

Executive Summary

The three main Irish construction & building materials stocks - CRH, Grafton and Kingspan - today constitute 36% of the ISEQ index with a combined market cap of €14.2bn. This compares to less than a 14% weighting in 2002 with much of the shift attributable to the dramatic reversal of fortunes of the Irish banking sector which had previously dominated the Irish index. CRH, Grafton and Kingspan have all performed well year to date advancing 12%, 53% and 75% respectively. This reflects the international reach and resilience of the companies despite a very difficult construction market in Ireland.

To simply classify CRH, Grafton and Kingspan as Irish construction stocks is to not quite paint the full picture. CRH generated less than 5% of revenues and 6% of operating profits in Ireland in 2008, reflecting the extent of its global footprint across 35 countries. Grafton's primary market is the UK (with over 60% of revenues and operating profits generated in this market in 2008) and the remainder coming from Ireland. Kingspan also counts the UK as its largest market (49% of revenues in 2008), although in recent years it has significantly expanded beyond the UK & Ireland.

Of the Irish construction companies only CRH has raised fresh capital. However, the rights issue differed from that of other sector players given that it was done to increase the Group's acquisition firepower, rather than to mend the balance sheet. We estimate that CRH has €3.5-4bn in firepower to spend post the rights issue. We do not see the need for Grafton or Kingspan to approach shareholders for additional funding.

CRH is trading on 17x PER and 9x EV/EBITDA which while near the top of its historical range does not reflect the Group's potential for earnings enhancing acquisitions in the periods ahead. The dividend yield of 3.5% is covered 1.6 times and payout remains secure, in our view. Distributions have been maintained at Grafton but currently yield just 1.2%, while at Kingspan the dividend has been suspended and is not expected to return until 2011.

Current share prices for Grafton and Kingspan factor in a strong recovery in earnings which we think is overly optimistic given the economic backdrop. Grafton's asset backing provides support with a NAV of €3.77 reported at the last year end. However, negligible current year earnings and 14x EV/EBITDA leave the stock vulnerable to downward pressure on any indication of a delay in the UK recovery. Kingspan's current valuation also appears stretched at 28x PER, 13x EV/EBITDA and with no dividend on offer.

In this note, we set out key questions for the three main Irish construction companies in advance of their interim results later this month and provide our view on the positive and negative aspects of each company's current investment case as we move through the second half of 2009. Resulting from this we rank the stocks in order of preference as follows - CRH, Grafton and Kingspan.

	Price (€c)	Mcap (€m)	PER '09	EV/EBITDA	Div Yield (%)
CRH	1810	12531	17.4	9.4	3.5%
Grafton	345	796	na	14.3	1.2%
Kingspan	550	914	28.0	12.7	-

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Overview

Irish companies with an international passport

We classify CRH, Grafton and Kingspan as Irish construction & building materials stocks. However, such a statement is open to debate. All three originated in Ireland, and Group management for all three are based there, but beyond this the importance of Ireland's (and more specifically Ireland Inc's) fortunes to those of the three companies becomes less significant. In fact, Ireland is no longer the primary market for any of three companies looked at in this note.

Revenue by Geography					
	Ireland	UK	Rest of Europe	Americas	Other
CRH	5%*		48%**	47%	-
Grafton	37%	63%	-	-	-
Kingspan	10%	49%	27%	11%	3%

* includes NI, ** includes UK (ex NI)

With a market capitalisation of €12.5bn CRH is not only the largest construction stock on the ISEQ but also the largest quoted company listed on the Irish stock market. Following a torrid year for Irish banking stocks CRH now represents 33% of the ISEQ. Grafton and Kingspan together account for over 3% of the ISEQ.

Balance sheet strength has become key

Analysis of the sector has moved on from picking those that will survive following the shoring up of several corporate balance sheets earlier this year. The task now is determining which companies will emerge from the current cycle with their market positions maintained, or preferably enhanced.

