

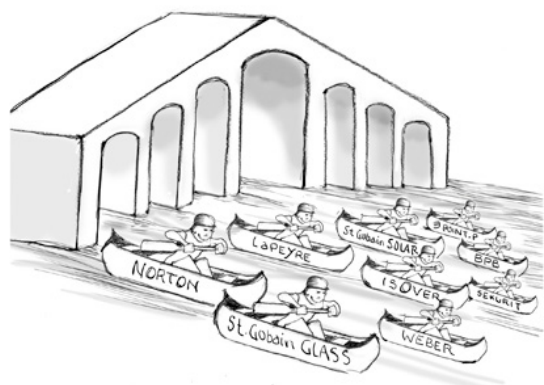
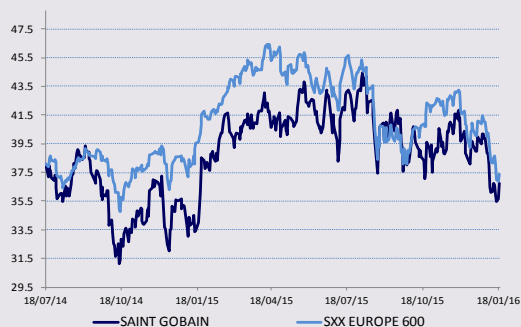
INDEPENDENT RESEARCH
UPDATE

20th January 2016

Construction & Building Materials

Bloomberg	SGO FP
Reuters	SGOB.PA
12-month High / Low (EUR)	44.5 / 34.0
Market capitalisation (EURm)	19,984
Enterprise Value (BG estimates EURm)	26,675
Avg. 6m daily volume ('000 shares)	2,125
Free Float	80.6%
3y EPS CAGR	19.2%
Gearing (12/14)	39%
Dividend yield (12/15e)	3.48%

YE December	12/14	12/15e	12/16e	12/17e
Revenue (EURm)	41,054	39,429	39,575	40,996
EBIT (EURm)	2,797	2,648	2,904	3,378
Basic EPS (EUR)	1.70	1.75	2.15	2.81
Diluted EPS (EUR)	1.97	2.27	2.68	3.34
EV/Sales	0.70x	0.68x	0.67x	0.63x
EV/EBITDA	7.0x	6.7x	6.4x	5.5x
EV/EBIT	10.3x	10.1x	9.1x	7.6x
P/E	18.1x	15.7x	13.3x	10.7x
ROCE	6.3	6.5	7.0	8.0



Saint-Gobain


France likely to be a positive catalyst in 2016

Fair Value EUR42 (price EUR35.63)

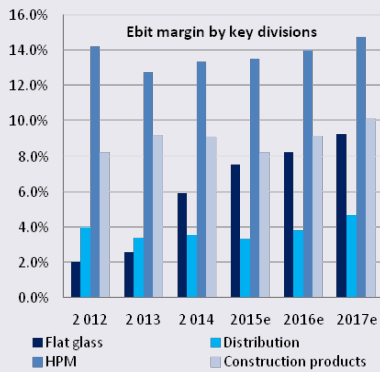
BUY vs. NEUTRAL

Following pretty good Q4 figures from SIG plc in France, combined with the recent improvement in existing-home transactions, our view on the French renovation market has clearly improved. Mixed with good trends from new residential, France is likely to be better oriented in the course of 2016. In addition, apart from Brazil (c4.5% of sales), EM exposure is well spread out, thereby diluting risk. In view of share price weakness over the past two months and a FV unchanged at EUR42, the timing looks right for an upgrade to BUY (vs NEUTRAL).

- At end-October last year, we downgraded Saint-Gobain following a poor Q3 performance in France, due to a worse-than-expected renovation market, while emerging markets (no less than one third of EBIT) were frightening and exposure to the US was fine but not that significant for Saint-Gobain (one fifth of EBIT).
- However, the healthy Q4 figures from SIG plc in France in Q4 have struck a chord. Admittedly, unemployment is high and is negative for household confidence and renovation in turn. However existing home transactions have picked up since September while distribution could start to benefit from stronger new residential figures. In all, France distribution (c20% of sales) is likely to provide positive catalysts in 2016.
- Brazil (c4.5% of sales) is of course a key uncertainty but the rest of EM exposure is well spread out and SGO has proven its resilience so far. The US industrial segment might be at risk too, although the drop in proppant prices in 2015 is set to provide a welcome easy comparison basis this year.
- FV maintained at EUR42. Recent weakness (since end-November) provides some upside. We believe momentum will improve, with and undemanding (in our view) consensus. Upgrade to BUY vs NEUTRAL.



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Simplified Profit & Loss Account (EURm)

	2012	2013	2014	2015e	2016e	2017e
Revenues	43,198	41,761	41,054	39,429	39,575	40,996
Change (%)	2.6%	-%	-1.7%	-4.0%	0.4%	3.6%
Adjusted EBITDA	4,413	4,161	4,151	3,987	4,104	4,628
Adjusted EBIT	2,863	2,754	2,797	2,648	2,904	3,378
Change (%)	-16.8%	-%	1.6%	-5.3%	9.7%	16.3%
Reported EBIT	1,966	1,883	2,209	2,208	2,464	2,938
Cost of the net debt	(587)	(552)	(485)	(448)	(373)	(278)
Financial results	(812)	(790)	(696)	(650)	(576)	(489)
Pre-Tax profit	1,154	1,093	1,513	1,558	1,888	2,449
Tax	(443)	(463)	(513)	(520)	(621)	(794)
Profit from associates	12.0	2.0	0.0	0.0	0.0	0.0
Minority interests	30.0	37.0	47.0	48.8	59.5	77.8
Net profit	693	595	953	989	1,207	1,578
Restated net profit	1,053	1,027	1,103	1,282	1,502	1,875
Change (%)	-39.3%	-%	7.4%	16.2%	17.2%	24.8%

Cash Flow Statement (EURm)

Change in working capital	(60.0)	(118)	(155)	(149)	(149)	(155)
Operating cash flows	2,562	2,171	1,363	2,568	2,757	3,191
Capex, net	(1,901)	(1,437)	(1,580)	(1,704)	(1,649)	(1,649)
Free Cash flow	661	734	(217)	863	1,108	1,541
Dividends	(701)	(712)	(722)	(733)	(733)	(769)
Financial investments, net	(199)	222	989	2,500	0.0	0.0
Others	(143)	688	205	(434)	6.7	0.0
Debt net change	(382)	932	255	2,196	382	773
Net debt	8,490	7,513	7,221	5,025	4,644	3,871

Balance Sheet (EURm)

Tangible fixed assets	13,696	12,438	12,657	10,522	10,972	11,371
Intangibles assets	14,132	13,529	13,547	13,547	13,547	13,547
Current assets	12,779	12,361	12,727	12,223	12,269	12,709
Other assets	2,737	2,937	2,380	2,243	2,006	1,777
Cash & equivalents	4,179	4,350	3,493	3,493	3,493	3,493
Total assets	47,523	45,615	44,804	42,028	42,286	42,897
Shareholders' funds	17,439	17,542	18,013	17,834	18,315	19,124
Minorities	412	345	405	454	513	591
Provisions	5,636	4,968	5,010	5,010	5,010	5,010
L & ST Debt	12,669	11,863	10,714	8,518	8,137	7,364
Current liabilities	9,621	9,232	9,619	8,966	8,862	9,148
Others liabilities	1,746	1,665	1,043	1,246	1,449	1,660
Total Liabilities	47,523	45,615	44,804	42,028	42,286	42,897
Capital employed	30,986	29,096	29,312	27,326	27,925	28,479

