

Texaf

23 April 2009

Carrigrès: earnings enhancing deal

Investment Companies
Belgium

Performance over	1m	3m	12m
Absolute	44%	42%	-9%
Rel. BEL20	29%	35%	84%
12m Hi/Lo	€ 133.90/74.00		
Reuters	TEXB.BR		
Bloomberg	TEXTF.BB		
Market Cap	€37m		
Next corporate event			
General Assembly 08: 29 April 2009			

Current price € 116.50

Buy
Target price € 160.00

Rating Unchanged

FY/e 31.12	2008	2009E	2010E	2011E
Sales (€th)	8,359.0	16,150.0	17,657.5	19,112.9
REBITDA (€th)	2,734.0	7,030.0	8,815.0	9,759.3
Net earnings (€th)	3,571.0	3,389.2	4,272.9	4,903.6
Diluted adj. EPS (€)	6.86	10.63	13.40	15.37
Dividend (€)	1.59	1.75	1.92	2.11
P/E	16.40	10.96	8.70	7.58
EV/REBITDA	22.15	9.58	7.76	6.47
Free cash flow yield	6.6%	-0.1%	5.7%	17.3%
Dividend yield	1.4%	1.5%	1.6%	1.8%

Source: KBC Securities

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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
- Texaf has ample investment opportunities including the development of the former textile factory site
- 2008 sales increased by 26% to €8.36m but REBIT fell by 4% to €1.96m due to higher wage costs
- The stock is trading at a significant discount versus the sum-of-the-parts valuation

We have adjusted our forecasts following the announcement two weeks ago of a transaction in which Texaf is increasing its stake in Carrigrès from 48.8% to 100%. Carrigrès will be fully consolidated from 1 January 2009. We applaud the move for several reasons:

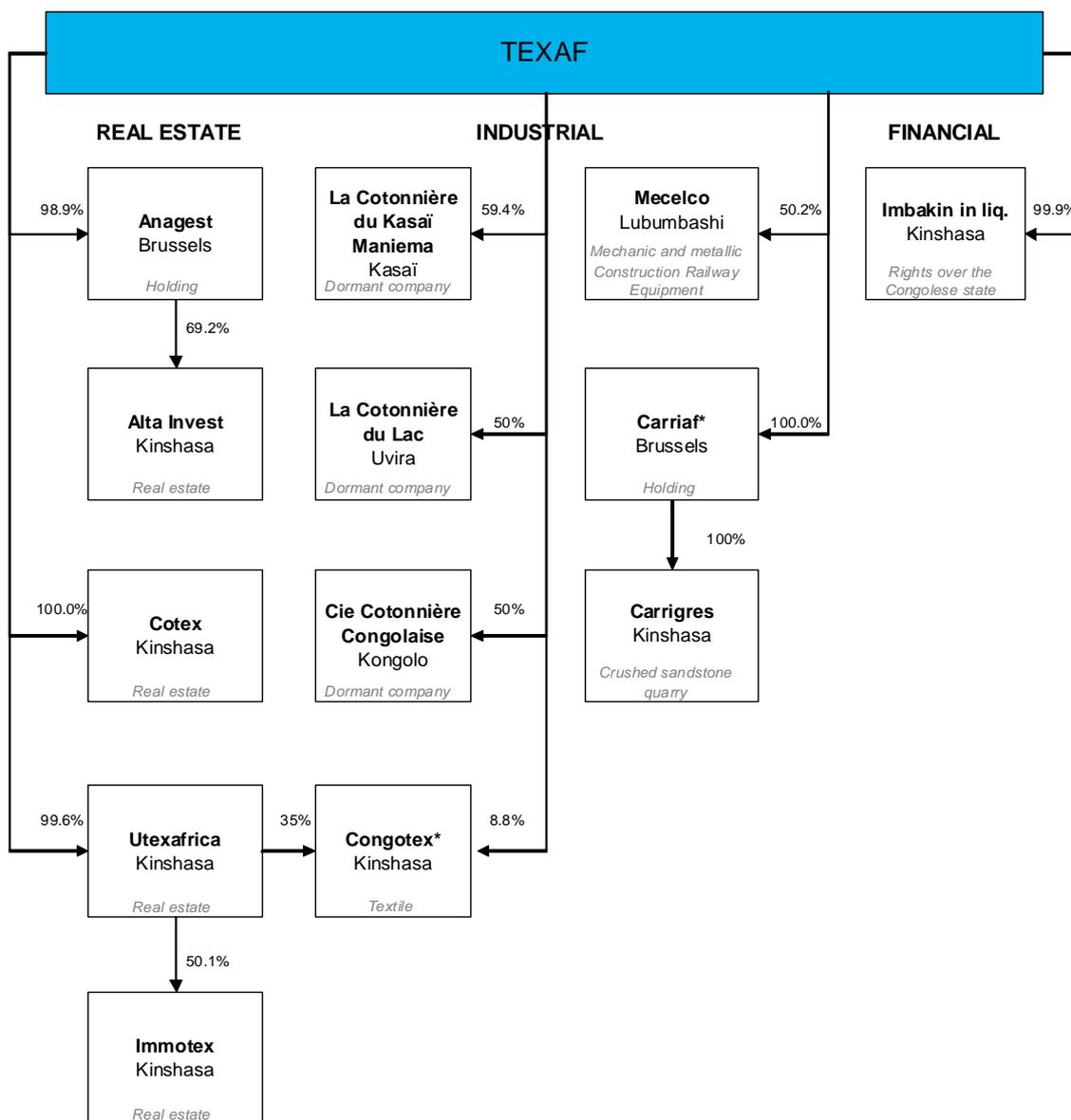
- It will enhance the group's image as an industrial player in DRC;
- It should increase Texaf's FY09 EPS by €3.3;
- Carrigrès is a cash cow. With 100% control, Texaf has full access to Carrigrès' free cash flow to fund its projects.