	Net debt €m	D/E	Net debt/EBITDA	Net debt/EBITDA
			actual	covenant
CRH	6091	75%	2.3x	3.5x
Grafton	436	50%	2.5x	none
Kingspan	300	58%	1.5x	3.5x

The balance sheet has become the focal point for attention over the past 12-18 months as analysis moves beyond simply the (negative) earnings growth that companies have been reporting. Balance sheet strength has become key.

Financial discipline at the Irish construction companies has been strong. Grafton has the highest net debt to EBITDA ratio of the three companies at a comfortable 2.5x, despite no related covenants existing. CRH and Kingspan stand at 2.3x and 1.5x respectively, both with significant headroom under their common 3.5x limit and again highlighting the conservative approach to leverage adopted by management.

The headroom, and in Grafton's case absence of P&L or EBITDA covenants, allows management at the three companies to focus on the operational issues required to weather the current slowdown, rather than on managing their businesses in such a way as to keep their bankers and debt holders on side.

Focus on cashflow generation and cost cutting

The construction sector has suffered a severe decline in earnings as the global economy has experienced one of its sharpest ever corrections. The decline in activity across all segments of the construction sector has been faster and more severe than previous cycles pushing companies to act swiftly to streamline their cost structures in order to reflect the new reality.

Management at all three Irish companies have been active in highlighting their efforts to 1) maximise cashflow generation and 2) implement rationalisation measures to downside the cost base to a level that reflects the lower demand outlook.

The table below shows that CRH has been the most aggressive in its cost cutting efforts, as measured as a percentage of reported revenue. Such action will in part mitigate the impact of lower volumes on margins at CRH, Grafton and Kingspan respectively.

Announced cost saving targets		
	savings (€m)	as % revenue
CRH	1450	6.9%
Grafton	> 70	2.6%
Kingspan	50	3.0%

A current focus in company releases has been on the levels of cash flow generated in spite of the difficult economic backdrop. This theme is evident across all sectors, and not solely the construction sector. CRH has guided that operating cash flow for the half year will be in line with the same period last year as the Group benefits from tight control of capital expenditure and a lower working capital outflow. Grafton turned in a cash conversion ratio of 126% in 2008, up from 66% a year earlier, while at Kingspan the improvement was from 21% to 62%.

Where to look for recovery?

CRH will be a primary beneficiary of the US stimulus programme given its strong presence in the US infrastructure sector. Grafton's prospects are most dependent on the UK outlook and recent signs of stabilisation in this market offers the prospect of a recovery in earnings, albeit at a slow pace. Undoubtedly, the structural growth story for Kingspan's products remains intact and is supported by regulatory change in the EU and US. However, in the near to medium term we expect the Group's performance will lag any broader sector recovery owing to its late cycle profile which will delay any meaningful recovery until 2011 at the earliest.

The three companies have been more conservative in recent years than some of their international peers. Only CRH has tapped shareholders for fresh equity and this was done to allow the Group take advantage of opportunistic acquisition opportunities that it expects to arise in the coming months. Contrast this to St Gobain, Lafarge and Wolseley whose capital raisings were solely to strengthen less than robust balance sheets. Given equity markets current aversion to leveraged companies the prudent financial positions of the three main Irish construction companies is a distinct positive.

CRH is our clear top pick on the basis of both valuation and near term outlook. We view the structural stories behind Grafton and Kingspan as remaining attractive, but on valuation grounds consider both stocks expensive at current levels.

Company Profiles

CRH	5
Grafton	10
Kingspan	15

CRH

Overview

CRH has grown over the past four decades from a company that generated 95% of sales from the Irish market in 1970 into an international heavyweight operating across 35 countries with Ireland now accounting for less than 5% of revenues. The Group operates across all sectors of the construction market (infrastructure, non-residential and residential), with a weighting towards heavyside products.

Strategy

Since its formation in 1970, CRH has looked to expand beyond the Irish market and build a business that would in time develop into a leading player in the global construction sector. The approach to growth was (and is) to expand across (1) geographies (2) sectors, (3) products and (4) end uses, thereby reducing the risk exposure to individual factors.

