reuters	TERB.BR		
Bloomberg	TERB BB		
Market Cap	€111m		
Next corporate event			
Trading update 3Q06	: 10 November 2006		

FY/e 31.12	2005	2006E	2007E	2008E
Sales (€m)	236.2	323.6	355.1	367.5
EBITDA (€m)	21.6	26.5	29.5	31.6
Net earnings (€m)	5.9	6.0	7.1	8.2
Current EPS* (€)	4.35	3.78	4.16	4.79
Published EPS (€)	4.35	3.78	4.16	4.79
Dividend per share (€)	2.10	2.20	2.30	2.40
P/E (x)	15.3	17.1	15.6	13.5
Dividend yield (%)	3.2%	3.4%	3.5%	3.7%
EV/EBITDA (x)	5.4	5.9	5.2	4.8

Source: KBC Securities

*Adjusted for goodwill and exceptionals

Pascale Weber, CFA
 Financial Analyst - Brussels
 KBC Securities NV
 +32 2 417 40 88
pascale.weber@kbcsecurities.be

KBC Securities does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as a single factor in making their investment decision.

We are downgrading our rating from Buy to Accumulate and have revised our target price downward from €80 to €71. The merger with Pluma will have a dampening impact on EPS during the coming two years. Excluding the Pluma merger, we were counting on 7% net profit growth in 2006. Including Pluma, net profits are expected to be flat this year. The group reported an EPS of €4.35 in 2005. In 2006 and 2007, EPS is expected to decline from the 2005 level because of the integration costs related to the merger and the 25% increase in the number of outstanding shares.

Raw material prices and more specifically pork prices have risen in recent months, higher energy prices and continued price pressure from the food retailers are also weighing on margins and finally, integration costs related to Pluma will hit the 2H06 results.

The group is drawing up an action plan for the merger with Pluma. Management expects the integration process to be complete by the end of 2007.

The medium-term outlook remains intact. The chilled ready meals sector offers attractive growth opportunities especially in France and Spain. In the processed meat sector, the group became a European leader in slicing/packaging following the acquisition of Langeveld/Slegers last year and the merger with Pluma. This sub-sector remains attractive as over-the-counter products continue to lose market share to the detriment of pre-packaged products.

Our new target price is based on our EBITDA forecasts for 2007. We have applied an EV/EBITDA multiple of 5.0 for the processed meat activities and 7.0 for the ready meals.

1H06 results

Sales were up 29.2% to €149.2m in 1H06 on the back of the merger with Pluma (consolidated since 1 April 2006). Excluding Pluma, sales would have risen only slightly. EBITDA (€11.05m or +19.1%) came out slightly below our forecast of €11.24m. The operating margin fell from 3.39% in 1H05 to 2.81% in 1H06 as a result of the revaluation of Pluma's inventories under IFRS. Other dampening factors include continued price pressure from the food retailers, stepped-up marketing efforts and rising raw material and energy prices. The annual energy bill, which represents less than 1% of total costs, rose by €700,000. Part of this rise has been offset by efficiency gains. Operating profits (€4.19m or +7.1%) were lower than our €4.34m forecast but this was more than offset by lower-than-expected financial charges and taxes. The tax rate fell from 36.2% in 1H05 to 31.1% in 1H06 as a result of lowered tax rates in the Netherlands and the effect of notional interest deduction.

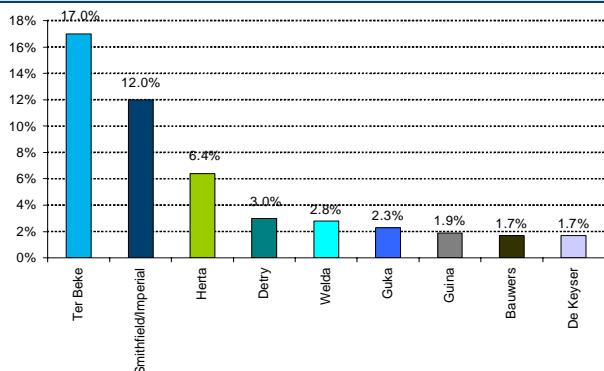
Ter Beke				
€m	1H05	1H06	% change	KBC Sec forecast
Sales	115.52	149.26	29.2%	146.32
EBITDA	9.277	11.05	19.1%	11.24
EBITDA margin	8.0%	7.4%		7.7%
Operating profits	3.91	4.19	7.1%	4.34
Operating margin	3.4%	2.8%		3.0%
Financial result	-0.61	-0.80	32.1%	-0.99
Pretax result	3.31	3.39	2.5%	3.35
Taxes	-1.20	-1.06	-11.9%	-1.21
Tax rate	36.2%	31.1%		36.1%
Net profits	2.11	2.34	10.8%	2.14
Average number shares	1,364,805	1,452,218	6.4%	1,364,000
EPS (€)	1.54	1.61	4.4%	1.57

