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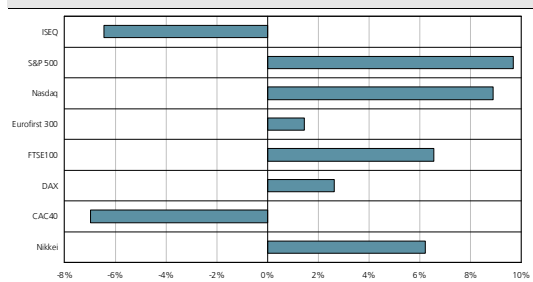
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Weekly Market Comment

International returns YTD (€)



Forecast revisions

	2010		2011	
	Prev	Rev	Prev	Rev
Aer Lingus	-0.8	3.9	4.4	10.8
CRH	100.2	77.2	117.1	82.6
Glanbia	35.1	37.1	37.1	39.3
Irish Continental Group	122.0	122.0	160.6	147.8
Kingspan Group	26.5	29.0	35.0	33.0
Persimmon (Stg)	19.5	20.9	33.1	33.4

Forthcoming results and events

	Prev. period EPS (c)	F'cast period EPS (c)
Wednesday September 8th		
Barratt Developments (Stg) FY results	-15.4	-1.7
CPL Resources FY results	23.4	11.7
Diageo (Stg) - ex-dividend - final dividend rate	23.5p	
Grafton - ex-dividend - interim dividend rate	2.5c	
Glanbia - ex-dividend - interim dividend rate	3.03c	

Thursday September 9th

Redrow (Stg) FY results	-14.7	-2.1
Consumer price index (Aug)		

Friday September 10th

Industrial production and turnover (Jul)		
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Time for Saint-Gobain to outperform

- Saint-Gobain (SGO) has slightly underperformed the E300 Construction & Building Materials index thus far in 2010 and is down circa 17% in absolute terms. We think such underperformance, albeit modest, is unjustified. As we believe the immediate outlook for SGO is better than its heavy-side peers, our view is that the stock is capable of more than reversing this over the remainder of the year.

New food price paradigm

- After four months of price declines, the average or trade weighted index price of dairy product prices at Fonterra's auction rose by 16.9% month-on-month. The old paradigm of a secular decline in food prices should be replaced by one which, predicated on vulnerable stocks-to-use ratios, anticipates a secular rise in prices with increasing volatility.

Latest Gulf of Mexico incident: a reminder - if one was needed

- Just when we thought things were once again under control, reports indicate that a fire broke out on an old shallow water platform owned by Mariner Energy in the Gulf of Mexico. Thankfully, nobody was hurt but it proved to be a reminder of the risk involved in dealing with oil and gas in environments that are complex and less than optimal.

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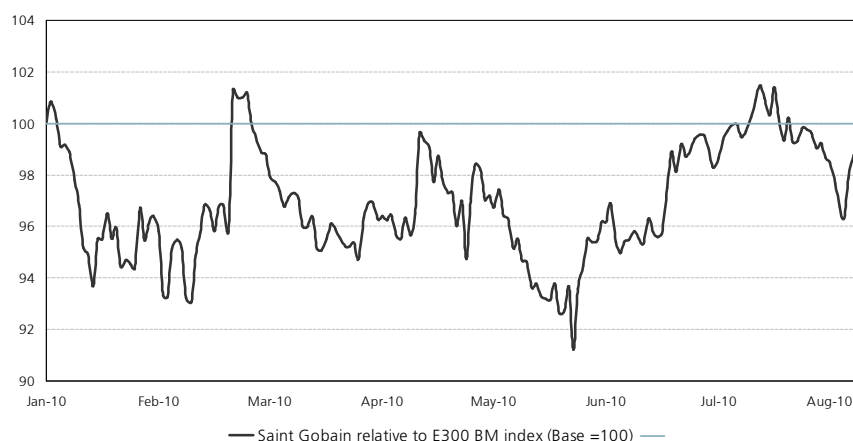
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Time for Saint-Gobain to outperform

Analyst: Flor O'Donoghue

As is clear from the chart below, relative to the E300 Construction & Building Materials index, the Saint-Gobain (SGO) share price has traded in a narrow range since the start of the year. Thus far in 2010 the stock has slightly underperformed the building materials index benchmark, and in absolute terms the stock is down circa 17%. During August, the stock actually slipped below what looked to be a €30 support level and traded at a 12-month low.

