Texaf

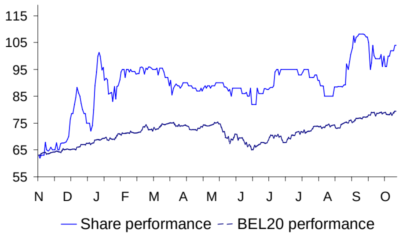
8 November 2006

Hidden values in Congo (DRC)

Investment Companies

Belgium

Current Price	€ 104.00	**Buy**
Target Price	€ 130.00	Initiating coverage



Source: Thomson Financial Datastream

FY/e 12.31	2005	2006E
Sales (€ th)	4,602.0	5,676.1
EBITDA (€ th)	2,797.0	2,174.5
Net earnings (€ th)	1,665.0	1,462.6
Current EPS* (€)	0.72	4.59
Published EPS (€)	5.22	4.59
Dividend per share (€)	1.00	1.05
P/E (x)	55.8	22.7
Dividend yield (%)	2.5%	1.0%
EV/EBITDA (x)	0.7	9.8

Source: KBC Securities **Adjusted for goodwill and exceptionals*

Reuters	TEXB.BR
Bloomberg	TEXF BB
www.texaf.be	

Market Cap	€ 33m
Shares outst.	0.3m
Volume (Daily)	€ 0.01m
Free float	19%

Next corporate event

FY06 results : February 2007

Performance over	1m	3m	12m
Absolute	-3%	9%	68%
Rel. BEL20	-6%	-2%	33%
Relative to sector	-3%	9%	51%
12-m Hi/Lo	€ 108.20/62.00		

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- Texaf has a diversified portfolio of activities in the Democratic Republic of Congo (DRC) including real estate assets in top locations, a sandstone quarry, a metallic/mechanical workshop and textile production facilities.
- The group is ideally placed to benefit from the economic recovery of the DRC. After many years of civil war, a peace agreement was signed in 2002 and the first free elections in more than 40 years were held this year. International organizations such as the IMF have been stepping up their support and GDP has started to grow again. The economy is expected to see sustainable growth of 6% annually over the coming years.
- Since the MBO in 2002, Texaf's management has succeeded in turning around the business and in 2005, a solution was found for the loss-making textile activity. Today the group is ready to look for new investment opportunities.
- Our sum-of-the-parts method generates a value of € 144 per share based on conservative assumptions. This value excludes any potential recovery of DRC's outstanding debt towards a Texaf subsidiary. Our target price of € 130 implies a 10% discount versus the sum-of-the-parts value. This discount reflects the country risk and illiquidity of the stock. Note however that if Texaf does succeed in recovering the nominal amount of the above-mentioned DRC debt, its value per share will be boosted by € 157.

Contents

Business description

Diversified activities in the Democratic Republic of Congo

Texaf is a Belgian investment company with industrial, financial and real estate interests in the Democratic Republic of Congo (DRC). The group's investments include real estate, textile production facilities (through a joint-venture), a sandstone quarry and a mechanic/metallic workshop. Moreover, DRC has significant debt outstanding in favour of Texaf. Going forward, the group might further diversify its investment portfolio. For example, management is currently analysing investment opportunities in the agro sector.

Ideally positioned to benefit from the revival of DRC

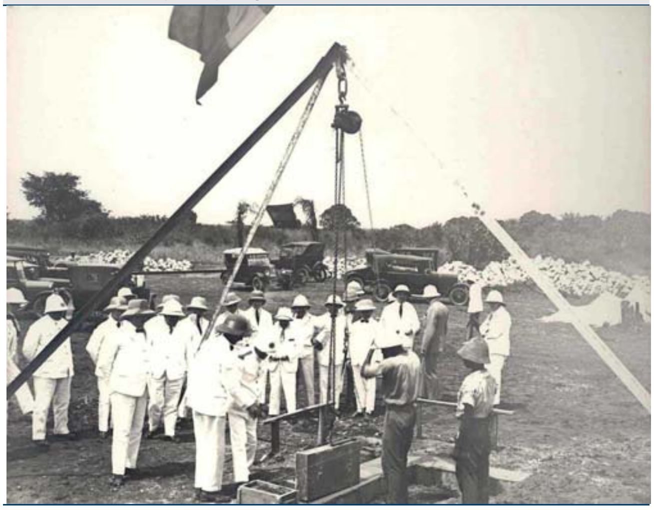
Texaf wants to play a central role in the revival of DRC and to attract foreign investment. In pursuance of this objective, the company can raise capital directly or via the creation of funds. Note that Texaf's balance sheet is debt-free and its operating cash flow (€ 2m per year) is on the rise.

History

1925	Texaf is founded by a group of industrialists from Renaix (Belgium) with the aim of building a textile factory in Congo and developing local cotton cultivation. Its initial capital equalled BEF 20m.
1927	Texaf acquires a land plot (leasehold) in Kinshasa for the new factory, which opens in 1928. Two capital increases to finance the construction amount to BEF 130m in total.
1934	Texaf becomes victim of rapid growth. Crédit Anversois takes control of the company and the cotton plantations are sold. During World War II, the capacity of the Utexleo factory is doubled to satisfy demand for uniforms.
1972	Cobepa obtains a seat on Texaf's board of directors.
1974	Utexleo is nationalized but is returned to the private sector two years later.
1978	Texaf resumes cotton cultivation in response to a request from the government.
End 80s	Cobepa becomes majority shareholder in 1987. Modernisation of the textile factory (new name: Utexafrica).
1991	The renovation of the factory is completed but production almost halts as a result of country-wide plundering.
1993	Second wave of plundering and several employees are murdered. Chaos reigns.
1997	Mobutu's resignation is followed by several years of unrest and war until 2002.
2000	BNP-Paribas takes full control of Cobepa. The latter has an 82% stake in Texaf.
2001	Utexafrica is prosecuted and ordered to pay back its debt despite previous agreements with IFC[1]. The liquidation of Texaf is avoided thanks to Cobepa's financial support. A compromise is reached with the IFC.
2002	Philippe Croonenberghs takes over Texaf through SFA. SFA allocates 7% of the outstanding Texaf shares to the management team in Congo.
2004	Texaf signs an agreement with Cha Textiles (Hong Kong) whereby CONGOTEX is founded to regroup the loss making Congolese textile activities of Texaf and Cha Textiles. Texaf has a 44% stake in the new entity.
2006	First elections in more than 40 years take place in the Democratic Republic of Congo.