CRH - Diversity of operations

Geography	Products	Sector	End use
45% North America	60% Materials	35% Residential	60% New build
40% Western Europe	25% Products	35% Non-residential	40% RMI
15% Emerging regions	15% Distribution	30% Infrastructure	

CRH has spent close to €12bn on acquisitions in the past 8 years supplementing some large purchases with a steady flow of small to medium sized bolt-on deals. In total over 500 deals have been completed since the company's previous rights issue in 2001. The Group has displayed strict discipline when evaluating acquisition opportunities with an average multiple of 7x EBITDA paid for targets.

We estimate that CRH has €3.5-4bn in firepower to invest in acquisitions following the €1.24bn rights issue in March of this year. The developed markets of North America and Western Europe will be the primary focus of expansion, although further deals in the emerging markets of China, India and Turkey can also be expected.

The rationale for raising fresh equity was to enhance financial flexibility at a time when management expects a number of attractive assets to be put up for sale by peers desperate to de-leverage their overstretched balance sheets. A similar rationale was behind the 2001 equity raising. Attractively priced acquisitions would provide a positive boost to future earnings.

Bull Points

Balance sheet strength. CRH undertook a 2 for 7 rights issue in March 2009. However, unlike sector peers who also moved to raise fresh equity, CRH's reason for approaching shareholders was somewhat different. As peers moved to plug holes in their balance sheets, CRH looked to bolster its war chest for potential acquisitions.

Well positioned to benefit from US stimulus spending. CRH has the number one position in the US asphalt market and the number three position in aggregates in this market. This positions the Group amongst the best placed to take advantage of the unprecedented level of government stimulus with \$27bn allocated to highways and bridges projects. The current recession was led by the US economy and recent data supports the view that it will be the first to emerge from the current downturn.

Diversification reduces risk. CRH's strategy has been to diversify its operations by geography, sector, products and end uses. This has served to reduce risk exposure to individual factors and provide stability to the Group's performance.

Proven acquisition strategy. The Group has a strong record for approaching acquisitions in a disciplined manner, paying an average of 7x EBITDA for previous targets. This disciplined approach was highlighted by the Group's decision in late 2007 to walk away from discussions relating to a range of Cemex assets due to disagreement on the valuations being sought.

Bear Points

Global slowdown. Volumes have been sharply lower as global demand has declined from the peaks seen in 2007. CRH's prospects, as with all other sector players, rely on a recovery in overall economic conditions.

FX exposure. The Group has exposure to a basket of currencies given its geographical spread. Most important is movement in the US dollar (c.45% 2008 sales). Other currencies which have a significant translation impact include the Polish Zloty (4% 2008 sales), the UK pound and the Swiss franc.

Lack of emerging market exposure. A criticism in the past has been the relatively low exposure to high growth emerging markets. While still low, compared to some peers, the Group has started to develop a presence in the key emerging markets of China and India.

Key questions ahead of interim results (25 August)

European outlook? Much of the positives for CRH looking into the second half is expected to come from the US and in particular from the anticipated improvement in the US infrastructure segment as stimulus projects progress beyond the tender and bidding stages. What then of the European outlook? Ongoing weakness in the region is expected to remain, however positives come in the form of lower input costs, benefits from restructuring undertaken and less challenging comparatives as we move through the year. Any evidence of a meaningful improvement in the main European markets would clearly be welcome.

Pricing power? For FY09 the expectation is for mid-single digit percentage price increases in US aggregates which is down slightly from the high-single digit percentage increase recorded in the first half. Does management remain comfortable with this outlook for pricing given the reduced guidance of peers such as Vulcan Materials (3 August)?

US stimulus getting through? Has the number and value of contracts arising from the US stimulus plan improved in the early part of the second half as expected? CRH has stated that it was seeing a strong flow of projects at the tender stage around the mid year point. An uptick in project flow would be a positive for the backlog in the Group's Materials division.