Management is aiming at a significant increase in EBIT this year. We have raised our EPS forecasts for 2009 and 2010 by respectively 17% and 20%. The positive impact from the 100% inclusion of Carrigrès is partly offset by a higher tax rate assumption. Texaf has a very strong balance sheet, with a net cash position at end-2008 of €4.8m. The group invested €3.6m in 2007 and €5.6m in 2008. Investments should increase further this year, partly as a result of the Carrigrès transaction.

We reiterate our BUY rating and our target price of €160. Our target price reflects a discount of about 30% versus the sum-of-the-parts valuation of €232.

Corporate structure

The group has three types of activity: industrial, real estate and financial. The real estate portfolio contains assets in several of Kinshasa's top locations. The industrial activities include a quarry (Carrigrès) and a metal/mechanics workshop (Mécélco). The Congolese state owes €62m (excluding interest) to Imbakin, a 99.9% subsidiary of Texaf.



* in liquidation

Carrigrès: profit enhancing deal

Carrigrès owns a crushed sandstone quarry near the centre of Kinshasa. On 9 April 2009, Texaf announced that it had increased its stake in Carrigrès from 48.8% to 100% after Eiffage sold its 50% stake for €5.75m. The move implies an equity value of €11.5m for 100% of Carrigrès and an EV of €10m. Carrigrès' net cash position amounted to €1.5m at the end of 2008, with EBITDA and free cash flow of respectively €3.5m and €1.5m. For this year, we forecast EBITDA and free cash flow of respectively €4.6m and €2.5m, implying an EV/EBITDA multiple of 2.2x and a pay-back period of 4 years. The price tag will be paid in three tranches: €2.95m in 2009, €2.50m in 2010 and €0.30m in 2011. Texaf's net cash position (€4.76m at the end of 2008) and Carrigrès' cash flow are ample to cover the price tag. The deal is earnings enhancing because the average interest rate on the group's cash balance is negligible. If we assume a 2% interest rate on cash balances, the deal should enhance the group's EPS by €3.3 this year. Carrigrès will be fully consolidated from 1 January 2009. In previous years, Carrigrès was included using the equity accounting method.