[1] International Finance Corporation, a part of World Bank Group.

Textile factory: laying of the first stone in 1927



Source: Company

Textile factory: transportation of workers in 1927

Source: Company

Congotex

Source: Company

Congotex

Source: Company

Texaf: villa

Source: Company

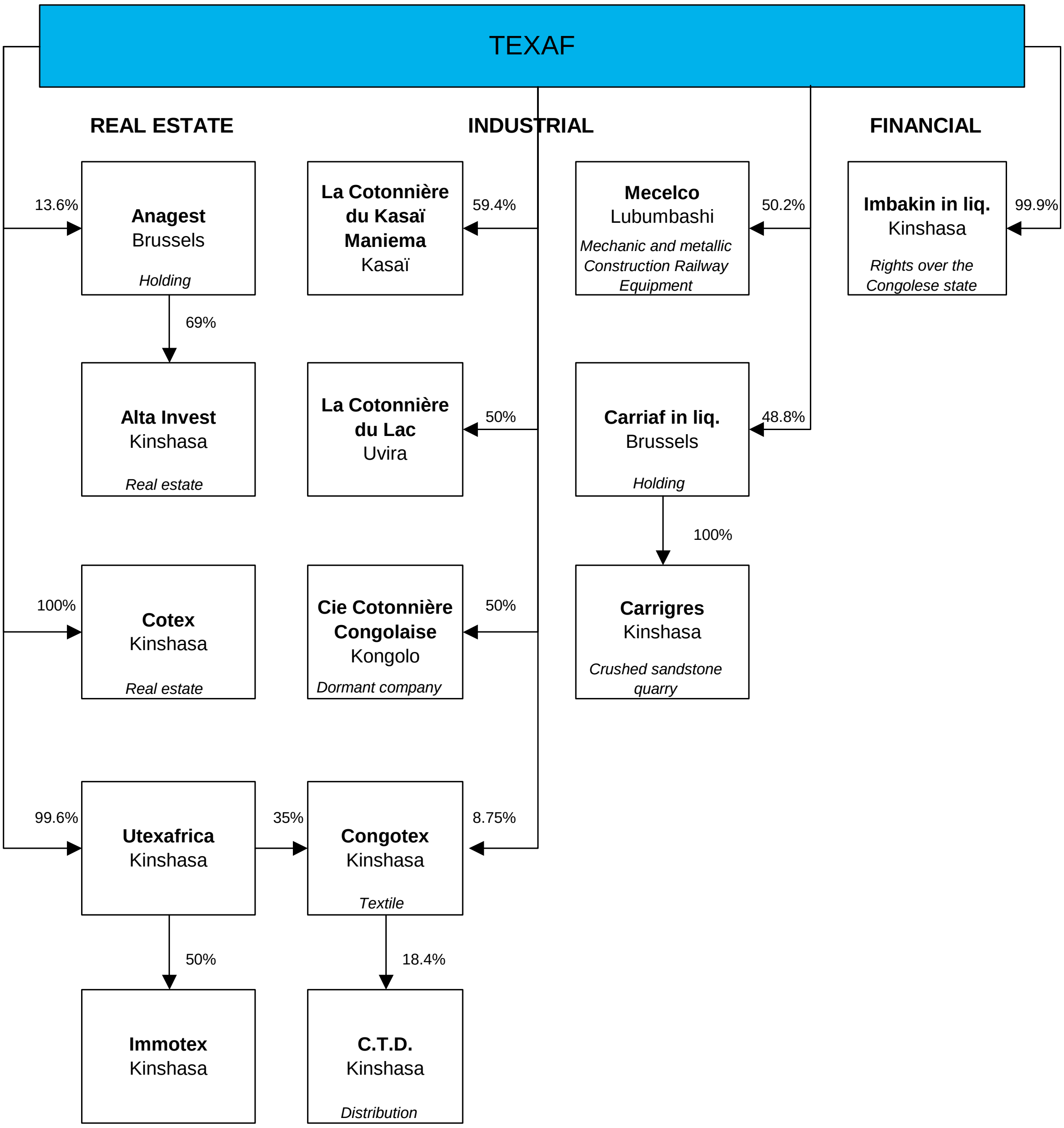
Mécelco: workshop

Source: Company

Corporate structure

Three lines of business

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 the textile activities (JV with Cha Textiles), a quarry (Carrigrès) and a metallic/mechanical workshop (Mécelco). The Congolese state owes € 62m (excluding interest) to Imbakin, a 99.9% subsidiary of Texaf.



Real estate activities

Real estate: up to more than 90% of Texaf's fair value

We estimate that real estate assets make up more than 90% of Texaf's fair value (excluding DRC's outstanding debt – see Imbakin on page 11). All of Texaf's real estate assets are leasehold properties. Note that foreigners and companies are legally forbidden from owning properties on a freehold basis. The Congolese State grants extendable, 25-year concessions. Most of Texaf's leaseholds or concessions mature in 2025 or beyond and management feels confident that Texaf will be able to extend them.

Real estate in DRC: leaseholds or concessions

Annualized rental income € 4.9m

The following table gives an overview of Texaf's real estate portfolio. On an annualized basis rental income currently amounts to € 4.9m (vs. € 4.2m in 2005).

