

5 May 2017

THIS DOCUMENT HAS NOT BEEN PRODUCED BY KBC SECURITIES USA, INC.

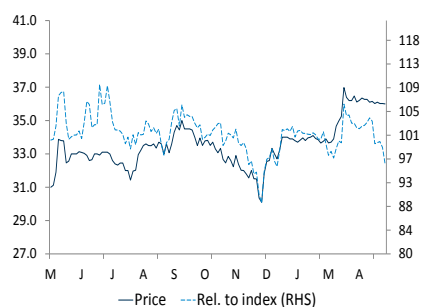
## TEXAF

### Profit warning

FINANCIAL SERVICES  
BELGIUM

CURRENT PRICE € 36.00  
TARGET PRICE € 40.00

**ACCUMULATE**  
RATING DOWNGRADED



Source: Thomson Reuters Datastream

Bloomberg                    TEXF BB  
Reuters                        TEXB.BR  
[www.texaf.be](http://www.texaf.be)

Market Cap                    € 127.6m  
Shares outst.                 3.5m  
Volume (daily)               € 24,965  
Free float                     27.7%

Next corporate event

(€ th)	2016E	2017E	2018E
Sales	18,392	18,741	23,148
REBITDA	9,740	5,919	12,810
Net earnings	5,454	1,859	6,369
Adj. EPS (€)	1.54	0.52	1.80
P/E (x)	23.4	68.6	20.0
EV/REBITDA	15.8	27.5	12.9
FCF Yield	1.2%	-4.7%	-0.1%
Dividend yield	1.9%	2.3%	2.7%

**Koen Overlaet-Michiels**

+32 2 429 37 21

koen.overlaet-michiels@kbcsecurities.be

**Alexander Makar**

+32

alexander.makar@kbcsecurities.be

**News:**

Texaf issued a profit warning stating that Carrigrès, its sandstone quarry, was loss-making in 1Q17. It therefore guides for a drop in net profit before tax for the group of approx. 10% y/y to c. € 5.0m (excl. one-offs) vs. a higher net profit before tax on the back of a stronger result for real estate and a comparable result for Carrigrès to FY15 (previous guidance).

The reason for its profit warning can be found in the persistent political turmoil, hitting the economy. As a result, there are no longer public investments (road constructions/maintenance), while also private investments have slumped. Texaf therefore foresees no longer a positive contribution to the result for Carrigrès in FY17 and expects no improvements in the foreseeable future. It has therefore recorded an impairment of € 3.3m, corresponding to c. 35% of Carrigrès' current valuation.

Management also announces a restructuring of its Carrigrès operations – i.e. reduction in personnel and reorganization of production, of which the costs will hit the FY17 performance. However, it should enable a structural cost reduction as of FY18.

Texaf however also states that its real estate department keeps on performing in-line with expectations (Q1 rents amounted to € 4.0m vs. € 3.7m in 1Q16). Part of the vacancy in its apartments has already been erased since year-start.

The company confirms also its dividend strategy (annual increase of 20%) and continues to invest in real estate.

**Our View:**

The situation in the DR of Congo is already unstable for longer. This lasting political impasse is starting to hurt the economy more and more with no solutions foreseen in the short term. However, the importance of the sand quarry had already become relatively small in Texaf's group operations. The most value for the company is still in its current real estate portfolio and future development potential.

We've updated our model implementing this lowered guidance. We therefore cut our FY17 EPS from € 1.53 to € 0.52. The pay-out ratio will therefore exceed 100% of the consolidated net result, but not when excluding the non-cash impairment on Carrigrès.

**Conclusion:**

However, the importance of the Carrigrès operations in the total valuation of Texaf is small. The impact of its valuation cut remains therefore limited. Integrating the lower performance of Carrigrès and increasing our country risk discount from 20% to 25%, leads us to cut our TP from € 45 to € 40. As a result, we also lower our rating from Buy to Accumulate.