

Texaf

22 August 2007

Discontinuation of textile activities

Investment Companies
Belgium

Performance over	1m	3m	12m
Absolute	-7%	-6%	43%
Rel. BEL20	3%	8%	35%
12m Hi/Lo	€ 158.00/85.00		
Reuters	TEXB.BR		
Bloomberg	TEXF.BB		
Market Cap	€ 41m		
Next corporate event	Results 1H07: 30 August 2007		

Current price € 130.00

Target price € 160.00

Accumulate

Rating Unchanged

FY/e 31.12	2006	2007E	2008E	2009E
Sales	5,610.5	6,823.4	7,982.9	9,548.2
REBITDA	2,033.5	2,995.8	3,734.7	4,575.3
Net earnings	1,791.2	1,792.3	2,186.5	2,708.0
Diluted, adjusted EPS	5.15	5.62	6.86	8.49
Dividend	1.10	1.25	1.40	1.55
P/E	18.9	23.1	19.0	15.3
EV/REBITDA	22.9	14.3	11.7	9.5
Free cash flow yield	4.2%	-2.9%	-1.5%	0.5%
Dividend yield	0.8%	1.0%	1.1%	1.2%

Source: KBC Securities

*Adjusted for goodwill and exceptionals

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Description: Texaf, a former subsidiary of Cobepa, is a Belgian investment company with real estate, industrial and financial interests in the Democratic Republic of Congo (DRC), whose revival the group is playing an active role in.

Investment arguments

- The group is ideally placed to benefit from the economic recovery of the Democratic Republic of Congo
- The outlook is bright. This year the group will step up investments.
- Potential recovery of Imbakin's receivable could add € 157 to the intrinsic value per share
- Our target price is based on a sum-of-the-parts-valuation

The Board of Congotex decided to discontinue the textile activities. Texaf's 43.75% stake in Congotex was already entirely written off because the textile activities had been loss-making for many years. Cha Textile (China) is currently the majority shareholder. Texaf tried to turn around the business through the establishment of a joint-venture with Cha Textile in 2005 but it was to no avail given the stoppage of cotton production in DRC (Democratic Republic of Congo), weak purchasing power and cheap imports from China. The closure of the factory will result in 1,000 redundancies. The factory is located on a site which is owned by Immotex (formerly 49.8% Texaf, 50.2% Cha). The shareholders of Immotex decided to transfer \$ 1m or €740,000 to the liquidator of Congotex. Note however that Congotex did not have to pay any rent to Immotex until 1 March 2010. From that date onwards Congotex would have been charged a preferential rate. Immotex will look for new tenants for the industrial buildings (89,000 m2). The factory is ideally located close to Kinshasa's new centre. The Monuc (the UN mission in DCR) is already renting similar facilities from Texaf on an adjacent site. The Monuc pays €4.63/m2 per month. The shareholders of Immotex might decide to revamp the site. Following an agreement with Cha, Texaf will become majority shareholder of Immotex with a stake of 50% + 1 share. The transfer of \$ 1m by Immotex to the liquidator of Congotex will have a one-off negative effect of €375.000 before tax (group share) on Texaf's results. We expect that this will be largely compensated by new rental income from next year onwards. Conclusion: the closure of the textile activities will give a boost to Texaf's real estate activities.