EBITDA margin	10.22	9.96	10.11	10.11	10.37	11.29
Operating margin	6.63	6.59	6.81	6.72	7.34	8.24
Apparent cost of the avrg gross debt	5.29	4.79	4.59	4.96	4.83	3.97
Tax rate	38.39	42.36	33.91	33.41	32.91	32.41
Net margin	1.67	1.51	2.44	2.63	3.20	4.04
ROE (after tax)	6.04	5.86	6.12	7.19	8.20	9.80
ROCE (after tax)	5.69	5.35	6.31	6.45	6.98	8.02
Gearing	47.56	42.00	39.21	27.48	24.66	19.63
Net debt / EBITDA (x)	1.92	1.81	1.74	1.26	1.13	0.84
Pay out ratio	90.46	108	69.57	67.05	57.57	47.44
Number of shares, diluted	525	539	559	566	561	561

Data per Share (EUR)

EPS	1.31	1.10	1.70	1.75	2.15	2.81
Restated EPS	2.01	1.91	1.97	2.27	2.68	3.34
% change	-40.0%	-5.0%	3.5%	14.9%	18.2%	24.8%
BVPS	32.83	31.57	32.06	31.79	32.65	34.09
Operating cash flows	4.88	4.06	2.44	4.54	4.92	5.69
FCF	1.26	1.36	(0.39)	1.53	1.98	2.75
Net dividend	1.24	1.24	1.24	1.24	1.30	1.40

Source: Company Data; Bryan, Garnier & Co ests.

Company description

Saint-Gobain operates in 64 countries with over 180,000 employees. It produces a wide range of products mainly to habitat (~ 85% of its turnover), but also for industry and civil engineering, through 3 core businesses (flat glass, HPM and construction products) and several brands (Placo, Sekurit, Weber ...). It is also the European leader in specialized distribution among craftsmen with 4400 outlets, including Point P and La Plateforme du Bâtiment.

1. Investment case

On 29th October, we downgraded Saint-Gobain fearing the Q3 weakness in the French renovation market in residential, combined with cautious comments by management on the outlook, concerns over an emerging markets slowdown and US macro uncertainties (oil and gas, ISM). With the share price under pressure since end-November and standing at close to EUR37, we consider that now might be a good time to revisit the case.

We have decided to give it a go and turn positive based on the following arguments:

A promising combination of reassuring Q4 sales for SIG in France and stronger existing-home transactions since last summer

Apart from Brazil, EM exposure is well spread out

US Construction still dynamic. Proppants under pressure in 2015 but comp basis will be easier this year.

- We are more optimistic on the renovation market in the residential segment in France. Mid-size player SIG plc published reassuring figures for Q4 in France (+2.5% y/y vs -6.6% in Q3), while the very recent rebound in existing-home transactions might provide welcome support to the renovation market in the course of 2016. In our view, this would help building distribution (c75% of France sales) to report a volume increase and margin improvement.
- While Saint-Gobain is usually viewed as a typical European-exposed company, we should bear in mind that no less than one third of EBIT is generated by EM, especially since the less-profitable distribution business is mostly located in western Europe (which doesn't mean returns are that different) and 20% of sales are generated in EM. We are not complacent about emerging markets risk, but would like to point out that:
 - 1) Saint-Gobain's EM businesses have proven to be resilient so far, with decent top-line growth and good margins.
 - 2) Apart from Brazil (~4.5% of sales) Saint-Gobain is diversified: China generates less than 2.5% of SGO revenues and Russia much less than 1% (especially following the Verallia business disposal), while the macro outlook for eastern European countries like Poland or the Czech Republic are decent (for Poland, the IMF expects 3.5% GDP growth in 2016 combined with a lower unemployment rate).
 - 3) The shift in China from a production-led economy to a consumption-led one could underpin the share of the flat glass business exposed to the auto sector, in positive territory since last October in China.
- We are not especially worried about Saint-Gobain's exposure to North America. US construction is still dynamic. The oil and gas slowdown took a toll on the proppants business last year but this means 2016 will benefit from an easier comparison basis.
- We have not changed our view on momentum in French new residential (positive for 6% of SGO sales, with a lag though) and are not especially afraid by western European construction trends (admittedly mixed, with the UK slowing) gradually recovering (Germany in particular looks better).
- We have made no change to our Fair Value, still derived from the application of historical EV/EBIT multiples of 10x to our 2017 forecast and discounted back.
- We have only slightly downgraded our estimates, but now stand above the consensus figures provided by the company, especially for the distribution business. We believe the market will improve in western Europe, notably in France, and that Saint-Gobain distribution should

benefit from this. While the CAPEB estimates that renovation will increase by 0.5-1.5% in 2016, we are trying to remain consistent with our more optimistic figure for volume growth of 1.5% (for the branch as a whole) combined with a 0.5% positive price effect, leading to 2% top-line growth for distribution. We have applied 30% leverage for EBIT margin, at the top end but inside the 20-30% leverage range provided by the company. At the end of the day, we are 5% above the consensus (collected by Saint-Gobain) for the distribution business in 2015 and 10% in 2016.

We are close to the consensus consolidated EBIT in 2015 and 2016 but more optimistic for the distribution division

- However, on a consolidated basis, we are only 1% above the consensus in 2015 and 2% in 2016. We are starting to believe that the consensus might be too conservative here, which would be rational considering current macro uncertainties. But, with a better outlook for western Europe building, we see an opportunity here. Whereas in the past, we had the feeling that SGO might be considered as a value trap, with regular estimates downgrades, this may no longer be the case, today.

Consensus looks pretty reasonable and not at risk

- Finally, risks are relatively limited. It is likely that the French new residential market will improve in 2016 and that SGO will benefit from it, even if there is a six/nine-month lag between housing starts and sales translation for the French group. In any case investors tend to anticipate cycles. Besides, there is a good chance that renovation will improve in France too. EM is a risk, but Saint-Gobain is relatively well spread out, although Brazil is likely to remain scary for a while. Finally, with reasonable consensus figures, the risk of disappointment looks limited to us.

We would add that a worst-case scenario for SIKA – i.e. a long legal procedure – cannot be ruled out. The Zug court decision on the voting right is expected in H1 2016 but appeals could postpone the outcome for up to two years from this first *instance* ruling. Note that Saint-Gobain has the right to extend the current deal with the family one more time (currently valid until June 2016). A worst-case scenario would be a legal defeat on the voting right issue followed by a deal renewal. This would postpone the uncertainty with a negative bias. Apart from this specific scenario, we do not expect the stock to come under significant pressure from the SIKA deal, as it is likely to be well priced in already.

2. France likely to be a positive catalyst

2.1. A more sanguine view on French Renovation

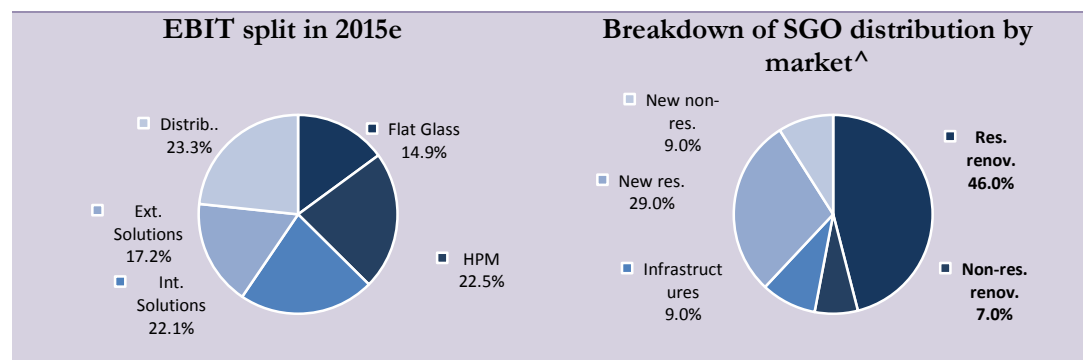
2.1.1. Renovation in residential challenging in Q3 but ...