Source: Ter Beke, KBC Securities

Processed meats: focus on integration of Pluma

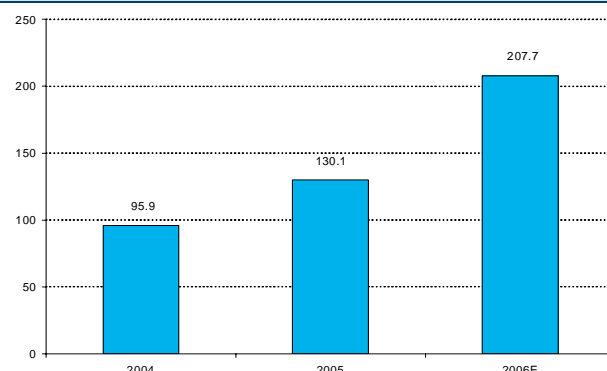
The processed meat division is mainly a private label business focused primarily on the Benelux and to a small extent on the UK (pâté) and Germany. Demand for processed meat products – which are typically regional – is tending to stagnate or decline slightly. Through the merger with Pluma (+/-€100m in annualized sales), Ter Beke became the leader in Belgium with a 17% market share and the third largest producer of processed meats in the Benelux. The Belgian market remains fragmented. The group is currently drawing up a roadmap for the integration of Pluma including the optimisation of the production process. Some of the integration projects will take off before the end of this year but most of the implementation will take place next year. Management should be able to provide more details about potential synergies by the end of this year.

Processed meats: market share in Belgium



Source: Ter Beke

Ter Beke's processed meat sales (€m)



Source: KBC Securities, Ter Beke

Ready meals: stepping up brand investments in France

Ter Beke produces branded and private label chilled Mediterranean meals. The 1H06 sales increase in ready meals was in line with expectations. The operating margin declined on the back of price pressure from major retailers and investments in the Come a Casa brand, especially in France. Ter Beke continues to gain market share through product innovation and investments in branding. In Belgium, the group expanded its “Come a Casa Naturalmente” product line and in France and Belgium the “Come a Casa Equilibre” line was launched. For the second time in a row, Come a Casa earned the French “Saveur de l’Année” quality distinction in 2006.

Ter Beke is stepping up its sales efforts in France where it enjoys a leadership position. Today, Come a Casa is sold in 60% of the French food retail outlets. The French market is appealing in terms of growth potential and size. Annual consumption of chilled ready meals equals 0.70kg per capita. This compares with 2.72kg in the UK and 2.35kg in Belgium. The chilled ready meals sector can be subdivided into traditional, exotic and Mediterranean. In Belgium, Switzerland and Ireland, Mediterranean meals represent more than 50% of the chilled ready meals sector. In France the share is lower than 15%. Moreover, in France, consumption of chilled pasta meals amounts to about 0.2kg per capita versus 1.9kg in Belgium. The upside potential is therefore significant. The group opted for in-store promotional campaigns rather than costly nationwide advertising (e.g. TV). The French food retailers have a centralized corporate structure. It is therefore possible to penetrate this market with a relatively small sales team. The opposite is true in the Netherlands given the importance of the franchisee networks.

For the time being, Ter Beke prefers to focus its efforts on sales growth in France. This involves increasing production capacity and the reinforcement of the commercial team. We anticipate that the group will need to build a new plant in 2 to 3 years to cope with growing sales. An acquisition is no longer a priority in the overheated Spanish market, where current asking prices imply EV/EBITDA multiples in excess of 10x. In Spain, Ter Beke supplies food retailers and the foodservice sector. The Belgian and French factories supply the Spanish market.

