

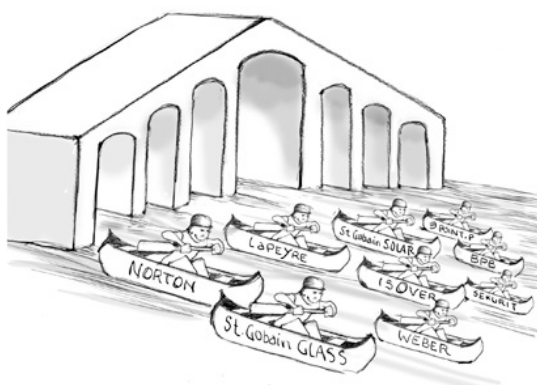
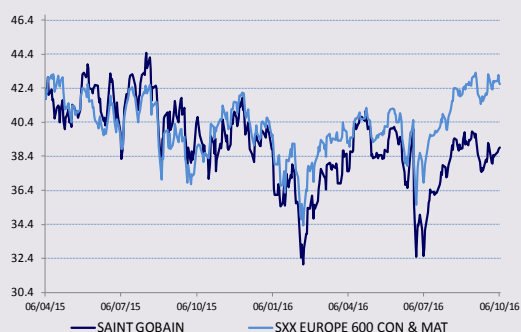
FOCUS

7th October 2016

Construction & Building Materials

Bloomberg	SGO FP
Reuters	SGOB.PA
12-month High / Low (EUR)	41.8 / 32.1
Market capitalisation (EURm)	21,590
Enterprise Value (BG estimates EURm)	27,927
Avg. 6m daily volume ('000 shares)	1,690
Free Float	84.1%
3y EPS CAGR	16.8%
Gearing (12/15)	25%
Dividend yield (12/16e)	3.34%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (EURm)	39,623	39,343	40,661	42,120
EBIT (EURm)	2,636	2,827	3,283	3,709
Basic EPS (EUR)	2.29	2.13	2.74	3.28
Diluted EPS (EUR)	2.06	2.13	2.75	3.28
EV/Sales	0.71x	0.71x	0.67x	0.63x
EV/EBITDA	7.3x	6.9x	6.0x	5.3x
EV/EBIT	10.7x	9.9x	8.3x	7.1x
P/E	18.9x	18.2x	14.2x	11.9x
ROCE	5.9	6.7	7.6	8.4



Saint-Gobain

Endless sluggishness is not our scenario

Fair Value EUR46 (price EUR38.91)

BUY

Earlier this week, we organised a roadshow with Saint-Gobain. The company remains cautious regarding France, but admits new builds have started to positively impact the business and this underlies craftsmen's order books which have increased in 2016. The comparison basis should improve in Pipes, while Emerging Markets are remarkably resilient. Q3 on 27/10.

- France: the trend has clearly changed since last year. In H1 2016, organic growth stood at only 0.6%, but this would have exceeded 2% when adjusted for the difficult Pipes business. Adjusted for a positive 1% calendar effect, the growth is still positive and much better than the 2015 trend (-4.1%), despite various strikes (and floods) in France in May-June. We expect better trends in H2, with a further new-build positive impact, a better comp base for Pipes and a gradual recovery in renovation, which has been sluggish so far.

- The Rest of Europe is doing fine (4.3% organic growth in H1), in particular the Nordics (Sweden and Norway) with the distribution business, Germany (while 2015 was disappointing) and the UK (mostly distribution), where the group is not worried today despite Brexit. North America's (3.6%) performance has benefited from a healthy roofing business and from a positive construction environment so far. Industrial markets (~40% of US sales) are more complicated but Saint-Gobain is exposed to dynamic niches as well (medical, aerospace, high tech...). Finally, EM are remarkably strong (+4.9%), despite Brazil and China.