French renovation in the residential segment was the key disappointment in Q3 figures for Saint-Gobain. The business represents 16% of SGO sales, including renovation within the infrastructure segment, which refers to the pipe business. We estimate exposure to the residential market to be close to 12% out of this 16%. It is also the second core segment for Saint-Gobain, after the renovation segment in western Europe. In any case, it is the leading segment in France, at double the size of new residential exposure.

Renovation division is strongly exposed to the renovation segment

A look only at Saint-Gobain's distribution business, which represents 47% of SGO consolidated 2015e sales and 23% of EBIT margin but c75% of the French top line, shows that 45% of sales are exposed to the residential renovation market (Corporate presentation 25th November 2010), which is also a key driver for this business.

Fig. 1: Distribution business

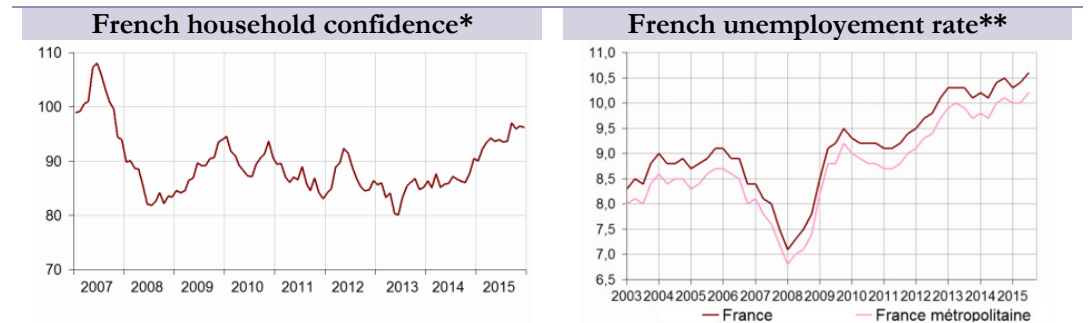


Sources: ^Saint-Gobain 2010 presentation, Bryan, Garnier & co

In addition, we would underscore the following:

- First, the trend was disappointing in SGO Q3 sales in France, with a like-for-like decline of 4.8%, despite an easy comparison basis, with a 3.3% decline in Q3 2014. The first market segment in France for Saint-Gobain is renovation in the residential segment. Contrary to new building, it is difficult to get proper lead indicators for renovation. One usually looks at household confidence, itself linked with the unemployment rate.
- While household confidence is certainly not that bad in France, having clearly recovered from the low-point, it still stands below its long term average (100). Predicting changes in this index in the near future looks difficult to us, but with the unemployment rate higher than ever in France, the environment clearly remains pretty challenging.

Fig. 2: Uneasy environment for renovation in France



*calendar-adjusted data,

** calendar-adjusted data, quarterly average, in %

Source: Insee

- The more recent release from the French FFB shows how the renovation residential market was subdued in 2015, with virtually no growth, except a +1% increase for energy-related renovation.
- Better volumes are particularly important for Saint-Gobain in France, as the main business there is distribution, where operating leverage is lower than for the group's industrial business (roughly 20/30% vs 35/55%).
- Saint-Gobain is not the only group to have suffered in France. CRH, which is active in France in particular through its distribution division, sent a cautious message last November (France construction market as a whole described as "challenging").

2.1.2. ...the healthy Q4 performance by SIG in France is reassuring...

More recently, at SIG, which is present in France in the distribution business through subsidiaries like Larivière, Litt or Ouest isol, French sales were down 6.6% in Q3 on a like-for-like basis. However, SIG reported a clear rebound in Q4, with a 2.5% increase. If this improvement is confirmed in SGO figures, it could suggest the trough is behind us.

Rebound in Q4 top-line growth in France for SIG

Fig. 3: SIG top line performance

y/y %, on a like-for-like basis	2014	H1 15	Q3 15	Q415
Group	8.9	0.6	0.9	0.4
UK/Ireland	9.2	2.8	0.4	-1.0
o/w the UK	3.7	2.1	-	-
Mainland Europe	-1.0	-1.5	-2.3	1.8
o/w France	-2.1	-3.4	-6.6	2.5
o/w Germany&Austria	-0.3	-2.5	-	-3.1

Source : SIG plc, Bryan, Garnier & co

2.1.3. ...while momentum in existing-home transactions is promising

We knew figures were especially well-oriented for sales regarding new homes in France since Q4 2014, mostly thanks to the new Pinel buy-to-let scheme, which has attracted individual investors.

Moreover, statistics concerning the existing home market have improved a lot recently. We suspect buyers are making the most of modest mortgages rates, especially since the prospect of rising rates seems more likely today.

In any case, transactions have picked up since the summer. Of course it is early to speculate on the situation in 2016, but the current environment looks more favourable than a couple of months ago: low rates (combined with the sentiment that this cannot be the case forever) and prices that have stabilised.

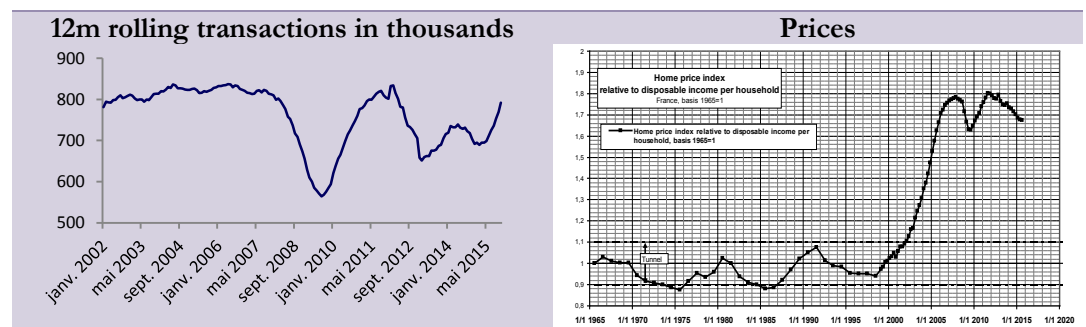
Clear rebound in existing-home transactions in France since last summer

Fig. 4: Existing-home transactions in France

End of 12-month period	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.
Transactions in thousands	695	689	695	695	699	713	725	736	753	769	792
y/y (%)	-3.3	-6.3	-5.1	-5.1	-5.4	-2.5	-0.4	0.7	4.1	7.1	12.5

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 5: Secondary housing transactions in France



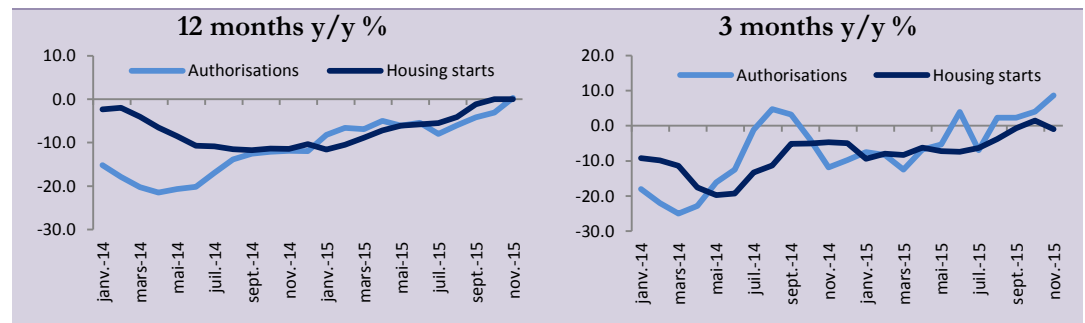
Source: CGEDD after Tax Department, INSEE, notaries' databases, seasonally adjusted Notaires-INSEE indices. <http://www.cgedd.developpement-durable.gouv.fr/prix-immobilier-evolution-a-long-terme-a1048.html>. J.Friggit. Bryan, Garnier & Co.