Texaf's real estate portfolio

	% stake	Land m^2	Units	Lettable space m^2	Rental income*
Utexafrica site					
of which fully owned:	99.6%	273,825			
Villas			35	10,431	1,111
Apartments			86	17,042	1,417
Offices				4,253	270
Industrial buildings				15,094	722
Total					**3,520**
of which Immotex:	49.8%	141,184			
Offices				2,066	282
Industrial buildings				91,726	168
Total					**450**
Cotex site	100%	32,442			
Villas			1	187	10
Offices				3,006	183
Industrial buildings				13,132	740
Total					**934**
CPA site	49.8%	1,057,522			
Villas			15	3,763	14
Industrial buildings				23,344	
Total					**14**
Matindus site	100%	2,023			
Apartments			2		
Offices				120	
Industrial buildings				1,703	
Total					**0**
TOTAL		**1,506,996**			**4,918**

Source: Company ** Annualized € th*

Utexafrica site

Historic location of Texaf's original textile factory

Part of it contributed to JV with Cha Textiles

In the past, Utexafrica had a 41-hectare concession bordering the South Western corner of the Kinshasa city centre. The original textile factory was built on this plot. With the expansion of Kinshasa's centre, this land has become a prime location. In 2005, Cha Textiles (Hong Kong) and Texaf created two joint-ventures: Congotex and Immotex. The former regroups Cha's and Texaf's textile activities in DRC. The latter owns the industrial buildings of the textile activities. Utexafrica contributed part of its property including 14 hectares and a textile factory. This factory will not pay rent until 2010, although it may be moved to a site further out of the city centre. Given the steep rise in land prices, we believe it would make sense to use this site for other purposes, like villas, lofts, or apartments.

Prime location

Scope for further development

Texaf and Utexafrica still own 100% of the remaining 27 hectares of the original site. Since 2003, 9 villas and 9 apartments have been built and a number of premises renovated. About 5 hectares have yet to be built on. There is scope to develop this site further with the addition of about 60 apartments and several villas. The group is also upgrading the site through renovations, the construction of a clubhouse and sport facilities. It has become a sought-after location for senior managers given its top location, facilities and security. Last year, a rental contract was signed with Monuc (the UN mission in DCR). The French Embassy also plans to move to an adjacent plot. Rental rates have risen by 4% on average this year. Texaf does not incur a foreign exchange risk because virtually all rent is paid in €.

Utexafrica site: apartment building

Source: Company

Utexafrica site

Source: Google

Cotex site

Warehouses and office space

Cotex (100% stake) owns 16,000 m^2 of warehouses and office space. The site is adjacent to the Utexafrica site. The group intends to transform existing warehouses into offices.

Contex: offices

Source: Company

Contex: warehouses

Source: Company

CPA site

Cha Textile's production site

This 106 hectare site located 10km South West of Kinshasa is owned by Immotex. Cha Textiles' original textile factory is located on the site. There are 80 spare hectares left for further development.

Matindus site

Garage with offices

This site is located 1.5km from the Utexafrica site. It includes a garage and offices. In 1998, the army seized the garage but Texaf recently managed to recuperate it and intends to let it.

Other

Cotton companies and concession

In addition to the above-mentioned properties, Texaf has a stake in three cotton companies in Kasaï, Kivu and North Katanga and a concession that expires in 2020. They have been inactive since 1991 due to the destruction of the roads in the war and the theft of equipment.

16.4% stake in Alta-Invest

Texaf and Atenor (Belgian real estate group) own respectively 16.4% and 79.2% of Atla-Invest. The latter has an outstanding receivable following the nationalization of Comectrik in 1974. In 1995, the former shareholders of Comectrik received compensation through the retrocession of a building in Kinshasa. This building was sold in 2005.

13.6% stake in Anagest, an Atenor subsidiary that owns three apartment buildings in the centre of Kinshasa

Texaf also has a 13.6% stake in Anagest, a subsidiary of Atenor that controls 69% of Alta-Invest. A few years ago Anagest obtained the retrocession of 3 buildings (82 apartments & 8 studios) situated in the centre of Kinshasa but the company has not yet managed to collect any rental income.

Industrial activities

Textile activities

44% stake in JV with Cha Textiles

Congotex (equity accounting; 44% stake) is managed by Cha Textiles. One of its production sites is located on Utexafrica's original production site. Company sales increased last year as a result of rising orders from the public sector (blankets, uniforms). Congotex is however struggling to increase market share in the private sector because of tough competition from Asia. Even though net losses fell from $ -8.306m in 2004 to $ -2.179m in 2005, the situation remains precarious given the company's weak financial structure. Working capital requirements have risen as a result of supply chain problems. Congotex is included on Texaf's balance sheet with a book value of € 1.546m.

Congotex (statutory accounts)

$ th	**2005**	**1H06**
Sales	10,625	8,099
Operating profits	-2,059	-325
Net losses	-2,179	-541

Source: Company

Metallic/mechanical workshop

To be revitalised to benefit from growing demand from the mining industry

Mécelco (fully consolidated; 50.2% stake) owns a metallic/mechanical workshop in Lubumbashi, which maintains and repairs railway wagons used by the mining sector. The company is under-capitalised as a result of Gécamines' (the nationalized mining group) failure to pay outstanding invoices ($ 8.1m including interest). It is also loss-making because the lack of cash makes it difficult to attract sales. There exists a possibility however that Gécamines will pay back its debt. Texaf aims to revitalise this activity on the back of growing demand from the Katanga mining sector. Texaf will hire a manager to run the company as soon as an agreement is reached with Gécamines on the rescheduling of the outstanding debt. Even though the performance improved during 1H06, management remains very cautious for 2H06.

