Flash

Texaf

13 March 2007

Building a bright future

Investment Companies

Belgium

Performance over	1m	3m	12m
Absolute	-1%	13%	53%
Rel. BEL20	2%	11%	37%
Relative to sector	-1%	13%	53%
12m Hi/Lo	€ 158.00/82.00		
Reuters	TEXB.BR		
Bloomberg	TEXF BB		
Market Cap	€ 47m		
Next corporate event			
General Assembly 06: 24 April 2007			

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Current price € 146.50

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	26.1	21.4	17.3
EV/REBITDA	22.9	16.1	13.1	10.7
Free cash flow yield	4.2%	-2.5%	-1.3%	0.4%
Dividend yield	0.8%	0.9%	1.0%	1.1%

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

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

We raised our target price from € 150 to € 160 on the back of excellent FY06 results and the bright outlook for the coming years. Turnover increased by 22% to € 5.61m thanks to higher rental income (+16% or € 4.45m), a 98% rise in Mécelco's (metallic/mechanic workshop) sales (€ 0.645m) and higher management fees. The group reported a recurring net profit of € 1.64m in 2006 versus a € 0.79m loss in 2005. This turnaround is the result of the 151% increase in recurring operating profits, the reversal of tax provisions, a positive net financial result and a positive contribution from associates (equity accounting). Texaf's share in Congotex's net losses (equity accounting) amounted to € 0.598m in 2006 but the negative impact on Texaf's net profits was limited € 0.219m because the book value of Texaf's stake in Congotex has fallen to € 0. Current EPS reached € 5.15 in 2006 (our forecast: € 4.59) versus a € 2.49 loss in 2005. 2006 was a transition year for the Democratic Republic of Congo because of the elections. This year Texaf will speed up its investments: we anticipate +/- € 4.0m, up from € 0.5m in 2006. These investments should underpin rental income growth over the coming years. Improving profitability of the Mécelco and Carrigrès (quarry) should also contribute earnings growth over the coming years. Texaf is ideally placed to play an active role in the economic recovery of the Democratic Republic of Congo and to develop new activities (e.g. agro-industrial). Our sum-of-the-parts method generates a value of € 163 per share.

Business description

Texaf has a diversified portfolio of businesses in the Democratic Republic of Congo (DRC) that breaks down into three types of activity: industrial, real estate and financial. The real estate portfolio contains assets in several of Kinshasa's top locations. The following entities are fully consolidated: Cotex (real estate), Utexafrica (real estate), Mécelco (mechanic/metallic workshop) and Imbakin. The Congolese state owes Imbakin € 62m excluding interest. The fully consolidated figures also include the real estate activities of Texaf S.A. The 48.8% stake in Carrigrès (sandstone quarry) is included under equity accounting. In 2005, Texaf and Cha Textiles created Congotex to regroup their loss-making Congolese textile activities, of which Immotex owns the industrial buildings. Congotex and Immotex are included in Texaf's consolidated accounts via equity accounting.

Results review

Texaf reported excellent results despite the turmoil created by last year's elections. Revenues increased by 22% to € 5.61m (our forecast: € 5.68m) and recurring operating profits rose by 151% to € 1.43m (our forecast: € 1.60m). Non-recurring operating income fell from € 1.688m in 2005 to € 0.245m in 2006. In 2005, these non-recurring items included the reversal of a provision, the reimbursement of withholding taxes and a partial payment of the DRC debt. Reported operating profits fell by 26% as a result of lower non-recurring income. Interest income on the cash balance (€ 3.65m at the end of 2006) more than offset the financial charges. The associates (equity accounting) made a positive contribution of € 15,000 in 2006 versus a loss of about € 558,000 in 2005. Net profits were also positively impacted by a reversal of tax provisions. The 2005 results were boosted by an exceptional gain of € 1.445m related to the contribution of the textile activities and real estate to the joint-ventures (Congotex, Immotex) with Cha Textiles. Recurring net profits reached € 1.64m in 2006 versus a € 0.79m loss in 2005. The group's cash position rose by € 1.6m to € 3.6m. The board will propose a gross DPS of € 1.1 (+10%) at the AGM.

