Equity Markets

Initiating coverage

Belgium

IPTE

Investors' Prudence Tempers Excellence

17/01/08

Engineering & machinery €9.51

We initiate coverage on IPTE with a HOLD recommendation based on the company's powerful profit drivers being offset by negative investor sentiment on the sector.

IPTE supplies production services to the electronics and industrial markets in Europe (**contract manufacturing – CM**) and automated production equipment for the global electronics industry (**factory automation – FA**).

Top-line growth is backed by new commercial initiatives, capacity expansion and successful acquisitions (CAGR 2006-08F 41%).

Profitability is back on track as restructuring and economies of scale from acquisitions are to improve EBIT margins (-1% in 2004 to 5% in 2009F).

The company is well positioned in niche CM markets which present higher-than-average growth expectations (7% vs 4% European average).

Valuation is mitigated. Negative investor sentiment on the sector drives us to a peer-analysis-based target price of €10.5 (11% discount to peers on lower stock liquidity, higher gearing and lower profitability). We are cautious on the short term yet underline IPTE's strong growth prospects (DCF: €13).

Forecasts and ratios

Yr to Dec (€m)	2006	2007F	2008F	2009F
Turnover	138.3	251.5	276.1	290.8
EBITDA	6.0	17.1	19.3	20.7
Net profit	1.9	9.0	9.7	10.6
Adj EPS (€)	0.34	1.45	1.39	1.52
Adj PER (x)	28.0	6.6	6.8	6.2
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	13.8	5.8	5.1	4.3
Price/NAV (x)	2.2	1.6	1.3	1.1
ROE (%)	7.9	28.1	21.5	19.2

Source: Company data, ING estimates

SEE THE DISCLOSURES APPENDIX FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

ING WHOLESALE BANKING

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Initiating Coverage

Hold

21 January 2008

Target price (12 mth)

€10.5

Reuters

IPTE.BR

12-month forecast returns (%)	
Share price	10.4
Dividend	0.0
12m f'cst total return	**10.4**

Key ratios (%)

	2006	2007F
Turnover growth	9.2	81.8
EBITDA margin	4.3	6.8
Operating margin	2.5	4.6
Net debt/equity	128.0	85.0
ROACE	7.7	16.8

Share data	
No. of shares (m)	6.9
Daily turnover (shares)	14,668
Free float (%)	33.9
Enterprise value (€m)	97.7
Market cap (€m)	65.9

Share price performance

Source: ING

Contents

Executive summary

We initiate coverage on IPTE with a **HOLD** recommendation based on the company's powerful profit drivers being offset by negative investor sentiment on the sector. Our target price of €10.5 is based on peer analysis and corresponds to 2008F multiples of 5.5x EV/EBITDA and 7.5x PER.

IPTE is a supplier of production services to the electronics and industrial markets in Europe (contract manufacturing – CM) and a global supplier of automated production equipment for the electronics industry (factory automation – FA). Its client base includes Philips, Siemens, Bosch, Barco, Ericsson, Motorola and Flextronics.

Powerful growth and profit drivers

IPTE efficiently responded to the increasing trend of electronics production outsourcing by expanding its CM business (76% of 2007F sales vs 58% in 2005), and the focus on the European industrial and professional electronics markets is a trump card because:

- It provides **protection from global competitors**, which target mass consumer electronics.
- It offers the **highest growth** expected in European CM (CAGR 2007-10F of 7% vs 4% average).
- **Market share expansion** is achievable in the Netherlands and Germany, while the No.1 position in the Belgian target markets should be maintained.

Top-line growth is stimulated by:

- CM capacity expansion by 25% with a new plant in Romania.
- New commercial approach in FA, which recently resulted in a first contract for the automation of Bosch production lines (first order of €2.5m, 4% of FA 2007F sales).

Profitability enhancement is stimulated by:

- Higher-value-adding services leading to higher margins.
- Successful restructuring of the FA division (EBIT margin of 0.7% in 2005 to 3.2% in 2010F).

Efficient external growth strategy generates economies of scale:

- Acquisitions of Barco Electronics Manufacturing (BEM) and Platzgummer GmbH result in a sales CAGR 2006-08F of 41% and an EBIT margin increase from 2.5% in 2006 to 4.7% in 2008F.
- Further expansion is envisaged in Germany with an acquisition of up to €30-50m.

Negative investment sentiment on the industry

While IPTE's share performance was excellent in 2H07, the CM industry was severely de-rated by investors after the 2007 credit market turmoil. We believe that investor sentiment should be included in our TP given current fragile market conditions and thus favour a peer-analysis-based TP. At an average multiple discount (2008F and 2009F average EV/EBITDA, EV/sales and PER) of 11% to peers, justified by lower stock liquidity, a higher gearing ratio and lower profitability, we value IPTE at €10.5 per share.

Investment case

While we are cautious in our valuation given little appetite currently from investors for small and medium-sized cyclical stocks, we have a positive view on the company in the longer term on account of several strong growth drivers, which are analysed in more detail in this section.

Key growth and profit drivers

In our view, the following elements are key to IPTE's growth prospects:

Well-selected target CM markets

Protected from competition from large players'

By targeting the professional and industrial niche markets in its largest business unit, IPTE is protected against tough competition from the dominant global CM players. These focus mainly on the consumer electronics market, which is larger, but also more cyclical due to its close relationship with macroeconomic factors such as GDP growth and consumer confidence. In addition, YoY growth of smaller CM players active in consumer electronics might be dependent on blockbuster products (for example: a small CM company manufacturing iPod particles), while IPTE's CM production capacity is utilised for a wide range of products.

Positive cycle momentum in target markets

The CM market in Europe is expected to grow at an average rate of 4% (CAGR 2007-10F), yet the industrial, automotive and communications CM markets, which represented 89% of IPTE's 2006 CM sales, should reach higher CAGRs 2007-10F of 7%, 7.5% and 7.5%, respectively, as shown in Figure 1. We refer to the section *Cycle Analysis: positive momentum* for a more detailed description of this topic.

Fig 1 European CM market by end-user segment (€m)

Sector	2007	2008	2009	2010	CAGR (%)
Automotive	928	998	1,072	1,153	7.5
Communications	6,879	7,395	7,950	8,547	7.5
Medical	2,344	2,535	2,744	2,969	8.2
Industrial	2,826	3,012	3,211	3,423	6.6
Other	14,017	14,359	14,441	14,664	1.5
Total	**26,994**	**28,299**	**29,418**	**30,755**	4.4

EUR/USD = 1.44

Source: Electronic Trend Publications

Further market share gains expected, mainly in the Netherlands

With expected CM organic growth rates of 12% in 2006 and 28% in 2007F (excluding BEM), we note that IPTE is gaining market share. We believe that the addition of BEM to the company's CM operations will further boost this trend. In IPTE's geographic markets, we believe that market share expansion will mainly occur in the Netherlands, where management estimates the company's industrial CM market share at about 10-20%. Market share expansion in Belgium seems more challenging, as the company already has an industrial CM market share of above 50%.

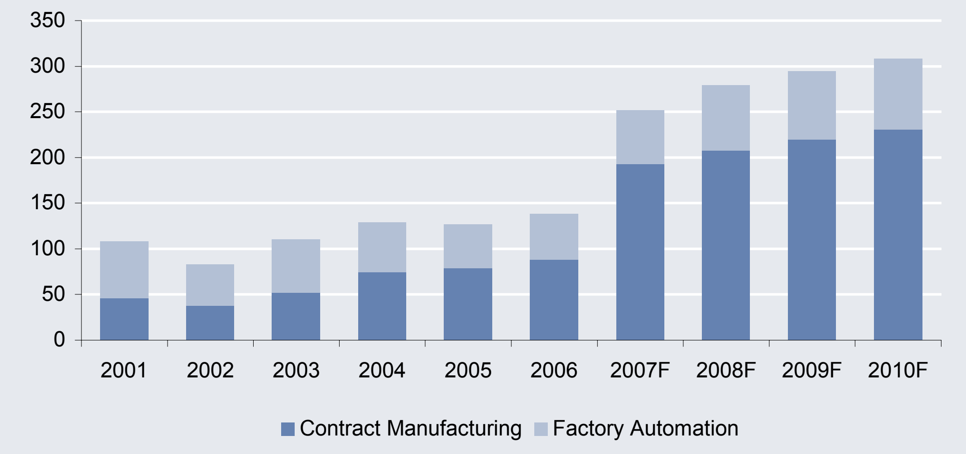
Anticipating market trends

Shift to CM should boost growth and visibility

Outsourcing of production by OEMs is booming in the electronics manufacturing industry. By 2010, it is estimated that outsourcing will account for 38% of all electronics manufacturing as worldwide CM is growing at about 11% annually (2005-10F), while electronics products manufacturing by OEMs is increasing by around 5% per year

(2005-10F). In this context, the shift from FA to CM as major revenue contributor, which has occurred over the past four years and was accelerated by the acquisition of Barco Electronics Manufacturing (BEM) is a positive sign. Another attractive element of CM versus FA is the higher degree of recurring business, as management estimates an average CM product loss rate of only 8% YoY, while FA sales occur on a project-by-project basis.

Fig 2 Contribution to sales per business unit (€m)



Source: Company data, ING estimates

Growth initiatives

IPTE has recently undertaken several initiatives that we expect to have a positive impact on future top-line and margin growth:

IPTE Group

Higher margins by expanding presence in the value chain

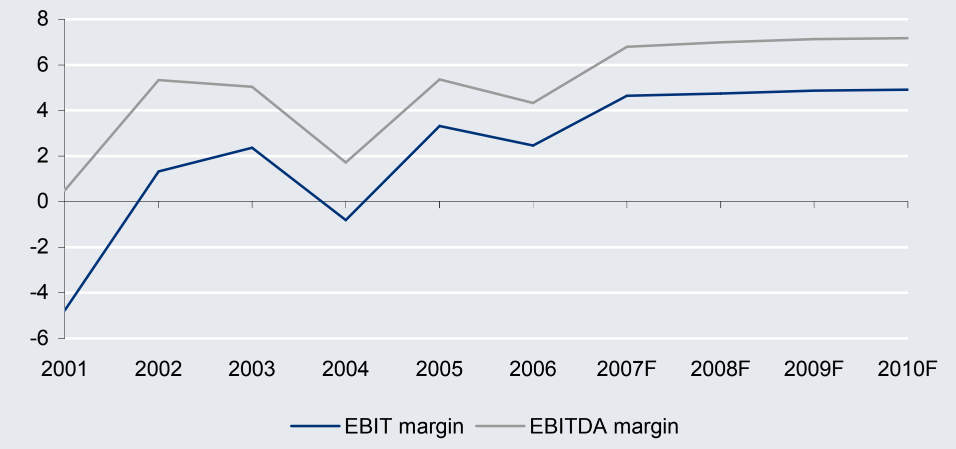
Higher-value-adding activities. IPTE is boosting top-line and margin growth by expanding its presence in the value chain. In this context, the company increasingly offers higher-value-adding activities such as co-engineering and co-designing in order to evolve towards a full-service supplier. This concept is supported by the company's testing activities, and IPTE also proposes after-sales services and training. In CM, the company has been measuring these developments in the past four years in a project called Flex-Ops, whereby the company develops the electronics and cabling of a product together with the customer at its own premises.

Contract manufacturing

BEM acquisition drives CM to record profits

Economies of scale. With the acquisition of BEM, which we analyse in more detail below, as well as strong organic growth in 2007F, we expect IPTE to have increased its sales to such an extent (+80%) that its cost base has experienced a structural change. Figure 3 illustrates the improvement in IPTE's forecast margins from 2007F. We believe that this is a strong margin enhancement driver for the foreseeable future.

Fig 3 IPTE margins (%)



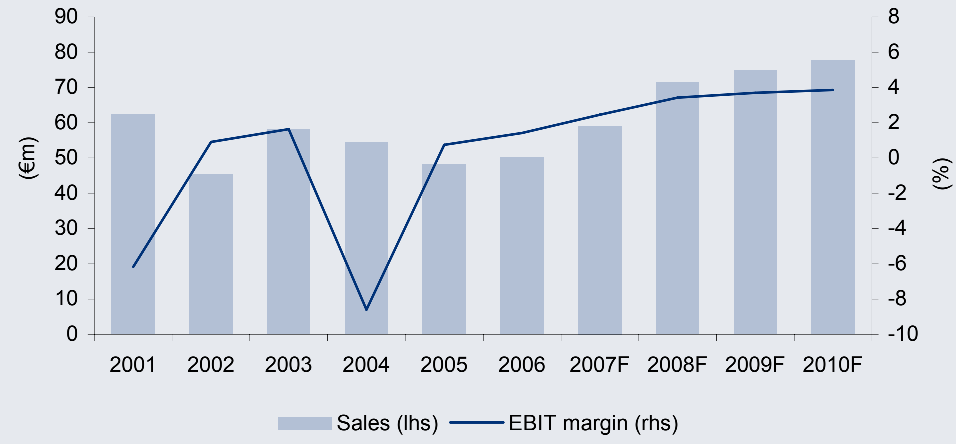
Source: Company data, ING estimates

Factory automation

FA margins back on track with room for more

Profitability turnaround. IPTE's factory automation division was severely hit by a market downturn in the years following 2001. In that period, the company intended to strengthen the business unit by gaining market share in order to realise its ambition of becoming a true global player. As market conditions were unfavourable, expanding market share coincided with severe pricing pressure and margin erosion as a result. During 2004, the company initiated a €7m restructuring programme and made the strategic decision to shift the focus from volume growth towards profitability enhancement. As a result, IPTE has developed flexible standard factory automation products, which are easier to adjust to clients' requirements. Orders that significantly differ from the existing standard product range are only accepted if justified by higher returns. Figure 4 illustrates the increase in FA's EBIT margin vs total sales from 2004 to 2010F. We note a significant drop in sales in 2005, yet the start of consistent margin improvements. 2008-10F figures are also impacted by the acquisition of Platzgummer GmbH, which we discuss below. We believe that further profitability enhancement is possible to 6-7% EBIT margins if market conditions remain decent.