Mécelco

$ th	**2005**	**1H06**
Sales	426	429
Operating profits	-246	17
Net losses	-295	-8

Source: Company

Sandstone quarry

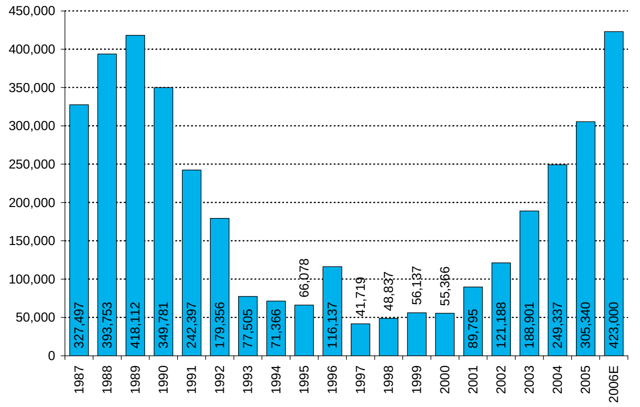
Significant potential to increase production volumes

Carrigrès owns a crushed sandstone quarry near the centre of Kinshasa, in which Texaf owns a 48.8% stake (equity accounting). Other shareholders include Eiffage. Sales have grown rapidly over the last few years as construction and road building activity picked up. Significant investments have been carried out in recent years and new investments are planned for this year including the renewal of crushing units. These investments will be financed by internal cash flow. The site covers 49 hectares, of which 19 are currently being extracted. The sandstone reserves are significant because extraction can be expanded horizontally but also vertically (deeper). However, before it can expand horizontally, Carrigrès will have to find a solution for squatters who occupy part of the site.

Carrigrès' quarrying site

Source: Company

Carrigrès' sales volumes (tonnes)



Source: Company

Solid net profit growth

Carrigrès should realize a net profit of € 1,400,000 this year, up from € 1,303,000 last year. We expect the company to pay its shareholders a management fee of € 500,000 this year.

Carrigrès

	2004	2005	2006E
Tonnes (000)	249	305	423
Sales (€ 000)	2,598	3,845	4,950
Operating profits	271	1,392	1,680
Net profits	-23	1,303	1,400
Management fees to shareholders	218	300	500
Net profits before mgt fees	195	1,603	1,900

Source: Company, KBC Securities

Financial activities

Congolese state owes € 62m to a subsidiary of Texaf

Texaf owns 99.9% of Imbakin. In 1996, a court ruled that the Congolese state owes Imbakin € 62m excluding interest, following the nationalization of land in 1961. An appeal is not possible. Texaf will restart negotiations to try and recuperate the outstanding debt as soon as the new government is in place. The first € 12m would go to Cobepa as compensation for its financial support in 2001. A substantial cash payment seems improbable, but a payment in kind (e.g. forests) is likely. Our valuation of Texaf does not integrate a positive outcome from this affair.

DRC owes $ 3.36m to Utexafrica

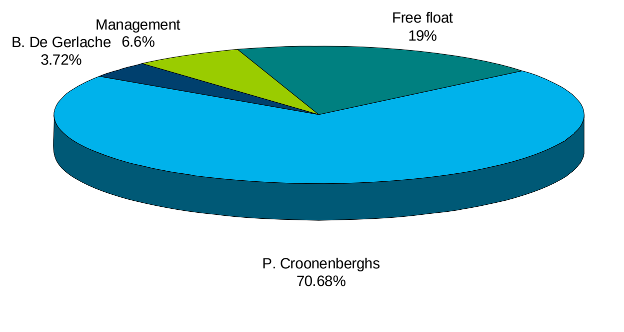
In addition to Imbakin's receivable, an agreement was reached last year with the DCR government regarding an outstanding commercial debt of $ 3.36m in favour of Utexafrica. This agreement is in line with the World Bank's program to reduce the debt burden of heavily indebted poor countries. An initial reimbursement of $ 0.5m took place in 2005. Two other payments of $ 0.25m each are foreseen but a timetable has yet to be drawn up.

Equity

Free float 19.0%

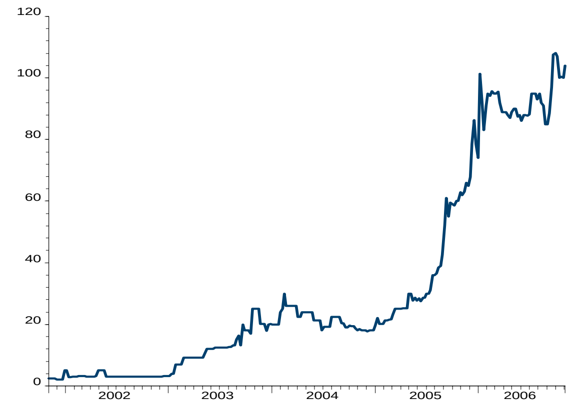
The number of outstanding shares equals 318,933. Société Financière Africaine (SFA) detains 237,429 shares or 74.4% of the total. SFA was established by Philippe Croonenberghs at the time of the MBO in June 2002. Mr Croonenberghs owns a 95% stake in SFA and Bernard de Gerlache holds the remaining 5%. The DCR-based management team holds 6.6%.

Shareholder structure



Source: Company

Share price evolution



Source: Thomson Financial Datastream

Financials

IFRS

No IFRS profit and loss statement for 2004

Belgian GAAP figures not comparable with IFRS

Major changes in the group structure in 2005

On 1 January 2005, Texaf adopted IFRS, under which the real estate assets have been revalued using conservative assumptions. Under Belgian GAAP, only Texaf SA was included in the fully consolidated figures. But under IFRS, Utexafrica, Cotex, Mecelco and Imbakin are also fully consolidated, while Congotex, Immotex and Carrigrès are included via equity accounting. The 2005 figures (IFRS) can therefore not be compared with the 2004 Belgian GAAP figures. Note also that on March 2005, Utexafrica's textile activities were transferred to Congotex and some buildings were transferred to Immotex. Congotex and Immotex were created jointly by Texaf and Cha Textiles.

FY05 results

Operating profits included € 1.688m in non-recurring items

The following table shows the breakdown of last year's sales and profits for the five entities that are fully consolidated. The entities which are integrated using the equity method (Carrigrès, Congotex and Immotex) are included under "Other". Note that last year's operating profit included non-recurring income of € 1.688m related to the payment of part of the DRC debt ($ 0.5m), the reversal of a provision and the reimbursement of withholding taxes. The net profit was also boosted by a one-off gain of € 1.445m after Utexafrica transferred assets to Congotex and Immotex.