2.2. New residential in France looks good

The trend looks clear to us: French residential sales ("reservations" from property developers) have been strong since the last quarter of 2014. This automatically translates into better statistics for housing starts, which are beginning to pick up. At end-November, they were flat y/y on a 12-month basis. This positive trend was mostly due to the new "Pinel" buy-to-let scheme, named after the French minister of housing. Basically, the scheme gives individual investors who invest in a new home in order to rent it out under various conditions, the opportunity to benefit from a tax reduction applied directly to the amount of tax to pay and not to the rent received. The amount deductible stands at 12%, 18% or 21% of an investment not exceeding EUR300,000, for a six, nine or 12-year period, respectively. Today, the Pinel scheme ends on 31st December 2016.

On the contrary, home buyers have not returned yet. We believe this is linked to a lack of confidence. However, better statistics from existing-home transactions seem to indicate the contrary, which is good news of course.

Fig. 6: Housing starts & permits in France



Sources: Ministère de l'Ecologie, du Développement durable et de l'Energie ; Bryan, Garnier & co

As such, in 2016, housing starts are likely to increase. This is obviously positive for Saint-Gobain. Even if there is a six/nine-month lag between housing starts and sales in SGO accounts, we believe the market will anticipate gradually during the course of 2016.

With a market beginning to become positive (based on housing starts) at end 2015, a positive impact is expected during the second half of 2016.

Fig. 7: Saint-Gobain positioning versus end-markets

	France (27%)	Western Europe (42%)	NAM (12%)	Asia/ Emerging (19%)	Σ total
New res. (22%)	6%	9%	2%	5%	22%
New non-res. (11%)	1%	6%	1%	3%	11%
Renovation / Infrast. (43%/8%)	16%	23%	5%	7%	51%
Automobile (6%)	1%	2%	1%	3%	6%
Other Ind. (9%)	1%	2%	4%	2%	9%
Household consumption (1%)	1%	0%	1%	0%	1%
Σ total	25%	42%	14%	20%	100%

Source: Saint-Gobain; Bryan, Garnier & Co

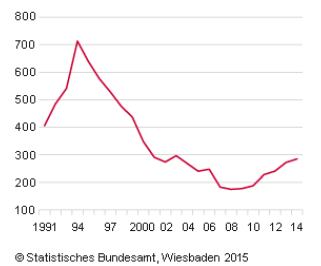
3. Rest of Europe more mixed

Apart from France, which accounts for 25% of SGO 2015e sales, the French group is mostly exposed to the UK/Ireland, Germany/Austria and the Nordic region (Sweden and Norway), for ~10% of sales each. For the three zones, building distribution is the main revenue contributor (approximately 70%, 50% and 75% of the division sales are generated in distribution, respectively). The key indicators to follow are also the renovation markets. Trends are very contrasting by zone.

Comments on the UK RMI markets are cautious but outcome looks better elsewhere usually

- In the UK, the market's dynamism is clearly fading. SIG reported a 1% l-f-l decline in Q4, penalised by a challenging RMI market, already lower-than-expected in Q3. Similarly, Wolseley reported slowing figures for the UK so far, with a 1.1% decline in Q1 2016 at end October, after numerous quarters of steady growth. Travis Perkins also noted a slowdown in the UK RMI market in Q3 but, on the other hand, said "*lead indicators monitored by the Group suggest a continued recovery in the fourth quarter with RMI markets growing further through the first half of 2016*". Saint-Gobain's comments were cautious on the UK as well.
- Germany looks better, according to Saint-Gobain's comments. H1 was under pressure but activity stabilised in Q3. SIG reported weak Q4 figures though (-3.1% l-f-l). We noted reassuring trends on the building permits side, with 5% y/y growth at end September.
- Nordic regions reported decent growth in Saint Gobain's Q3 figures.
- The confidence index clearly indicates that a better outcome is expected in Germany and Sweden, but not in the UK. Production indexes are much more difficult to read: Germany very flattish, UK and Sweden slowing down.

German housing permits for (thousands)



Source: destatis

Fig. 8: Wolseley performance in Europe - Quarterly like-for-like revenue growth

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016*
UK	4.30%	2.00%	-3.50%	-2.60%	0.50%	3.40%	7.60%	3.10%	-1.10%
Nordic	-2.50%	0.50%	7.60%	-2.40%	1.90%	5.30%	8.80%	6.40%	5.50%
Central Europe**	-0.50%	-3.50%	-3.80%	0.10%	-7.00%	4.60%	1.00%	-3.40%	-1.20%

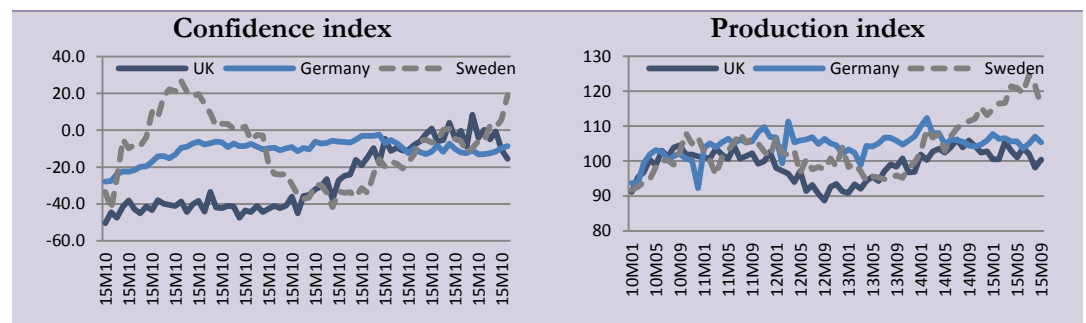
*Q1 2016 corresponds to the 3-month period to 31 October 2015

** Switzerland & Netherlands

Source: Company Data; Bryan, Garnier & Co ests.

Wolseley reports healthy growth in Nordic regions

Fig. 9: Eurostat Index – UK, Germany & Sweden



Sources: Eurostat; Bryan, Garnier & Co

4. Flat glass margins slightly adjusted

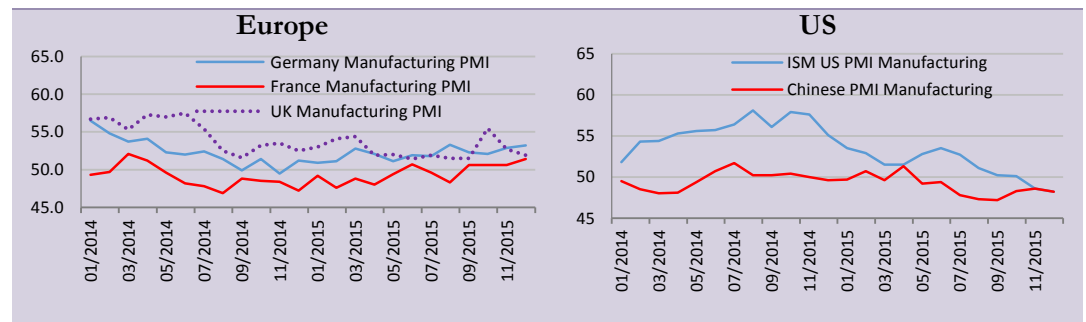
We have adjusted our estimates for flat glass (2016 organic growth from 5% to 3% and EBIT margin from 9% to 8.25%). This division, which represents 13% of SGO 2015e consolidated revenues and 15% of EBIT, has reported very strong margin improvement since mid-2013, thanks to cost cutting efforts. However, our approach was likely to be too bullish for 2016. Firstly because past restructuring cannot have the same level of impact on margins *forever* and secondly, because 45% of the flat glass business is generated in emerging markets, where the macro backdrop is currently more uncertain. Measuring what performance to expect from the flat glass business is nevertheless tricky as it depends on various factors. Apart from usual flat glass, the division produces glass for the automotive and transport business for one third of volumes, and glass for the building sector as well as specialities (ovens, cooking hobs...) for another third. So basically, the division's health depends on the construction cycle, as well as industrial output, notably of cars.