Fig 4 Factory automation profitability turnaround



Source: Company data, ING estimates

'One-face' approach already bearing fruit

New commercial strategy. IPTE has adapted its commercial strategy towards larger clients in order to capitalise on more business opportunities in the FA business. The company has developed a 'large account strategy', which consists of a commitment to focus future company developments towards clients' product requirements in exchange for exclusive selling agreements. As such, the company presents a 'one-face' approach to each of its larger customers in order to strengthen its position as a preferred supplier. With this strategy, IPTE has become a true competitor to clients' internal manufacturing divisions and thus entered into a new market. The success of this strategy is reflected by IPTE's solid relationship with such customers as Philips, Siemens and recently Bosch, with whom the FA division has made a collaboration-based breakthrough for the automation of product lines. A first order worth approximately €2.5m (4% of 2007F FA sales) has been received from Bosch during 3Q07 for delivery at the start of 2008.

Acquisition to boost growth in Germany

Acquisition of Platzgummer GmbH. On 8 January 2008 IPTE announced the acquisition of Platzgummer GmbH, which will be consolidated as of 1 January 2008. The company specialises in factory automation equipment for German and international suppliers to the automobile, metal and packaging industries. The company's client base includes large manufacturers such as BMW, Barco and Siemens. With revenues of €8-10m (15% of 2007F FA sales), EBIT margins of around 8-10% and a healthy balance sheet in a net cash position, we view the takeover as a smart move to boost growth in IPTE's German FA business. Synergies are expected to emerge from the companies' similar client base, which should allow IPTE to compete for higher-volume contracts. In addition, Platzgummer's strong mechanical department should reinforce IPTE's know-how in that field. Although the acquisition price has not yet been disclosed, we believe that the deal's return on investment was very profitable. While we expect a significant impact from the acquisition on IPTE's FA margins as of 2008F, as illustrated in Figure 4, we believe that IPTE remains on the lookout for a larger acquisition in Germany, which would most probably concern the CM division. We analyse this topic in more detail under *Strategy* in the *Company profile* section.

Synergies

CM and FA very compatible within the industry…

IPTE should, in our view, benefit from an optimal diversification in product portfolio in order to benefit from growth in electronics manufacturing, which we expect to continue in the foreseeable future in the company's target markets (see section *Cycle analysis*). In this context, IPTE has the ability to act on the internal production growth of OEMs through the supply of FA assembly products as well as to production outsourcing through its operations in CM. As a result, the client base is shared and a new client for one division often results in new business for the other division as well.

…and at operating level

In addition, the company's technology is shared by both divisions. IPTE's know-how in CM is strongly supported by the research team of 250 engineers in FA, and the company's expertise in PCB testing forms a critical competitive advantage in the attractiveness of both divisions.

Efficient production structure

Smart mix of front and back offices

IPTE's operations are allocated over the different sites on a competence basis. The company distinguishes customer-oriented front offices in Belgium, France, the Netherlands and Germany, coupled with cost-efficient back offices in Romania, the Czech Republic and Slovakia. In addition, the factories' technology is adapted according to IPTE's philosophy of client proximity. High-tech product manufacturing usually requires more client proximity and often co-development and is therefore concentrated in IPTE's client markets in Western Europe, while less technical, labour-intensive production processes are mainly carried out in Eastern Europe.

Capacity expansion in Romania

Increase of CM capacity by 25% on account of new plant in Romania

In 2007, IPTE initiated the construction of a new plant in Oradea, Romania, to which production should move from the current plant in early 2008. The Romanian plant is already the largest production unit of IPTE's CM division and is a fully fledged electronics subcontracting plant, which produces complete products, PCBs and cable harnesses. The investment of €5m will be carried by the Belgian Essers Group, from which IPTE will rent the plant for a period of 15 years. This will result in an increase in premises from the current 8,500m^2 to about 16,000m^2. The possibility of increasing personnel from 720 in the current plant to about 1,500 suggests that output could be more than doubled. We believe that the current maximum output in Romania of about €40m should be increased by approximately €50m and should boost IPTE CM's sales capacity from about €200-220m to €250-270m.

Door is open for sales activities in Eastern Europe

Concerning IPTE's above-mentioned production structure, the high-tech level of Romanian equipment seems remarkable and could very well be the first stage in the development of sales activities in Eastern Europe as management has already indicated the start of testing activities in 2007 for the local market.

Major benefits from BEM acquisition

Acquisition of Barco Electronics Manufacturing (BEM) in 1Q07

In 1Q07, IPTE acquired Barco Electronics Manufacturing (BEM) from Barco NV for a total acquisition price of €15m, net of cash. This corresponds to the division's net asset value and seems to be an attractive price as Barco agreed to 'clean up' BEM's balance sheet before year-end 2006 (example: all outstanding suppliers' payables were paid before 1 January 2007). BEM was Barco's internal PCB manufacturing division and consists of two factories: one in Poperinge (Belgium, 200 FTE at end-FY06) and one in the Czech Republic (Kladno, 150 FTE at end-FY06). While the deal was announced in 2006, the payment for the takeover took place only in early 2007, and BEM has been consolidated in IPTE's results since 1 January 2007. The acquisition was mainly debt-financed as an extra €10m was added to IPTE's existing credit lines.

Acquisition fits in the industry context

The sale of BEM by Barco was not surprising as we see a tendency in the industry of OEMs disposing of internal divisions which cannot compete with contract manufacturers' prices. While the latter concentrate on activities that are considered non-core by OEMs, they develop state-of-the-art production technologies and economies of scale, resulting in low prices, which make them far more attractive than some internal OEMs' divisions. This is the driving engine behind increasing outsourcing in the electronics manufacturing industry and the success of contract manufacturing.

Benefits for IPTE are major

While BEM was loss-making for Barco, it integrates very well into IPTE's activities and we consider the takeover to be a strong profit driver for the following reasons:

- **Economies of scale and higher margins**: While BEM's latest annual sales as a part of Barco equalled €60m (€45m to Barco, €15m to other clients), IPTE was able to increase BEM's productivity (by adding only one assembly line in Kladno, an investment of €2m) to reach expected sales levels of about €80m in 2007F (+33% YoY). Sales synergies were significant as the combined organic sales increase of BEM and IPTE CM from 2006 to 2007F equalled 30%. This has resulted in economies of scale, which have sharply reduced the company's operating costs relative to sales and thus increased profitability. As a consequence, IPTE's CM EBIT margin jumped from 3.0% in 2006 to 5.4% in 2007F.

- **Barco as a new client**: IPTE's sales to Barco are expected to reach approximately €80m in 2007F, from BEM and other production facilities. There is a five-year contractual guarantee of minimum sales levels (year 1: €45m, year 2-3: €40m, year 4: €33m and year 5: €25m), yet we expect sales to be higher and the guarantee therefore to be an unnecessary contractual back-up. As BEM technology is currently entirely adapted to Barco's product requirements (being a former Barco internal division), the chance of Barco turning to another supplier seems limited to us if competitive pricing is maintained.

- **Increase in technological expertise**: IPTE took over a more advanced technological know-how by acquiring BEM. While IPTE's PCB assembly activities in Ieper have a class II certification, BEM's Poperinge plant is certified class III. This should enable IPTE to penetrate a new segment of highly professional customers in sectors such as healthcare and the military.

- **Stronger image**: The integration of BEM's production facilities has also strengthened IPTE's image in the market as a solid, high-tech contract manufacturer.

Only one snag: increase in client concentration

We consider the only snag in this acquisition to be IPTE's increased client concentration, as Barco currently represents about 30% of sales. It is the intention of the company to reduce this exposure below 25% by 2010 through stronger sales growth in its remaining client portfolio.

External growth potential in Germany

IPTE CM Germany underperforms due to its limited size

Although Germany has the largest concentration of OEMs in Europe, IPTE's management has repeatedly stated that profitability in the German CM operations is below expectations. The company attributes this to the fact that the German CM market is too large for substantial OEMs to take a small player like IPTE Germany into consideration for sizeable orders.

Acquisition of €30-50m is envisaged

Although IPTE has announced that it is 'not in a hurry', it has given signs that acquisition targets in the German CM market are being scanned. It seems indeed that a takeover would be the most efficient way to leverage IPTE's profitability in the country. According to management, an acquisition priced at up to €30-50m would position the company among the strong players in Germany and allow IPTE to compete for the large orders of the Germany-based OEMs.

Case study: Impact of a €30m acquisition on IPTE CM Germany

We have estimated the potential impact of a €30m acquisition in the German CM business. We have analysed two financing scenarios: one based on a debt increase and a second one based on a capital increase. The analysis is based on the following assumptions:

- The acquired company would be consolidated as of 1 January 2008. In this context, we underline that this model is theoretical as we do not expect a major acquisition to be announced in Germany in the very short term given company guidance.

- The acquired company's EV/sales multiple is 0.3x, which is similar to the average 2008-09F multiple of the Western European small and mid cap CM companies which we have identified in our peer analysis (refer to *Valuation* section). Assuming that the acquisition price of €30m would equal EV, the company would thus generate total revenues of about €100m.

- The company' net profit margin equals 5-6% of sales, a target level indicated by IPTE management.
- The company is in a net cash position (which is very common in the sector).
- The company's revenues are growing at the same pace as the European CM market, ie, 4.6% pa (2005-10F CAGR estimate).
- The acquisition would have no impact on IPTE's percentage to sales rates of capex and increase in working capital as well as on the company's taxation rate.
- The subscription price in case of a capital increase would stand at a discount of 10% to the actual price. This would result in a required capital increase of 3.2m new shares.
- IPTE's interest cost on the debt increase would equal 6% (slightly above INGF 2008 Euribor + 1.5%).
- Synergies would lead to an estimated extra 3% sales increase in IPTE's CM sales for the first year and an additional 2% in the two following years. We believe that this is quite conservative given that the combined increase of BEM and organic IPTE CM sales from 2006 to 2007F equalled 29%. While this partially relates to Barco's internal pricing of BEM's sales in 2006, we believe that sales synergies clearly are substantial. The comparison with BEM is relevant as the proportional increase of CM sales as a result of the acquisition is comparable (+65% BEM vs +55% case study).
- The EBITDA resulting from the combination of IPTE and the acquired company will further increase by 2% in the first year and 1% in the two following years on account of operating cost synergies.

Fig 5 Impact of a €30m acquisition on IPTE Germany (€m)

	SCENARIO 1 Excluding acquisition			SCENARIO 2 Debt-financed acquisition			SCENARIO 3 Acquisition through capital inc		
	2008F	2009F	2010F	2008F	2009F	2010F	2008F	2009F	2010F
CM sales IPTE	204.5	216.0	227.1	204.5	216.0	227.1	204.5	216.0	227.1
CM sales acquisition	0.0	0.0	0.0	104.6	109.4	114.4	104.6	109.4	114.4
CM sales synergies	0.0	0.0	0.0	8.8	6.2	6.5	8.8	6.2	6.5
Total CM sales	204.5	216.0	227.1	317.9	331.6	348.0	317.9	331.6	348.0
sales increase (%)	*6.1*	*5.6*	*5.1*	*65.0*	*4.3*	*5.0*	*65.0*	*4.3*	*5.0*
Total IPTE sales	**276.1**	**290.8**	**304.7**	**389.4**	**406.4**	**425.7**	**389.4**	**406.4**	**425.7**
sales increase (%)	*9.8*	*5.3*	*4.8*	*54.9*	*4.4*	*4.7*	*54.9*	*4.4*	*4.7*
EBITDA CM (IPTE & acquisition)	15.2	16.3	17.1	25.3	26.9	28.5	25.3	26.9	28.5
EBITDA margin CM (IPTE & acq) (%)	*7.5*	*7.5*	*7.5*	*8.0*	*8.1*	*8.2*	*8.0*	*8.1*	*8.2*
EBITDA total	**19.3**	**20.7**	**21.8**	**28.8**	**30.7**	**32.7**	**28.8**	**30.7**	**32.7**
EBITDA margin total (%)	*7.0*	*7.1*	*7.2*	*7.4*	*7.6*	*7.7*	*7.4*	*7.6*	*7.7*
Net profit	**9.7**	**10.6**	**11.1**	**15.0**	**15.8**	**16.6**	**16.7**	**17.5**	**18.2**
Total shares (m)	6.93	6.93	6.93	6.93	6.93	6.93	10.11	10.11	10.11
EPS (€)	1.41	1.54	1.60	2.16	2.28	2.40	1.65	1.73	1.80
EPS growth (%)	*8.4*	*10.2*	*4.9*	*66.6*	*5.6*	*5.0*	*27.2*	*4.9*	*4.1*
Net debt	31.9	24.4	16.9	60.3	48.9	37.2	28.6	15.5	2.3
Gearing	64.1	40.4	23.6	121.2	80.8	52.0	35.9	19.5	2.9
Net debt/EBITDA (x)	1.7	1.2	0.8	2.1	1.6	1.1	1.0	0.5	0.1
EV/EBITDA (x)	5.5	4.9	4.3	4.6	4.1	3.5	4.7	4.2	3.5

Source: ING estimates

Conclusion: the impact is positive in both scenarios

Major impact on sales and EBITDA

In terms of sales and EBITDA, we can see that the company would report an increase of 40% and 50%, respectively, by 2010F in comparison to our standard scenario excluding acquisition. The different financing scenarios have an impact on multiples and EPS.