Texaf's consolidated FY05 results

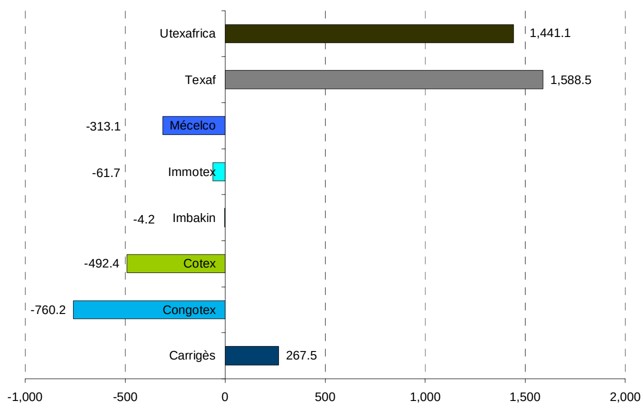
€ 000	Cotex	Mécelco	Texaf	Utexafrica	Imbakin	Other	Consolidated
Turnover	827.9	342.3	1,221.7	2,210.6	0		4,602.4
Operating profits	-478.4	-307.4	531.9	2,512.9	-2.1		2,256.7
Net profits	-492.4	-313.1	1,588.5	1,441.1	-4.2	-554.6	1,665.3

Source: Company

Dividend payments resumed in 2006

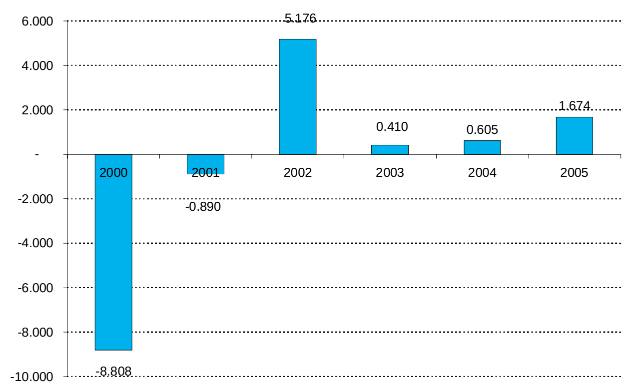
This year, the group declared a dividend (gross DPS of € 1) for the first time since 1990.

Contribution to net profits in 2005 (€ th)



Source: Company

Parent company's net profits (€ m)



Source: Company

1H06 results

Strong rise in rental income

1H05 results boosted by one off

Texaf reported solid 1H06 results. Consolidated turnover rose by 38% to € 2.85m on the back of a 25% rise in rental income after additional buildings were let to MONUC[2] in September 2005. Reported operating profit increased by 20.8% to € 0.86m. Recurring operating profit rose from € 0.57m in 1H05 to € 0.78m in 1H06. Texaf's reported net profit (group share) fell to € 0.693m in 1H06 versus € 1.257m in 1H05. Note however that the 1H05 results were boosted by the above-mentioned € 1.445m one-off result.

Expanding order book with Gécamines

Mécelco's turnover improved as maintenance work for railway wagons picked up. There are negotiations going on to accelerate the renovation of Gécamines' wagons and to reschedule the payment of the outstanding invoices. A conflict with Mécelco's minority shareholder has been resolved.

Carrigrès: strong top line growth

Congotex: smaller losses

The negative contribution of the companies included via equity accounting declined from € -0.696m to € -0.095m. Carrigrès' sales continued to rise thanks to strong demand and increased extraction capacity. Congotex managed to reduce its losses but its sales remain too dependent on orders from the public sector. Its financial position remains fragile.

The group's cash position rose from € 2.03m at year-end 2005 to € 2.42m at end-June 2006 despite the € 0.32m dividend payment.

1H06 results

€ th	1H05	1H06	% change
Sales	2,073	2,854	+37.7%
Recurring operating profits	573	781	+36.3%
Reported operating profits	711	859	+20.8%
Financial results	-33	-26	-21.2%
Disposal gain/loss	-3	2	
Equity accounting	-696	-95	
Pretax profits	-21	740	
Taxes	-163	-59	
Exceptional result*	1,445	-	
Minorities	-4	12	
Net profits	1,257	693	-44.8%

Source: Company ** Contribution of assets to Congotex and Immotex*

[2] Mission of the United Nations

FY06 Forecasts

Sharp rise in recurring operating profits

We anticipate a sharp rise in turnover and recurring operating profits for this year on the back of new rental contracts, rising rents and Mécelco's improving order book. Note that last year's results were boosted by one-offs.

New orders from Gécamines

Mécelco reached a pre-agreement with Gécamines. This could add $ 90,000 - $ 100,000 in monthly turnover by the end of this year.

Lower loss under equity accounting

The aggregate loss of the subsidiaries that are included under equity accounting should fall thanks to lower losses at Congotex and Carrigrès' growing net profits. Carrigrès' sales are likely to exceed the budget in 2H06. Its sales volumes reached a record high of 51,000 tonnes in September.

Immotex signed significant contract with telecom company

Immotex signed a 10-year rental contract with a telecom company for 3,116m^2 of office space. The contract adds € 34,000 in rental income per month from August 2006.