Saint-Gobain share price relative to E300 BM index



Source: Factset

We think such underperformance, albeit modest, is unjustified. Operationally, SGO is doing extremely well, as is evident in the near-10% upgrade to current earnings expectations since the start of 2010. As we believe the immediate outlook for SGO is better than its heavy-side peers, our view is that the stock is capable of more than reversing this over the remainder of the year.

To this end, we would highlight the following:

- recent trends have continued to improve in all key markets for SGO (France/UK/Germany/emerging markets);
- pricing power is gradually returning to the business (especially in plasterboard, glass and building distribution), with group prices up 0.8% in Q2 and a number of price increases in various product categories introduced since then;
- new residential and RMI markets are improving in many of SGO's key end-markets (for example, July housing starts in France were up 16% year-on-year);
- SGO's low exposure to government spending (less than 5% of group revenues) suggests that the group will not be overly affected by any fiscal cutback measures.

We think that H2 2010 guidance is conservative (EBIT slightly up on the first-half outcome on a constant currency basis) and that SGO is possibly the only large-cap stock in the sector that could produce

earnings upgrades over the coming months. The H2 result will also be underpinned by the final €150m increment in cost savings (€450m was achieved in H1). These incremental cost savings will help SGO offset price pressures in some raw materials such as iron ore, asphalt and coke.

The valuation argument is striking. SGO is unquestionably cheap on current metrics: it is trading on multiples of circa 5x EV/EBITDA and 10x our 2011 earnings forecast. Moreover, SGO's forward EV/sales is under 0.6x, almost 20% below the stock's long-term average.

We are forecasting that SGO will produce a 2010 return on capital employed (ROCE) of 9.1%. This would be an impressive 1.3x its WACC at this juncture in the cycle, yet the stock is trading on 0.9x EV/IC (invested capital) which seems harsh.

Despite the recent rally, SGO is still down over 5% in the past month as sector sentiment has dragged it lower, leaving the stock looking very attractive at current levels.

Upcoming catalysts will be more macro-specific (French housing starts for example) than company-specific. That said, we think Q3 revenue will impress when announced on October 21st and that the tone of management's comments will remain positive.

New food price paradigm

Analyst: John O'Reilly

After four months of price declines (over which period the cumulative fall was 29%), the average or trade weighted index price of dairy product prices at Fonterra's auction rose by 16.9% month-on-month. The auction, which will take place twice a month from here on, is a bellwether for the global dairy industry given New Zealand's 40% share of global trade in dairy products. Also, as New Zealand is the major exporter to Asia, the auction price provides some insight into demand from this region. The whole milk powder (WMP) price rose by 18.8%; skim milk powder (SMP) increased by 15.8%; while the winning bid for milk fat was 9.5% mom. A record 151 bidders were involved.

The monthly auction price has been volatile this year but even before the latest auction, and notwithstanding the price declines of recent months, prices are well ahead of their depressed levels a year ago. The September 1st auction price for WMP of \$3,522/tonne is about double its level of a year ago. The latest result is a surprise given no apparent shortfall in global milk output in leading milk-producing regions. The expectation is that New Zealand's 2010-2011 milk production season, which has just begun, will see positive output growth.

Fonterra's global dairy trade manager, in a comment to Radio New Zealand, said that the fires in Russia have caused a ripple effect in the dairy trade and tightened global supplies. A more prosaic explanation is that it may simply be seasonal demand (re-stocking may also be a factor). In the US, these appear to be a factor in the current strength in prices.