In recent years, significant investments – financed by internal cash flow – have been carried out at Carrigrès, including the renewal of crushing units and loading and transport equipment. The site covers 49 hectares, of which 19 are currently being extracted. The sandstone reserves are significant because extraction can be expanded both horizontally and by digging deeper. However, if Carrigrès decides to use the entire site, a solution will have to be found for squatters who occupy part of the property. Revenues were up 38% last year thanks to price increases and an 18% rise in volumes. The EBIT margin (before management fee) improved from 22% in 2007 to 36% in 2008.

We welcome this transaction because it enhances Texaf's image as an industrial player in the DRC. Moreover, following the deal, Texaf has free access to Carrigrès' free cash flow, which will boost the group's auto-financing capacity.

Carrigrès	2005	2006	2007	2008	2009E
Tonnes (th)	305	411	411	487	520
Sales (€ th)	3,835	4,817	5,537	7,628	8,000
Operating profits before mgt fees	1,475	1,127	1,219	2,741	3,700
Management fees	300	650	650	1,500	-
Operating profits after mgt fees	1,175	477	569	1,241	3,700
Net profits after mgt fees*	267	205	174	677	2,200
Net profits before mgt fees*	417	530	499	1,427	2,200

Source: Company, KBC Securities

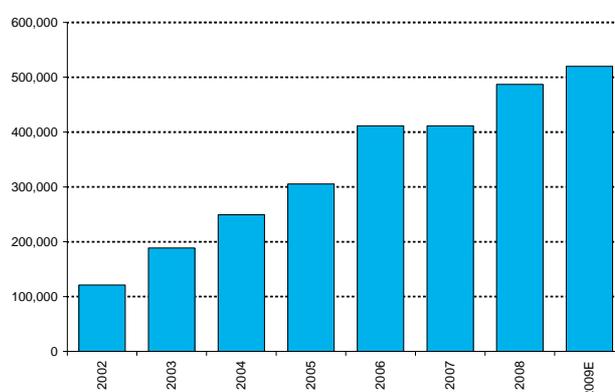
*Texaf's share

The Carrigrès quarrying site



Source: Company

Carrigrès sales volumes (tonnes)



Source: Company

Metal/mechanics workshop

Mécelco (mechanic/metallic workshop) has two lines of business: the repair and maintenance of railway wagons and the production of tanks, tubs and metallic structures such as mobile phone masts. Despite lower revenues from the repair and maintenance of railway wagons, Mécelco's sales were up 75% last year thanks to the turnaround strategy that has been pursued since 2007.

Mécelco reported a positive EBIT of €2.783m in 2008 versus a €0.115m loss in 2007 thanks to a €2.905m gain on the disposal of trade receivables on Gécamines that had previously been written off. During 4Q08, mining activities were down sharply in Katanga. This has a negative impact on demand for railway wagon repairs. Visibility on 2009 is therefore poor.

Mécelco	2005	2006	2007	2008*	2009E
Sales (€ th)	342	646	1,050	1,834	1,800
Operating profits	-307	-305	-115	-122	-100
Net profits group share	-313	-286	-196	-61	-50

Source: Company, KBC Securities

* before recovery receivables

Real estate

Texaf, Utexafrica, Cotex, Fometro and Matindus own 35 villas and 91 apartments in addition to offices and industrial buildings. The group also has a 50.01% stake in Immotex. The group's rental income (including 100% of Immotex) rose by 13% to €5.74m in 2008 or 7% on a comparable basis and 10,590 m² additional space has been let, including 6,000 m² of warehouse space.