Delays in US commercial? The number of cancellations in US commercial construction projects has been flagged as an issue. The most recent US construction spending data points to difficult conditions with the private non-residential segment registering a fall of 0.5% in June compared with May. Much of the delays have been attributed to financing constraints which should have somewhat eased in recent months.

Scope for further rationalisation? CRH has been aggressive in removing costs from its businesses. Targeted savings to date amount to €1.45bn which is expected to be achieved at a cost of €250m. We expect further cost cutting to be pursued, although the cost of implementing these cuts will have to rise given that the "low hanging fruit" has already been removed. This brings two questions 1) what level of further rationalisation can be pursued before implementation costs become prohibitive? and 2) will there be difficulties in re-ramping activity as and when it is needed in the future?

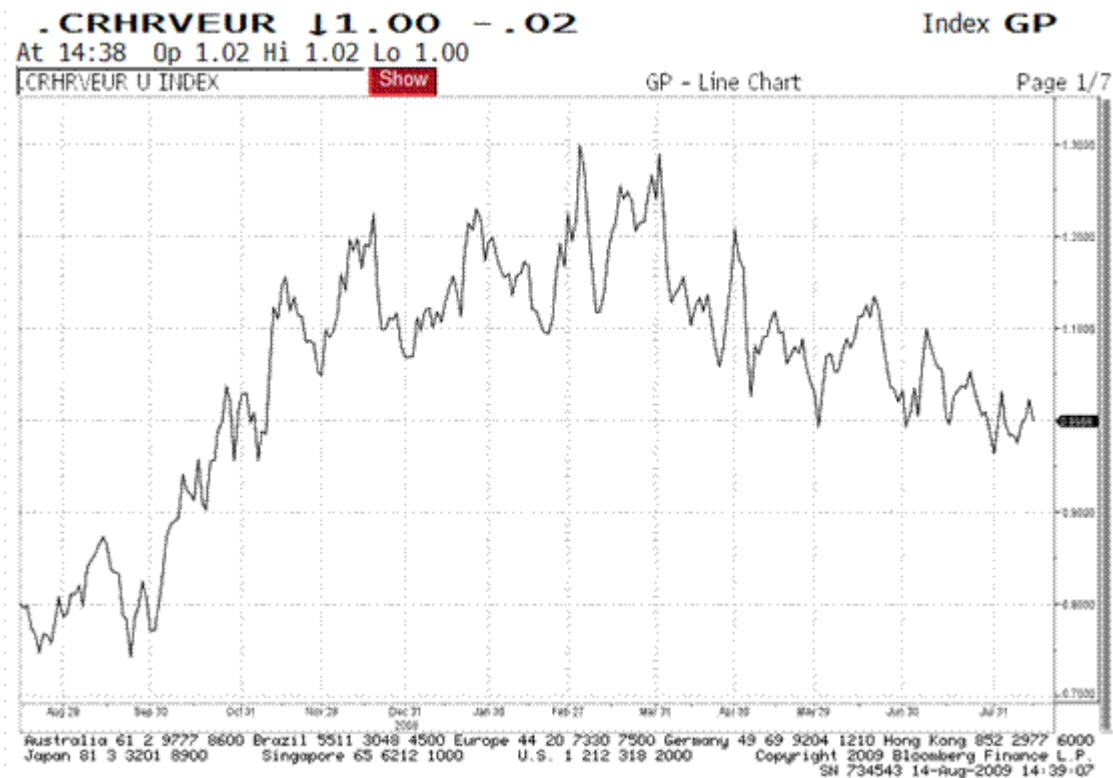
Dividend policy? Dividend cover fell to 3.4x in 2008, marginally below the 3.5x target previously outlined. Given the stated importance of maintaining a long term progressive dividend policy there remains little chance that the payout would be pulled, in our view. News that interim cash generation remains in-line with last year despite the lower earnings adds to this view.

Acquisitions pipeline? CRH has been quiet on the acquisition front despite raising fresh equity to fund the pipeline of deals it expects to arise as competitors offload assets in a bid to shore up their financial positions. The Group has stated that sellers' expectations remained elevated through to the mid year. Has there been an improvement in deal multiples offered in the intervening period?