Sales to the foodservice sector show double-digit growth. Clients include foodservice companies that are active in social catering (hospitals, canteens, schools). Ter Beke has a dedicated sales team for this customer base in Belgium.

Outlook

Management anticipates stable net profits for the full year. We were anticipating a 7% rise excluding Pluma. Costs related to the Pluma transaction are booked under goodwill but the bulk of the integration costs will hit the P&L in 2H06.

Pork prices rose over the summer as a result of the July heat wave. Note however that over the past few years, Ter Beke's margins have become less sensitive to fluctuating pork prices because 30% of its processed meat sales consist of packaging/slicing services for food retailers. This service often involves processed meat from third party producers. This type of business is invoiced on a service fee basis and is therefore not sensitive to fluctuating raw material prices.

Capex should rise from €12.9m in 2005 to €16.5m in 2006. About €7m has already been invested in 1H06. Investment projects include new slicing and packaging lines, further automation of ready meals production lines and the mandatory replacement of freon-based systems with ammoniac-based coolers. The company continues to invest in efficiency to offset price pressure from the retailers.

The following table shows our adjusted forecasts for Ter Beke. Note that the old figures did not include Pluma.

Ter Beke							
€m	2005	2006E Old	2006E New	2007E Old	2007E New	2008E Old	2008E New
Sales	236.2	245.7	323.6	255.5	355.1	265.7	367.5
EBITDA	21.6	22.8	26.49	24.0	29.47	25.0	31.6
EBITDA margin	9.2%	9.3%	8.2%	9.4%	8.3%	9.4%	8.6%
Operating profits	10.7	11.3	10.8	12.1	13.1	13.0	14.7
Operating margin	4.5%	4.6%	3.3%	4.7%	3.7%	4.8%	4.0%
Financial result	-1.4	-1.4	-1.8	-1.5	-2.3	-1.7	-2.2
Pretax result	9.3	10.0	9.0	10.6	10.8	11.3	12.5
Taxes	-3.4	-3.7	-3.0	-3.9	-3.7	-4.2	-4.3
Tax rate	36.3%	37.0%	33.5%	37.0%	34.0%	37.0%	34.0%
Net profits	6.0	6.3	6.0	6.7	7.2	7.1	8.2
Avg number shares	1,366,698	1,366,698	1,585,795	1,366,698	1,719,371	1,366,698	1,719,371
EPS (€)	4.35	4.60	3.78	4.88	4.16	5.18	4.79

Source: Ter Beke, KBC Securities

Valuation

We have lowered our target price from €80 to €71 because the dampening impact of Pluma on the EPS for 2007-2008 is greater than we had anticipated. Based on our EBITDA forecasts for 2007 and an EV/EBITDA multiple of 5.0 for the processed meat division and 7.0 for ready meals division, we arrive at a value of € 71.3 per share. These multiples reflect recent deals (e.g. Smithfield/Sara Lee).

Valuation			
€m	2006E	2007E	2008E
Sales			
Processed meats	207.7	234.7	237.1
Ready meals	115.9	120.3	130.4
Total	323.6	355.1	367.5
EBITDA			
Processed meats	16.24	18.91	20.11
Ready meals	10.25	10.56	11.49
Total	26.49	29.47	31.61
EBITDA margin			
Processed meats	7.82%	8.06%	8.48%
Ready meals	8.84%	8.78%	8.81%
Total	8.19%	8.30%	8.60%
EV/EBITDA			
Processed meats	5.0	5.0	5.0
Ready meals	7.0	7.0	7.0
EV			
Processed meats	81.2	94.5	100.6
Ready meals	71.8	73.9	80.4
Total EV	153.0	168.4	181.0
Net Debt	48.2	45.8	42.9
Equity value	104.8	122.6	138.1
Number of shares	1,719,371	1,719,371	1,719,371
Value per share (€)	60.9	71.3	80.3

