

Texaf

19 December 2007

Plentiful investment opportunities

Investment Companies
Belgium

Performance over	1m	3m	12m
Absolute	4%	0%	-2%
Rel. BEL20	4%	5%	5%
12m Hi/Lo	€ 158.00/119.91		
Reuters	TEXB.BR		
Bloomberg	TEXTF.BB		
Market Cap	€ 40m		
Next corporate event			
General Assembly 07: 29 April 2008			

Current price € 124.50

Target price € 160.00

Accumulate

Rating Unchanged

FY/e 31.12	2006	2007E	2008E	2009E
Sales (€th)	5,610.5	6,580.0	8,500.0	11,157.0
REBITDA (€th)	2,033.5	3,012.3	4,094.0	4,904.9
Net earnings (€th)	1,791.2	2,258.0	2,441.9	2,740.1
Diluted adj. EPS (€)	5.15	6.96	7.05	8.47
Dividend (€)	1.10	1.32	1.58	1.90
P/E	18.9	17.9	17.7	14.7
EV/REBITDA	22.9	13.4	10.1	8.7
Free cash flow yield	4.2%	0.9%	-1.3%	-1.6%
Dividend yield	0.8%	1.1%	1.3%	1.5%

Source: KBC Securities

Pascale Weber, CFA
 Financial Analyst - Brussels
 KBC Securities NV
 +32 2 429 37 32
pascale.weber@kbcsecurities.be

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 1H07 results exceeded our forecast. REBIT was up 47.5%
- The group has ample investment opportunities
- The stock is trading at a significant discount versus the sum-of-the-parts valuation

Texaf has significant investment opportunities. We anticipate that income from the real estate activities will rise by 16% to €5.6m this year. Texaf's portfolio could potentially generate about €18m in rental income (excluding the conversion of the textile factory and the CPA site) but this will require substantial investment. The group could build offices and/or dwellings on the former textile factory site, which is ideally located close to Kinshasa's new centre. Texaf's net cash position reached €3.4m at the end of 1H07. A €12m increase in rental income would necessitate €45-50m in additional investment if we assume a gross yield of 25% or a payback period of four years. We expect the group to look for partners to realize these ambitious projects. In addition to real estate development, the group continues to upgrade Carrigrès' quarry operations and Mécélco's metallic/mechanic workshop. Texaf is also looking at opportunities in other industrial, agricultural and service sectors. Despite plentiful investment opportunities, country risk remains high and includes uncertainty related to the legal framework and ownership, corruption, the absence of a developed banking sector, the lack of purchasing power and the shortage of trained labour. The sum-of-the-parts method generates a value of €171/share excluding the potential recovery of DRC's outstanding debt towards Imbakin, a Texaf subsidiary. We've increased our recurring EPS forecasts for 2007 and 2008 by respectively 24% and 3%. Our EPS forecast for 2009 remains unchanged.

1H07 review

On 30 August, Texaf reported a 16.6% rise in net profits (group share) from €0.693m 1H06 to €0.808m in 1H07. We were counting on €0.748m. Turnover rose by 7.1% to €3.057m. Rental income of the fully consolidated companies rose by 10%. Mécelco's (metallic/mechanic workshop) revenues rose 10%. Group REBIT soared 47.5% to €1.152m (our forecast: €0.910m). Bottom-line profits were dampened however by the sharp rise in taxes from €0.059m to €0.514m, caused by the using up of the last tax-loss carry forwards. The implied tax rate rose from 7% in 1H06 to 40% in 1H07.

Income under equity accounting reached €0.037m (Immotex €0.024m; Carrigrès €0.016m, Congotex €-0.03m) in 1H07 versus a €0.095m loss in 1H06. Carrigrès (sandstone quarry) reported disappointing operating results (€0.01m in 1H07 versus €0.434m in 1H06) due to numerous power failures, adverse weather conditions, a €0.196m write-down of spare parts and the difficulty of passing on rising expenses.