CRH share price



CRH vs sector



CRH

Bloomberg

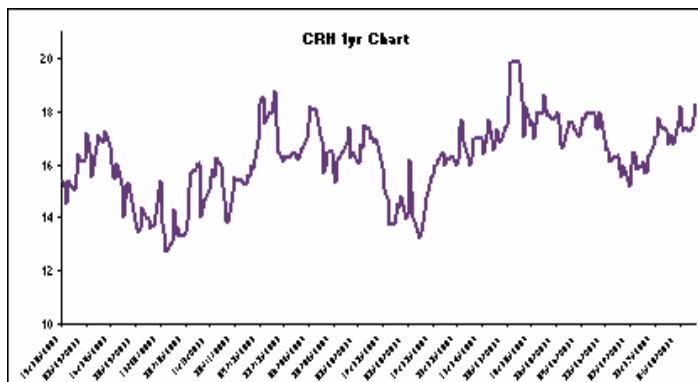
CRH ID Equity

Last Price Shrs ('m) Mkt Cap EV(€'m)
18.10 692 12531 18622

Sector Year End
Building Materials Dec

Profit & Loss (€m)	2007 A	2008 A	2009 F	2010 F
Group Turnover	20992	20887	18535	18154
European Materials	586	631	334	338
European Products	308	224	164	168
European Distribution	212	194	142	149
Americas Materials	570	462	428	432
Americas Products	340	238	52	53
Americas Distribution	70	92	40	40
EBIT	2086	1841	1159	1180
Amortisation	35	43	43.0	43.0
Depreciation	739	781	787	797
EBITDA	2860	2665	1989	2020
Profit on asset disposals	57	69	40	50
Share of associate profits	64	61	50	50
Interest	-303	-343	-335	-296
Pre tax profits	1904	1628	914	984
Tax	-466	-366	-207	-222
Profit after tax	1438	1262	708	762
Tax Rate	24.5%	22.5%	22.6%	22.6%
Minor / Prefs	-8	-14	-12	-12
Attributable Profit	1430	1248	696	750
	2007 A	2008 A	2009 F	2010 F
Diluted EPS	235.9	209.2	103.8	108.7
DPS	61.1	61.9	63.2	64.5

	2007 A	2008 A	2009 F	2010 F
Debt	5163	6091	4477	3863
Shareholders funds	7955	8087	9538	9863
Capital Employed	13118	14178	14014	13725
NAV	1304	1363	1376	1413



Valuation Ratios	2007 A	2008 A	2009 F	2010 F
Price Earnings	7.7	8.7	17.4	16.6
Dividend Yield	3.4%	3.4%	3.5%	3.6%
EV/EBIT	8.9	10.1	16.1	15.8
EV/EBITDA	6.5	7.0	9.4	9.2
Price to Book	1.4	1.3	1.3	1.3
Margin Analysis	2007 A	2008 A	2009 F	2010 F
Overall Operating Margin	9.9%	8.8%	6.3%	6.5%

Cashflow (€m)	2007 A	2008 A	2009 F	2010 F
EBITDA	2860	2665	1989	2020
Working Cap	261	-57	200	0
Other	-31	-22	0	0
Operating Cashflow	3090	2586	2189	2020
Less Interest	-288	-320	-335	-296
Tax Paid	-388	-322	-190	-152
Capex	-872	-871	-570	-600
Free Cashflow	1542	1073	1094	972
Acquisitions	-2227	-1072	-300	0
Dividends	-318	-369	-368	-378
Share Issue	73	-355	1238	20
Fx	259	-205	-50	0
Debt Increase/Decrease	-671	-928	1614	614
Opening Debt	-4492	-5163	-6091	-4477
Closing Debt	-5163	-6091	-4477	-3863

Balance Sheet (€m)	2007 A	2008 A	2009 F	2010 F
Tangible	8226	8888	8928	8688
Intangible	3692	4108	4108	4108
Financial / Other	988	1203	1253	1303
Fixed assets	12906	14199	14289	14099
Working capital	2328	2514	2314	2314
Net debt	5163	6091	4477	3863
Other liabilities	2117	2535	2588	2559
Shareholders funds	7955	8087	9538	9863