- Sika: the next step will in the first instance be the decision made by the Court of Zug (regarding the voting rights' limitation of the Burkard family) which is now expected in Q4 (said the Court). With appeals, legal delays may add up to 2 years. The current deal between SGO and the family ends in June 2017 but with an option to extend it until end 2018. EUR2.4bn is totally fixed, whatever the performance of Sika or CHF exchange rate.

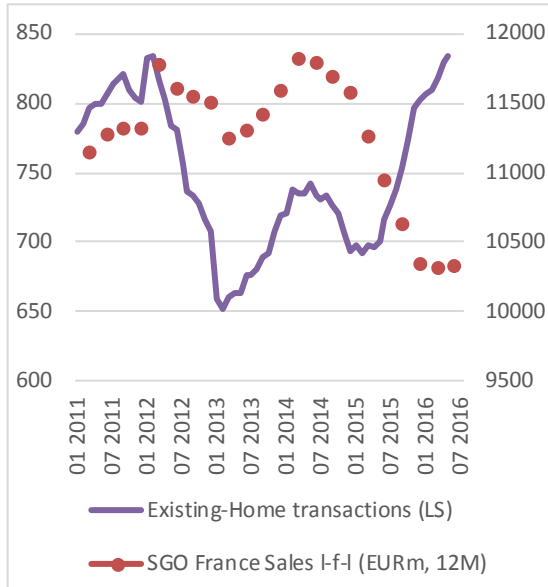
- We are buyers of Saint-Gobain at the current share price. We believe the company will eventually benefit from the recovery in the French renovation market. Thanks to a strong 20-30% operating leverage in building distribution, this should be translated into stronger results.



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Saint Gobain Major keys to Focus on

1. One Chart: Strong rebound of existing home transactions in France



The increase in existing homes transactions has been very strong in France since summer 2015. Actually, the 12-month trend was negative then, and turned positive to 12% by December 2015. In 2016, the trend strengthened to 18% YTD at end May. By number of transactions, there are now slightly more than 830,000 units sold on an annual basis. This very strong momentum is explained by the combination of a low-rates environment (less than 2%), a more attractive zero-rate loan and to a lesser extent the buy-to-let Pinel scheme (more usual for new-builds).

In this graph, we compare transactions with Saint-Gobain's sales in France. We recalculate revenues based on quarterly figures, on which we apply quarterly like-for-like growth and finally we annualise the figures. We can clearly notice the lack of rebound in sales this year, while the correlation was pretty good before.

Similarly, the positive trend in transactions has not been translated into additional revenues within the renovation segment in France. Recent data from the CAPEB indicates a trend of around +0.5%. It is not easy to explain this decorrelation, while renovation and existing home transactions are obviously closely linked. It is presumably due to the lack of confidence of households but also of craftsmen in France who are reluctant to hire in the current uncertain macro environment in France.

We believe this might change, as the craftsmen's order book in France has increased recently to 81 days. This is a 9-day increase since January 2015 and the highest level since July 2013. This should translate into additional sales in the following quarters and gradually restore confidence. Actually, the last CAPEB survey shows that the number of craft businesses willing to hire is higher than those wanting to reduce their staff. This is the first time this has happened in the last two years.

2. One Sentence

«France : a dramatic change in trend, from negative in 2015 to a stabilisation in 2016»

Since the beginning of 2016, Saint-Gobain has noticed a stabilisation of France, with like-for-like revenues growth of around 0.6% in H1. This is a combination of several factors: the first signs of improvement in the new-build market in France, the ongoing difficulties in the Pipe business (<10% of sales, down 20% in H1) and the sluggishness of the renovation market. We can add a 1% positive calendar effect in the first half. It is worth noting that, without the negative impact of the Pipe business, France would have been up by more than 2% in H1 2016; let's say around 1% excluding the calendar effect. It worth mentioning this excludes any adjustment related to the strikes in France we had in June, as well as the floods. These two factors have certainly weighed on growth (in particular strikes, as floods may have generated some work).

1% might not look impressive but this is actually definitely better than in previous years, where the decline was very significant on a like-for-like basis in every single quarter: between -3.3% and -4.8% since Q3 2014 (y/y, like-for-like, France).