Source: KBC Securities

Financial data

Income statement (€m)	2004	2005	2006E	2007E	2008E
Sales	200.0	236.2	323.6	355.1	367.5
EBITDA	20.9	21.6	26.5	29.5	31.6
EBITA	10.2	10.7	10.8	13.1	14.7
EBIT	10.2	10.7	10.8	13.1	14.7
Pre-tax earnings	9.4	9.3	9.0	10.8	12.5
Net earnings	5.0	5.9	6.0	7.1	8.2
Current earnings before goodwill	6.8	5.9	6.0	7.1	8.2
Current cash flow	17.5	16.9	21.7	23.5	25.1
Balance sheet (€m)	2004	2005	2006E	2007E	2008E
Goodwill and other intangible assets	12.6	20.2	28.3	28.5	28.8
Tangible assets	52.6	62.4	104.1	104.5	105.3
Associates and other financial assets	1.4	1.9	3.1	3.1	3.1
Net working capital	-6.1	-3.6	9.0	9.3	9.6
Net debt	13.7	28.9	48.2	45.8	42.9
Provisions and other liabilities	5.7	6.8	23.3	23.3	23.3
Minorities	0.0	0.0	0.0	0.0	0.0
Equity	41.1	45.4	71.5	74.9	79.2
Capital employed, incl. cum goodwill	68.7	88.6	141.4	142.4	143.8
Balance sheet total	111.9	140.9	214.5	217.1	220.8
Cash flow statement (€m)	2004	2005	2006E	2007E	2008E
Cash flow from operations	15.9	15.0	18.2	23.2	24.8
Net capital expenditure	-19.8	-13.0	-16.5	-17.0	-18.0
Free cash flow (before acquisitions)	-4.0	2.0	1.7	6.2	6.8
Acquisitions and disposals	0.1	-12.0	-5.5	0.0	0.0
Dividend payments	-1.6	-1.7	-2.9	-3.8	-4.0
Shares issues	0.0	0.0	0.0	0.0	0.0
Other	-0.3	0.0	1.9	0.0	0.0
Change in net debt	5.8	15.2	19.4	-2.4	-2.9
Performance criteria	2004	2005	2006E	2007E	2008E
Sales growth	5.2%	18.1%	37.0%	9.7%	3.5%
EBITDA margin	10.4%	9.2%	8.2%	8.3%	8.6%
EBITA margin	5.1%	4.5%	3.3%	3.7%	4.0%
EBIT margin	5.1%	4.5%	3.3%	3.7%	4.0%
Net debt / equity	33.3%	63.6%	67.4%	61.2%	54.2%
Net debt / EBITDA	0.7	1.3	1.8	1.6	1.4
EBITDA / net interest	25.4	15.8	14.7	12.8	14.3
Pay-out ratio	33.5%	48.3%	63.0%	55.3%	50.1%
Net return on equity (avg.)	12.6%	13.8%	10.3%	9.8%	10.7%
Return on capital employed (avg.)	9.3%	7.6%	5.1%	6.1%	6.7%
Per share data (€)	2004	2005	2006E	2007E	2008E
Weighted average number of shares (m)	1.36	1.37	1.59	1.72	1.72
Published EPS	3.69	4.35	3.78	4.16	4.79
Current EPS, before GW	4.97	4.35	3.78	4.16	4.79
Current CFPS	12.81	12.33	13.66	13.66	14.63
Free cash flow per share	-2.90	1.49	1.10	3.60	3.97
Net book value per share	30.15	33.14	45.12	43.57	46.06
Current EPS (before GW): y/y growth	-16.4%	-12.6%	-12.9%	9.8%	15.4%
Current CFPS: y/y growth	-27.6%	-3.7%	10.8%	0.0%	7.1%
Current EPS (before GW), fully diluted	4.97	4.35	3.70	4.07	4.70
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	64.80	64.80	64.80
Reference market capitalisation (€m)	78.3	90.8	111.4	111.4	111.4
Enterprise value (€m)	90.6	117.7	156.6	154.2	151.3
P/E	11.5	15.3	17.1	15.6	13.5
P/CF (x)	4.5	5.4	4.7	4.7	4.4
P/NBV (x)	1.9	2.0	1.6	1.5	1.4
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	5.9	5.2	4.8
EV/Capital employed (x)	1.3	1.3	1.1	1.1	1.1

Source: KBC Securities

*Historic valuation data are based on historic prices

Disclosure & Disclaimers section

The company disclosures can also be consulted on our website <http://www.kbcsecurities.be/disclosures>.