Texaf: 1H07 results				
€th	1H06	1H07	% change	KBC Sec
Turnover	2,854	3,057	7.1%	3,139
REBIT	781	1,152	47.5%	910
REBIT margin	27.4%	37.7%		3.2%
Non-recurring	80	78		-
EBIT	861	1,230	42.9%	910
EBIT margin	30.2%	40.2%		3.2%
Financial result	-26	43		-40
Pretax	835	1,273	52.5%	900
Taxes	-59	-514		-225
Associates	-95	37		100
Minorities	12	12		-27
Net profits	693	808	16.6%	748

Source: Texaf, KBC Securities

Alta Invest

Early June 2007, Texaf announced the acquisition of Atenor's 85% stake in Anagest for €0.5m, lifting Texaf's total stake to 98.9%. The Congolese state and Anagest own respectively 30% and 70% 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 17,000m². Alta Invest received the assets from the Congolese state as compensation for an old receivable, but they do not yet generate rental income. Texaf has plans to renovate the properties but this will require the departure of the tenants. Anagest and Alta Invest have been fully consolidated by Texaf since 3 June 2007.

Discontinued textile activities

At the end of August 2007, the Congotex board announced the discontinuation of the textile activities. Texaf's 43.75% stake in Congotex was already written off because the textile activities had been loss-making for many years. Texaf tried to turn around the business by setting up a joint-venture with Cha Textile in 2005 but this failed due to the stoppage of cotton production in DRC, weak purchasing power and cheap imports from China. The closure of the factory – which is located on a site owned by Immotex – has resulted in 1,000 redundancies. Following a recent agreement with Cha, Texaf becomes majority shareholder of Immotex with a stake of 50% + one share. Immotex shareholders have paid \$ 1m or €712,000 to the liquidator of Congotex in 2H07. This will result in a charge of €356,000 (before tax-group share) for Texaf in 2H07. Note that Congotex did not have to pay any rent to Immotex until 1 March 2010.

Outlook

Management anticipates a further improvement in Texaf's results during 2H07 (versus 1H07) despite the € 356,000 (pretax-group share) charge related to liquidation of the textile activities.

Forecasts							
€th	2006	2007E Old	2007E New	2008E Old	2008E New	2009E Old	2009E New
Sales	5,610	6,852	6,580	7,778	8,500	8,835	11,157
Recurring operating profits	1,430	1,964	2,192	2,489	3,064	2,881	3,564
Non-recurring items	245	-	62	-	321	-	66
Reported operating profits	1,675	1,964	2,254	2,489	3,385	2,881	3,630
Financial results	18	-155	35	-200	50	-200	35
Pretax profits	1,693	1,809	2,289	2,289	3,435	2,681	3,665
Equity accounting	15	275	279	300	390	328	545
Taxes	55	-362	-600	-458	-893	-536	-953
Exceptional result	2	-	-	-	-	-	-
Minorities	28	129	290	0	-490	-46	-517
Net profits	1,791	1,851	2,258	2,132	2,442	2,426	2,740
Reported EPS	5.62	5.81	7.08	6.68	7.66	7.61	8.59
EPS change %	7.6%	3.4%	26.1%	15.1%	8.1%	13.8%	12.2%

Source: Texaf, KBC Securities

Our forecasts are based on the following:

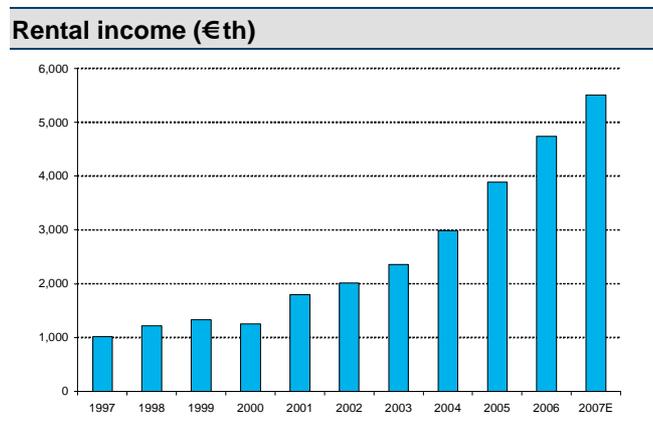
- Utexafrica will construct +/- 50 apartments over 2008-2010 for a total price tag of +/- €7.0m. The potential annual rent is estimated at €1.7m per year;
- The former textile factory will be rented out from 2008 onwards. Potential rental income without major renovation works equals €4.5m (annually);
- Immotex is fully consolidated from August 2007 onwards;
- The apartment buildings of Alta Invest (Anagest) will be renovated over 2009-2011. Investment should amount to €2m per year or €6m in total. Potential rental income amounts to €2.3m;
- We have not included any recovery of Mécelco's and Imbakin's receivables in our forecasts;
- Texaf's management team will be enlarged by one person at the Brussels headquarters and a real estate manager in DRC.