For most of the second half of the 20th century, the standard assumption was that food prices would continue to decline due in large part to productivity increases. This assumption gave rise to the concept of the agricultural treadmill - a situation where farmers continued to increase output in the face of falling prices. But with the rate of productivity progressively slowing and becoming outpaced by the rate of increase in population growth, this assumption has not been valid for some time. The reason why it may have taken so long for this to be appreciated was burgeoning stocks. But as these dwindled to recent historic lows in 2007-2008 (supply shocks and end-use re-distribution such as corn to fuel contributed to this), food prices exploded.

But as can be seen from FAO food price data, 2007-2008 was notable not because of the direction of prices but because of their exceptional rate of increase. FAO data since 2000 for a number of food commodities (each category weighted by assumed fixed trade weights) show that over this period the incidence of annual price increases was significantly greater than price falls. In the table below we have included the decadal data and the year-on-year change for August 2010.

What is interesting about the present is that the supply shock (except for wheat, but even here the FAO is forecasting the third-biggest wheat crop ever) is not great. Speculation may be contributing in part to this (although there is strong polarity in analysis about the extent of this). Maybe what this has done is to bring about a stronger correlation in price movements. However, it is understandable that if cereal and therefore feed prices are rising, then so too should dairy and meat prices. On this occasion though, meat prices had escalated before the recent rise in general cereal prices. This reflects lack of expansion in herds (due to legacy margin pressure) and continuing rising demand.

After the price easing of 2009, it may have been thought that 2007-2008 was exceptional; it was, but only as regards the rate of change in prices. The old paradigm of a secular decline in food prices should be replaced by one which, predicated on vulnerable stocks-to-use ratios, anticipates a secular rise in prices with increasing volatility.

FAO food price index % year change						
	<i>Food index</i>	<i>Meat</i>	<i>Dairy</i>	<i>Cereals</i>	<i>Oils and fats</i>	<i>Sugars</i>
2001	2.2	0	12.6	1.2	0	6
2002	-2.2	-4.3	-23.4	10.5	27.9	-20.3
2003	8.9	10	15.9	3.2	16.1	3.1
2004	13.3	12.1	29.5	9.2	10.9	1
2005	3.6	1.8	9.8	-3.7	-7.1	37.3
2006	6.1	-5.3	-5.2	17.5	7.7	50
2007	26.2	4.7	65.6	38	50.9	-31.9
2008	24	14.3	3.8	42.5	33.1	27.3
2009	-20.4	-7.8	-35.5	-26.9	-33.3	41.2
Aug-10	15.8	16.8	49.6	12.3	23.7	-18.2

Source: FAO

Latest Gulf of Mexico incident: a reminder - if one was needed

Analyst: Job Langbroek

Just when we thought things were once again under control, reports indicate that a fire broke out on an old shallow water platform owned by Mariner Energy in the Gulf of Mexico. Thankfully, nobody was hurt but it proved to be a reminder of the risk involved in dealing with oil and gas in environments that are complex and less than optimal.

The same platform has been the subject of a number of incidents through the year and might well have passed off largely unnoticed had it not been for the BP oil spill. However, the perception of offshore oil and gas operations has been changed, probably for good. Fortunately, some of the early forecasts of the possible impact of Maconda (both environmental and financial) have not materialised, but the net effect is to almost make the whole incident more comprehensible.

BP has reported that the cost of the Maconda incident is approximately \$8bn so far. This is before additional damages (estimated to be \$20-30bn) are taken into account. The scale of the cost is thrown into sharp relief when it is compared with the normal damages cap for claims of \$75m in the US and \$120m in the UK. If this is increased - and some US politicians want to raise this to \$10bn, the cost of insurance for small operators will be prohibitive. The net outcome will be to push offshore operations beyond the financial capability of all but a select few oil and gas companies.

If economic growth and a high 'Western-style' standard of living are demanded by societies, oil and gas production will continue to be a necessity for some time to come. OPEC is unlikely to give up its control of supply, so non-OPEC sources have to be developed. But because deep offshore is where many of the latest oil reserves and resources have been found (Brazil/West Africa), it is inevitable that the average cost of developing and producing a new barrel of oil will continue to rise. To continue to provide the returns required to industry, the natural consequence of higher costs is higher oil prices. Insurance is just part of this landscape, but every offshore incident will continue to remind us of this truth.

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