Texaf's FY06 results

€ 000	2005	2006	% change	KBC forecast
Sales	4,602	5,610	21.9%	5,676
Recurring operating profits	569	1,430	151.3%	1,596
Non-recurring items	1,688	245		0
Reported operating profits	2,257	1,675	-25.8%	1,596
Financial results	-74	17		-48
Pretax profits	2,183	1,693	-22.5%	1,548
Equity accounting	-558	15		-151
Taxes	-1,396	55		-60
Exceptional result	1,445	0		0
Minorities	-9	28		126
Net profits	1,665	1,791	7.6%	1,463

Source: Texaf, KBC Securities

Demand remained robust in the real estate sector and the group's real estate activities evolved positively during 2006. The fully consolidated companies reported a 16% increase in rental income to € 4.45m in 2006. No new construction projects were started but the signing of new rental contracts led to higher revenues. For example, a telecom company has signed a 10-year contract to rent offices from Immotex (equity accounting).

Carrigrès (equity accounting), the quarrying subsidiary, reported a record year in terms of production and turnover (€ 4.82m or +25.6%). Operating profits before deduction of the management fees to shareholders fell however from € 1.475m to € 1.127m. This decline is due to aggressive depreciation and exceptionally high maintenance costs during the last quarter. Management fees paid to shareholders rose from € 0.30m to € 0.65m. At the end of 2006, a new crunching unit was installed.

Mécelco (fully consolidated), the mechanic/metallic workshop, reported a 98% increase in turnover to € 645m thanks to increasing demand for the maintenance and repairs of railway wagons in Lubumbashi. The workshop is still loss-making however, posting an operating deficit of € 0.305m. The receivable on Gécamines, Mécelco's major client, is still outstanding. A conflict with one of Mécelco's minority shareholders has been resolved. Texaf will provide financial support to turnaround this activity and a new CEO has been appointed.

The performance of Congotex, the textile joint-venture, continues to disappoint. Even though sales rose by about 60% to € 13.8m thanks to orders from the DRC, the company reported an operating loss of about € 0.9m. Texaf's share in Congotex's net losses amounted to € 0.598m but the negative impact on Texaf's net profits was limited to € 0.219m because the book value of Texaf's stake in Congotex has fallen to € 0. The outlook remains worrisome for Congotex because of fierce competition from Chinese imports and working capital problems. Note that Texaf has no intention of providing further financial support to Congotex.

Texaf's consolidated FY06 results

€ th	Cotex	Mécelco	Texaf	Utexafrica	Imbakin	Other	Consolidated
Turnover	942.5	645.8	1,397.0	2,625.1			5,610.5
Operating profits	-371.3	-305.1	332.3	2,021.3	-1.8		1,675.4
Net profits	-243.5	-285.8	1,421.3	885.0	-2.2	16.4	1,791.2

Source: Texaf, KBC Securities

Net profits of associates (equity accounting)

€ th	2005	2006	% change
Carriaf	-0.2	-0.1	
Carrigrès	267.5	204.9	-23.4%
Congotex	-762.7	-218.9	-71.3%
Immotex	-62.0	28.6	
Total	**-557.3**	**14.5**	

Source: Texaf, KBC Securities

Outlook

Investor confidence should improve during the coming years now that a new government has been installed following last year's elections. We anticipate that Texaf's investments will rise from € 0.5m in 2006 to about € 4m in 2007. Investments this year include the acquisition of a property adjacent to the Utexafrica site, the conversion of warehouses into offices, two new apartment buildings, a new clubhouse with swimming pool and the renovation of villas. The newly-acquired property includes offices and dwellings on a 3,465m^2 plot. Note that real estate investments are highly lucrative in Kinshasa's prime location. A gross yield in excess of 20% seems to be the norm on this type of investment. We expect rental income to rise from € 4.45m in 2006 to about € 5.0m in 2007. These figures exclude Immotex (equity accounting).

A new CEO has been hired to lead Mécelco's turnaround. Revenues of the metallic/mechanic workshop should double this year on the back of strong demand for the repair and maintenance of railway wagons. Operating losses should fall in 2007 and we are forecasting a break-even result for 2008. Gécamines, Mécelco's main client, has not started to pay back its debt ($ 8.1m including interest) but the nationalized mining group is making advance payments for the new orders. The outlook is promising because the success of the mining sector creates opportunities in railway equipment maintenance and other subcontracting jobs.

Carrigrès, the sandstone quarry near the centre of Kinshasa, is well positioned to benefit from the pick up in infrastructure works. Volumes rose from 305,340 tonnes in 2005 to 411,419 tonnes in 2006. During 2007, Carrigrès will focus on profitability rather than volume growth.