Forecasts

€ th	2005	2006	% change
Sales	4,602	5,676	+23%
Recurring operating profits	569	1,596	+180%
Reported operating profits	2,257	1,596	-29%
Financial results	-74	-48	
Pretax profits	2,183	1,548	-29%
Equity accounting	-558	-151	
Taxes	-1,396	-60	
Exceptional result*	1,445	0	
Minorities	-9	126	
Net profits	1,665	1,463	-12%

Source: Company, KBC Securities

** Contribution of assets to Congotex and Immotex*

Outlook

Well positioned to benefit from DRC's economic recovery

Texaf is well positioned to benefit from an economic recovery in DRC as efforts proceed to rebuild the country. Congotex (textile joint-venture) should benefit from improving purchasing power and demand from the private sector. Increasing investments in infrastructure bodes well for Carrigrès (aggregates). Orders at Mécelco's engineering/construction workshop are set to improve on the back of the thriving mining sector and increasing railway activity. Texaf's real estate activities are expected to expand as investors return to DRC. Several new real estate projects are being analysed but are unlikely to contribute to the 2006 results.

Democratic Republic of Congo

Independent since 1960

Economic recovery following the peace agreement in 2002

Formerly the Belgian Congo, DRC won its independence in 1960. The following year, the country's first prime minister, Patrice Lumumba, was assassinated and Joseph-Desire Mobutu seized power. He was to rule for 32 years. In the early 1990s the economy deteriorated and inflation became rampant. In 1996, a rebel movement supported by neighbouring countries led to the fall of Kinshasa in 1997 and Laurent-Desire Kabila became the new head of state. A new war took place in 1998 as rebels challenged Kabila's authority. Joseph Kabila succeeded his assassinated father in 2001. A peace agreement was signed in 2002 and a transitional government was installed in 2003. The economy started to recover from 2002 onwards and inflation began to fall.

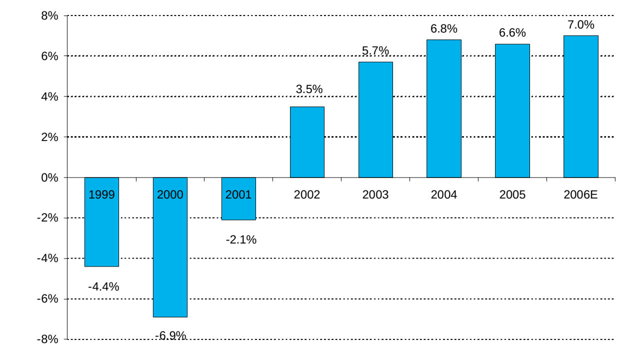
Rich in natural resources

DRC is the 22nd largest country in the world with a surface of 2.3m km^2 (80 times the size of Belgium) and a population of 60 million. It is rich in natural resources, including the second largest rain forest in the world, fertile soils, ample rainfall and last but not least, considerable mineral resources. Hydroelectricity is the main source of energy. Historically, mining of copper, cobalt, diamonds, gold, zinc and other base metals, and petroleum extraction accounted for about 75% of total export revenues, and about 25% of GDP. Despite this wealth, the economy collapsed due to mismanagement, conflict and instability. Per capita GDP in the 1980s was only a third of that in 1962. The social fabric remains fragile and poverty is widespread. The European Commission and countries like Belgium, Canada and France have restarted economic assistance.

Inflation under control and increasing support from international organisations

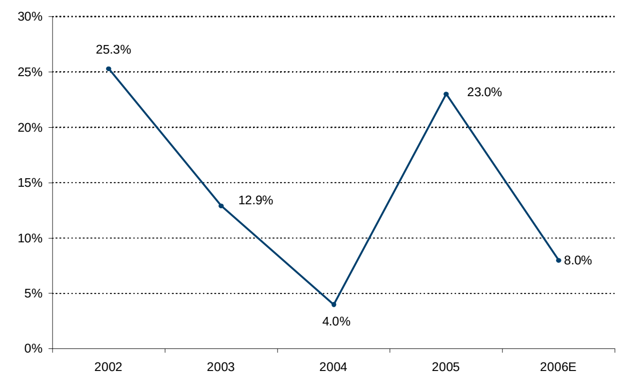
The economic situation has improved since Joseph Kabila came to power. Inflation fell from >500% in 2000 to 4% in 2004 and the economy started to grow again. External debt was weighing heavily on the recovery but the country was granted access to the Highly Indebted Poor Countries initiative in July 2003 with a common reduction factor of 80%. International organisations such as the IMF are increasing their support and their level of control over the economy.

Real GDP growth



Source: IMF

Inflation



Source: IMF

Recent elections will hopefully mark the end of a stormy political transition

Elections were originally planned for June 2005 but they were postponed due to logistical issues, political quarrels and violence. The first round of the parliamentary and presidential elections finally took place on 30 July 2006 and the second round on 28 October 2006. Hopefully, the polls will mark the end of a volatile political transition that began in 2003 after years of civil war.

SWOT

Strengths

Many years of experience in DRC

- Strong board of directors. Management team with many years of experience in DRC. The company survived several crises, including civil wars. Unlike many other companies that are active in DRC, Texaf escaped nationalization and is an ideal partner for international investors.

Pure DRC play

- Pure DRC play: Texaf is the only listed company that derives all its income from activities in DRC.
- Ideally positioned to benefit from DRC's recovery.

Diversified

- Diversification: sandstone quarry, textile and mechanical/metallic workshop.

Valuable real estate portfolio

- Low risk real estate portfolio: stable rental income (99% euro-denominated), prime locations, 100% occupancy rate and blue chip tenants (e.g. management of telecom companies, multinationals, UN).

Sand stone reserves

- Carrigrès' significant sand store reserves.
- Virtually debt-free balance.
- Transparent reporting and corporate governance.

Limited currency risk

- Limited currency risk. The table below shows the breakdown of turnover by currency for the main subsidiaries. Almost 100% of rental income of the fully consolidated real estate companies, Utexafrica and Cotex, is denominated in euros. Mecelco (7% of consolidated sales) invoices 100% of its sales in dollars. In other words, Texaf's consolidated turnover is entirely denominated in either euros or dollars.

Breakdown of turnover per currency

Subsidiary	$	€	FC*
Utexafrica	0%	100%	0%
Mecelco	100%	0%	0%
Carrigrès	79%	1%	20%
Congotex	95%	0%	5%
Cotex	3%	97%	0%

Source: Texaf, KBC Securities ** Franc Congolais*

Weaknesses

High country risk

- DRC: high country risk. Absence of state administration slows operations. Legal insecurity related to assets and persons.