Texaf's real estate portfolio

	% stake	Land (ha)	Rent 2008 (€)
Texaf, Utexafrica, Cotex, Fometro, Matindus	100%		
Residential			2,906,717
Offices			706,736
Industrial buildings			1,532,291
Total		40	5,145,744
Immotex	50.01%		
Residential			8,776
Offices			429,045
Industrial buildings			161,292
Total		120	599,113
TOTAL		160	5,744,857

Source: Company

The Utexafrica site comprises the former textile factory and properties that belong to Utexafrica, Immotex and Texaf. As Kinshasa's centre has expanded, this land has become a prime location, being close to the embassies and business centre. The construction of a swimming pool and clubhouse was completed last year. As the occupancy rate of the residential properties is 100%, the decision was made to build an additional six apartment buildings comprising 48 apartments in total. The first two apartment buildings comprising 15 apartments (3,780m²) will be completed by the end of this year.

Texaf and the Cha group have stakes in Immotex of respectively 50.01% and 49.99%. The latter owns the textile factory (14 hectares) which is located on the Utexafrica site. In 2007, a decision was made to discontinue the loss-making textile activities (Congotex). So far, Immotex managed to let 8,488m² of the industrial buildings without major renovation works. The tenant pays € 439,000/year or € 52/m².

Immotex also owns the 106ha CPA site that is located in Kinsuka, about 10km from Kinshasa. Problems related to illegal squatting have been resolved.

To date, Texaf has not been able to obtain usage of the Fométo property that was acquired in February 2008.

New apartment project



Source: Company

Utexafrica site



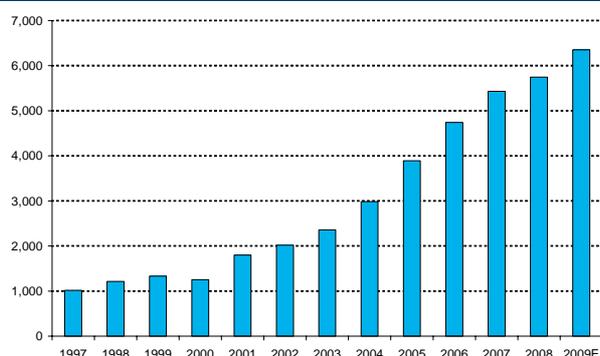
Source: Google

Early in June 2007, Texaf announced the acquisition of Atenor's 85.3% stake in Anagest for €0.5m, lifting Texaf's total stake from 13.6% to 98.9%. The Congolese state and Anagest own respectively 30.76% and 69.24% of Alta Invest, a Congolese company that owns three apartment buildings ("Immeubles Sabena") in a much sought-after neighbourhood of Kinshasa. The properties are comprised of 84 apartments and 8 studios with a total living surface of 17,452m². Alta Invest received the assets from the Congolese state as compensation for an old receivable, but they do not generate rental income as Texaf has failed so far to take over the management of the buildings.

Demand for residential properties and offices in prime locations of Kinshasa remains strong. Texaf's properties are located in much sought-after neighbourhoods. For example, a new French embassy is being built close to the Utexafrica site.

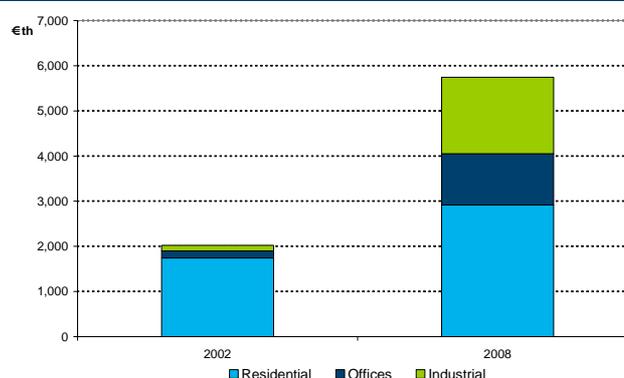
Texaf's rental income (including 100% of Immotex) is expected to rise 11% to reach € 6,350m in 2009.