KBC Securities uses an absolute rating system including terms such as Buy, Accumulate, Reduce and Sell (see definitions below). Until 27-04-2006, KBC Securities ratings for stocks covered by our Belgian and French research teams were based on a relative rating system including terms such as Outperform (the stock is projected to outperform the analyst's coverage universe over the next 12 months), Neutral (the stock is projected to perform approximately in line with the analyst's coverage universe over the next 12 months) and Underperform (the stock is projected to underperform the analyst's coverage universe over the next 12 months).

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
REDUCE	Expected total return (including dividends) between -10% and 0% over a 6-month period
SELL	Expected total return (including dividends) of -10% or worse over a 6-month period

Due to external factors and in exceptional cases, KBC Securities allows the use of ratings such as Accept the Offer, Black Out, No Recommendation or Suspended.

Our analysts assign one of those ratings based on their investment outlook and valuation for the concerned stock. The valuation can be based on different methodologies such as DCF (discounted cash flow), absolute multiples, peer group multiples, sum-of-parts or NAV (Net Asset Value). The valuation is reflected in a 6-month target price. Occasionally, the expected total return may fall outside of these ranges because of price movement and/or volatility. Such deviations will be permitted but will be closely monitored. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the report contains more complete information concerning the analyst's view, investors should carefully read the entire report and not infer its contents from the rating alone. KBC Securities discloses the recommendations of its reports to the issuers before their dissemination. In case the recommendation has been amended following this disclosure, such amendments will be indicated in the concerned report.

Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	36.00%	62.50%
ACCUMULATE	48.20%	25.00%
REDUCE	15.10%	12.50%
SELL	0.70%	0.00%

Ter Beke is specialized in chilled ready meals and processed meats. It is the European market leader in chilled lasagna.

The price target for Ter Beke is based on following parameters: Discounted Cash Flow (DCF)

The risks which may impede the achievement of our price target are: Food scares. Increasingly stringent health regulation. Price pressure from retailers.

Any reference made to a DCF valuation for Ter Beke is based on the following parameters: a forecast period from 2006 until 2014, a perpetual growth rate of 1% and a calculated WACC of 6.8%.

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
21-SEP-06	Accumulate	€71.00
27-APR-06	Buy	€80.00

KBC Securities will provide periodic updates on companies/industries based on company-specific developments or announcements, market conditions or any other publicly available information.

KBC Securities policy prohibits its analysts and members of their households from owning securities of any company in the analyst's area of coverage.



KBC Securities NV
Havenlaan 12
Avenue du Port
1080 Brussels
Belgium
+32 2 417 44 04
Regulated by CBFA

KBC Securities French Branch
Le Centorial
18, rue du Quatre Septembre
75002 Paris
France
+33 1 53 05 35 55
Regulated by AMF

KBC Securities NV Polish Branch
ul. Chmielna 85/87
00-805 Warsaw
Poland
+48 22 581 08 00
Regulated by SEC

Patria Finance as
Jungmannova 24
110 00 Praha 1
Czech Republic
+420 221 424 111
Regulated by CNB

KBC Financial Products
140 East 45th Street
2 Grand Central Tower - 42nd Floor
NY 10017-3144 New York
US
+1 212 845 22 89
+1 866 917 88 88 (toll free)
Regulated by NASD

Analyst certification: The analysts identified in this report each certify, with respect to the companies or securities that the individual analyses that (i) the views expressed in this publication reflect his or her personal views about the subject companies and securities, and (ii) he or she receives compensation that is based upon various factors, including his or her employer's total revenues, a portion of which are generated by his or her employer's investment banking activities, but not in exchange for expressing the specific recommendation(s) in this report.