Small management team

- Small management team (8) needs to be expanded. Difficult to attract professional managers.

No insurance coverage

- No adequate insurance coverage for buildings in DRC.

Illiquidity

- Illiquid stock.

Opportunities

Continue to invest in real estate

- Continue the construction of additional dwellings and offices and upgrading of the existing ones. New real estate projects have an IRR exceeding 20% (before taxes).

Carrigrès to benefit from infrastructure programs

- Carrigrès is well positioned to benefit from ambitious infrastructure programs.

Revival of Mécelco

- Revival of Mécelco (entirely written off). Success of the mining sector creates opportunities in railway equipment maintenance. A management team will be sent over to manage the company as soon as the problems with Gécamines are resolved.

Develop CPA site

- The CPA site just outside Kinshasa (105 ha) represents a real estate development opportunity.
- A possible move of the Congotex textile activity from Utexafrica's site represents substantial real estate potential.

Receivable of € 62m

- Resolve pending issues (e.g. Imbakin's receivables).

Threats

Country risks

- Social and political unrest, nationalizations, civil wars, lack of fiscal framework and administration.

Glut in residential sector

- Potential glut in residential sector but this threat seems a long way off for secured top locations. Today rents are still rising.

Sharp rise in construction prices

- A sharp rise in construction prices would reduce the expected IRR for new projects.
- Transparent reporting might entail risks.

KBC Securities

Valuation

€ 144 per share excluding Imbakin receivable

We arrive at a sum-of-the-parts valuation of € 144 or € 130 (our target price) after applying a 10% illiquidity discount.

Valuation Texaf

	€ m	Comment
REAL ESTATE		
Net book value real estate activities 30.06.06 (1)	**28.61**	
Utexafrica, Cotex, Texaf (100%)		
Bookvalue of tangible fixed assets	30.67	*30.8 hectares*
Estimated market value	42.88	*273,825m² + 32,442m² at € 140/m²*
Capital gains taxes	-4.76	
After tax value adjustment (2)	**7.46**	
Immotex (50%)		
Book value of tangible fixed assets	24.93	
Estimated market value CPA site	10.58	*1,057,522m² at € 10/m²*
Estimated market value Congotex site	19.60	*14 hectares in top location at € 140/m². Currently textile factory.*
Capital gains taxes	-2.10	
Texaf's stake in net proceeds	14.04	
Book value Immotex in Texaf's books	7.65	*Under "associates" – equity accounting*
After tax adjustment (3)	**6.38**	
Adjusted book value real estate activities	**42.44**	*(1) + (2) + (3)*
TEXTILE ACTIVITIES		
Value excluding real estate	**0.00**	*Loss making activities of Congotex (44% stake)*
METALLIC/MECHANIC WORKSHOP		
Trade receivables Gécamines	6.48	*Gécamines, a mining group, is a client of Mécelco*
Estimated recoverable amount	1.94	*30% of outstanding receivable*
Texaf's share	0.97	*50% stake*
Mécelco's value in Texaf's books	-0.43	*Fully consolidated; 50.2% stake*
Adjusted book value Mécelco	**0.54**	
SANDSTONE QUARRY		
Free cash flow forecast Carrigrès FY06	1.23	*Net profit+deprec-working capital increase-capex+management fee*
Free cash flow yield	20%	*High yield to reflect country risk*
Implied equity value	6.31	
Value of Texaf's stake in Carrigrès	**2.99**	*48.8% stake*
Equity value Texaf group	**45.97**	
Number of shares	318,933	
Value per share (€)	**144.14**	

Source: Texaf, KBC Securities

Imbakin's receivable is the cherry on the cake

Our sum-of-the-parts (€ 144 per share) valuation excludes any potential recovery of Imbakin's receivable (€ 62m excluding interest). The first € 12m would go to Cobepa but if Texaf manages to recuperate € 50m (probably in kind rather than cash), it would boost the value per share by € 157!

€ 140/m^2 for Cotex, Texaf and Utexafrica sites

We've assumed a value of € 140/m^2 for the real estate assets of Utexafrica, Cotex and Texaf. This is conservative given that similar properties have been sold recently for € 165/m^2. For the valuation of the textile joint-ventures (Immotex, Congotex), we've assumed that loss-making textile activities have no value but we have assigned a price of € 140/m^2 for Utexafrica's former textile factory site and € 10/m^2 for the CPA site, the latter being located further from Kinshasa.

Part of Gécamines' receivable to be recuperated

We have adjusted Mécelco's book value for the Gécamines receivable because it looks probable that at least part of it will be recovered, even though it had been written off. Note that Mécelco's top line is expected to pick up significantly during 4Q06. Given the recovery potential of this business, we consider our valuation to be on the low side.

Carrigrès value based on our forecast for this year's free cash flow

To value the sandstone quarry, we've applied a 20% yield to the estimated free cash flow for this year. Sales prices are expected to pick up over the coming year on the back of infrastructure works. Moreover, capex was unusually high this year. We therefore feel confident that Carrigrès' free cash flow will pick up next year.

