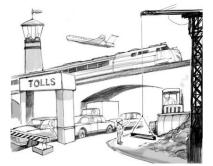
1st April 2016

### Sector View

### **Construction & Materials**

	1 M	3 M	6 M	31/12/15
Cons & Mat	4.1%	-1.0%	7.4%	-1.0%
DJ Stoxx 600	1.1%	-7.7%	-2.9%	-7.7%
*Stoxx Sector Indices				

Companies covered					
CRH		BUY	EUR30		
Last Price	EUR24.83	Market Cap.	EUR20,459m		
EIFFAGE		BUY	EUR71		
Last Price	EUR67.5	Market Cap.	EUR6,442m		
HEIDELBERGC	EMENT	BUY	EUR86		
Last Price	EUR75.25	Market Cap.	EUR14,141m		
LAFARGEHOL	CIM	BUY	CHF50		
Last Price	CHF45.23	Market Cap.	CHF27,450m		
SAINT GOBAII	N	BUY	EUR42		
Last Price	EUR38.73	Market Cap.	EUR21,725m		
VICAT		NEUTRAL	EUR56		
Last Price	EUR57	Market Cap.	EUR2,559m		
VINCI		BUY	EUR70		
Last Price	EUR65.47	Market Cap.	EUR38,584m		



### TOP PICKS Q2 2016: Heidelberg reiterated as Top Pick.

### LOOKING BACK AT Q1 2016

Contractors Vinci and Eiffage performed very well in the first quarter (absolute perf. of +12% and +14%, resp.) benefiting from the combination of steady toll road traffic trends and decent order intake for contracting. Investors were clearly seduced by their strong and resilient profiles. Meanwhile, more cyclical building materials companies have been penalised. Apart from LafargeHolcim (-11% absolute, -4% vs DJStoxx600), performances haven't been that bad however, as the sector outperformed the market by 7%. More interestingly, while contractor share prices improved regularly through the quarter, we observed a "V shape" chart for building materials stocks, with a low-end around mid-February and a sharp rebound since. Apart from Saint-Gobain, share prices have actually returned to their levels at the start of the year. As such, from the low-points in 2016, the price rebounds have been particularly impressive for LafargeHolcim (+32%), HeidelbergCement (+26%) and Vicat (+26%). This recovery has been underpinned, in particular, by valuations and improving sentiment concerning the global risk of China for the cement market.

### WHAT WE EXPECT IN Q2 2016

Contractors are unlikely to benefit from the same environment as in Q1. Market sentiment has improved and their defensive qualities might not be so sought after as in early 2016. Admittedly, traffic should be good in Q1, thanks to a favourable combination of decent weather and positive calendar effects (leap year, Easter week-end), but 2016 is likely to be a transition year for French civil works (better than 2015 though). Meanwhile, Saint-Gobain is likely to benefit from the French residential market rebound - but with a lag. Finally, cement stocks are the best placed to outperform in Q2. The sector has been penalised by the possibility of a worst case scenario with cheap Chinese cement invading the world. But this has not been the case so far and actually Chinese exports have dropped 22% in January according to Heidelberg. Moreover, EM worries have been mitigated by some good news in certain markets, such as India for instance, where cement volumes rose 9% in January.

### **CONCLUSIONS AND TOP PICKS**

It is tempting to become more positive on the cement sector as a whole. Momentum is better and the sentiment towards EM has improved, as shown by stronger capital inflows (USD37bn in March vs USD22bn on average over 2010-2014, according to Les Echos citing the IIF). This doesn't mean that macro woes have disappeared but rather that confidence has improved and, apart from CRH, cement stocks are very exposed to EM, LafargeHolcim most of all (56% of PF EBITDA as reported). We would nevertheless stick to HeidelbergCement as a Top Pick, given that it ticks a lot of boxes: fine exposure to the US (29% of prospective 2016e pro-forma EBITDA), where the market is still well oriented (construction spending up 10% y/y in January, positive comments on the 5-year highway bill), some exposure to EM (43% of EBITDA) in particular Indonesia, where the infrastructure segment might improve this year, but no exposure to LatAm, which is presumably positive in the short term considering the current situation in Brazil and finally some M&A activity with the ongoing acquisition of Italcementi (scheduled to close early July). Q1 results to be reported on 4th May 2016.

Concerning valuation, we have updated our risk free rate (1.6% vs 2.0%) and risk premium (7% vs 6.4%) for our coverage. Building materials valuations, derived from the application of historical multiples to our 2017 forecast, discounted back, are barely affected by this move. Vinci and Eiffage's SOTPs are more sensitive to these changes, as toll roads and airports are valued through discounting methods. But overall, the impact is negative but limited and our FVs, based on round figures, are unchanged.

EUR per share (LHN in CHF)	HEI	LHN	CRH	VCT	SGO	DG	FGR
Previous unrounded valuation	86.1	50.4	29.7	56.0	42.2	70.3	71.3
Impact on valuation	-0.36	-0.19	-0.11	-0.11	-0.24	-0.61	-0.57
New unrounded valuation	85.8	50.3	29.5	55.9	42.0	69.7	70.7
Previous FV	86.0	50.0	30.0	56.0	42.0	70.0	71.0
New FV	86.0	50.0	30.0	56.0	42.0	70.0	71.0
	00.0	50.0	50.0	50.0	12.0	70.0	7 1.0

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

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## BRYAN, GARNIER & CO

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### Stock rating

DIN/	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					
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	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.
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### Distribution of stock ratings

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SELL ratings 6.7%

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