Financial Ratios	2007 A	2008 A	2009 F	2010 F
EBIT/Interest	6.9	5.4	3.5	4.0
EBITDA/Interest	9.4	7.8	5.9	6.8
Dividend cover	3.9	3.4	1.6	1.7
Debt/EBITDA	1.8	2.3	2.3	1.9
Debt/FCF	3.3	5.7	4.1	4.0
Gearing	65%	75%	47%	39%

Grafton

Overview

Grafton began life as an Irish builders merchant business before expanding into the DIY retailing market in the late 1980's. At this time the Group also made its first foray into the UK market acquiring a small heating and plumbing business. In the three decades since the Group has grown significantly in both Ireland and the UK. Growth has been achieved both organically and through a large series of acquisitions. Today, Grafton is the largest builders and plumbers merchants in Ireland and the number one player in DIY retailing through its Woodie's DIY and Atlantic Homecare brands. In the UK, the Group is the fourth largest merchandising business, behind Wolseley, Jewson (owned by St Gobain) and Travis Perkins.

Strategy

Grafton's approach has been to enter market segments where it sees the opportunity to develop market leading positions as is currently the case in both the Group's markets (Ireland & UK). The merchandising market in both Ireland and the UK remains fragmented despite significant consolidation undertaken by the larger players (including Grafton) in recent years. Current estimates of the number of independent operators in the UK is circa 2,000. Further consolidation is inevitable and will be accelerated by the current challenging trading conditions, in our view.

All of Grafton businesses are located in Ireland and the UK, with the Group deciding not to expand its footprint beyond these two markets and into mainland Europe. This comes back to the Group's viewpoint of not entering markets where critical mass is unlikely to be achieved. As the Group has grown the importance of Ireland has diminished with the UK operations growing to 63% of revenues (and operating profits) in FY08. For FY09 we expect this percentage to move closer to 70%.

Aside from the obvious larger target market of the UK there exists some other key differentials between the UK and Irish markets which add to the attractions of operating in the UK. The UK does not have the overhang of housing inventory that exists in Ireland. It is estimated that the country is building 80k units annually, far less than the previously stated 250k target level. Furthermore, the housing stock in the UK is far older than that of Ireland where approximately one third of all houses have been built since 1994.

Grafton's presence in the DIY retailing segment is solely in Ireland where it opened its first Woodie's DIY store in 1987. Today, Woodie's DIY and Atlantic Homecare hold the number one and two positions respectively in the market. Store rationalisation and a small number of closures have taken place in response to the lower demand for DIY products which has arisen as a result of the sharp fall-off in the Irish residential property market. We see scope for integrating the Atlantic Homecare stores into the larger and more identifiable Woodie's DIY network. The Group is resizing its retailing business to fit an Irish market which it is broadly accepted will not be returning any time soon to the high levels seen during the property boom of the past 10-15 years.

Bull Points

Market leading positions. Grafton holds leading positions in both the UK & Ireland with market shares of 10% and 20% respectively. Smaller independent operators are being disproportionately squeezed by the current downturn as they suffer from a lack of access to funding and the widespread withdrawal of credit insurance. The exiting of competition from the sector will allow larger players, including Grafton, to make market share gains which in turn will support a recovery in margins when trading conditions normalise.

Strong financial position. Grafton's balance sheet remains strong with 50% gearing and no interest cover or EBITDA ratio covenants in place. There also exists adequate headroom (> €100m) under the Group's minimum net worth covenant. Further comfort comes from the Group's maturity profile which sees the 2009-2010 debt repayments (€152m) covered 1.5x by available cash resources. Beyond this the next material maturity is €319m due in 2011.

Recovery in UK activity. Key leading indicators in the UK, such as mortgage approvals, point to an improvement in market activity, albeit from very low levels. Grafton's merchanting business will benefit from any uptick in housing transactions and a continuation of the low interest rate environment.