Financial data

Income statement (€th)	2005	2006	2007E	2008E	2009E
Sales	4,602.0	5,610.5	6,823.4	7,982.9	9,548.2
Gross profit	3,979.0	4,999.0	6,072.9	7,104.8	8,497.9
EBIT	2,257.0	1,675.4	2,005.8	2,714.7	3,435.3
Pre-tax earnings	2,183.0	1,692.1	1,851.0	2,514.7	3,235.3
Net earnings	1,665.0	1,791.2	1,792.3	2,186.5	2,708.0
EBITDA	2,797.0	2,278.5	2,995.8	3,734.7	4,575.3
REBITDA	1,109.0	2,033.5	2,995.8	3,734.7	4,575.3
REBITA	465.0	1,389.6	2,005.8	2,714.7	3,435.3
Balance sheet (€th)	2005	2006	2007E	2008E	2009E
Intangible assets	-	-	-	-	-
Tangible assets	34,310.0	34,014.8	37,524.8	40,504.8	43,364.8
Financial assets	9,213.0	9,025.5	9,300.9	9,601.3	9,929.2
Net other assets & liabilities	-1,574.0	-1,828.3	-2,177.0	-2,563.6	-3,091.3
Net working capital	-480.0	-409.0	-497.5	-582.0	-696.1
Net debt	-1,649.0	-3,220.7	-1,185.3	-163.8	74.5
Provisions	12,402.0	12,012.2	12,012.2	12,012.2	12,012.2
Minorities	38.0	35.2	-93.4	-93.4	-47.1
Equity	30,678.0	31,976.2	33,417.7	35,205.5	37,467.0
Capital employed	32,256.0	31,777.4	34,850.3	37,359.2	39,577.4
TOTAL ASSETS	46,695.0	47,772.2	50,144.0	53,115.1	56,851.0
Cash flow statement (€th)	2005	2006	2007E	2008E	2009E
Cash flow from operations	1,346.0	2,460.0	2,815.4	3,377.2	4,208.3
Net capital expenditure	-515.0	-485.0	-4,000.0	-4,000.0	-4,000.0
Free cash-flow	831.0	1,975.0	-1,184.6	-622.8	208.3
Acquisitions / disposals	-367.0	2.0	-500.0	0.0	0.0
Dividend payments	0.0	-316.0	-350.8	-398.7	-446.5
Shares issues	0.0	0.0	0.0	0.0	0.0
New borrowings / reimbursements	57.0	-43.0	400.0	500.0	500.0
Other	95.0	0.5	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	616.0	1,618.5	-1,635.5	-521.5	261.8
Performance criteria	2005	2006	2007E	2008E	2009E
Sales growth	-	21.9%	21.6%	17.0%	19.6%
Gross margin	86.5%	89.1%	89.0%	89.0%	89.0%
REBITDA margin	24.1%	36.2%	43.9%	46.8%	47.9%
REBITA margin	10.1%	24.8%	29.4%	34.0%	36.0%
EBIT margin	49.0%	29.9%	29.4%	34.0%	36.0%
Net debt / Equity + Minorities	-5.4%	-10.1%	-3.6%	-0.5%	0.2%
Net debt / EBITDA	-0.59	-1.41	-0.40	-0.04	0.02
EBITDA / net interest	37.80	-136.82	19.35	18.67	22.88
Pay-out ratio	19.2%	19.6%	22.2%	20.4%	18.3%
= Return on Equity (avg)	-	5.7%	5.5%	6.4%	7.5%
Return on Capital Employed (avg)	-	4.2%	4.8%	6.0%	7.1%
Per share data (€)	2005	2006	2007E	2008E	2009E
weighted average # shares, diluted	318,933	318,933	318,933	318,933	318,933
Basic EPS	5.22	5.62	5.62	6.86	8.49
Diluted EPS	5.22	5.62	5.62	6.86	8.49
Diluted, adjusted EPS	-2.49	5.15	5.62	6.86	8.49
Net book value / share	96.19	100.26	104.78	110.39	117.48
Free cash flow / share	2.61	6.19	-3.71	-1.95	0.65
Dividend	1.00	1.10	1.25	1.40	1.55
Valuation data	2005	2006	2007E	2008E	2009E
Reference share price (€)	40.06	97.21	130.00	130.00	130.00
Reference market capitalisation	12,776.1	31,003.2	41,461.3	41,461.3	41,461.3
Enterprise value (€ th)	14,354.1	30,804.3	42,893.9	43,615.0	43,571.7
P/E	-	18.9	23.1	19.0	15.3
EV/sales	10.5	8.3	6.3	5.5	4.6
EV/EBITDA	17.3	20.4	14.3	11.7	9.5
EV/Capital employed	1.5	1.5	1.2	1.2	1.1
P/ NBV	1.5	1.5	1.2	1.2	1.1
Free cash flow yield	1.8%	4.2%	-2.9%	-1.5%	0.5%
Dividend yield	0.7%	0.8%	1.0%	1.1%	1.2%

Source: KBC Securities

*Historic valuation data are based on historic prices

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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

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Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	44.40%	50.00%
ACCUMULATE	45.10%	50.00%
REDUCE	7.50%	0.00%
SELL	3.00%	0.00%

Texaf, a former subsidiary of Cobepa, is a Belgian investment company with real estate, industrial and financial interests in the Democratic Republic of Congo (DRC), whose revival the group is playing an active role in.

The price target for Texaf is based on following parameters: Sum of Parts

The risks which may impede the achievement of our price target are: High country risk related to the Democratic Republic of Congo including civil wars, social and political unrest, lack of a fiscal and administrative framework and nationalizations.

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
27-FEB-07	Accumulate	€ 160.00
03-JAN-07	Accumulate	€ 150.00
07-NOV-06	Buy	€ 130.00

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