With this stabilisation, France is also no longer a drag. This is a dramatic change in trend, from a negative trend to a neutral one, but of course we are still expecting a proper rebound.

3. One Figure

25%

Any improvement in the renovation market in France will be a positive signal for the share price, as most of the business in France (75%) is made in Distribution. Besides, operational leverage is strong in the distribution business, at around 20 to 30% - hence the figure of 25%, which is the average.

This is admittedly lower than in industrial businesses (approx. 35% to 55%) which, by the way, partly explains, together with restructuring and, more recently, better volumes and prices, the very strong rebound in the Flat Glass operating margin from 2% in 2012 to 7.9% in 2015. Nonetheless, the impact of a better top line will be significant anyway, as distribution generates significant revenues (EUR19bn, of which EUR7.5bn in France in 2015). Finally, contrary to other businesses like Flat Glass or Interior Solutions, the EBIT margin of distribution has not started to rebound strongly, being still impacted by the deflationary environment. There was some improvement in H1 (+20bps at 2.8%), but we suspect this was mostly due to the other markets where Saint-Gobain is strong in distribution, i.e. the Nordics, the UK and Germany.

Actually, it is interesting to recall the distribution margin has been impacted by Saint-Gobain's strategy to keep stores open which were not considered as structurally loss-makers. The idea was that it is very difficult to regain the confidence of clients, i.e. the craftsmen, once a store is closed. The counterpart, unfortunately, is that fixed costs are significant in the business (salaries, rents...) and these have put some pressure on the profitability of the business. Back in 2007, the operating margin stood at 5.7% versus 3.2% last year. We expect 3.5% in 2016e (+40bps in H2), 4.1% in 2017e and 4.8% in 2018e, based on a 20% and 25% leverage in 2017e and 2018e, respectively.

4. How does the Roadshow impact our Investment Case

It has confirmed it. We have updated our Forex and number of shares assumptions but the impact is limited. EPS impact is modest (+0.7% in 2016, +1.9% in 2017) and our current EBIT is still slightly above consensus in 2016 at EUR2827m (EUR2840m previously) vs EUR2792m for IBES. The difference is likely to come from the Distribution business, where we are actually optimistic. We believe the current discrepancy between indicators and the actual activity in France will eventually disappear. The first positive effects of the new-builds (confirmed by Saint-Gobain at the end of July), the continuous pressure from higher order books, the positive comments from the CAPEB, which expects the recovery to continue in the next quarters, are the main reasons for this bullish view.

Next Catalysts

Q3 2016 revenues will be released on 27th October, post market. A conference call will be organised at 6.30pm local time.

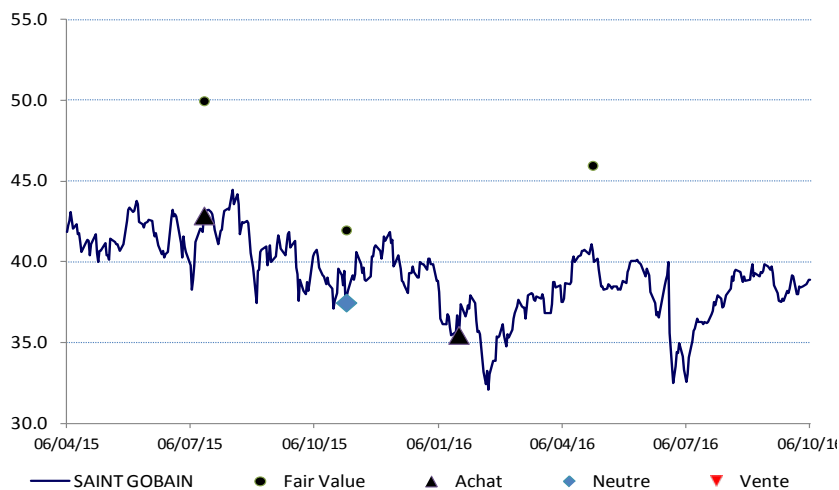
We expect Q3 revenues at EUR9.8bn. This is 2.4% organic growth, combined with -2.3% negative FX and -1.5% scope effect, and apparent growth stands at -1.5%. By business, we expect 3.6% organic growth for Innovative Materials (5% Flat Glass; 2% HPM); 1.6% for Construction Products (3% Interior Solutions, flat for Exterior Solutions because of the pipes business) and 2% for Distribution.