Rental income (€th)



Source: Company, KBC Securities

Breakdown rental income



Source: Company, KBC Securities

Imbakin

Texaf owns 99.9% of Imbakin. In 1997, a court ruled that the Congolese state owes Imbakin €64m following the nationalization of land in 1961. The first €12m will go to Cobepa as compensation for its financial support in 2001. A cash payment seems improbable, but a payment in kind (e.g. factories, plantations, buildings) is likely. Texaf will continue the negotiations but the outcome remains uncertain.

FY08 review

Texaf's sales were up 26% last year thanks to Mécélco's excellent performance (+75%) and the 13% rise in rental income. REBITDA rose by 9.2% from €2.504m in 2007 to €2.734m in 2008. REBIT fell slightly as a result of the €0.711m rise in personnel costs, higher depreciation charges and higher local taxes. The rise in personnel costs is due to wage indexation and the reinforcement of Texaf's real estate team.

Texaf: 2008 results

€th	2007	2008	% change	KBC Sec
Turnover	6,615	8,359	26.4%	7,550
REBITDA	2,504	2,734	9.2%	
REBIT	2,043	1,957	-0.4%	1,798
Non-recurring	813	2,794	243.7%	2,702
EBIT	2,856	4,751	66.4%	4,500
Financial result	9	59		-100
Pretax	2,865	4,810	67.9%	4,400
Taxes	-463	-1,034	123.3%	-360
Associates	207	678	227.5%	790
Minorities	288	-885		-974
Other incl discontinued	-412	2		-
Net profits	2,485	3,571	43.7%	3,856
Current net profits	1,819	2,187	20.2%	2,164

Source: Company, KBC Securities

EBIT rose by 66% to €4.751m. Non-recurring items (€2.794m) include a €2.905m gain on the disposal of receivables by Mécélco. The trebling of results under equity accounting reflects Carrigrès outstanding results. Note that the tax charge is largely composed of deferred taxes. Current net profits rose by 20% to €2.187m and reported net profits increased by 44%. The board proposes a gross DPS of 1.59 for 2008 or a 20% increase versus 2007.

Outlook

The impact of the financial crisis on the Democratic Republic of Congo has been limited due to the absence of a complex banking system. However, mining activities have been affected by the global recession and the Mécélco railway wagon repair and maintenance activities are being negatively impacted as a result.

Management anticipates a significant increase in REBIT this year mainly on the back of the Carrigrès deal.

Texaf group: forecasts						
€th	2008	2009E Old	2009E New	2010E Old	2010E New	2011E New
Sales	8,359	9,637	16,150	12,784	17,658	19,113
Recurring operating profits	1,957	2,890	5,330	4,070	6,915	7,859
Non-recurring items	2,794	-	-	-	-	-
Reported operating profits	4,751	2,890	5,330	4,070	6,915	7,859
Financial results	59	-100	-120	-130	-139	-29
Pretax profits	4,810	2,790	5,210	3,940	6,776	7,831
Equity accounting	678	869	-	956	-	-
Taxes	-1,034	-558	-1,823	-788	-2,372	-2,741
Other incl discontinued	2	-	-	-	-	-
Minorities	-885	-215	3	-546	-132	-186
Net profits	3,571	2,886	3,389	3,562	4,273	4,904
Current net profits	2,187	2,886	3,389	3,562	4,273	4,904
Current EPS	6.86	9.05	10.63	11.17	13.40	15.37
% change	20.2%	33.4%	55.0%	23.4%	26.1%	14.8%

Source: Company, KBC Securities

Valuation

We arrive at an equity value of €73.93m and a value per share of €232 based on a sum-of-the-parts method.