Mécelco's activity has picked up since the appointment of a new manager, but operating losses increased in 1H07 due to spending on a revamp of the Lumbumbashi workshop. The outstanding receivable (\$8.1m) on Gécamines has not been recovered yet but we expect at least 30% to be recovered in 2008. Mécelco has two lines of business: the repair and maintenance of railway wagons (56% of Mécelco's expected revenues in 2007) and the production of tanks, tubs and metallic structures such as mobile phone masts. The number of wagons serviced should reach +/- 100 this year versus 54 in FY06. Production volumes of the other line of business are expected to treble this year.

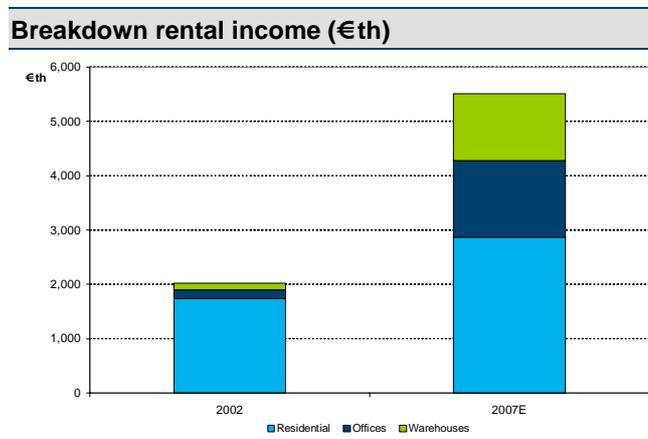
Carrigrès' operating results declined from €434,000 in 1H06 to €10,000 in 1H07 partly as a result of a €196,307 write-down of spare parts, bad weather and power failures. Production volumes declined by 7% to 173,800 tonnes in 1H07. For the full year, we anticipate a 2% decline to 403,600 tonnes. Even though Carrigrès' sales are denominated in \$, the cash flow is expected to rise this year when expressed in €. Management aims to increase sales prices over the next year to offset the decline in the \$. Carrigrès' capex is expected to rise from €570,000 in 2007 to €1.2m next year. Investments include the purchase of a new crunching line.

We've assumed that for the time being the closed textile factory will be rented out as a warehouse and that no significant investment will be needed. The industrial buildings (89,000m²) are located on a prime location close to the new centre of Kinshasa. Rental income should reach €4-5m annually without major conversion works. The Monuc (UN mission in DRC) is already renting similar facilities from Texaf on an adjacent site. The monthly rent amounts to €4.63/m². We believe that sooner or later, Texaf will build offices or residential property on this location, a scenario that could lift rental income to as much as €20m. A pretax yield of 20-25% is the norm for this type of project. Conclusion: the discontinuation of the textile activities will give a boost to Texaf's real estate activities.

Texaf's consolidated rental income is expected to reach €5.6m in 2007 (+16%). This compares with €1.0m in 1997. The upside potential is significant. The conversion of the former textile factory and the renovation of Alta Invest's apartment buildings could generate €18m in additional rental income. Other smaller projects could add another €5-6m. Texaf will probably look for partners for the large projects in order to diversify the risk profile of its portfolio. Moreover, it is difficult to obtain loans in DRC.



