



## **Ter Beke (EUR 50.5 - Reduce): Below expectations, margin focus seems to come in gradually**

### **Facts**

- Friday after closing, Ter Beke reported its H1 08 numbers which came in somewhat below expectations on most levels. Top line sales disappointed on both divisions.
- Sales in the Processed Meats division rose by 12% which is entirely explained by the inclusion of the acquired Berkhout in the group's numbers. Excluding this effect, turnover even dropped slightly as the termination of some volume contracts with Belgian and German discounters could not be compensated by growth in sales to other retailers. The traditional bulk channels posted a drop as well.
- The Ready Meals division, once Ter Beke's growth division, had to report a meagre sales increase of 1.4%. The downsizing of the low margin French contracts was slightly outpaced by organic growth. Important to mention is that an agreement with Weight Watchers® was reached in the first half of 08.
- On the operating level, numbers were below expectations. REBITDA, which corrects for the one-off reorganisation in France, came in at EUR 15.3m vs. EUR 15.5m expected. Nevertheless, this implies a 40bp rise in the underlying margin or 20bp better than expected. In its press release, the group clearly mentions raw materials are putting pressure on margins and that price increases did not fully compensate the increase. The Processed Meats division suffers from extra margin pressure as the GBP is not supportive and impacted margins negatively by EUR 0.9m. For the remainder of the year, the group has protected itself from a further drop in the Sterling.
- Depreciations increased more than expected to EUR 9.4m (vs. EUR 8.7m exp.) mainly due to the inclusion of Berkhout and the continuing investment programme. Ter Beke invested EUR 8.5m in the first 6 months, which is less than half our expected EUR 20m for the FY.
- Hence, EBIT came in at EUR 6.1m vs. EUR 6.5m expected representing a margin of 3.1% up 20bp YoY.
- Net financing costs were up EUR 0.7m to EUR 2.4m, in line with our expectations. Reasons for the rise are the acquisition of Berkhout and the translation of exchange rate losses on receivables expressed in GBP.
- With a slightly lower tax rate YoY of 26.3%, Ter Beke reports a net result of EUR 2.7m. However, on an adjusted basis, net result is in line at EUR 3.1m.
- For the remainder of the year, the group expects to post an increase of its result compared to 2007 barring unforeseen deterioration of the market environment.

### **Our view**

We were somewhat disappointed by the poor organic performance of the group when excluding the acquisition effect and the ceasing of its French contracts. Therefore, our top line expectations for the FY will need to be adapted.

On the margin side, however, we were positively surprised by the increase in the REBITDA margin. This is the first sign that management is indeed focussing on margins instead of volume. Of course, the increase is not yet something to get excited about and with raw materials not fully passed on, some margin erosion might still lurk. With a net debt/EBITDA expected to be around 2x at FY 08, the company must focus on its cash

flow management in order to cope with the current difficult environment.

## Conclusion

Ter Beke once again disappointed on the top line, but the margin focus seems to provide results gradually. Though we will slightly cut our estimates based on these numbers, the company is on the verge of reaching margin growth once again. At close to 13x 08 earnings and 5x 08 EV/EBITDA, we stick to our Reduce recommendation and keep our EUR 56 target price unchanged.

## Details

Analyst meeting will be held next week on the 4<sup>th</sup> of September. More details and feedback will follow afterwards.

<b>in EUR</b>	<b>H1 07a</b>	<b>H1 08e</b>	<b>H1 08a</b>	<b>YoY</b>	<b>Diff.</b>
Revenues (m)	177.4	199.5	192.1	8.3%	-3.7%
- processed meats	116.1	136.7	130.0	12.0%	-4.9%
- fresh meals	63.3	65.4	64.2	1.4%	-1.8%

  

<b>in EUR</b>	<b>H1 07a</b>	<b>H1 08e</b>	<b>H1 08a</b>	<b>YoY</b>	<b>Diff.</b>
REBITDA	13.4	15.5	15.3	14.1%	-1.5%
<b>margin</b>	<b>7.6%</b>	<b>7.8%</b>	<b>8.0%</b>		
REBIT	5.2	6.5	6.1	15.8%	-6.5%
Net declared result	2.6	3.1	2.7	6.2%	-11.4%
Net adjusted result	2.6	3.1	3.1	22.6%	2.3%
Declared EPS	1.48	1.77	1.57	6.1%	-11.5%
Adjusted EPS	1.48	1.77	1.81	22.4%	2.2%

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