Finally, the Court of Zug said its decision regarding the voting rights' limitation will be released in Q4, while it was actually expected this summer according to our understanding. In any case, this will be an important legal step, as the family holding of 53% of the voting rights has been limited to 5% during the last two extraordinary general meetings for some resolutions. This will be a first instance decision however, which means appeals are likely. This may delay the legal process by a maximum of two more years. However, the current deal between Saint-Gobain and the family is valid until June 2017 and Saint-Gobain has an option to extend it to the end of 2018.

It is worth noting that the price negotiated (approx. EUR2.4bn) is fixed, whatever Sika's good (or bad) performance is until the closure of the deal, and whatever the CHF exchange rate (hedge position).

Price Chart and Rating History

Saint Gobain

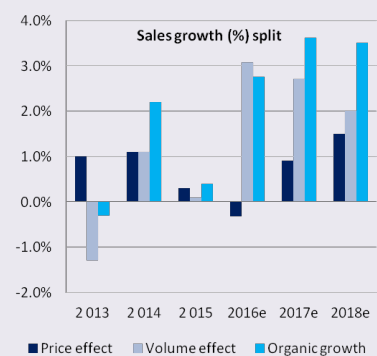
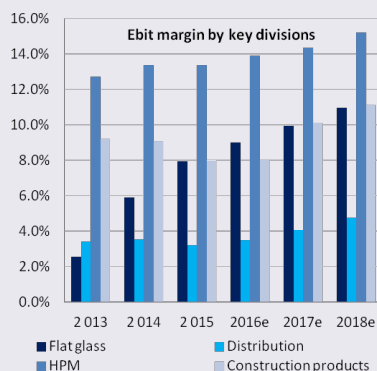


Ratings

Date	Ratings	Price
20/01/16	BUY	EUR36.71
29/10/15	NEUTRAL	EUR39.43
16/07/15	BUY	EUR41.99

Target Price

Date	Target price
28/04/16	EUR46
28/04/16	EUR46
29/10/15	EUR42
16/07/15	EUR50



Company description

Saint-Gobain operates in 67 countries with over 170,000 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 4100 outlets, including Point P and La Plateforme du Bâtiment.