In Europe, we would tend to be somewhat optimistic, as construction cycles are likely to be close to the trough, the auto market recovering (9.3% y/y for passenger car reg.) and PMI relatively fine.

Better automotive market in China is positive for Saint-Gobain - number 3 with a 10% market share for the automotive glass in the country

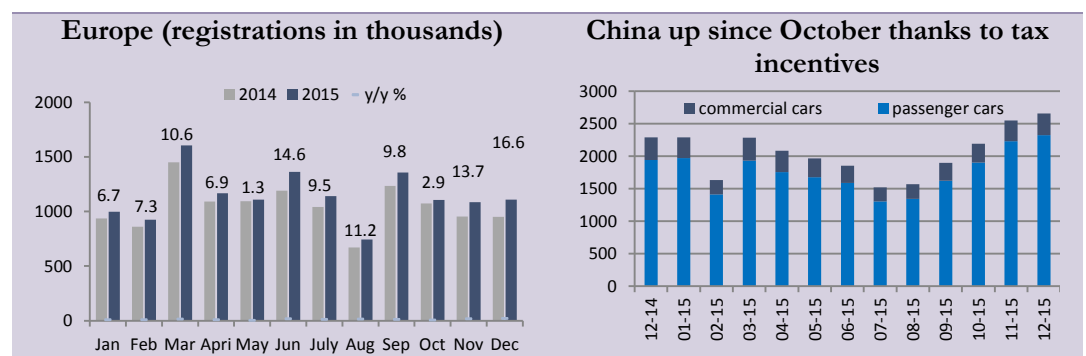
In emerging markets of course, uncertainties are stronger – although recent statistics in China are buoyant for autos. It is worth underscoring that the Chinese policy to try and shift towards a more consumption-led economy could benefit Saint-Gobain's flat glass business, of which one third is exposed to automotive glass, with strong positions in China (#3 with 10% market share). The automotive market was under pressure throughout 2015 but has rebounded recently, thanks to tax reductions on small vehicles (tax halved as of 1st October for 1.6 litre and smaller engine vehicles, although interestingly, the most dynamic segment was SUVs for the month of October).

Fig. 10: PMI – very mixed between US, China and western Europe



Sources: Eurostat; Bryan, Garnier & co

Fig. 11: Auto. stats



Sources: Eurostat; Bryan, Garnier & co

Please see the section headed "Important information" on the back page of this report.

5. Other businesses unchanged

We made no significant changes to our assumptions for other businesses.

- We maintain a pretty strong margin for the HPM businesses (11% of SGO sales and 23% of EBIT, 2015e), exposed to industrial sectors, although we suspect the division could be affected by the macro environment in EM, but we have maintained low operating leverage, which might protect our forecast from strong disappointment. In any case, margins are flat until 2017 included. Risk might stem from US industrial production, as NAM represents c43%e of the division's revenues. The last two PMIs did not send positive messages as they were below 50.
- We are slightly more optimistic regarding interior solutions (16% of sales, 23% of EBIT in 2015e), as we believe the division's margin should to continue to recover. After all, the branch, which is specialised in gypsum plasterboard and insulation products, is enjoying solid underlying trends. The division is not immune to the cycle of course, but we have noticed, for instance, that plasterboard is gaining market share in emerging countries, as it is less staff intensive than cement and bricks. In mature countries, we expect energy renovation to underpin the business, although it takes time, sometimes more than expected, as in France where energy renovation is disappointing so far. Finally, apart from distribution, the interior solutions division is the least less exposed division to EM (<30% of sales).
- Exterior solutions (14% of sales and 17% of EBIT in 2015e) is the only division where we have clear margin swing from 2015 to 2016e and 2017e, mostly thanks to the healthy recovery in the roofing business as of H2 2015. Although we have had pretty strong figures from Sika's mortar business, it is not possible to simply apply the same trend to SGO mortars, as the products, clients and markets seem different. But, again, mortars can be used for insulation and should therefore benefit from positive long-term trends. Unfortunately, around half of the mortar business is generated in emerging markets and visibility is obviously not very good there. We are a bit worried about the pipe business, as half of its sales are generated in western Europe (we are not especially buoyant on public works in the region, although we expect no deterioration), one third in China and 20% for the rest of the world, of which half in Brazil. Visibility is low then, but Saint-Gobain might be able to sign decent export contracts to resist there.

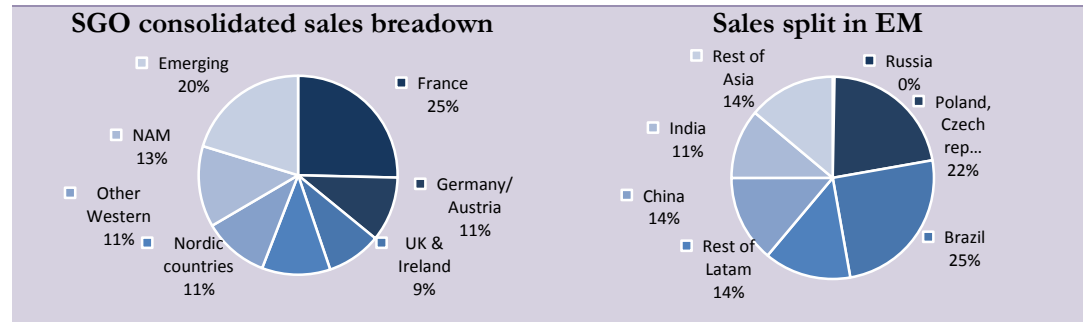
Roofing should continue to improve after a difficult start last year

6. EM not that scary for Saint-Gobain

Our definition of emerging markets refers to Eastern Europe, South America and Asia, which includes Japan. Exposure to this country is likely to be modest, though.

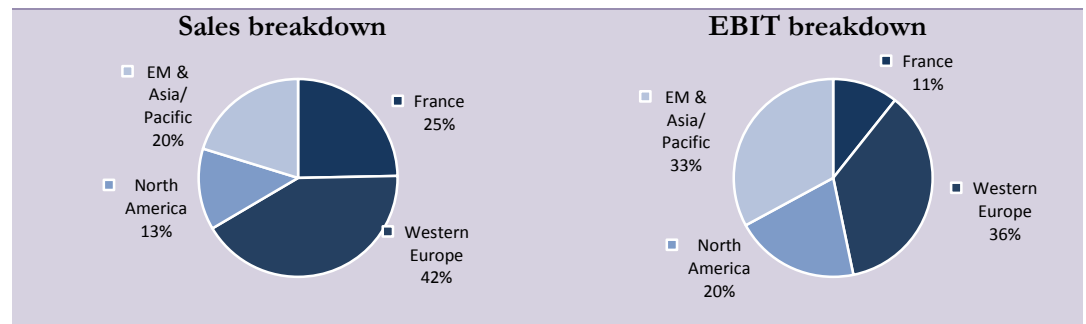
Emerging market exposure well spread out

Fig. 12: Sales breakdown by country (2015e)



Sources: Saint-Gobain; Bryan, Garnier & co

Fig. 13: Breakdown by zone in H1 2015



Sources: Saint-Gobain; Bryan, Garnier & co

Since the disposal of Verallia, exposure to EM has increased in relative terms and now represents 20% of sales and 33% of EBIT at end-June 2015, versus 19% and 26% at end-June 2014, respectively. While exposure is not that significant for the top line, it is relevant for EBIT, as the distribution division, which reports the lowest margin within the group, is mostly exposed to Europe (France in particular) and moreover reports poor margins today.

