Pan Europe
Research

CAZENOVE

Company memo 31 May 2006

Lafarge

STOCK RECOMMENDATION	SECTOR RECOMMENDATION	PRICE	12 MONTH RANGE
IN – LINE	**NEUTRAL**	**€96**	**€102 – 67**
SECTOR		REUTERS CODE	BLOOMBERG CODE
Construction & Materials		**LAFP.PA**	**LG FP**
NEXT RESULTS DUE	LAST RESULTS	MARKET CAPITALISATION	PRINCIPAL LISTING
02 August 2006 (Q2)	**02 May 2006 (Q1)**	**€16,269m**	**PAR**
CHANGE IN STOCK / SECTOR RECOMMENDATION		CHANGE IN EPS ESTIMATES	
Yes (from OUTPERFORM)	**No**	**No**	

ANALYST

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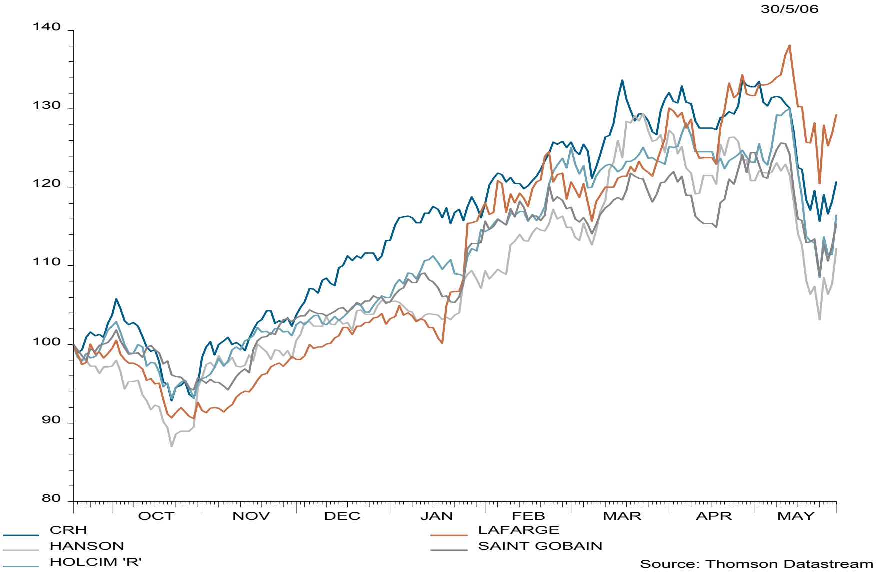
Change of recommendation following significant outperformance against its peer group.

On the 20th September 2005, we changed our recommendation to OUTPERFORM in the expectation of improved trading news. Over the last eight months the shares are up 31% as, trading, particularly in the first quarter of 2006 has improved. In addition we have seen:

- the acquisition of the Lafarge North America minority interest
- the appointment of a new CEO, whose initial strategic update was, we believe, generally well received and
- the acquisition of a c. 10% stake in the group by a vehicle controlled by Albert Frere.

We are now changing our recommendation to In Line following strong outperformance and because the group's valuation is now in line with the peer group.



Source: Thomson Datastream

IMPORTANT DISCLOSURES ARE INCLUDED IN THE APPENDIX AT THE END OF THIS REPORT

There is an analyst and investor day with Lafarge on 22nd June, where we expect further detail on strategy to be provided. However, we do not expect a fundamental shift in strategy.

Year end: December	2005A	2006E	2007E	2008E
Turnover (€m)	15,969.3	17,350.0	18,300.0	19,200.0
Profit before tax (adj) (€m)	1,848.0	1,945.0	2,140.0	2,365.0
EPS (adjusted) (€)	6.39	7.31	8.01	8.84
DPS (€)	2.55	2.70	2.85	3.05
EV/EBITDA (x)	7.7	7.2	6.8	6.4
PER (x)	15.0	13.1	12.0	10.8
Yield (%)	2.7	2.8	3.0	3.2

Source: Company, Cazenove

The EPS growth rate and valuation schedules shown below illustrate how the group now trades in line with peer group valuations and we believe the group has growth prospects generally in line with its peers.

Fig 1 Peer group EPS growth rates for 2006E and 2007E

	2006E EPS Growth (%)	2007E EPS growth (%)
Saint Gobain	+21	+11
CRH	+13	+10
Hanson	–6	+12
Holcim	+13	+7
Lafarge	+14	+9

Source: Cazenove

Fig 2 Sector valuation schedule

2007	CRH	Hanson	Lafarge	Holcim	Saint Gobain	Average
Recommendation	OUTPERFORM	OUTPERFORM	IN–LINE	UNDERPERFORM	OUTPERFORM	
Currency	EUR	GBP	EUR	CHF	EUR	
Current Price	27	680	95	96	55	
No. of share – m	537	715	173	252	345	
Market Capitalisation – m	14,241	4,862	16,496	24,230	18,982	
Net Debt (07E) – m	2,177	1,132	8,956	9,268	8,090	
EV – m	16,418	5,994	25,452	33,498	27,072	
NAV per share	15.0	398	73.0	73.0	35.8	
Price/NAV	1.8	1.7	1.3	1.3	1.5	
EPS (07E)	232.4	58.5	8.0	7.9	4.4	
DPS (07E)	50.0	24.0	2.9	1.9	1.6	
Yield – %	1.9%	3.5%	3.0%	1.9%	2.9%	2.6%
Dividend cover	4.6	2.4	2.8	4.3	2.7	3.4
Sales (07E) – m	17,775	4,490	18,300	24,900	42,075	
EBIT (07E) – m	1,620	609	2,775	4,350	3,710	
EBITDA (07E) – m	2,230	839	3,775	6,000	5,635	
EV/EBIT	10.1	9.8	9.2	7.7	7.3	8.8
EV/EBITDA	7.4	7.1	6.7	5.6	4.8	6.3
EV/SALES	0.9	1.3	1.4	1.3	0.6	1.1
ROCE (07E) – %	16%	15%	11%	16%	18%	15%
ROE (07E) – %	15%	15%	10%	11%	12%	13%
Gearing (07E) – %	27%	40%	67%	50%	66%	50%
Interest Cover (07E)	10.7	7.1	5.1	6.2	4.9	6.8
PER (07E)	11.4	11.6	11.9	12.1	12.5	11.9
Year end	Dec	Dec	Dec	Dec	Dec	

Source: Cazenove

APPENDIX

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Jeremy Withers Green and Lucy Chamberlain.

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IN–LINE – the total return on the security is not expected to outperform or underperform the sector* by 5% or more over the next six months.
UNDERPERFORM – the total return on the security is expected to underperform the sector* by 5% or more over the next six months.
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*FTSE Eurofirst 300 Index.

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RECOMMENDATION HISTORY

12 months recommendation changes for Lafarge SA;
21–Sep–2005 OUTPERFORM

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