Strong EPS and EV/EBITDA, gearing in 2010F better than today

Debt financing: A debt-financed acquisition seems very attractive in terms of EPS and EPS growth, but the company's debt position would also be severely affected. However, we note that IPTE's gearing would by 2010F already have improved compared with today's level (2007F). EV/EBITDA multiples would be attractive on account of strong returns impacting net debt as well as high EBITDA levels.

Strong EPS, strong EV/EBITDA

Capital increase: In the case of a capital increase, we note that the EBITDA increases resulting from strong synergies would more than offset the dilution related to the higher number of shares as EPS ratios would improve in comparison to our standard scenario. The company's EV/EBITDA would become substantially more attractive on account of strong EBITDA and decreasing debt levels.

Cycle analysis: positive momentum

Electronics manufacturing industry is cyclical and IPTE is affected

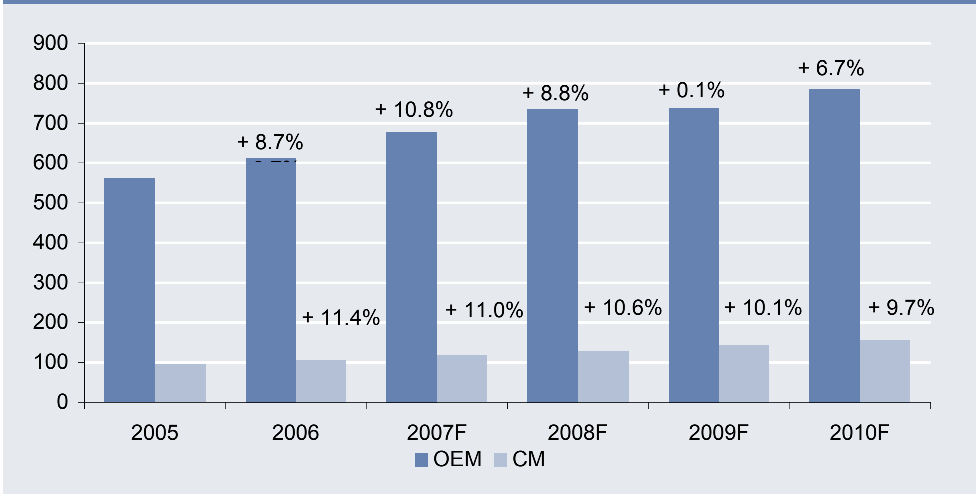
The electronics manufacturing industry is characterised by a relatively high correlation to general economic sentiment, GDP growth and consumer confidence, especially in the mass consumer electronics business. In addition, as production capacity is expanded during industry growth periods, competition also increases between large players, which eventually results in overcapacity and oversupply in the sector, and thus the start of margin erosion and industry turmoil. Some argue that the cycle is repeated on average every ten years, others would say that it varies according to the end-user segment and can therefore not be predicted. The fact is that the latest global downturn occurred around 2001 and IPTE was not spared from its consequences (see the *Financials* section for the impact on IPTE).

We will split our analysis of the cycle affecting IPTE according to the company's operating units. As such, IPTE CM would probably be impacted by changes to the European CM business, while IPTE FA, as a provider of production machinery, will be affected by evolution in the overall electronics manufacturing industry.

Global CM growth continues

CM has been expanding rapidly in the past two decades as OEMs are increasingly outsourcing production. This is expected to continue over the foreseeable future, yet at a slightly declining rate, and Figure 6 illustrates that a decrease in global OEMs' electronics production in 2009 should not prevent CM from pursuing its impressive growth track. According to global trends, IPTE CM will thus benefit from a beneficial business environment in the coming years, while IPTE FA might be affected by production growth softening in 2009, which should however resume in 2010.

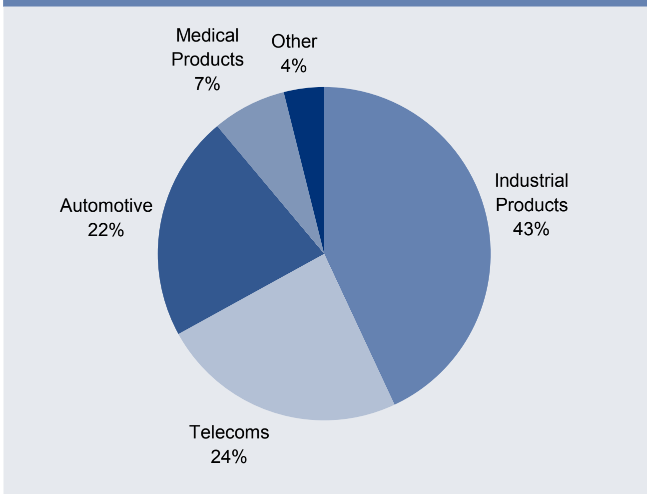
Fig 6 Worldwide OEM and CM market forecasts (€bn)



Source: Electronic Trends Publication

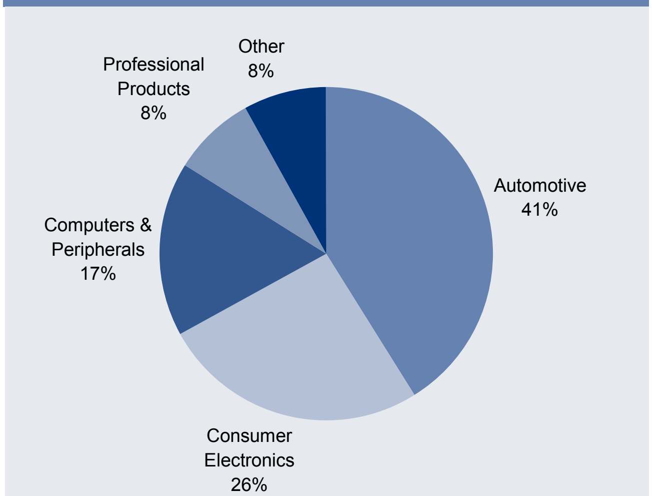
When looking at market segments, we note that IPTE has different target markets for each division.

Fig 7 CM sales per end-user segment (2006)



Source: Company data

Fig 8 FA sales by end-user segment (2006)



Source: Company data

Strongest growth expected in IPTE's key CM markets

IPTE CM is mainly active in the industrial, telecommunications, automotive and medical market segments. Looking at the market expectations for CM growth in Europe until 2010, which are shown in Figure 1, we conclude that IPTE's main markets should generate much-higher-than-average growth rates (CAGR of 7% vs 4% average). Hence, we believe that external conditions should not pose a barrier for IPTE to develop its CM operations further.

In FA, IPTE has set the target of becoming a global supplier. For the global market, Figure 9 illustrates the OEMs' expected production by market segment to 2010.

Fig 9 OEM worldwide market by end-user segment (€bn)

	2007	2008	2009	2010	CAGR (%)
Communications	162	177	178	192	5.7
Computer	225	246	246	264	5.5
Consumer	118	128	128	137	5.1
Industrial/Medical	78	84	84	88	4.1
Transportation	94	101	101	106	4.0
Total	**677**	**737**	**737**	**786**	**5.1**

Source: Electronic Trends Publications

Slower growth expected for FA

In IPTE FA's main markets of automotive, consumer electronics and computers, average growth rates (CAGR 2007-10F) are expected of 4%, 5% and 5%, respectively. In 2009, the industry should experience a slight production decline on account of oversupply. While we have included this external influence in our model (CAGR 2007-10F of 4.3%), we believe that IPTE FA still has significant growth potential on account of the attractiveness of its testing activities and market share expansion potential. In addition, growth will be supported by the acquisition of Platzgummer GmbH (see *Financials* section for the analysis of our growth expectations).

Investor sentiment: fear of a recession

CM de-rated following credit market turmoil

While analysts' expectations are still positive for the sector, we have noted a de-rating of CM companies during 2H07, which we attribute to the recent turmoil in credit markets as well as the fear of a recession (see *Valuation*). In today's fragile markets, investors thus seem to give little credence to analysts' estimates and prefer to cut their exposure to cyclical stocks.

Valuation

Valuation between €10.5 and €13 per share

Based on several valuation methodologies, we value IPTE at between €10.5 (peer analysis) and €13.0 (DCF) per share. At such levels, IPTE would trade at between 5.5x and 6.4x EV/EBITDA 2008F and between 7.5x and 9.3x PER 2008F.

Conclusion and recommendation

TP of €10.5 based on peer analysis

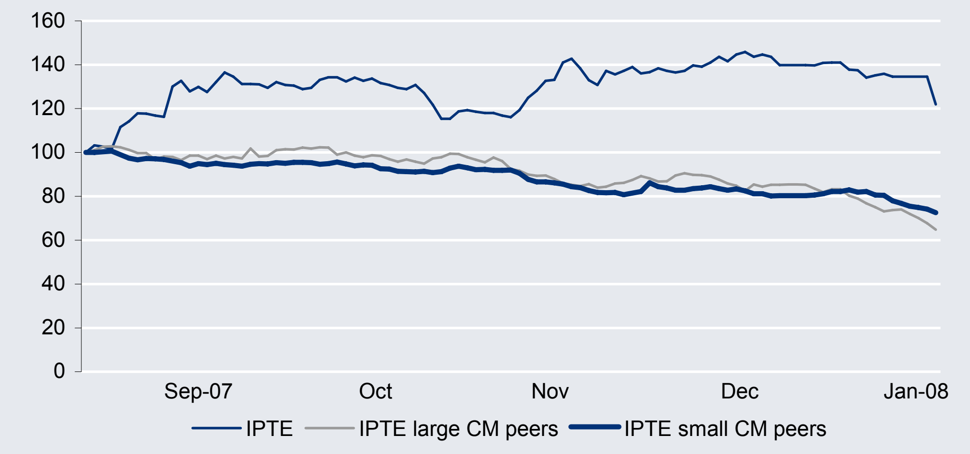
We initiate coverage on IPTE with a **HOLD** recommendation and a target price of €10.5, offering potential upside of 10% to the current share price. While we believe that IPTE has strong growth potential (DCF fair value of €13 per share), today's negative investor sentiment towards small and medium-sized cyclical stocks and the de-rating of the CM sector that has affected IPTE's peers (small and large caps, see below) drive us towards a cautious valuation, based on peer analysis. We argue in favour of a discount of around 10% to our selected peer group on account of IPTE's limited stock liquidity, higher gearing ratio and lower profitability.

CM sector de-rated during 2H07

IPTE on the rise while peers go down

Following the credit market turmoil of 2007, investors have been reluctant to invest in companies which are exposed to a cyclical business, especially in the US given the possibility of an upcoming recession. In addition, small-cap companies have been penalised on account of a lack of liquidity, perceived as carrying a higher risk profile. Both of these tendencies have led to a de-rating of the contract manufacturing sector, for international players as well as for IPTE's smaller peers. Figure 10 illustrates IPTE's excellent share price performance versus its peers during 2H07, which we attribute to the company's record results.

Fig 10 IPTE share price versus peers (rebased)



Source: Factset

Peer group analysis

We have identified three categories of peers, representing both of IPTE's business activities. In CM, the global industry is dominated by several giant players, of which the top five publicly traded companies are included in our analysis. In addition, we have regrouped IPTE's closer CM peers, which are comparable in terms of home markets (Benelux and Western Europe) as well as market cap (small and mid cap). In this peer group, Volex Group is mainly active in cable manufacturing, while the other competitors are active in PCB-related assembly activities.

Our peer group in factory automation consists of international players, spread over factory automation assembly as well as testing activities.