Among the emerging markets, the first country is Brazil, today in recession while the second is presumably China. Eastern Europe is a significant part too, especially Poland and the Czech Republic, although Russia is now noticeably small, since a large part of business went from Verallia. India is a key market, too and recent comments from Saint-Gobain's management on the country were positive, although there are a lot of questions today regarding the macro outlook there.

EM : positive comments from SGO management on some trends (Latam outside Brazil, India, Poland...)

Commenting on Q3 2015 sales, management underlined the fact that some emerging markets trends were not bad: growth was very good in Latam outside Brazil, but also in India as well as in Poland and the Czech Republic.

Our view has started to change on EM. We do not believe that Saint-Gobain is immune to macro slowdown but:

- In a scenario where European distribution profitability recovers, then the relative weight of EM would decrease. We believe that the combination of better trends in the new residential business and, perhaps, in renovation in France, is likely to counterbalance weak figures from EM. Admittedly, it is tricky to set up a proper scenario here.
- While recession in Brazil is pretty clear (Q3 was still okay for construction but Saint-Gobain's management was not especially optimistic for Q4), Eastern Europe is resilient and India looks pretty strong.
- As we have seen previously, China's auto market has benefited from tax incentives since October, even if it looks premature to talk about a recovery. While production was down 5.6% in September, it increased by 7.1% in October, 18% in November and 16% in December. For the first 11 months, production was up by 1.8% only. But 2016 will start with an easy comparison base (in Q2 and Q3).
- In all, sales in Brazil account for less than 5% of SGO sales and China less than 2.5%.

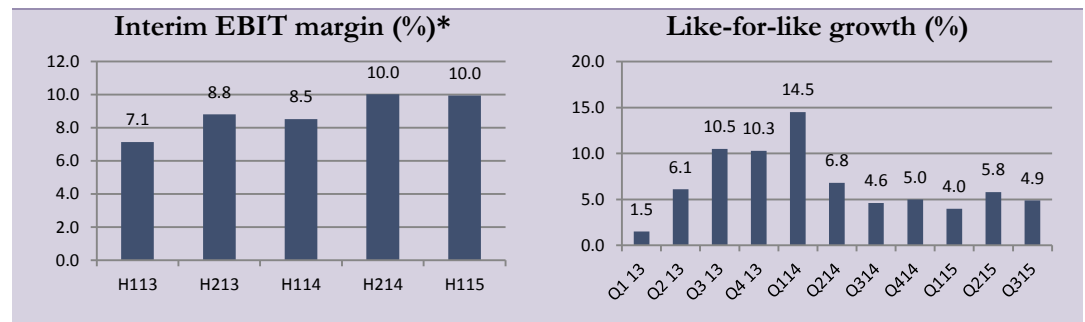
A recovery in Europe is likely to counterbalance weak figures from EM

Brazil is complicated but some other EM perform well (India, Eastern Europe)

SGO will benefit from China's auto market recovery.

In addition, looking at Saint-Gobain's top line performance in emerging margins, we can only recognise that the performance has been very strong so far. Top line growth has faded of course, but remains good, close to 5% y/y; while profitability has been steady. This does not mean that Saint-Gobain will continue to resist, though, but it is a good performance.

Fig. 14: 2013-2015 performance of Saint-Gobain's EM division

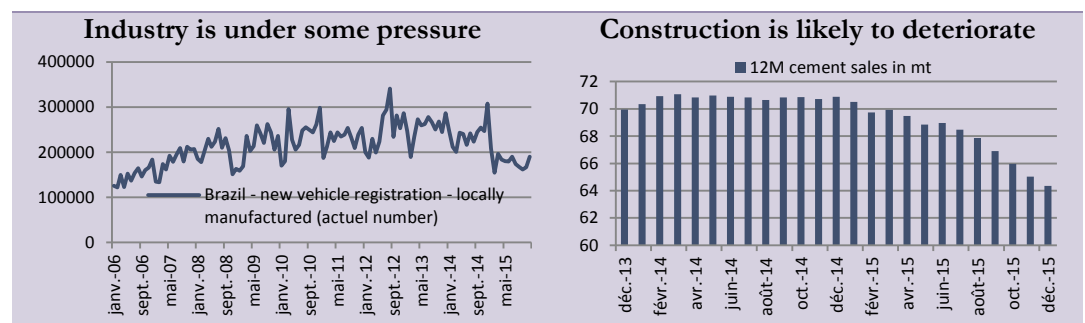


* H1 2014 EBIT margin at 10% excluding Verallia

Sources: Saint-Gobain, Bryan, Garnier & Co

The Brazilian National Cement Industries Union expects cement consumption to decline by 10-12% in 2016, after a 9.5% drop in 2015 and a subdued 1.1% growth in 2014.

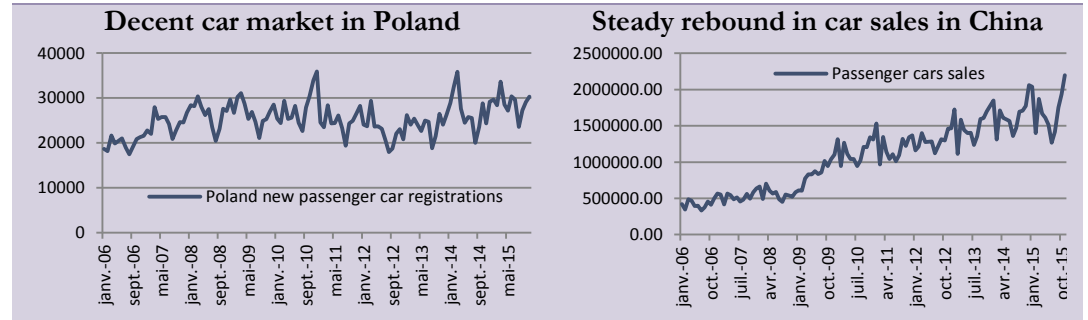
Fig. 15: Brazil – 4-5% of consolidated sales



Sources: datastream; Sindicato Nacional da Indústria do Cimento; Bryan, Garnier & co

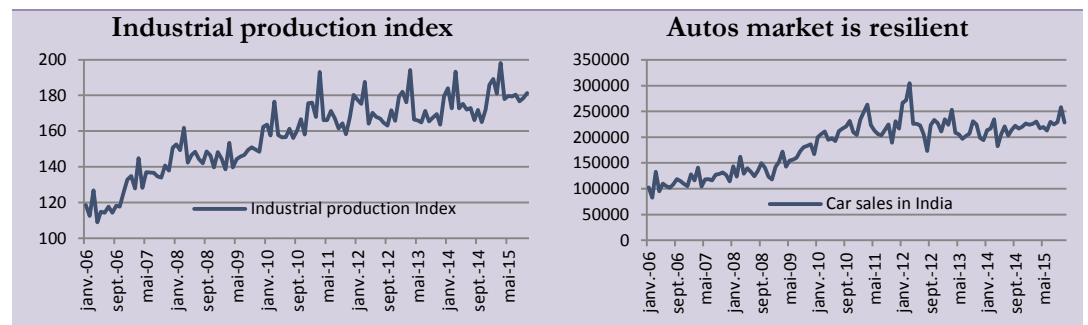
Please see the section headed "Important information" on the back page of this report.