NAV backing. Grafton had net assets per share of €3.77 at the last year end. Stripping out goodwill and intangibles brings this back to €1.41 but does not reflect the fact that many of Grafton's Irish property assets are carried on the balance sheet at 1998 valuations. Despite the current fall back in property prices it is reasonable to assume a €100m uplift were a revaluation exercise carried out. We estimate this would add c.43 cents to the NAV.

Bear Points

Irish recovery will be slow. The Irish market looks set to remain at depressed levels as activity is held back by the overhang of inventory and lower spending patterns as consumers come to terms with lower disposable incomes, higher taxes and falling employment security. With approximately one third of Group revenue generated in Ireland the prospect of a prolonged downturn will weight on Group performance.

Exposure to sterling. With the UK as its primary market Grafton is exposed to sterling movements on the translation of its UK profits. In 2008, UK operating profits declined 44% in sterling, but by 52% on a reported basis. The converse applied to Grafton's reported net debt which was 8% lower due to the favourable translation impact of sterling weakness at the December year end.

Key questions ahead of interim results (28 August tbc)

Irish operations to be profitable over full year? Grafton has already guided that the Irish operations were loss making during the first half. Within this the DIY activities continue to outperform the merchandising operations while the Group's less significant manufacturing presence was worse impacted. Given the current standstill in new build it will be the RMI segment which will be looked to for an improved full year performance.

Expansion plans on hold? In the first four months of 2009, the UK merchandising division opened two Selco stores and five other locations. Given the positive response to the Selco format and its focus on cash sales are further greenfield openings planned in the second half?

Scope for further property sales? Grafton realised a profit of €26m from investment and property sales in H1. We expect further disposals are planned to support earnings and strengthen the Group's cash position. This can be achieved through branch consolidation, releasing freehold properties for disposal. Our expectation is that between €5-10m in profits could be generated from property sales per annum.

Appetite for capital raising? Grafton has no requirement to raise fresh capital in order to improve its financial position given the relatively modest gearing (50%) and lack of P&L covenants. The next question could be would management build a war chest for future acquisition activity as done by CRH earlier this year? Our view is no. Essentially, we only see potential for the issue of shares should a substantial business come available, as was the case for the acquisitions of Jackson and Heiton in 2003 and 2005 respectively.

Dividend to be maintained? The Board stated its "intention to strive to maintain" dividend payouts when the reduced final dividend was announced with the FY08 results in February. Continued challenging trading since then has made this goal more difficult to preserve. We expect a nominal payout will be forthcoming at the interim stage but given the backdrop its main purpose will be to signal the Board's understanding of the importance of this source of income to Grafton investors.

Current split between RMI and new build? We estimate that RMI now represents 75% of Irish business with only 25% derived from new build. Previously this would have been broadly split between the two categories. The weighting towards RMI is even more pronounced in the UK where we estimate 90% of business is dependent on this segment, up from 80% previously. Has Grafton seen further shifts in these patterns in recent months?

Grafton share price

GNS ID € **↑ 3.447 +.167 D** D3.445/3.450 1,054x19.8K EquityGP
 At 14:24 Vol 809,338 Op 3.28 D Hi 3.49 D Lo 3.272 D ValTrd 2748182