Fig 11 Peer group benchmarking

	EBIT margin (%)			EPS growth (%)			EPS CAGR (%)	Net debt/EBITDA (x)		
	2007F	2008F	2009F	2007F	2008F	2009F	2009/07F	2007F	2008F	2009F
Contract Manufacturing										
Top 5										
Foxconn International	7.7	7.1	7.3	-2.1	24.8	23.7	24.3	-0.7	-0.8	-1.0
Jabil Circuit Inc	2.4	3.1	3.5	-50.7	56.1	33.7	44.5	1.1	0.9	0.5
Sanmina Sci Corp	1.7	2.1	2.5	-100.0	0.0	77.8	N/A	2.3	1.3	1.3
Flextronics Intl	3.1	3.7	3.7	6.0	27.1	20.8	23.9	1.2	0.9	0.8
Celestica	1.3	1.9	2.3	-47.2	84.6	25.8	52.4	-0.6	-0.6	-1.3
Benelux markets										
Neways Electronics	8.2	7.5	6.0	26.2	0.0	-5.7	-2.9	0.6	0.6	-0.4
Epiq Nv	5.1	4.8	5.0	109.1	39.1	21.9	30.2	1.8	1.6	1.2
Others Western Europe										
Scanfil Oyj	8.0	6.8	6.5	50.0	9.5	-4.3	2.4	-1.6	-1.4	-1.3
Volex Group	4.7	5.2	6.0	25.4	27.7	27.8	27.7	0.7	0.4	0.0
Factory Automation										
Ats Automation Tooling Syst	-3.9	5.7	N/A	N/A	N/A	N/A	N/A	-15.1	1.4	N/A
Teradyne	5.2	7.4	9.3	-55.9	29.6	16.1	22.7	-5.2	-5.1	-5.0
ABB	13.8	14.7	15.0	73.2	20.5	13.0	16.7	-0.9	-1.1	-1.4
Median CM	4.7	4.8	5.0	6.0	27.1	23.7	34.7	0.7	0.6	0.0
Median FA	5.2	7.4	12.1	8.7	25.1	14.5	66.4	-5.2	-1.1	-3.2
Weighted total median	7.0	7.1	9.3	6.6	26.6	21.5	45.0	-0.7	0.2	-0.7
IPTE	4.6	4.7	4.9	282.3	7.5	9.3	8.4	2.0	1.7	1.2

Source: Factset, ING estimates

Fig 12 Peer group valuation multiples

	Country	Price*	Market cap	PER** (x)			EV/EBITDA (x)			EV/sales (x)		
		(€)	(€m)	2007F	2008F	2009F	2007F	2008F	2009F	2007F	2008F	2009F
Contract manufacturing												
Top 5												
Foxconn International	Taiwan	1.17	8,273	15.4	12.3	10.0	14.4	8.4	6.4	1.3	0.7	0.6
Jabil Circuit Inc	US	9.57	2,006	18.3	11.7	8.8	7.1	5.2	4.3	0.3	0.3	0.2
Sanmina Sci Corp	US	0.95	502	N/A	15.4	8.7	5.7	3.8	3.8	0.2	0.1	0.1
Flextronics Intl	US	6.74	5,608	10.5	8.2	6.8	9.3	5.4	5.2	0.4	0.3	0.2
Celestica	Canada	3.35	667	20.4	11.1	8.8	4.1	2.7	1.6	0.1	0.1	0.1
Benelux markets												
Neways Electronics	Netherlands	11.77	109	7.4	7.4	7.8	5.2	4.5	4.5	0.5	0.4	0.4
Epiq Nv	Belgium	2.30	55	10.0	7.2	5.9	5.5	4.9	4.1	0.4	0.3	0.3
Others Western- Europe												
Scanfil Oyj	Finland	1.91	116	9.1	8.3	8.7	3.4	3.3	3.3	0.4	0.3	0.3
Volex Group	UK	1.53	87	10.2	8.0	6.2	6.5	4.3	3.4	0.4	0.3	0.2
Factory automation												
ATS automation tooling systems	Canada	3.67	8,920	N/A	27.0	N/A	N/A	9.8	N/A	0.6	0.7	N/A
Teradyne	US	6.18	1,073	21.0	16.2	14.0	8.7	5.2	2.9	1.0	0.7	0.5
ABB	Switzerland	16.15	37,301	18.5	15.4	13.6	13.4	8.7	7.5	2.1	1.4	1.3
Median CM				10.3	8.3	8.7	5.7	4.5	4.1	0.4	0.3	0.2
Median FA				19.8	16.2	13.8	11.1	8.7	5.2	1.0	0.7	0.9
Weighted total median				12.6	10.2	9.9	6.9	5.5	4.3	0.5	0.4	0.4
IPTE	**Belgium**	**9.51**	**65.95**	**7.3**	**6.8**	**6.2**	**5.8**	**5.1**	**4.3**	**0.4**	**0.4**	**0.3**
Discount/premium to weighted total (%)				*-41.6*	*-32.8*	*-36.8*	*-15.9*	*-8.4*	*0.4*	*-23.0*	*-8.0*	*-20.6*

* Priced at close 17 January 2008

** Calculated on average number of shares (versus year-end number of shares used in *Forecasts and ratios* table on front page)

All peer companies are Not Rated by ING except ABB (Buy, TP €38.5)

Source: Factset, ING estimates

Low valuation compared with blended peer portfolio

Figure 12 illustrates our peer group valuation multiples. Our comparison is based on a total median, weighted between CM and FA competitors according to the contribution per business unit to IPTE's total 2007F sales.

Discount to peers of 18%…

IPTE currently trades at an average multiple discount to our peer portfolio of 18% (average 2008-09F EV/EBITDA, EV/sales, PER). In more detail, IPTE trades roughly in line with peers in terms of EV/EBITDA (-4%) and at a 14% discount on EV/sales. When looking at PER, we note a much more severe average discount of 35%. The discrepancy between PER and other multiples could be explained by: (1) the company's high gearing; as well as (2) the impact of IPTE's low taxation rate on account of deferred tax assets and attractive tax regimes on its Eastern European operations.

…only partially justified

While the above-mentioned multiples clearly indicate that IPTE's valuation is low relative to peers, it is our opinion that the following factors demonstrate that this is not justified:

- IPTE's product mix is more diversified due to its operations in both FA and CM, resulting in better visibility than FA peers and more room for margin improvement relative to CM competitors.
- Powerful synergies may arise as CM and FA share the same client base, research base and machinery. Strong research in particular could become a trump card versus smaller players with limited R&D resources. IPTE also targets compatible markets as it supports both outsourcing and internal production growth.
- There are significant external growth opportunities for IPTE in Germany. The potential positive consequences of an acquisition are analysed earlier in this report.

In favour of a 10% discount

As indicated above, we believe that IPTE's discount to our peer portfolio is too severe. We argue, however, that a slight discount of about 10% would be justified, based on the following criteria:

- Limited liquidity compared with large-cap peers.
- Weaker historical performances in terms of profitability (average 2001-06 EBITDA margin of 4% for IPTE against 8% for our blended portfolio).
- Slower expected EPS growth vs the blended portfolio (CAGR 2007-09F of 8% vs 45%).
- Gearing ratio of 85% is significantly higher than competitors', of which some are in a net cash position

Conclusion

Peer valuation points to €10.5 per share

At a price of €10.5 per share, IPTE would trade at an average 2008-09F multiple discount to peers of 11% (average of EV/EBITDA, EV/Sales and PER), which is in line with our target. In more detail, the company would trade at an average 2008-09F EV/EBITDA premium of 3%, which would be more than offset by average discounts of 8% on EV/sales and 28% on PER. Compared with small and medium-sized European CM peers (Benelux and others), IPTE would trade at an average multiple premium of 10%, which we find acceptable given the company's strong growth prospects and its additional activities in factory automation where margin enhancement potential is significant.

Discounted cash flow

DCF points to €13.0 per share

Our DCF points to a fair value of €13.0 per share and is based on the company's actual consolidation basis and on the financial outlook we present in this report.

Our other assumptions are as follows:

- Turnover growth gradually decreases after 2010F to a long-term growth rate of 2%.
- The EBIT margin gradually decreases after 2010F to a long-term mid-cycle rate of 3.75%.

Fig 13 Discounted cash flow (€m)

	2008F	2009F	2010F
Growth in turnover (%)	9.8	5.3	4.8
EBIT margin (%)	4.7	4.9	4.9
Tax rate (%)	6.0	8.0	12.0
Depreciation as % of sales	2.3	2.3	2.3
capex as % of sales	-3.4	-2.3	-2.5
Investment in WC as % of sales	-1.7	-1.0	-0.9
WACC (%)	8.7	8.7	8.7
Turnover	276.1	290.8	304.7
EBIT	13.1	14.2	15.0
Tax	(0.8)	(1.1)	(1.8)
Operating profit after tax	12.3	13.0	13.2
+ Depreciation	6.2	6.5	6.9
- Investments in fixed assets	(9.3)	(6.8)	(7.7)
Total net investments in fixed assets	(3.1)	(0.3)	(0.9)
- Investments in working capital	(4.7)	(2.9)	(2.7)
= Operating cash flow	**4.5**	**9.9**	**9.6**
Discount factor	0.92	0.85	0.78
Present value of free cash flow	4	8	8
Cumulative present value of free cash flow	63		
+ Present value of terminal value	61		
+ Other financial assets (e)	0		
= Enterprise value	124		
- Net financial debt (group share)	(34)		
= Theoretical market capitalisation	90		
Shares outstanding (m)	6.9		
Fair value per share (€)	13.0		

Source: ING estimates

Our WACC calculation is based on the assumptions shown in Figure 14.

Fig 14 WACC assumptions

Gearing (%)	45.0
Tax rate (%)	22.5
Cost of debt before tax (%)	7.0
Cost of debt after tax (%)	5.4
Long term growth rate (%)	2.0
Risk free 10Y (%)	4.5
Risk premium (%)	5.0
Beta	1.39
Cost of equity (%)	11.4
WACC (%)	8.7

Source: ING estimates

Sensitivity analysis

As shown in Figure 15, we see our DCF-based valuation of IPTE's share price fluctuating between €10.35 and €16.64 when adjusting the company's long-term growth rate between 1% and 3% and the WACC between 7.73% and 9.73%, respectively.

Fig 15 DCF sensitivity analysis

		WACC (%)				
		9.73	9.23	8.73	8.23	7.73
	1.0	10.35	11.39	12.59	13.98	15.60
LT growth rate (%)	1.5	10.51	11.57	12.79	14.20	15.85
	2.0	10.68	11.75	**12.99**	14.43	16.11
	2.5	10.84	11.94	13.20	14.66	16.37
	3.0	11.01	12.12	13.40	14.89	16.64

Source: ING estimates

When focusing more on values around our base case assumptions, we note that a WACC fluctuation between 9.23% and 8.73% combined with a fluctuation in the long-term growth rate between 1.5% and 2.5% results in a DCF-based share price variation between €11.57 and €14.66, respectively.

Recession scenario

We analyse the potential impact of a recession on IPTE's share price evolution. Being active in a cyclical business, IPTE is relatively sensitive to external economic conditions. We believe, however, that IPTE's performance in recent years and successful acquisitions should prevent the company from being impacted as severely as following 2001 (see *Financials* section).

We base our analysis on the following assumptions:

- A drop in sales in CM of 15% in 2009F and 10% in 2010F.
- A drop in sales in FA by 20% in 2009F and 10% in 2010F.
- EBITDA margin declines to 3.5% by 2010F, a fall of 50% versus 2008F, which equals the median EBITDA margin drop of our peer group during the last downturn in 2001-03.
- EV/EBITDA would be similar to the peer median of the last downturn (8.5x).

Fig 16 Recession scenario impact on IPTE share (€m)

	2010F
Sales	208.7
CAGR 2008-10F (%)	*-13.0*
EBIT	2.6
EBIT margin (%)	*1.3*
Net profit (group share)	0.1
EPS (€)	0.01
CAGR 2008-10F (%)	*-89.6*
EV/EBITDA (x)	8.5
Share price (€)	6.00
Downside (%)	*58.3*

Source: ING estimates

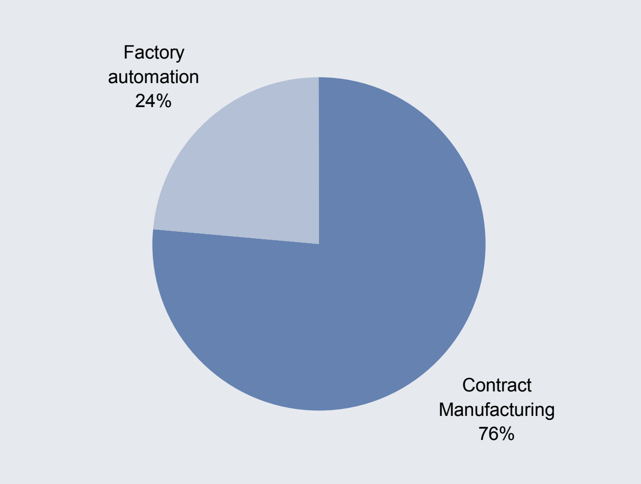
We note a significant decline in EPS over the period, which would result in a share price decline of about 60% to €6.00.