Fig. 16: Reassuring auto market in China and Poland



Sources: Datastream, Bryan; Garnier & co

Fig. 17: India: solid for Saint-Gobain



Sources: Datastream; Bryan, Garnier & co

7. US Construction is strong – industry more uncertain

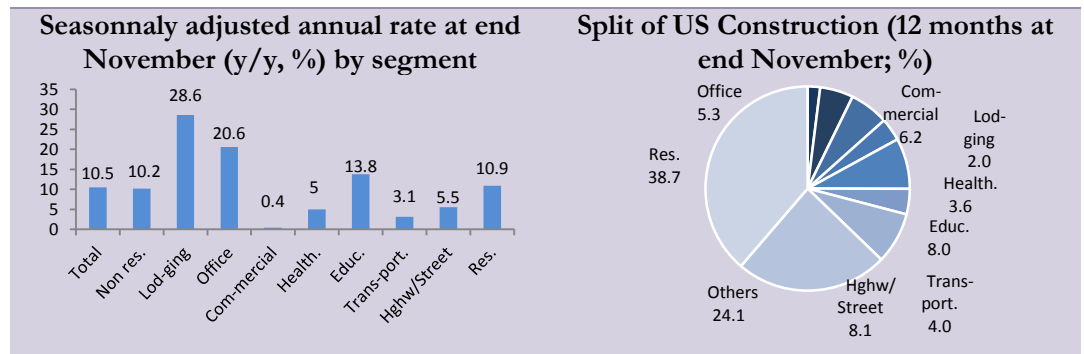
We are not especially worried about US construction, as spending remains strong on the whole (sequential growth faded to -0.4% in November vs October but y/y was still double-digit at 10.5% based on a seasonally adjusted annual rate) and +10.7% YTD (non-seasonally adjusted) of which 13% for residential. Housing starts were still dynamic in November (+10.5% vs October, based on seasonally adjusted units).

Non-residential building should improve in 2016, as lead indicators are well oriented (ABI set to stand above 50 in 2015). Infrastructure is set to benefit from the new five-year USD305bn highway bill recently signed by President Obama.

North America represents 13% of SGO 2015e sales and US industrial exposure is c5% of consolidated sales, the rest being exposed to construction. In terms of EBIT, exposure is high, around 20% in 2015e, as this is the region where margins are the strongest, thanks to businesses such as roofing, and because there is no distribution in the country. We can estimate that NAM EBIT exposed to the industrial segment accounts for roughly 7.5% of SGO EBIT. This is pretty hefty and any significant slowdown could take its toll. Otherwise, the proppant business has suffered but remains a small business in Saint-Gobain's portfolio (less than 0.5% of revenues).

YTD construction spending in the US: +10.7%, of which +13.1% for residential and 9.3% for non-residential, at end November 2015, non-seasonally adjusted

Fig. 18: US construction spending – still steady for most of the segment



Sources: US Census Bureau, Bryan, Garnier & co

Fig. 19: ISM gradually fading. Now lower than Eurozone and equivalent to China



Sources: Marki; ISM; Bryan, Garnier & co

8. Forecast by division

We are still more optimistic than the consensus, which is very cautious on the distribution business. Admittedly, visibility is poor but the combination of good new residential figures, accelerating existing-homes transactions and SIG's sales rebound in Q4 in France (even if it is a small player with less than 5% market share versus ~25/30% for Saint-Gobain distribution, according to Négocce-Développement Construction, June 2014) should support our Equity story. We are sticking to this view with a gradually better organic growth (2% in 2016e and 3.5% in 2017e) after a declining 2015 top line. Our EBIT margin for the branch improves by c50bps in 2016e and c85bps in 2017e, corresponding to 30% leverage, at the top-end of the 20-30% range usually provided by Saint-Gobain. We are now forecasting cEUR730m in distribution EBIT by 2016e, 10% above the current consensus provided by the company. On consolidated figures, we are more in line with the consensus though.

Fig. 20: New forecasts vs previous figures

	2015	2016	y/y %	2017	y/y%	FV
EBIT when initiated*	2771	3304	19	3930	19	EUR 50.0
EBIT when downgraded	2578	2943	14	3413	16	EUR 42.0
change %	-7%	-11%		-13%		-16%
New EBIT	2648	2904	10	3378	16	EUR 41.8**
change %	3%	-1%		-1%		-1%
Consensus	2610	2840				
New EBIT vs consensus	1%	2%				

* adjusted from initial EBIT estimated for Verallia

** Rounded to EUR42

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 21: Sales by division

Revenues (EURm)	2013r	2014	2015E	2016E	2017E
Innovative Materials	8 893	9 115	9 719	9 653	9 991
<i>Flat Glass</i>	4 818	4 893	5 292	5 329	5 516
<i>High-Performance Mat.</i>	4 086	4 232	4 436	4 334	4 485
Construction Products	11 427	11 361	11 824	11 826	12 242
<i>Interior Solutions</i>	5 905	6 056	6 346	6 377	6 601
<i>Exterior Solutions</i>	5 579	5 370	5 544	5 513	5 706
Building Distribution	18 773	18 806	18 818	19 030	19 696
Packaging (Verallia)	3 616	2 705	0	0	0
Internal sales and misc.	-948	-933	-933	-933	-933
Group	41 761	41 054	39 429	39 575	40 996
LFL Revenues growth (%)	2013r	2014	2015E	2016E	2017E
Innovative Materials	-0.7	3.9	2.5	3.0	3.5
<i>Flat Glass</i>	0.8	3.4	5.5	3.0	3.5
<i>High-Performance Mat.</i>	-2.6	4.5	-1.0	3.0	3.5
Construction Products	1.9	2.9	0.8	3.0	3.5
<i>Interior Solutions</i>	3.4	4.7	2.0	3.0	3.5
<i>Exterior Solutions</i>	0.5	1.0	-0.5	3.0	3.5
Building Distribution	-1.4	0.8	-0.8	2.0	3.5
Packaging (Verallia)	-1.8	1.6	3.0	0.0	0.0
Internal sales and misc.	0.0	0.0	0.0	0.0	0.0
Group	-0.4	2.2	0.6	2.6	3.6

Source: Saint-Gobain, Bryan, Garnier & co

Fig. 22: EBIT by division

EBIT (EURm)	2013r	2014	2015E	2016E	2017E
Innovative Materials	643	854	996	1 046	1 169
<i>Flat Glass</i>	123	289	397	440	509
<i>High-Performance Mat.</i>	520	565	599	607	660
Construction Products	1 002	1 020	1 044	1 143	1 300
<i>Interior Solutions</i>	488	533	587	638	723
<i>Exterior Solutions</i>	514	487	457	505	576
Building Distribution	638	661	621	728	922
Packaging (Verallia)	463	275	0	0	0
Internal sales and misc.	8	-13	-13	-13	-13
Group	2 754	2 797	2 648	2 904	3 378
Margin (%)	2013r	2014	2015E	2016E	2017E
Innovative Materials	7.2	9.4	10.2	10.8	11.7
<i>Flat Glass</i>	2.6	5.9	7.5	8.3	9.2
<i>High-Performance Mat.</i>	12.7	13.4	13.5	14.0	14.7
Construction Products	8.8	9.0	8.8	9.7	10.6
<i>Interior Solutions</i>	8.3	8.8	9.3	10.0	11.0
<i>Exterior Solutions</i>	9.2	9.1	8.3	9.2	10.1
Building Distribution	3.4	3.5	3.3	3.8	4.7
Packaging (Verallia)	12.8	10.2	0.0	0.0	0.0
Internal sales and misc.	-0.8	1.4	1.4	1.4	1.4
Group	6.6	6.8	6.7	7.3	8.2

Source: Saint-Gobain, Bryan, Garnier & co

9. Valuation

We believe the Fair Value for a cyclical company that the market will accept to pay must take into account the next step in the cycle. As such, we have chosen to look at 2017 since our initiation last July. Firstly, because investors are likely to project themselves into next year as of now, and secondly because 2-year forecasts are still acceptable.