Simplified Profit & Loss Account (EURm)		2012	2013	2014	2015	2016e	2017e	2018e
Revenues		43,198	41,761	41,054	39,623	39,343	40,661	42,120
Change (%)		2.6%	-%	-1.7%	-3.5%	-0.7%	3.4%	3.6%
Adjusted EBITDA		4,413	4,161	4,151	3,844	4,027	4,533	4,959
Adjusted EBIT		2,863	2,754	2,797	2,636	2,827	3,283	3,709
Change (%)		-16.8%	-%	1.6%	-5.8%	7.2%	16.2%	13.0%
Reported EBIT		1,966	1,883	2,209	1,294	2,427	2,883	3,309
Cost of the net debt		(587)	(552)	(485)	(419)	(362)	(310)	(284)
Financial results		(812)	(790)	(696)	(629)	(571)	(525)	(508)
Pre-Tax profit		1,154	1,093	1,513	665	1,856	2,358	2,802
Tax		(443)	(463)	(513)	(248)	(612)	(778)	(925)
Profit from associates		12.0	2.0	0.0	0.0	0.0	0.0	0.0
Minority interests		30.0	37.0	47.0	51.0	55.0	60.0	60.0
Net profit		693	595	953	1,295	1,189	1,520	1,817
Restated net profit		1,053	1,027	1,103	1,165	1,189	1,520	1,817
Change (%)		-39.3%	-%	7.4%	5.6%	2.0%	27.9%	19.5%
Cash Flow Statement (EURm)								
Change in working capital		(60.0)	(118)	(155)	84.0	0.0	(100)	(104)
Operating cash flows		2,562	2,171	1,363	2,609	2,590	2,876	3,170
Capex, net		(1,901)	(1,437)	(1,580)	(1,370)	(1,527)	(1,578)	(1,629)
Free Cash flow		661	734	(217)	1,239	1,063	1,298	1,541
Dividends		(701)	(712)	(722)	(732)	(733)	(758)	(758)
Financial investments, net		(199)	222	989	2,213	(50.0)	(150)	(150)
Others		(143)	688	205	(296)	(300)	0.0	8.0
Debt net change		(382)	932	255	2,424	(19.8)	390	641
Net debt		8,490	7,513	7,221	4,797	4,817	4,426	3,786
Balance Sheet (EURm)								
Tangible fixed assets		13,696	12,438	12,657	11,587	11,814	12,141	12,520
Intangibles assets		14,132	13,529	13,547	13,431	13,581	13,731	13,881
Current assets		12,779	12,361	12,727	12,167	12,081	12,486	12,934
Other assets		2,737	2,937	2,380	2,291	2,354	2,423	2,500
Cash & equivalents		4,179	4,350	3,493	5,380	5,380	5,380	5,380
Total assets		47,523	45,615	44,804	44,856	45,209	46,161	47,215
Shareholders' funds		17,439	17,542	18,013	18,956	19,112	19,874	20,941
Minorities		412	345	405	364	419	479	539
Provisions		5,636	4,968	5,010	5,125	5,125	5,125	5,125
L & ST Debt		12,669	11,863	10,714	10,177	10,197	9,806	9,166
Current liabilities		9,621	9,232	9,619	9,314	9,228	9,533	9,877
Others liabilities		1,746	1,665	1,043	920	1,129	1,344	1,567
Total Liabilities		47,523	45,615	44,804	44,856	45,209	46,161	47,215
Capital employed		30,986	29,096	29,312	27,871	28,248	28,825	29,458
Ratios								
EBITDA margin		10.22	9.96	10.11	9.70	10.23	11.15	11.77
Operating margin		6.63	6.59	6.81	6.65	7.18	8.08	8.81
Apparent cost of the avrg gross debt		5.29	4.79	4.59	4.25	3.85	3.40	3.32
Tax rate		38.39	42.36	33.91	37.29	33.00	33.00	33.00
Net margin		1.67	1.51	2.44	1.05	3.16	3.89	4.46
ROE (after tax)		6.04	5.86	6.12	6.15	6.22	7.65	8.68
ROCE (after tax)		5.69	5.35	6.31	5.93	6.70	7.63	8.44
Gearing		47.56	42.00	39.21	24.83	24.66	21.75	17.62
Net debt / EBITDA (x)		1.92	1.81	1.74	1.25	1.20	0.98	0.76
Pay out ratio		90.46	108	69.50	167	57.88	45.55	0.0
Number of shares, diluted		525	539	559	566	557	554	554
Data per Share (EUR)								
EPS		1.31	1.10	1.70	2.29	2.13	2.74	3.28
Restated EPS		2.01	1.91	1.97	2.06	2.13	2.75	3.28
% change		-40.0%	-5.0%	3.5%	4.4%	3.7%	28.6%	19.5%
BVPS		32.83	31.57	32.06	33.79	34.45	35.82	37.74
Operating cash flows		4.88	4.06	2.44	4.61	4.65	5.19	5.72
FCF		1.26	1.36	(0.39)	2.19	1.91	2.35	2.78
Net dividend		1.24	1.24	1.24	1.24	1.30	1.30	1.30

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

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Stock rating

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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 56.5%

NEUTRAL ratings 31.8%

SELL ratings 11.7%

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