Company profile

Two divisions, bulk of sales in W Europe, personnel mainly in Europe

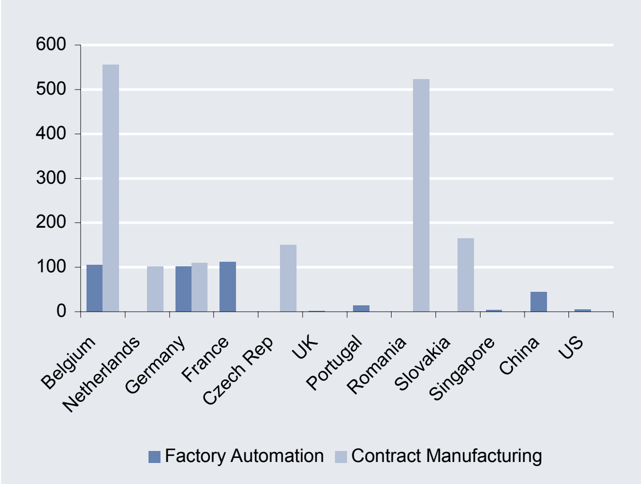
IPTE is a supplier of production services to the electronics and industrial markets in Europe and a global supplier of automated production equipment for the electronics industry. The company is divided into two divisions: contract manufacturing (production services) and factory automation (automated production equipment). IPTE's sales are mainly concentrated in Western Europe, yet the company is determined to further develop its FA business on a global scale. The company's personnel is spread over front offices in Western Europe as well as back offices in developing countries, mainly in Eastern Europe. The company has also set up an FA office in Shanghai to support its clients' operations in Asia.

Fig 17 Sales per division, 2007F



Source: ING estimates

Fig 18 Personnel per division



Source: Company data, ING estimates

The story of IPTE: internal and strong external growth

Integrated Test Engineering (ITE) was created in 1992 by five former Philips engineers as a test engineering company. After several years of organic growth on both national and international markets, the company expanded its activities in 1998 by acquiring Philips' Belgium-based Automation of Test division as well as Grundig's Production Technology Systems (PTS). The company developed its cable manufacturing operations in 1999 through the acquisition of ConnectSystems. This laid the foundations of today's bipolar company structure. In 2000, ITE was renamed IPTE (Integrated Production & Test Engineering) before entering the stock markets with an IPO on the Brussels Stock Exchange. Several years of expansion followed as IPTE further developed its international platform (Romania, China and Portugal) and rolled out several other acquisitions (France, Romania, Germany and Singapore), which culminated in the completion of the €15m takeover of the Barco Electronics Manufacturing division in early 2007.

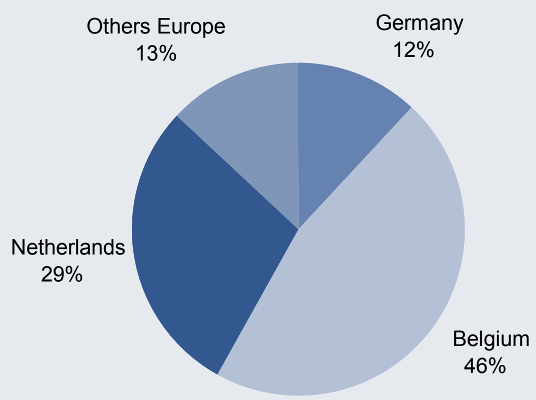
Contract manufacturing (76% of 2007F sales)

The contract manufacturing division, also known as the Connect Systems group, provides electronics production services to OEMs and electronics subcontractors. Activities include the production of cables and cable trees, PCB assembly and testing, production of semi-manufactures and final product assembly.

Goal: major supplier to the entire European continent

IPTE targets the niche markets of industrial electronics (B2B end-market) and professional products (B2C end-market of business-related products), which require a high level of production proximity. The company has made a strategic decision not to focus on the mass consumer electronics industry, as competition from global players such as Flextronics and Jabil is fierce and mass consumer electronics OEMs are increasingly outsourcing production to Asia. While it is the company's goal to become a major supplier on the entire European continent, we currently note a large focus on Belgium, the Netherlands and Germany.

Fig 19 Contract manufacturing sales by region, 2006

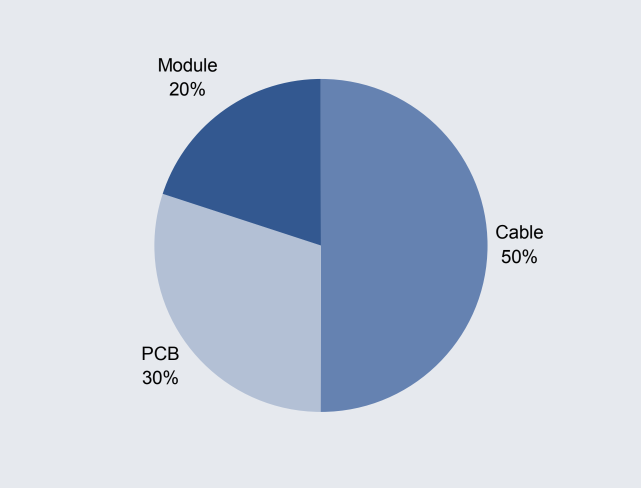


Source: Company data

The contract manufacturing division breakdown per activity is as follows:

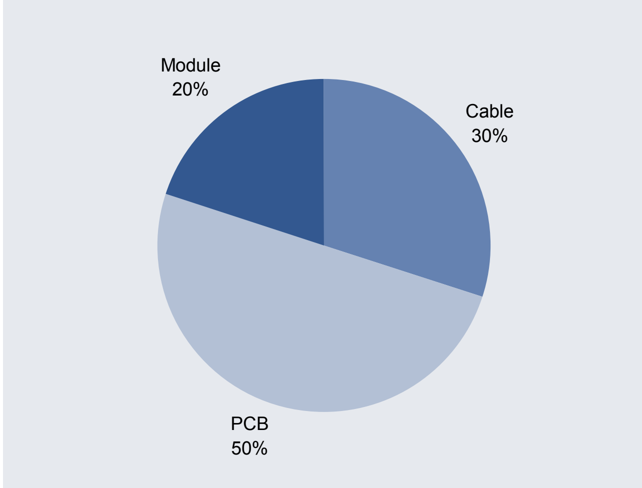
- **Cable assembly**: A wide offer of interconnection solutions using copper, coaxial and fibre-optic technologies. On account of the company's broad production capabilities, IPTE assembles cables for a large range of applications, from telecommunication cables to automotive internal circuits.
- **Printed circuit boards (PCB) assembly**: Assembly of PCBs through integrated semi-automatic production lines, featuring gluing, solder paste printing and soldering.
- **Module assembly**: Assembly of semi-complete products such as wired/cabled panels, racks and cabinets or complete electronics products such as small terminals of Banksys. Module assembly has evolved from the integration of IPTE's other core activities and is the higher-margin CM business.

Fig 20 CM sales per activity, 2006



Source: Company data

Fig 21 CM sales per activity, target



Source: Company data

Target implies increase in modules sales

Due to the acquisition of BEM in 2007, a target increase to 50% CM sales in PCB assembly and a target decrease to 30% CM sales in cable assembly (Figure 21) seem very achievable. Maintaining modules sales at 20% of total CM revenues seems more challenging though, as the sales from this activity would have to follow the same path as the total division in 2007F, an increase of 116%. While we do not expect this to occur as early as 2007, we support IPTE's goal as module assembly is a higher-margin business.

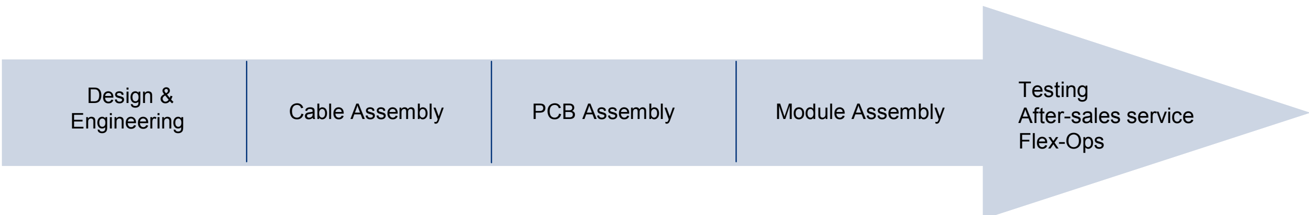
Technology and testing is shared with FA

For the assembly of PCBs and modules, IPTE uses the same modular production technology as that developed in factory automation. The company can guarantee a high quality on its CM products as the electronics testing know-how, technology and machinery from the factory automation division are available for product testing.

More service means higher margins

While the above-mentioned activities constitute the core of IPTE's CM operations, the company is increasingly developing a full-service concept in order to capture a higher portion of the value chain by adding co-engineering and technical design as well as execution support, training and after-sales service to its standard product offer. The integration of IPTE's CM operations in a 'full-service' concept is illustrated in Figure 22.

Fig 22 Integration of IPTE's CM activities in a full-service concept



Source: Company data, ING

Barco represents 30% of total sales

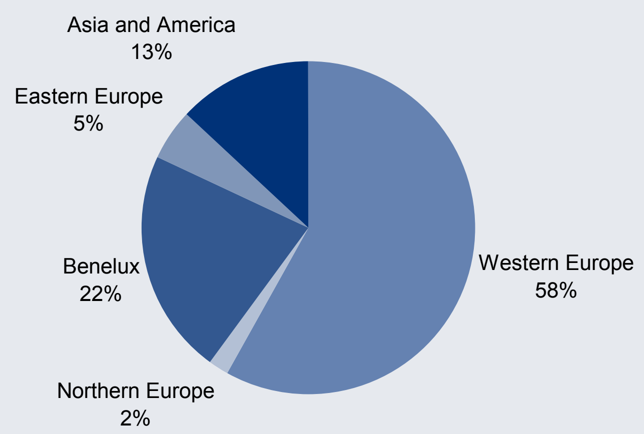
Customer concentration in 2007 was boosted through the acquisition of BEM as Barco currently represents about 30% of the company's sales (42% of CM sales). It is IPTE's goal to reduce the company's sales to Barco to about 25% of total sales by 2010 through sharper sales increases to other clients. The spread of the remaining CM sales over IPTE's customer base is more balanced as the top 25 clients represent only about 30% of CM sales. The largest 2006 client was Alcatel with about 10% of CM sales, while other recurring customers did not account for more than 5% of CM sales and include ASML, Belgacom, Transics, Banksys as well as Philips and Siemens.

Factory automation (24% of 2007F sales)

Goal: leading global factory automation partner

The factory automation division provides full-scale solutions for process automation in the production and testing of PCBs and electronics assembly. IPTE manufactures modular units which can be integrated into flexible assembly lines. While the company has expressed its ambitious goal to become the leading independent global factory automation partner to the electronics manufacturing industry, sales are currently mainly focused on Western Europe. IPTE has also set up an FA plant in Shanghai, which fits in the company's proximity philosophy of following customers where needed, and the plant therefore supports only the Asian activities of Western European clients.

Fig 23 Factory automation sales by region, 2006



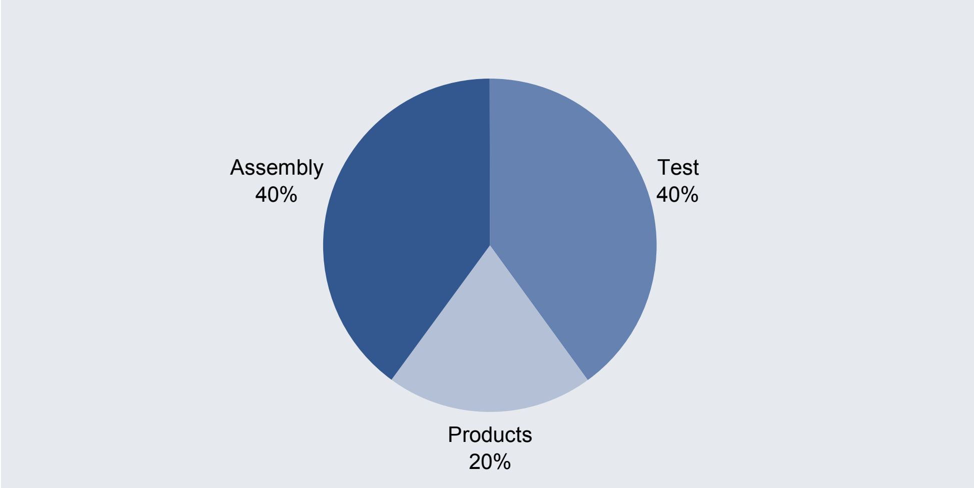
Source: Company data

The division's most important end-user markets are automotive, consumer electronics and computers. We refer to Figure 8 for a detailed breakdown of the division's sales by end-user market.