Fig. 23: EUR42 Fair Value reiterated

2-yr EV/EBIT target (x)	10.0
2017E EBIT (M EUR)	3378
Equivalent EV value	33780
Less net debt	-3868
Plus/less adjustments	-1803
Equivalent Equity value	28109
Number of shares	561
2-yr equivalent FV (EUR)	50.1
Risk free rate (%)	2.0
Risk premium (%)	6.4
Beta (x) - as reported	1.2
Cost of equity (%)	9.5
Years from now	2.0
FV (EUR)	42

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 24: Valuation multiples*

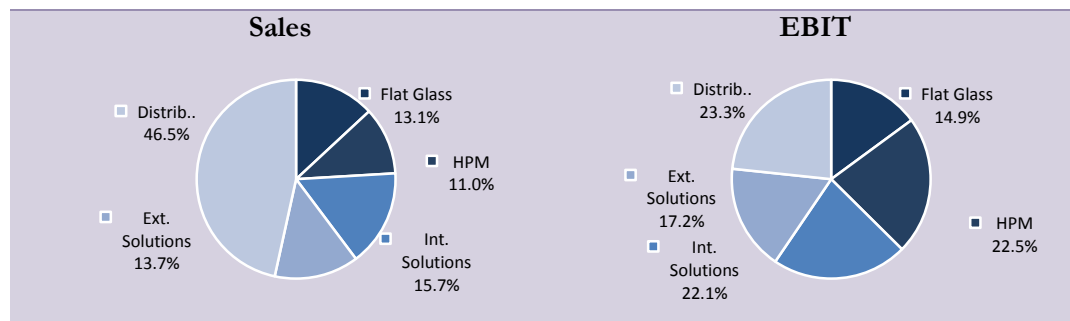
x	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
EV/Revenues	0.86	0.66	0.69	0.69	0.73	0.63	0.68	0.75	0.74	0.67	0.63
EV/EBITDA	6.6	5.6	6.9	6.0	6.2	6.2	6.8	7.4	7.0	6.6	6.3
EV/EBIT	9.1	7.9	11.7	8.9	9.0	9.6	10.4	11.0	11.0	9.1	7.6
EV/IC	1.3	0.9	0.9	0.9	1.0	0.9	1.0	1.1	1.1	0.9	0.9
PE	12.0	7.8	24.3	13.2	11.4	15.1	17.8	19.8	17.8	13.3	10.7
P/Book	1.7	1.0	0.9	1.0	1.1	0.9	1.1	1.2	1.3	1.1	1.0
CF yield (%)	14.6	22.2	22.2	15.1	11.7	15.7	11.4	6.1	11.2	13.5	15.5
FCF yield (%)	5.4	7.5	13.4	6.8	1.7	4.0	3.7	-1.0	3.8	5.4	7.5
Dividend yield (%)	3.0	2.6	3.4	3.3	3.3	4.1	3.7	3.2	3.1	3.6	3.9

* based on 18/01/16 closing price

Source: Company Data; Bryan, Garnier & Co ests.

10. Appendices

Fig. 25: 2015e Sales and EBIT by divisions



Sources: Saint-Gobain, Bryan, Garnier & co

Fig. 26: 2015 estimated sales by country/zone for each division

2015 estimated	Flat Glass	HPM	Interior Solutions	Exterior Solutions	Building Distribution	TOTAL
France	14%	6%	12%	12%	42%	25%
Germany & Austria	13%	7%	11%	7%	12%	11%
Benelux	3%	3%	4%	2%	2%	3%
Spain and Portugal	8%	1%	3%	3%	2%	3%
Italy & Greece	6%	3%	4%	4%	1%	3%
UK & Ireland	3%	2%	9%	2%	14%	9%
Nordic countries	4%	1%	7%	6%	19%	11%
Other Western Europe	2%	0%	2%	3%	3%	2%
Eastern Europe	7%	5%	7%	4%	2%	4%
North America	2%	43%	18%	29%	2%	13%
South America	18%	10%	3%	14%	3%	7%
Asia	18%	18%	9%	9%	0%	7%
Rest of the world	2%	1%	11%	6%	0%	3%
TOTAL	100%	100%	100%	100%	100%	100%
% EM	45%	34%	29%	33%	4%	21%
% Western Europe	53%	23%	52%	39%	94%	66%
% NAM	2%	43%	18%	29%	2%	13%

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 27: 2015 estimated sales by division for each country/zone

	Flat Glass	HPM	Interior Solutions	Exterior Solutions	Building Distribution	Total
France	7%	3%	7%	7%	76%	100%
Germany & Austria	16%	7%	17%	10%	50%	100%
Benelux	17%	13%	21%	8%	41%	100%
Spain and Portugal	35%	4%	17%	16%	28%	100%
Italy & Greece	31%	11%	25%	24%	9%	100%
UK & Ireland	5%	2%	17%	3%	73%	100%
Nordic countries	4%	1%	11%	8%	76%	100%
Other Western Europe	10%	0%	14%	22%	53%	100%
Eastern Europe	24%	14%	26%	16%	21%	100%
North America	2%	36%	23%	33%	7%	100%
South America	32%	15%	6%	29%	17%	100%
Asia	33%	27%	21%	18%	0%	100%
Rest of the world	7%	3%	58%	32%	0%	100%
Total	13%	11%	16%	14%	47%	100%

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 28: 2015 estimated sales split per country/zone and division

2015 sales split - estimated	Flat Glass	HPM	Interior Solutions	Exterior Solutions	Building Distribution	Total
France	2%	1%	2%	2%	19%	25%
Germany & Austria	2%	1%	2%	1%	5%	11%
Benelux	0%	0%	1%	0%	1%	3%
Spain and Portugal	1%	0%	1%	0%	1%	3%
Italy & Greece	1%	0%	1%	1%	0%	3%
UK & Ireland	0%	0%	1%	0%	6%	9%
Nordic countries	0%	0%	1%	1%	8%	11%
Other Western Europe	0%	0%	0%	0%	1%	2%
Eastern Europe	1%	1%	1%	1%	1%	4%
North America	0%	5%	3%	4%	1%	13%
South America	2%	1%	0%	2%	1%	7%
Asia	2%	2%	1%	1%	0%	7%
Rest of the world	0%	0%	2%	1%	0%	3%
Total	13%	11%	16%	14%	47%	

Source: Company Data; Bryan, Garnier & Co ests.

Price Chart and Rating History

Saint Gobain



Ratings

Date	Ratings	Price
29/10/15	NEUTRAL	EUR39.43
16/07/15	BUY	EUR41.99

Target Price

Date	Target price
29/10/15	EUR42
16/07/15	EUR50

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For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 57.9%

NEUTRAL ratings 33.1%

SELL ratings 9%

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