Financial data

Income statement (€ th)	2005	2006E
Sales	4,602.0	5,676.1
COGS	-623.0	-212.0
Gross profit	3,979.0	5,464.1
Other operating items	-1,182.0	-3,289.7
EBITDA	2,797.0	2,174.5
Depreciation	-540.0	-578.8
EBITA	2,257.0	1,595.7
Goodwill amortisation	0.0	0.0
EBIT	2,257.0	1,595.7
Net interest	-74.0	-48.0
Other financial result	0.0	0.0
Associates before tax	0.0	0.0
Exceptional result	1,445.0	0.0
Pre-tax earnings	3,628.0	1,547.7
Taxes	-1,396.0	-60.0
Associates after tax	-558.0	-151.0
Consolidated earnings	1,674.0	1,336.7
Minority interests	-9.0	125.9
Net earnings	1,665.0	1,462.6
Retained earnings	1,346.1	1,127.7
Current earnings before goodwill	229.0	1,462.6
Current earnings after goodwill	229.0	1,462.6
Current cash flow	769.0	2,041.4

Balance sheet (€ th)	2005	2006E
Goodwill	0.0	0.0
Other intangible assets	0.0	0.0
Tangible assets	34,310.0	34,100.0
Associates	9,211.0	8,900.0
Other financial assets	2.0	0.0
Inventories	288.0	288.0
Trade receivables	260.0	260.0
Other current assets	593.0	700.0
Cash and equivalents	2,031.0	3,469.7
TOTAL ASSETS	46,695.0	47,717.7
Equity	30,678.0	31,805.7
Minorities	38.0	35.0
Provisions for pensions and similar	84.0	84.0
Other long-term liabilities (excl. debt)	12,567.0	13,240.0
Long term debt	0.0	0.0
Short term debt	382.0	357.0
Trade payables	1,040.0	500.0
Other short-term liabilities (excl. debt)	1,906.0	1,696.0
TOTAL LIABILITIES	46,695.0	47,717.7
Capital employed, incl. cum goodwill	32,505.0	33,152.0
Net debt	-1,649.0	-3,112.7
Net debt, incl. off balance sheet items	-1,649.0	-3,112.7

Cash flow statement (€ th)	2005	2006E
Consolidated earnings	1,674.0	1,336.7
Depreciation and goodwill amortisation	540.0	578.8
Other	-536.0	1,154.2
Change in working capital	-436.0	-881.0
CASH FLOW FROM OPERATIONS	1,346.0	2,282.7
Net capital expenditure	-515.0	-500.0
Acquisitions and disposals	-367.0	0.0
Other	95.0	0.0
CASH FLOW FROM INVESTMENTS	-787.0	-500.0
Dividend payments	0.0	-318.9
Shares issues	0.0	0.0
New borrowings and reimbursements	57.0	-25.0
Other	0.0	0.0
CASH FLOW FROM FINANCING	57.0	-343.9
Fx and changes to consolidation scope	0.0	0.0
Change in cash & equivalents	616.0	1,438.7
Free cash flow (before acquisitions)	831.0	1,782.7
Change in net debt	-	-1,463.7

Performance criteria	2005	2006E
Sales growth	-	23.3%
Gross profit growth	-	37.3%
EBITDA growth	-	-22.3%
EBITA growth	-	-29.3%
EBIT growth	-	-29.3%
Pre-tax earnings growth	-	-57.3%
Net earnings growth	-	-12.2%
Gross margin	86.5%	96.3%
EBITDA margin	60.8%	38.3%
EBITA margin	49.0%	28.1%
EBIT margin	49.0%	28.1%
Pre-tax earnings / sales	78.8%	27.3%
Net earnings / sales	36.2%	25.8%
Inventories / sales	6.3%	5.1%
Trade receivables / sales	5.7%	4.6%
Trade payables / sales	22.6%	8.8%
Net capital expenditure / sales	11.2%	8.8%
Depreciation / Net capital expenditure	104.9%	115.8%
Free cash flow / sales	18.1%	31.4%
Net debt / equity	-5.4%	-9.8%
Net debt / EBITDA	-	-
EBITDA / net interest	37.8	45.3
Pay-out ratio	19.2%	22.9%
Current earnings / sales	5.0%	25.8%
x CE turnover (sales / avg. CE)	0.14	0.17
x Leverage (avg. CE / avg. equity)	-	1.06
= Current return on equity (avg.)	-	4.7%
Net return on equity (avg.)	-	4.7%
Return on capital employed (avg.)	4.2%	2.9%

Per share data (€)	2005	2006E
Weighted average number of shares (th)	319	319
EBITDA per share	8.77	6.82
EBITA per share	7.08	5.00
EBIT per share	7.08	5.00
Published EPS	5.22	4.59
Current EPS, before GW	0.72	4.59
Current EPS, after GW	0.72	4.59
Current CFPS	2.41	6.40
Free cash flow per share	2.61	5.59
Net book value per share	96.19	99.73
Current EPS (before GW): y/y growth	-	538.7%
Current EPS (before GW): CAGR 3Y	-	-
Current CFPS: y/y growth	-	165.5%
Current CFPS: CAGR 3Y	-	-
Published EPS (fully diluted)	5.22	4.59
Current EPS (before GW), fully diluted	0.72	4.59
Dividend per share (€)	1.00	1.05

Valuation data	2005	2006E
Max share price (€)	88.25	108.20
Min share price (€)	19.50	74.00
Reference share price (€)	40.06	104.00
Reference market capitalisation (€ th)	12,776.1	33,169.0
Enterprise value (€ th)	2,036.1	21,275.3
P/E high (x)	122.9	23.6
P/E low (x)	27.2	16.1
P/E reference (x)	55.8	22.7
P/CF (x)	16.6	16.2
P/NBV (x)	0.4	1.0
Dividend yield (%)	2.5%	1.0%
EV/sales (x)	0.4	3.7
EV/EBITDA (x)	0.7	9.8
EV/EBITA (x)	0.9	13.3
EV/EBIT (x)	0.9	13.3
EV/Capital employed (x)	0.1	0.6

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	31.10%	57.14%
ACCUMULATE	53.30%	14.29%
REDUCE	14.10%	28.57%
SELL	1.50%	0.00%

Texaf, an former subsidiary of Copeba, is a Belgian investment company with real estate, industrial and financial interests in the Democratic Republic of Congo (DRC). It is Texaf's mission to play an important role in the revival of DRC.
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
07-NOV-06	Buy	€ 130.00
30-OCT-06	Buy	€ 120.00
25-OCT-06	Buy	€ 130.00
18-AUG-06	No Recommendation	€ -

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