Source: Texaf, KBC Securities



Source: Texaf, KBC Securities

Potential projects

€m	Capex	Incremental annual rental income
Alta Invest	6.1	2.3
Conversion textile factory	62.0	15.5
Other smaller projects	22.4	5.6
Total	90.5	23.4

Source: KBC Securities, 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. Texaf started to negotiate with the government to recover the outstanding debt. The first €12m will go to Cobepa as compensation for its financial support in 2001. A substantial cash payment seems improbable, but a payment in kind (e.g. factories, plantations, buildings) is likely. We expect a solution to be found within 2-3 years. If the payment consists of assets that need to be restored or upgraded, Texaf is committed to making the necessary investments. We see this as a win-win situation for both parties. Texaf's capital could be increased if the need arises.

Texaf is looking at new business opportunities. For example, Texaf's management believes in the bright future of the Congolese agro sector. Texaf might also offer real estate management services for third parties including the Congolese State.

A tax agreement has recently been signed between Belgium and DRC. It still needs to be endorsed by the respective parliaments. This agreement should have a positive impact on Texaf's results.

Valuation

We obtain a sum-of-the-parts value of €171 per share. This figure excludes a potential recovery of Imbakin's receivable, which amounts to €62m excluding interest. The first €12m would go to Cobepa, but if Texaf manages to recover €50m (probably in kind rather than cash) it would almost double the value per share to €328! Given the country risk, we maintain our target price of €160 and Accumulate rating.

Valuation Texaf		
	€m	Comment
REAL ESTATE		
Net book value real estate activities 30.06.07 (1)	32.18	
Utexafrica, Cotex, Texaf (100%)		
Book value of tangible fixed assets	32.77	
Estimated market value	50.53	273,825m ² + 32,442m ² at € 165/m ²
Capital gains taxes	-7.11	
After tax value adjustment (2)	10.66	
Immotex (50%)		
Estimated market value CPA site	10.58	1,057,522m ² at € 10/m ²
Estimated market value ex-textile factory site	23.10	141,184 m ² in top location at € 165/m ² . Former textile factory.
Capital gains taxes	-3.50	
Texaf's stake in net proceeds	15.09	
Book value Immotex in Texaf's books	7.75	
After tax adjustment (3)	7.34	
Adjusted book value real estate activities	50.18	(1) + (2) + (3)
METAL/ENGINEERING WORKSHOP		
Trade receivables Gécamines	5.51	Gécamines, a mining group, is a client of Mécélco
Estimated recoverable amount	1.65	30% of outstanding receivable
Texaf's share	0.83	50% stake
Mécélco's value in Texaf's books	-0.40	Fully consolidated; 50.2% stake
Adjusted book value Mécélco	0.43	
SANDSTONE QUARRY		
Free cash flow forecast Carrigrès FY07	1.60	Net profit+deprec-working capital increase-capex+management fee
Free cash flow yield	20%	High yield to reflect country risk
Implied equity value	8.00	
Value of Texaf's stake in Carrigrès	3.90	48.8% stake
Equity value Texaf group	54.51	
Number of shares	318,933	
Value per share (€)	170.9	