Congotex's future remains worrisome because of fierce competition from China. The textile factory is located on a prime location (Utexafrica site) of Kinshasa. We expect that one day the factory will be closed down or moved to another site. It is an ideal site to build offices and residential buildings.

We anticipate a net financial charge of about € 0.155m this year versus a net financial income of € 0.017m in 2006 because of Texaf's planned investments. The group's net cash position (€ 3.65m at the end of 2006) and cash flow generation is sufficient to finance the investments projects. The cash is held however by Texaf S.A., the parent company. The subsidiaries will finance their projects through debt financing.

The 2006 results benefited from a reversal in tax provisions. As a large portion of the tax loss carry forwards have been used up, we've assumed an effective tax rate of 25% for 2007.

For 2007, we forecast a 22% increase in the group's turnover to € 6.82m and 40% rise in recurring operating profits. The rise in current net profits (group share) should be limited to 9% (€ 1.79m) however as a result of the negative net financial result and taxes. Furthermore, the positive impact of this year's investments will still be limited given the timing of their completion.

Texaf

€ 000	**2006**	**2007E**	**2008E**	**2009E**
Sales	5,610	6,823	7,983	9,548
Recurring operating profits	1,430	2,006	2,715	3,435
Non-recurring items	245	0	0	0
Reported operating profits	1,675	2,006	2,715	3,435
Financial results	17	-155	-200	-200
Pretax profits	1,693	1,851	2,515	3,235
Equity accounting	15	275	300	328
Taxes	55	-463	-629	-809
Exceptional result	2	0	0	0
Minorities	28	129	0	-46
Net profits	1,791	1,792	2,186	2,708
Recurring net profits	1,643	1,792	2,186	2,708
Reported EPS (€)	5.62	5.62	6.86	8.49
Recurring EPS	5.15	5.62	6.86	8.49
EPS change %		9.1%	22.0%	23.9%

Source: Texaf, KBC Securities

Valuation

We arrive at a sum-of-the-parts value of € 162.7 per share. This figure excludes any 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 boost the value per share by € 157! Texaf's board hopes that the issue of DRC's outstanding debt on Imbakin can be raised with the new government.

Valuation Texaf

	€ m	Comment
REAL ESTATE		
Net book value real estate activities 30.12.06 (1)	**29.87**	
Utexafrica, Cotex, Texaf (100%)		
Bookvalue of tangible fixed assets	31.66	*30.8 hectares*
Estimated market value	50.53	*273,825m^2 + 32,442m^2 at € 165/m^2*
Capital gains taxes (40%)	-7.55	
After tax value adjustment (2)	**11.32**	
Immotex (50%)		
Estimated market value CPA site	10.58	*1,057,522m^2 at € 10/m^2*
Estimated market value Congotex site	23.10	*14 hectares in top location at € 165/m^2. Currently textile factory.*
Capital gains taxes	-3.50	
Texaf's stake in net proceeds	15.09	
Book value Immotex in Texaf's books	7.73	*Under "associates" – equity accounting*
After tax adjustment (3)	**7.36**	
Adjusted book value real estate activities	**48.55**	*(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 FY07	1.15	*Net profit+deprec-working capital increase-capex+management fee*
Free cash flow yield	20%	*High yield to reflect country risk*
Implied equity value	5.75	
Value of Texaf's stake in Carrigrès	**2.81**	*48.8% stake*
Equity value Texaf group	**51.90**	
Number of shares	318,933	
Value per share (€)	**162.7**	

Source: Texaf, KBC Securities

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	146.50	146.50	146.50
Reference market capitalisation	12,776.1	31,003.2	46,723.7	46,723.7	46,723.7
Enterprise value (€ th)	14,354.1	30,804.3	48,156.3	48,877.4	48,834.1
P/E	-	18.9	26.1	21.4	17.3
EV/sales	10.5	8.3	7.1	6.1	5.1
EV/EBITDA	17.3	20.4	16.1	13.1	10.7
EV/Capital employed	1.5	1.5	1.4	1.3	1.2
P/ NBV	1.5	1.5	1.4	1.3	1.2
Free cash flow yield	1.8%	4.2%	-2.5%	-1.3%	0.4%
Dividend yield	0.7%	0.8%	0.9%	1.0%	1.1%

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.

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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	36.70%	75.00%
ACCUMULATE	45.30%	25.00%
REDUCE	15.80%	0.00%
SELL	2.20%	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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