IPTE's factory automation division incorporates three activities:

- **Test and test automation**: Solutions for testing and test automation of PCB production and production process. While visualisation tools for test results are purchased from external suppliers, IPTE has developed state-of-the-art technology in testing methods. IPTE provides testing units and training as well as testing services for customers' products.
- **Automation Products**: Autonomous modular units for semi-automated PCB production, ranging from standard and odd-form component board assembly to depaneling, laser marking and conveying.
- **Assembly**: Combination of modular PCB production units into full assembly lines.

Fig 24 Factory automation sales by activity, 2006



Source: Company data

In parallel with the CM business, IPTE FA is offering a wide range of supporting activities, which strengthen the company's position on the value chain and are a core element of competitive advantage.

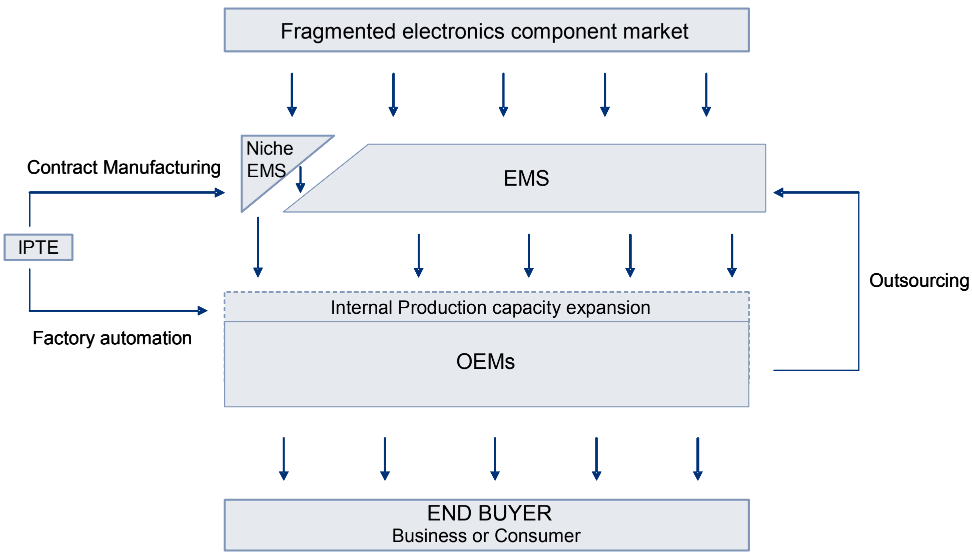
Ten largest clients represent about 50% of sales

The ten largest clients of the division represent approximately 50% of sales. The two largest clients are the different Philips entities (20% of 2006 sales) as well as Siemens (8% of 2006 sales). There are significant fluctuations YoY in the division's client list as orders come in on a project-by-project basis. Other important repeat customers are Schrader Electronics, TRW, Continental, Becker, Ericsson, Motorola, Delphi and Jabil.

Value chain

As depicted in Figure 25, IPTE responds to growth in the electronics manufacturing industry in two ways. On the one hand, the company manufactures FA products that support the internal capacity expansion of OEMs, and on the other hand IPTE CM is an outsourcing unit for niche CM markets.

Fig 25 IPTE in the electronics manufacturing value chain



Source: ING

Based on a Porter model, we analyse IPTE's position in the market.

Threat of new entrants

Good position versus new entrants

IPTE's markets are very fragmented on account of small players popping up around large OEMs. While more competition could emerge, IPTE seems relatively well protected in the near future due to its technological know-how and strong relationship with its main customers. In addition, IPTE benefits from a good reputation in Belgium and the Netherlands – its home markets.

Customers

OEMs 'de-verticalising', an opportunity for CM

Due to the increasing pressure of competition in the electronics industry, there is a tendency of OEMs to 'de-verticalise' their business models into 'platform companies' in order to minimise their earnings volatility, enhance margins and speed to market. OEMs are increasingly outsourcing production in order to focus on the higher-margin activities of design/development (in which they retain the intellectual property) as well as marketing and distribution. This is a fundamental growth engine for contract manufacturers. We note IPTE's response to this tendency by boosting its CM business, while FA's relative contribution to total revenues has gradually declined in recent years.

CM activities for OEMs: non-core, yet essential

In CM, IPTE has developed core competencies in essential production activities which its clients have decided to outsource, usually on account of the limited added value of internal production due to high development costs versus low volumes. The company's operations are such that it is not only a provider to OEMs, but also to the larger EMS providers, who focus their activities more towards mass consumption electronics. IPTE's strength lies, therefore, in the fact that it has become a key element of its clients' production process. However, pressure from competition limits IPTE's bargaining power.

Gross margin and forex exposure protected by open pricing

CM contracts are often made according to the open pricing method, whereby the expected production costs are communicated to the customer and margins are contractually being agreed upon. Margin agreements have the advantage that the customer takes the risk of increasing raw material prices – the bulk of production costs. Regarding exchange rates, most contracts include price adjustment clauses for fluctuations above 2%, which protects IPTE in case of turmoil but also limits potential forex gains.

A shared customer base

IPTE shares a similar customer base between its two operating divisions. For some companies such as Philips, Barco and recently Bosch, the relationship with IPTE seems strong enough to ensure IPTE's position as a 'preferred' EMS provider.

Threat of substitution

Business model counters substitution threat

Electronics production growth could be supported either by an expansion of OEMs' internal production capacity or by an increase in outsourcing. As IPTE covers both areas, it is our opinion that the company is well protected against a threat of substitution. In terms of geographic outsourcing, we believe that client proximity is a key element in IPTE's target markets, which protects the company against substitution by Asian competitors.

Suppliers

Very diversified supplier base

IPTE's supplier base is very diversified on account of the vast and fragmented market of electronics components. In cabling, IPTE's supplier list consists of cable suppliers such as Nexans, Prysmian, Capable, Lapp, and connectors are bought from companies such as Tyco, Dataflex, Spoerle, Compagnie Deutsch. For assembly activities, components are bought from distributors including EBV, Afnet Silica, Acal, Alcom, Future Electronics and Rutronik, while suppliers of print boards include Multiboard, ACB and Elprinta.

Competitors

Although the operations of IPTE's two business units seem complementary, we do not find a significant competitor that combines factory automation and contract manufacturing activities. IPTE's competitive position must thus be analysed per business unit.

Contract manufacturing

A dynamic value chain

The world of EMS has boomed in response to the above-mentioned 'de-verticalisation' of OEMs' business activities and outsourcing of production. Today, production remains the core activity of the EMS industry, but the market has become more dynamic as EMS providers are increasingly verticalising their business models in order to play a more important role in the value chain, and thus improve their margins. We are hence noticing a shift in the role of EMS providers from pure contractors to partners, as co-designing and co-engineering have come to the forefront. This tendency has also impacted IPTE, which positions itself as a full-service supplier.

Large players do not perform on IPTE's stage

In the global CM industry, we distinguish a handful of dominant players, namely Flextronics, with total revenues of about €19bn, as well as Foxconn International, Jabil Circuit Inc, Sanmina Sci Corp and Celestica, each with total sales of about €10bn. These players focus mainly on the mass consumer electronics markets and are therefore no competitors to IPTE, but even more some of them figure on the company's client list. The strong competition between the top players has led to an overcapacity in the sector, which is not a characteristic of IPTE's niche CM markets.

Expertise in cable and a solid research base

In these markets, IPTE's competition consists of smaller Western European players for whom proximity to clients also forms a critical aspect of the business model. The main competitors in terms of geography are the Dutch Neways (€240m 2006 sales) and Belgian Epiq (€146m 2006 sales) and Geminus (€27m 2006 sales, not listed). IPTE's competitive advantages over these peers are its strong expertise in cable manufacturing, a smaller client concentration risk and a solid research base. Other listed European contract manufacturers include Scanfil (Finland), Cofidur SA (France), Novatech Industries (France), Vogt Electronic AG (Germany), Cicor Technologies (Switzerland), Phoenix Mecano AG (Germany).

Factory automation

European market of €1.5-2.0bn, yet not all accessible for IPTE

While the value of the European FA market is estimated at around €1.5-2.0bn, it is important to notice that not all players in this market pose a threat to IPTE, nor is the entire market accessible for the company, given its specific operations. Due to a lack of documentation, it is difficult to estimate the actual size and the main competition in the FA markets of Western European testing and PCB assembly. It seems clear, however, that the largest market in FA activities is Germany. We have not identified any significant listed competitor in the Benelux.

Three types of competitor

IPTE is competing with three types of players:

- The well-known players in the industry, from which IPTE is actively seeking to capture market share.
- Many smaller FA companies which have emerged around OEMs, usually created from a divested internal division. These are entirely adapted to the operations of the OEMs concerned and therefore compete with industry bottom prices.

- OEMs' internal FA divisions. Business opportunities arise for IPTE when production volumes are too low in these divisions and outsourcing of the activity becomes justified on account of lower costs.

Competition in testing from small local players

In identifying competition, there is a split to make between IPTE's FA testing activities on the one hand and the FA product manufacturing and line assembly activities on the other. In FA testing, it is important to note that IPTE is not a test equipment manufacturer, but a test equipment integrator. As such, the company buys equipment from manufacturers such as German Rohde & Schwartz, which are then integrated into FA products. For this activity, IPTE's competition consists of many small players which the company encounters in all its main markets.

Germany sets the rules for European FA assembly

In FA products and full assembly line manufacturing, IPTE's main listed European competitor is German Rohwedder, with total sales of €99m in 2006. On a global scale, the industry is dominated by Canadian ATS (Automation Tooling Systems), which reported sales of €466m in FY07 (year ended 31 March).

Strategy

In the context of the above, we present hereunder IPTE's strategy. While some growth initiatives would be taken at company level, it is clear that the business environments and opportunities differ for each business unit and strategies have therefore been rolled out separately.

IPTE Group

Make the most of synergies

The company will continue to take advantage of the synergies which exist between its two divisions. These mainly include a shared client base as well as shared technology, research and the added value of testing activities.

More higher-value-adding services

As discussed above, it is the intention of the company to pursue the development of higher-value-adding services, which have a positive impact on both top-line and margin growth.

Contract manufacturing

More targeted acquisitions and increased productivity

In 2007, the significant top-line growth combined with economies of scale resulting in margin improvements on account of the BEM acquisition have illustrated the potential of external growth for IPTE. The company intends to continue expanding its CM operations through further targeted acquisitions as well as internal growth. In this context, we believe that the German market remains very attractive for expansion by acquisition. As mentioned above, management envisages an acquisition for up to €30-50m. In addition, it is the company's intention to enhance margins by offering more co-engineering services ('flex-ops'), increasing productivity, centralising purchasing and improving logistics as well as supply chain management.

Market share expansion in the Netherlands

Geographically, we do not expect global expansion as management defines IPTE CM as a European player given the division's target niche markets. Growth potential is limited in the Belgian CM market as the company holds about 50% market share in the industrial electronics manufacturing sector. Therefore, expansion efforts will mainly be focused on external markets. In the Netherlands, IPTE estimates it has about 10-20% market share in the industrial and professional segment. As one of the major Benelux contract manufacturers, IPTE can take advantage of its larger scale over the many smaller players in the market.

Factory automation

Top-line growth: 'large-account-selling strategy'

In order to boost top-line growth, IPTE has reshaped its commercial approach to its major customers by developing a large-account-selling strategy. This consists of a commitment to orient IPTE's future technological developments in the direction of the client's requirements in exchange for exclusive selling agreements. IPTE is hence repositioning itself as having 'one face' per client. This strategy was already in place with companies such as Philips and Siemens and has been effective in acquiring a new contract with Bosch in FA.

Continue to focus on profitability

We have mentioned that the FA division has underperformed in recent years in terms of profitability. IPTE has recognised this issue and taken the necessary steps to restructure the business unit and review its business strategy. In this context, personnel has dropped by 32% since 2003, which mainly resulted from the sale of a majority shareholding in a Singapore-based FA company. Today, the company focuses on margin growth instead of sales growth and R&D efforts target standard products which are easily adaptable to customer requirements. The company has a strong FA development team, which includes about 250 engineers that are actively seeking to improve the company's automation technologies and standard products. Orders that differ too much from the company's standard product range and for which the necessary R&D investments are not justified by the expected profit margins are no longer accepted. This has resulted in an increase in FA EBIT margins from -8.6% in 2004 to 2.45% in 2007F. We view the acquisition of Platzgummer GmbH as an additional driver for margin enhancement. Benchmark indicates that EBIT margins of 6-7% should be achievable in the long run if market conditions remain positive.

Further geographic expansion to support customers' international activities

Geographically, the company intends to become a true global player. While we believe that IPTE will not be in this situation in the near future, we note that IPTE has taken advantage of its customers' presence in China to start operations in Shanghai. Given the global presence of IPTE's recurring clients, it seems to be a feasible strategy to develop worldwide operations through the improvement of client proximity.