Source: Texaf, KBC Securities

Financial data

Income statement (€th)	2005	2006	2007E	2008E	2009E
Sales	4,602.0	5,610.5	6,580.0	8,500.0	11,157.0
Gross profit	3,979.0	4,999.0	6,340.0	7,890.0	10,057.0
EBIT	2,257.0	1,675.4	2,254.0	3,385.0	3,630.0
Pre-tax earnings	2,183.0	1,692.1	2,289.0	3,435.0	3,665.0
Net earnings	1,665.0	1,791.2	2,258.0	2,441.9	2,740.1
EBITDA	2,797.0	2,278.5	3,074.0	4,415.0	4,970.7
REBITDA	1,109.0	2,033.5	3,012.3	4,094.0	4,904.9
REBITA	465.0	1,389.6	2,192.3	3,064.0	3,564.2
Balance sheet (€th)	2005	2006	2007E	2008E	2009E
Intangible assets	-	-	-	-	-
Tangible assets	34,310.0	34,014.8	36,985.7	40,448.7	44,266.0
Financial assets	9,213.0	9,025.5	9,307.0	9,697.0	10,242.0
Net other assets & liabilities	-1,574.0	-1,828.3	-2,710.2	-3,096.3	-3,546.4
Net working capital	-480.0	-409.0	113.4	130.4	150.0
Net debt	-1,649.0	-3,220.7	-2,840.0	-1,889.7	-734.5
Provisions	12,402.0	12,012.2	12,662.0	12,684.8	12,709.5
Minorities	38.0	35.2	30.2	520.2	1,037.2
Equity	30,678.0	31,976.2	33,843.6	35,864.5	38,099.4
Capital employed	32,256.0	31,777.4	34,388.9	37,482.8	40,869.6
TOTAL ASSETS	46,695.0	47,772.2	50,888.4	53,999.2	57,445.7
Cash flow statement (€th)	2005	2006	2007E	2008E	2009E
Cash flow from operations	1,346.0	2,460.0	2,610.0	3,963.7	4,508.0
Net capital expenditure	-515.0	-485.0	-2,270.0	-4,493.0	-5,158.0
Free cash-flow	831.0	1,975.0	340.0	-529.3	-650.0
Acquisitions / disposals	-367.0	2.0	-500.0	0.0	0.0
Dividend payments	0.0	-316.0	-350.0	-421.0	-505.2
Shares issues	0.0	0.0	0.0	0.0	0.0
New borrowings / reimbursements	57.0	-43.0	-16.0	0.0	0.0
Other	95.0	0.5	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	616.0	1,618.5	-526.0	-950.3	-1,155.2
Performance criteria	2005	2006	2007E	2008E	2009E
Sales growth	-	21.9%	17.3%	29.2%	31.3%
Gross margin	86.5%	89.1%	96.4%	92.8%	90.1%
REBITDA margin	24.1%	36.2%	45.8%	48.2%	44.0%
REBITA margin	10.1%	24.8%	33.3%	36.0%	31.9%
EBIT margin	49.0%	29.9%	34.3%	39.8%	32.5%
Net debt / Equity + Minorities	-5.4%	-10.1%	-8.4%	-5.2%	-1.9%
Net debt / EBITDA	-0.59	-1.41	-0.92	-0.43	-0.15
EBITDA / net interest	37.80	-136.82	-87.83	-88.30	-142.02
Pay-out ratio	19.2%	19.6%	18.6%	20.7%	22.1%
= Return on Equity (avg)	-	5.7%	6.9%	7.0%	7.4%
Return on Capital Employed (avg)	-	4.2%	5.5%	7.5%	7.4%
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	7.08	7.66	8.59
Diluted EPS	5.22	5.62	7.08	7.66	8.59
Diluted, adjusted EPS	-2.49	5.15	6.96	7.05	8.47
Net book value / share	96.19	100.26	106.12	112.45	119.46
Free cash flow / share	2.61	6.19	1.07	-1.66	-2.04
Dividend (€)	1.00	1.10	1.32	1.58	1.90
Valuation data	2005	2006	2007E	2008E	2009E
Reference share price (€)	40.06	97.21	124.50	124.50	124.50
Reference market capitalisation (€)	12,776.1	31,003.2	39,707.2	39,707.2	39,707.2
Enterprise value (€ th)	14,354.1	30,804.3	40,252.4	41,325.5	42,477.3
P/E	-	18.9	17.9	17.7	14.7
EV/sales	10.5	8.3	6.1	4.9	3.8
EV/EBITDA	17.3	20.4	13.1	9.4	8.5
EV/Capital employed	1.5	1.5	1.2	1.1	1.0
P/ NBV	1.5	1.5	1.2	1.1	1.0
Free cash flow yield	1.8%	4.2%	0.9%	-1.3%	-1.6%
Dividend yield	0.7%	0.8%	1.1%	1.3%	1.5%

Source: KBC Securities

*Historic valuation data are based on historic prices

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

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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	55.70%	0.00%
ACCUMULATE	35.90%	0.00%
REDUCE	6.90%	100.00%
SELL	1.50%	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

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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

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