This publication has been prepared by KBC Securities NV which is regulated by CBFA (Banking, Finance and Insurance Commission) or one of its European subsidiaries (together "KBC Securities"). This publication is provided for informational purposes only and is not intended to be an offer, or the solicitation of any offer, to buy or sell the securities referred to herein. No part of this publication may be reproduced in any manner without the prior written consent of KBC Securities.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable, but neither KBC Securities nor its affiliates represent that it is accurate or complete, and it should not be relied upon as such. All opinions, forecasts, and estimates herein reflect our judgement on the date of this publication and are subject to change without notice.

From time to time, KBC Securities, its principals or employees may have a position in the securities referred to herein or hold options, warrants or rights with respect thereto or other securities of such issuers and may make a market or otherwise act as principal in transactions in any of these securities. Any such persons may have purchased securities referred to herein for their own account in advance of the release of this publication. KBC Securities and principals or employees of KBC Securities may from time to time provide investment banking or consulting services to, or serve as a director of a company being reported on herein.

This publication is provided solely for the information and use of professional investors who are expected to make their own investment decisions without undue reliance on this publication. Investors must make their own determination of the appropriateness of an investment in any securities referred to herein based on the merits and risks involved, their own investment strategy and their legal, fiscal and financial position. Past performance is no guarantee for future results. By virtue of this publication, none of KBC Securities or any of its employees shall be responsible for any investment decision.

KBC Securities has implemented certain in-house procedures known as Chinese walls that aim to prevent the inappropriate dissemination of inside information. E.g. a Chinese wall surrounds the corporate finance department within KBC Securities. Further measures have been taken with regard to the separation of certain activities that could lead to conflicts of interest with other activities within KBC Securities.

In the United States this publication is being distributed to U.S. Persons by KBC Financial Products USA, Inc., which accepts responsibility for its contents. Orders in any securities referred to herein by any U.S. investor should be placed with KBC Financial Products USA, Inc. and not with any of its foreign affiliates. KBC FP USA Inc. and/or its affiliates may own 1% or more of the subject company's common equity securities. KBCFP USA Inc. or its affiliates may have managed or co-managed a public offering of the subject company's securities in the past 12 months, or received compensation for investment banking services from the subject company in the past 12 months, or expect to receive or intend to seek compensation for investment banking services from the subject company in the next three months. Any U.S. recipient of this report that is not a bank or broker-dealer and that wishes to receive further information regarding, or to effect any transaction in, any security discussed in this report, should contact and place orders with KBC Financial Products USA Inc. This report is being distributed in the United States solely to investors that are (i) "major U.S. institutional investors" (within the meaning of SEC Rule 15a-6 and applicable interpretations relating thereto) that are also "qualified institutional buyers" (QIBs) within the meaning of SEC Rule 144A promulgated by the United States Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Securities Act") or (ii) investors that are not "U.S. Persons" within the meaning of Regulation S under the Securities Act and applicable interpretations relating thereto. The offer or sale of certain securities in the United States may be made to QIBs in reliance on Rule 144A. Such securities may include those offered and sold outside the United States in transactions intended to be exempt from registration pursuant to Regulation S. This report does not constitute in any way an offer or a solicitation of interest in any securities to be offered or sold pursuant to Regulation S. Any such securities may not be offered or sold to U.S. Persons at this time and may be resold to U.S. Persons only if such securities are registered under the Securities Act of 1933, as amended, and applicable state securities laws, or pursuant to an exemption from registration. The products sold by KBC Financial Products USA, Inc or any affiliate thereof, including KBC Securities or KBC Financial Products UK Limited, are not insured by the FDIC, are not obligations of or guaranteed by KBC Bank NV or its affiliates, and are subject to investment risks, including possible loss of the entire amount invested.

This publication is for distribution in or from the United Kingdom only to persons who are authorised persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom or any order made thereunder or to investment professionals as defined in Section 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and is not intended to be distributed or passed on, directly or indirectly, to any other class of persons.

This publication is for distribution in Canada only to pension funds, mutual funds, banks, asset managers and insurance companies.

The distribution of this publication in other jurisdictions may be restricted by law, and persons into whose possession this publication comes should inform themselves about, and observe, any such restrictions. In particular this publication may not be sent into or distributed, directly or indirectly, in Japan or to any resident thereof.

Copyright © 2006 KBC Securities