Valuation Texaf		
	€m	Comment
REAL ESTATE		
Net book value real estate activities 31.12.08 (1)	42.61	
Utexafrica, Cotex, Texaf, Matindus (100%)		
Book value of tangible fixed assets	36.87	
Estimated market value	64.50	€ 165/m ²
Capital gains taxes	-11.05	
After tax value adjustment (2)	16.58	
Immotex (50%)		
Estimated market value CPA site	10.58	€ 10/m ²
Estimated market value former textile factory site	23.10	€ 165/m ² .
Capital gains taxes (40%)	-3.10	
Texaf's stake in net proceeds	15.32	
Book value Immotex in Texaf's books	7.10	
After tax adjustment (3)	8.22	
Adjusted book value real estate activities (4)	67.40	(1) + (2) + (3)
METAL/MECHANICS WORKSHOP		
Mécelco (5)	0.94	Book value minus dividend payment
SANDSTONE QUARRY		
Carrigrès		
Free cash flow forecast Carrigrès FY09	3.40	Net profit+deprec-capex
Free cash flow yield	30%	
Equity value Carrigrès (6)	11.33	100% stake
Price tag 50% Carrigrès	-5.75	
Equity value Texaf group	73.93	(4) + (5) + (6) + (7)
Number of shares	318,933	
Value per share (€)	232	