Management

Huub Baren, CEO (Chairman from 29/04/08)

Huub Baren (1941) has been active in the company since its foundation. He qualified as an Industrial Engineer Mechanical Engineering (Heerlen, NL). He has management experience with Philips and was General Manager of Grundig Automation Control. From 29 April 2008, Mr Baren, who is the main shareholder in IPTE, will resign as Managing Director and take over the Chairman's role from Mr Dejonghe, who will remain a board member.

Luc Switten, CEO Connect Systems (CEO IPTE from 29/04/08)

Luc Switten (1965) has been active in the company since its foundation and is now General Manager of Connect Systems, the CM division. An Industrial Engineer in Electro Mechanics, he has experience as a project manager and sales manager with Philips Industrial Activities in Hasselt. Mr Switten will succeed Mr Baren as CEO of IPTE from 29 April. Until that date, the two men will act as joint managing directors.

Hugo Ciroux, CFO

Hugo Ciroux (1960) studied Applied Economic Sciences (Diepenbeek). He has been employed by the company since November 1999 and has experience in financial management gained as audit director with Arthur Andersen and as financial director with De Ster NV and Exact Groep België.

Shareholders

IPTE's main shareholder is current CEO Huub Baren, who holds about 30% of total shares. While his shareholding historically stood above 35%, the exercise of warrants by the Belgian LRM for an amount of €7m (1,250,000 shares) in October 2007 has changed the shareholder structure. LRM is now the company's second-largest shareholder with a participation of 18%. No other shareholder holds more than 5% of IPTE's total shares and free float currently stands at about 34%.

SWOT

Below we provide a list of the company's strengths and weaknesses as well as the opportunities and threats, which should allow the risks of IPTE to be more easily weighed up.

Fig 26 SWOT analysis

Strengths	Weaknesses
Strong position in niche markets, including No.1 in Belgian Industrial CM	Poor profitability track record versus competition
Diverse product mix and strong know-how compared with niche market competitors	High gearing ratio
Effective restructuring towards increased profitability	Client concentration risk
Proximity to major clients	Limited recurring business in FA
Strong client portfolio based on valuable relationships	
Significant synergies between business units	
Increased production capacity in Romania	
Opportunities	**Threats/Risks**
Further margin enhancement through economies of scale	Negative cycle
External growth in Germany	Price war with small competitors in target markets
Development of sales activities in Eastern Europe	US$ strengthening
CM market share expansion in the Netherlands	
Development of activities in Asia with Shanghai factory	
New opportunities in high-tech industries on account of BEM acquisition	

Source: ING

Financials

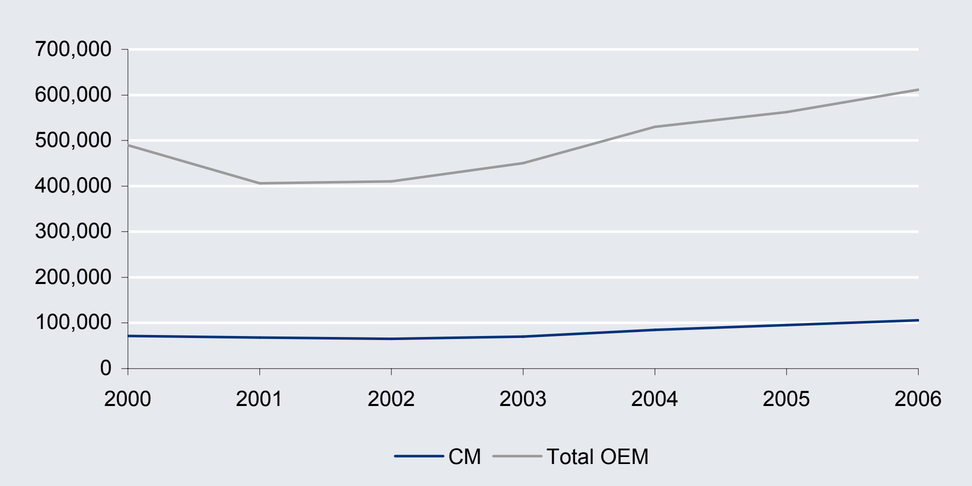
In this section, we analyse IPTE's recent financial performance and comment on our forecasts for the coming years.

Income statement

Industry downturn in post-bubble years

IPTE has been hit quite severely by a downturn in the electronics industry in 2001 and 2002 on account of global economic turmoil and a drop in consumer confidence. Figure 27 illustrates the decrease in global production in CM as well as OEM, which is an indication of the business environment for IPTE's CM and FA divisions at the time.

Fig 27 Worldwide market of electronic products manufacturing (€m)



Source: Electronic Trend Publications, ING estimates

The impact on both divisions as well as IPTE's response was quite divergent, which is why we analyse the company's historic performances per business unit separately.

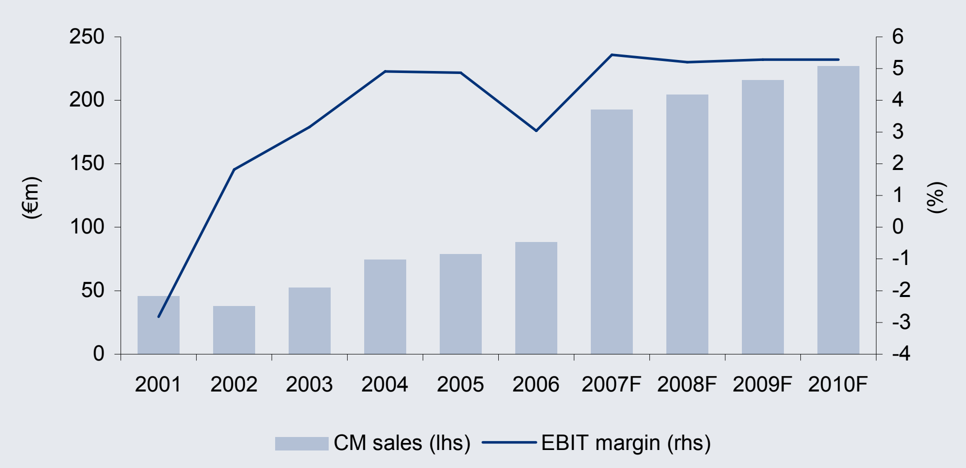
2007F expectations in line with company guidance

For IPTE in 2007F, we expect sales of €251m and net profit of €9.0m, which is in line with company guidance of €250m and €9m, respectively.

Contract manufacturing

Figure 28 illustrates CM's EBIT margin versus sales from 2001 to 2010F.

Fig 28 CM EBIT margins versus sales



Source: Company data, ING estimates

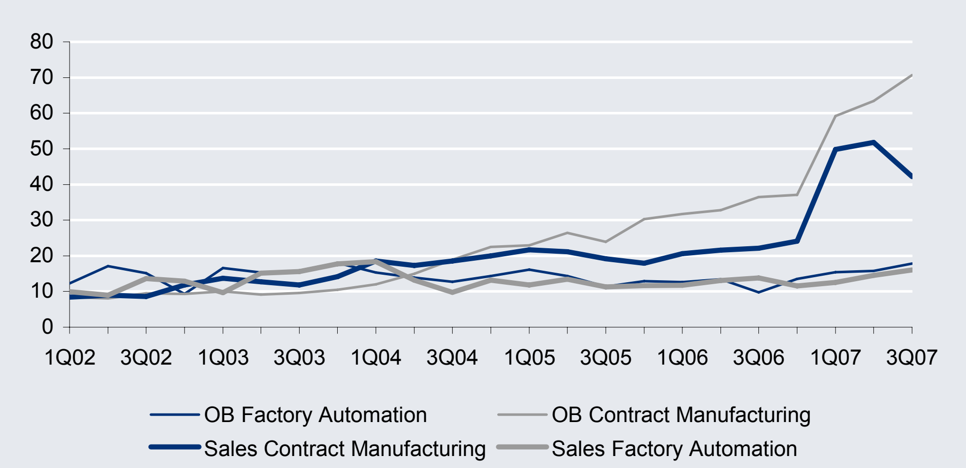
Sales recovery culminating in 28% organic growth in 2007F

After 2002, IPTE's sales started to increase again on account of internal and external growth, along with a recovery in the global CM industry. For 2007F, we expect sales to amount to about €193m, which represents an increase of 118% YoY. This is of course mainly attributable to the BEM acquisition, yet on a separate basis we expect IPTE's organic CM sales growth to reach 28% for the year and the BEM acquisition to report a 33% increase in revenues. The latter might, however, be influenced slightly by an easy comparison due to internal pricing by Barco in 2006.

Promising book to bill ratio of 1.7x at 3Q07

We forecast a very decent sales growth of 6% for 2008F, based on positive expectations for industry growth as well as a strong order book. Figure 29 shows IPTE's sales versus order book, which illustrates the widening gap in CM during 2007 and a book to bill ratio of 1.7x at 3Q07, which predicts good results for 4Q07F as well as for early 2008F.

Fig 29 IPTE sales versus order book per division (€m)



Source: Company data, ING estimates

Cautious attitude towards future Barco sales

We previously stipulated that we expect growth levels of about 7% in IPTE's main CM markets as well as further market share expansion, which would imply a growth rate of above 7% for the division. While we believe that market share expansion is indeed feasible, we prefer to be cautious on the company's sales exposure to Barco, which explains a growth rate below market expectations. We refer to Figure 30 for an overview of IPTE's income statement as well as a breakdown per division.

Growth expected to continue in 2009-10F

As industry expectations are good for the remainder of the period analysed, we predict sales growth to continue in 2009-10F, though at a slower pace than in 2007-08F. We believe that prudence is necessary given a certain lack of visibility. However, recurring business seems quite substantial as management indicates that product losses YoY stand at only about 8%. This means that, on average, IPTE would need only 8% of new business YoY to remain at a stable production level.

Good margins, protected by open pricing

In terms of EBIT margins, Figure 28 illustrates how IPTE gradually re-established decent margins from 2002 onwards. The decrease in 2006 is mainly attributable to an increase in raw material prices, but in IPTE's open pricing contracts (see the section on *Customers* in the *Company profile*) these can now usually be passed on to customers.

Economies of scale on account of BEM acquisition

The large expansion of the CM business on account of the BEM acquisition in 2007 has resulted in the achievement of significant economies of scale, which have drastically improved IPTE's margins, as illustrated by our forecast YoY CM EBIT margin increase of 79%. We believe that momentum was very strong for IPTE CM in 2007F and therefore predict a slight decrease in EBIT margin for 2008F, partially on account of a possible increase in the US dollar, which would increase the company's material costs. We forecast the division's EBIT margins to stabilise at around 5.3% in 2009F and 2010F.

Factory automation

Profitability back on track

IPTE's factory automation division was severely hit by the market downturn which started in 2001. In the following years, the company intended to strengthen the business unit by focusing on top-line growth in order to gain market share. As a consequence, pricing pressure resulted in significant margin erosion. During 2004, the company initiated a €7m restructuring programme and made the strategic decision to shift the focus from volume growth towards profitability enhancement, by limiting its product offer to standardised automation products. Figure 4 illustrates the profitability turnaround of IPTE FA, which came into effect in 2005. The above-mentioned initiatives resulted in a drop in sales in 2005 yet the start of consistent margin improvements, which we anticipate to continue further. When looking at the competition, it seems that margins of about 6-7% are achievable in the sector given decent market conditions.

OEM electronics production slowdown expected in 2009F

We refer to Figure 4 for IPTE's FA sales evolution. While we expect strong top-line growth in 2007F, we believe that 2008F and 2009F sales might be affected by lower production machinery purchases by OEMs given the anticipated decrease in OEMs' production growth in 2009F, illustrated in Figure 6. However, given the very short decline period of only one year and as IPTE's 2008F and 2009F sales should also be affected by significant OEM production growth in 2008F and 2010F, respectively, we do not believe that the impact will be major. In addition, this trend might be more related to consumer electronics production overcapacity in Asia rather than to the electronics industry in Europe. Furthermore, it is our opinion that growth potential for IPTE's testing activities remains over the whole period analysed.

Acquisition of Platzgummer is a boost at all levels

IPTE's 2008F FA sales should of course also be boosted significantly by the acquisition of Platzgummer GmbH, which has reported consistent sales of about €8-10m in recent years. The takeover will also have a positive impact on IPTE's FA margins as Platzgummer's profitability has been strong in its recent history (8-10% EBIT margins).

On account of a lack of visibility, we forecast conservative sales growth of 3.75% for FY10F.

IPTE's bottom line

IPTE's bottom line will be affected by the following factors in the foreseeable future:

- **Interest payments**: Compared to peers, IPTE reports significant interest costs given its relatively high gearing ratio of approximately 85% (2007F). The company has about €45m of credit lines, which we believe to be 80% utilised at end-FY07, on which an interest cost is paid of about Euribor +1.5%.
- **Attractive taxation rate**: IPTE benefits from attractive taxation rates due to notable deferred tax assets and low-taxation regimes on its Eastern European operations. We do not expect IPTE to pay significant taxes in 2008F (6%), but expect the company's taxation rate to increase gradually to an average of 22.5%.

As a result of the above, we expect IPTE to report solid net profits, increasing gradually from €9.0m in 2007F to €11.0m in 2010F.

Fig 30 Income statement (€m)

	2001	2002	2003	2004	2005	2006	2007F	2008F	2009F	2010F
Sales	**108.1**	**82.6**	**110.3**	**128.6**	**126.7**	**138.3**	**251.5**	**276.1**	**290.8**	**304.7**
% growth	*-0.1*	*-23.5*	*33.4*	*16.6*	*-1.5*	*9.2*	*81.8*	*9.8*	*5.3*	*4.8*
of which										
Contract Manufacturing	45.6	37.8	52.3	74.3	78.9	88.4	192.7	204.5	216.0	227.1
% growth	*-18.8*	*-17.1*	*38.4*	*41.9*	*6.2*	*12.1*	*118.0*	*6.1*	*5.6*	*5.1*
Factory Automation	62.4	45.4	58.0	54.6	48.1	50.2	59.0	71.5	74.8	77.7
% growth	*19.5*	*-27.2*	*27.7*	*-6.0*	*-11.9*	*4.4*	*17.6*	*21.3*	*4.6*	*3.8*
Consolidation adjustments	0.0	(0.6)	(0.1)	(0.2)	(0.3)	(0.3)	(0.3)	0.0	0.0	0.0
Gross profit	**14.8**	**20.9**	**25.2**	**24.8**	**28.8**	**28.4**	**45.7**	**51.0**	**53.6**	**56.1**
% growth	*-39.7*	*41.3*	*20.5*	*-1.5*	*16.1*	*-1.4*	*61.0*	*11.6*	*5.2*	*4.5*
% sales	*13.7*	*25.3*	*22.8*	*19.3*	*22.7*	*20.5*	*18.2*	*18.5*	*18.4*	*18.4*
EBITDA	**0.5**	**4.4**	**5.6**	**2.2**	**6.8**	**6.0**	**17.1**	**19.3**	**20.7**	**21.8**
% growth	*-94.9*	*722.2*	*25.9*	*-60.3*	*207.5*	*-12.0*	*186.0*	*13.0*	*7.3*	*5.5*
% sales	*0.5*	*5.3*	*5.0*	*1.7*	*5.4*	*4.3*	*6.8*	*7.0*	*7.1*	*7.2*
of which										
Contract Manufacturing	0.2	2.1	2.9	5.0	5.3	4.4	14.6	15.2	16.3	17.1
% sales	*0.4*	*5.4*	*5.6*	*6.7*	*6.7*	*5.0*	*7.6*	*7.5*	*7.5*	*7.5*
Factory Automation	0.4	2.4	2.6	-2.8	1.5	1.6	2.7	3.1	3.4	3.7
% sales	*0.6*	*5.2*	*4.5*	*-5.1*	*3.2*	*3.2*	*4.6*	*4.9*	*5.2*	*5.4*
EBIT	**(5.1)**	**1.1**	**2.6**	**(1.0)**	**4.2**	**3.4**	**11.7**	**13.1**	**14.2**	**15.0**
% growth	*N/A*	*N/A*	*137.4*	*-140.2*	*N/A*	*-19.2*	*243.9*	*12.2*	*8.3*	*5.8*
% sales	*-4.8*	*1.3*	*2.4*	*-0.8*	*3.3*	*2.5*	*4.6*	*4.7*	*4.9*	*4.9*
of which										
Contract Manufacturing	(1.3)	0.7	1.7	3.6	3.8	2.7	10.5	10.6	11.4	12.0
% sales	*-2.8*	*1.8*	*3.2*	*4.9*	*4.9*	*3.0*	*5.4*	*5.2*	*5.3*	*5.3*
Factory Automation	(3.9)	0.4	0.9	(4.7)	0.4	0.7	1.4	1.6	1.9	2.2
% sales	*-6.2*	*0.9*	*1.6*	*-8.6*	*0.7*	*1.4*	*2.5*	*2.6*	*2.9*	*3.1*
Net financials	(1.8)	(1.9)	(1.9)	(1.8)	(2.0)	(1.4)	(2.2)	(2.7)	(2.6)	(2.4)
Ordinary pre-tax profit	**(7.0)**	**(0.8)**	**0.7**	**(2.9)**	**2.2**	**2.0**	**9.5**	**10.4**	**11.6**	**12.6**
Net extraordinary results	0.0	0.0	0.0	(2.0)	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill amortisation	(1.4)	(1.5)	(1.5)	(0.8)	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	(8.3)	(2.4)	(0.9)	(5.6)	2.2	2.0	9.5	10.4	11.6	12.6
Tax	(0.2)	0.0	(0.1)	0.0	0.0	(0.1)	(0.5)	(0.6)	(0.9)	(1.5)
Tax rate (%)	*2*	*2*	*-15*	*0*	*1*	*-7*	*-5*	*-6*	*-8*	*-12*
Net income	**(8.5)**	**(2.4)**	**(1.0)**	**(5.6)**	**2.2**	**1.9**	**9.0**	**9.7**	**10.6**	**11.1**
Minorities	0.3	0.1	0.3	0.0	(0.1)	0.0	0.0	(0.1)	(0.1)	(0.1)
Net profit (group share)	(8.3)	(2.2)	(0.7)	(5.6)	2.0	1.9	9.0	9.7	10.6	11.0
% growth	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*-9.2*	*384.1*	*7.5*	*9.3*	*4.1*
Ordinary profit	**(6.9)**	**(0.7)**	**0.8**	**(2.9)**	**2.0**	**1.9**	**9.0**	**9.7**	**10.6**	**11.0**
% growth	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*-9.2*	*384.1*	*7.5*	*9.3*	*4.1*
Shares outstanding (m)	5.5	5.5	5.5	5.5	5.5	5.5	6.9	6.9	6.9	6.9
EPS* (€)	(1.26)	(0.13)	0.15	(0.52)	0.37	0.34	1.30	1.39	1.52	1.59
% growth	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*-9.2*	*282.3*	*7.5*	*9.3*	*4.1*
Dividend (gross) (€)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
% growth	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*

* Calculated on average number of shares (versus year-end number of shares used in *Forecasts and ratios* table on front page)

Source: Company data, ING estimates

Cash flow

As shown in Figure 31, we expect IPTE to generate substantial free cash flow from 2007F onwards.

Fig 31 Cash flow statement (€m)

	2001	2002	2003	2004	2005	2006	2007F	2008F	2009F	2010F
EBITDA	0.5	4.4	5.6	2.2	6.8	6.0	17.1	19.3	20.7	21.8
Increase/(decrease) in working cap.	1.3	0.6	(3.2)	0.0	1.2	(5.6)	(2.3)	(4.7)	(2.9)	(2.7)
Gross operating cash flow	**1.8**	**5.0**	**2.4**	**2.2**	**8.0**	**0.4**	**14.8**	**14.6**	**17.8**	**19.2**
Net interest (paid) / received	(1.8)	(1.9)	(1.9)	(1.8)	(2.0)	(1.4)	(2.2)	(2.7)	(2.6)	(2.4)
Tax	(0.2)	0.0	(0.1)	0.0	0.0	(0.1)	(0.5)	(0.6)	(0.9)	(1.5)
Net operating cash flow	**(0.2)**	**3.1**	**0.4**	**0.3**	**5.9**	**(1.1)**	**12.1**	**11.3**	**14.3**	**15.3**
Maintenance capex (estimate)	(2.3)	(1.4)	(1.5)	(1.4)	(2.1)	(1.5)	(4.4)	(4.0)	(4.1)	(4.1)
Free cash flow	**(2.5)**	**1.7**	**(1.1)**	**(1.1)**	**3.9**	**(2.6)**	**7.7**	**7.2**	**10.2**	**11.2**
Expansion capex (estimate)	(1.5)	(1.0)	(1.0)	(1.2)	(1.7)	(1.2)	(3.6)	(5.3)	(2.7)	(3.6)
Net disposals/(acquisitions)	(7.7)	0.0	3.6	(1.2)	0.0	(0.6)	(15.4)	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	(0.63)	(0.48)	1.53	(0.28)	(1.51)	(1.17)				
Net cash flow	**(12.3)**	**0.2**	**3.0**	**(3.6)**	**0.7**	**(5.1)**	**(3.3)**	**1.9**	**7.5**	**7.5**

Source: Company data, ING estimates

No impact on cash flow from Romanian expansion

We have split maintenance capex (estimated at about 1.5% of sales) and expansion capex, which for 2007F is largely impacted by the BEM acquisition. We do not expect the construction of the new factory in Romania to have a material impact on IPTE's 2007F and 2008F expansion capex as the factory will be rented from an investment company.

IPTE has not paid out dividends in the past, and we continue to project this in our future estimates.

Balance sheet

Fig 32 Summarised balance sheet (€m)

	2002	2003	2004	2005	2006	2007F	2008F	2009F	2010F
Net working capital	30.8	34.0	34.0	32.8	38.4	53.5	58.2	61.1	63.8
% sales	37.3	30.8	26.5	25.9	27.8	21.3	21.1	21.0	20.9
Goodwill	11.2	6.6	5.1	5.9	5.9	5.9	5.9	5.9	5.9
Intangible fixed assets	0.8	0.6	0.4	0.3	0.2	0.3	0.3	0.3	0.3
Tangible fixed assets	10.0	11.2	10.7	12.0	12.2	17.3	17.9	18.1	18.1
Financial fixed assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Invested capital	52.8	52.3	50.2	51.0	56.8	77.1	82.4	85.5	88.1
ROaIC (%)	2.1	4.2	-2.0	8.3	5.9	16.6	15.4	15.5	15.2
Net debt/(cash)	24.7	21.8	25.6	24.9	30.5	33.8	31.9	24.4	16.9
Gearing (%)	97.8	90.0	133.1	111.3	128.0	85.0	64.4	40.5	23.7
Net debt/EBITDA	5.6	3.9	11.6	3.7	5.1	2.0	1.7	1.2	0.8
Equity capital	25.8	24.7	19.6	22.9	23.9	40.0	49.8	60.5	71.6
ROaE (%)	-8.3	-2.8	-25.3	9.6	7.9	28.1	21.5	19.2	16.7

Source: Company data, ING estimates

Drop in gearing ratio due to strong cash flows

As stipulated above, we expect IPTE to generate significant cash flow, which should have a positive impact on the company's gearing ratio, dropping to 24% by 2010F.

No breaching of covenants expected

Banking covenants stipulate a minimum solvency ratio for 2007 of 25% and for 2008 and following of 30%. The solvency ratio is defined as tangible equity/modified total balance sheet (tangible equity = equity plus subordinated loan, less goodwill and intangible assets, modified total balance sheet = total balance sheet – goodwill and intangible assets – cash on balance sheet).

Figure 33 illustrates the company's performances to covenants according to our estimates

Fig 33 IPTE's performance to covenants (%)

	2007F	2008F	2009F	2010F
Forecasted solvency ratio	26.1	31.0	36.7	42.5
Covenant solvency ratio	25.0	30.0	30.0	30.0

Source: ING estimates

Risks and investor concerns

Lack of visibility. As IPTE does not manufacture products for its own distribution, visibility is very limited and does not reach much further than the order book production period, which represents a period of about six months. In CM, however, management has indicated a notable recurring income, with product losses YoY affecting only about 8% of total production. Hence, 8% of new product orders YoY would maintain a stable rate of production. In FA, production is much more project-based.

Cycle. IPTE is very dependent on end-user demand growth. In a negative cycle period, we do not expect large orders from OEMs to expand capacity with FA assembly products nor do we expect significant growth in CM orders. We do note, however, that IPTE's CM business has become crucial to most of its clients as electronics products would not function without internal cabling or PCBs. 2001-02 results have underlined IPTE's exposure to the industry's cyclicality; however, we believe that IPTE's larger range of products, especially in CM, as well as its end-user market segment base, has decreased the company's vulnerability.

Pressure towards margin improvement. IPTE's margins have been lower than peers' in recent years. While margin improvement has been noted recently and measures are being undertaken, some margin erosion remains, for example from the German activities at the moment. If IPTE were not able to improve its profitability, this would result in higher EV/EBITDA ratios, which would not be justified by stronger PER returns as these would increase over time due to the reduction of IPTE's taxation advantage.

Client exposure. IPTE is dependent on several major clients, such as Barco, Philips and Siemens. If IPTE were to lose its position of preferred supplier to one of its major clients, this could have a significant impact on the company's results. However, as IPTE is supplying several production entities of its top clients, based on different contracts, we view the chance of a full-scale relationship break-up with a major customer as relatively improbable.

Stock overhang. Investors might decide to speculate on the eventual sale of the LRM shareholding in IPTE (18%). As this would discourage investments in IPTE shares (until the event), the share might not reach its full potential value.

High gearing and liquidity concerns. IPTE's gearing ratio is significantly higher than its competitors', some of which are in a net cash position. Even though leverage is interesting to reduce cost of capital, it is arguable that a significant war chest might be an advantage in this dynamic industry in order to act efficiently when acquisition opportunities arise. In addition, a cash cushion might be required to finance working capital needs in case of an industry downturn.

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