Source: Company, KBC Securities

Financial data

Income statement (€th)	2005	2006	2007	2008	2009E	2010E	2011E
Sales	4,602.0	5,610.5	6,615.0	8,359.0	16,150.0	17,657.5	19,112.9
Gross profit	3,979.0	4,999.5	6,064.0	7,268.2	14,071.0	15,493.6	16,817.5
EBIT	2,257.0	1,675.0	2,856.0	4,751.0	5,330.0	6,915.0	7,859.3
Pre-tax earnings	2,183.0	1,691.0	2,865.0	4,809.5	5,209.6	6,776.1	7,830.7
Net earnings	1,665.0	1,791.0	2,485.0	3,571.0	3,389.2	4,272.9	4,903.6
EBITDA	2,797.0	2,279.0	3,317.0	5,581.0	7,030.0	8,815.0	9,759.3
REBITDA	1,109.0	2,034.0	2,504.0	2,734.0	7,030.0	8,815.0	9,759.3
REBITA	465.0	1,390.0	1,789.0	1,957.0	5,330.0	6,915.0	7,859.3
Balance sheet (€th)	2005	2006	2007	2008	2009E	2010E	2011E
Intangible assets	-	-	-	-	-	-	-
Tangible assets	34,310.0	34,014.0	62,059.0	65,370.7	75,739.1	78,349.1	77,219.1
Financial assets	9,213.0	9,026.0	1,476.0	2,165.5	25.5	25.5	25.5
Net other assets & liabilities	-1,574.0	-2,037.3	-1,258.0	-2,491.0	-5,888.0	-3,684.5	-3,608.1
Net working capital	-480.0	-200.5	-750.0	-510.1	929.9	892.8	913.3
Net debt	-1,649.0	-3,221.2	-2,863.0	-4,756.8	-2,751.6	-1,827.0	-7,342.0
Provisions	12,402.0	12,012.2	21,848.0	22,580.7	23,966.7	23,970.7	23,974.9
Minorities	38.0	35.2	8,066.0	9,032.0	9,029.1	9,160.6	9,347.0
Equity	30,678.0	31,976.2	34,476.0	37,679.0	40,562.1	44,278.4	48,569.7
Capital employed	32,256.0	31,776.2	60,051.0	62,369.6	70,781.0	75,557.5	74,524.3
TOTAL ASSETS	46,695.0	47,771.9	69,820.0	75,501.1	86,942.3	88,943.9	93,690.5
Cash flow statement (€th)	2005	2006	2007	2008	2009E	2010E	2011E
Cash flow from operations	1,346.0	2,460.0	2,978.0	6,554.0	5,275.2	6,642.1	7,197.3
Net capital expenditure	-515.0	-484.0	-2,148.0	-4,188.0	-5,321.4	-4,510.0	-770.0
Free cash-flow	831.0	1,976.0	830.0	2,366.0	-46.2	2,132.1	6,427.3
Acquisitions / disposals	-367.0	2.0	-310.0	0.0	-2,950.0	-2,500.0	-300.0
Dividend payments	0.0	-316.0	-350.0	-421.0	-506.1	-556.7	-612.3
Shares issues	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New borrowings / reimbursements	57.0	-43.0	964.0	-701.0	2,000.0	0.0	0.0
Other	95.0	0.0	-680.0	34.0	1,497.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	616.0	1,619.0	454.0	1,278.0	-5.2	-924.6	5,515.0
Performance criteria	2005	2006	2007	2008	2009E	2010E	2011E
Sales growth	-	21.9%	17.9%	26.4%	93.2%	9.3%	8.2%
Gross margin	86.5%	89.1%	91.7%	87.0%	87.1%	87.7%	88.0%
REBITDA margin	24.1%	36.3%	37.9%	32.7%	43.5%	49.9%	51.1%
REBITA margin	10.1%	24.8%	27.0%	23.4%	33.0%	39.2%	41.1%
EBIT margin	49.0%	29.9%	43.2%	56.8%	33.0%	39.2%	41.1%
Net debt / Equity + Minorities	-5.4%	-10.1%	-6.7%	-10.2%	-5.5%	-3.4%	-12.7%
Net debt / EBITDA	-0.59	-1.41	-0.86	-0.85	-0.39	-0.21	-0.75
EBITDA / net interest	37.80	-142.44	-368.56	-95.34	58.39	63.47	341.37
Pay-out ratio	19.2%	19.5%	16.9%	14.2%	16.4%	14.3%	13.7%
= Return on Equity (avg)	-	5.7%	7.5%	9.9%	8.7%	10.1%	10.6%
Return on Capital Employed (avg)	-	4.2%	5.0%	6.1%	5.2%	6.1%	6.8%
Per share data (€)	2005	2006	2007	2008	2009E	2010E	2011E
weighted average # shares, diluted	318,933	318,933	318,933	318,933	318,933	318,933	318,933
Basic EPS	5.22	5.62	7.79	11.20	10.63	13.40	15.37
Diluted EPS	5.22	5.62	7.79	11.20	10.63	13.40	15.37
Diluted, adjusted EPS	1.88	5.15	6.36	6.86	10.63	13.40	15.37
Net book value / share	96.19	100.26	108.10	118.14	127.18	138.83	152.29
Free cash flow / share	2.61	6.20	2.60	7.42	-0.14	6.69	20.15
Dividend (€)	1.00	1.10	1.32	1.59	1.75	1.92	2.11
Valuation data	2005	2006	2007	2008	2009E	2010E	2011E
Reference share price (€)	40.06	97.21	135.42	112.47	116.50	116.50	116.50
Reference market capitalisation (€)	12,776.1	31,003.2	43,189.3	35,871.0	37,155.7	37,155.7	37,155.7
Enterprise value (€th)	14,354.1	30,803.4	68,764.3	60,561.4	67,374.3	68,434.5	63,110.0
P/E	21.3	18.9	21.3	16.4	11.0	8.7	7.6
EV/sales	3.1	5.5	10.4	7.2	4.2	3.9	3.3
EV/EBITDA	5.1	13.5	20.7	10.9	9.6	7.8	6.5
EV/Capital employed	0.4	1.0	1.1	1.0	1.0	0.9	0.8
P/ NBV	0.4	1.0	1.3	1.0	0.9	0.8	0.8
Free cash flow yield	6.5%	6.4%	1.9%	6.6%	-0.1%	5.7%	17.3%
Dividend yield	2.5%	1.1%	1.0%	1.4%	1.5%	1.6%	1.8%

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, Hold, Reduce and Sell (see definitions below).

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 15% over a 6-month period
HOLD	Expected total return (including dividends) between -5% and 5% over a 6-month period
REDUCE	Expected total return (including dividends) between -15% 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	38.00%	0.00%
ACCUMULATE	38.00%	0.00%
HOLD	20.00%	0.00%
REDUCE	4.00%	0.00%
SELL	0.00%	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
09-APR-09	Buy	€ 160.00

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