Grafton vs sector

.GN5RV **↑ .01 unch**
 At 14:39 Op .01 Hi .01 Lo .01

Index GP



Grafton

Bloomberg

GN5 ID Equity

Last Price
3.45

Shrs ('m)
231

Mkt Cap
796

EV(€'m)
1231

Sector
Building Materials

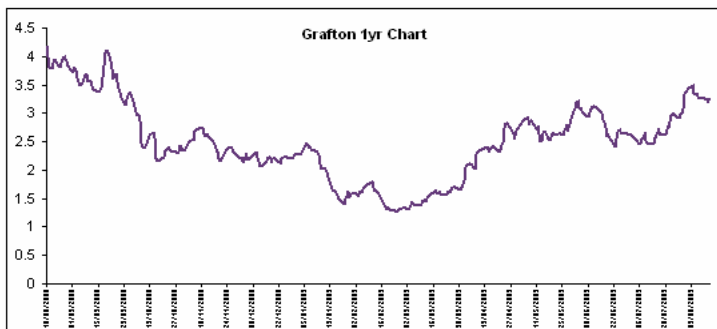
Year End
Dec

Profit & Loss (€m)	2007 A	2008 A	2009 F	2010 F
Group Turnover	3205	2673	1987	1992
EBIT	264	116	28	38
Amortisation	2	2	2	2
EBITA	266	119	30	40
Depreciation	57	54	56	56
EBITDA	323	173	86	96
Interest	-35	-35	-21	-20
Exceptionals	7	-17	20	0
Pre tax profits	236	64	27	18
Tax	-31	-6	-3	-2
Profit after tax	205	58	23	15
Tax Rate	13.0%	10.0%	12.8%	13.5%
Minorities	0	0	0	0
Attributable Profit	205	58	23	15

	2007 A	2008 A	2009 F	2010 F
Basic EPS	86.2	25.1	10.0	6.6
Diluted EPS	84.3	32.2	2.4	7.6
DPS	22.0	15.0	4.0	6.0

	2007 A	2008 A	2009 F	2010 F
Debt	550	436	365	320
Shareholders funds	1068	869	884	886
Capital Employed	1618	1304	1249	1206
NAV	464	377	381	380

	2007 A	2008 A	2009 F	2010 F
Group Turnover	3205	2673	1987	1992
Ireland	1227	986	689	641
UK	1978	1687	1298	1350
EBITA	266	119	30	40
Ireland	124	45	3	5
UK	142	74	27	35



Valuation Ratios	2007 A	2008 A	2009 F	2010 F
Price Earnings	4.1	10.7	145.8	45.6
Dividend Yield	6.4%	4.3%	1.2%	1.7%
EV/EBIT	4.7	10.6	44.4	32.6
EV/EBITDA	3.8	7.1	14.3	12.8
Price to Book	0.7	0.9	0.9	0.9

Margin Analysis	2007 A	2008 A	2009 F	2010 F
Overall Operating Margin	8.2%	4.4%	1.4%	1.9%

Cashflow (€m)	2007 A	2008 A	2009 F	2010 F
EBITDA	323	173	86	96
Working Cap	-14	112	25	20
Other	-4	-32	0	0
Operating Cashflow	304	253	111	116
Less Interest	-36	-37	-21	-20
Tax Paid	-11	-2	-6	-5
Capex	-83	-68	-31	-34
Free Cashflow	175	147	53	58
Acquisitions & disposals	-77	-28	26	0
Dividends	-49	-51	-9	-14
Fx	22	45	0	0
Debt Increase/Decrease	0	115	71	45
Opening Debt	-551	-550	-436	-365
Closing Debt	-550	-436	-365	-320

Balance Sheet (€m)	2007 A	2008 A	2009 F	2010 F
Tangible	704	633	608	586
Intangible	612	542	539	537
Financial / Other	28	25	25	25
Fixed Assets	1344	1200	1173	1148
Working capital	418	251	226	206
Net debt	550	436	365	320
Other liabilities	143	146	149	147
Shareholders funds	1068	869	884	886

Financial Ratios	2007 A	2008 A	2009 F	2010 F
EBIT/Interest	7.5	3.3	1.3	1.9
EBITDA/Interest	9.2	4.9	4.1	4.8
Dividend cover	3.8	2.1	0.6	1.3
Debt/EBITDA	1.7	2.5	4.2	3.3
Debt/FCF	3.2	3.0	6.9	5.5
Gearing	52%	50%	41%	36%

Kingspan

Overview

Kingspan manufactures a range of products for the construction industry including insulated panels and boards, raised access floors, off-site build solutions and energy efficient technologies. In recent years the Group has repositioned itself to take advantage of the growing energy efficiency agenda that has emerged across developed economies.

The Group's primary markets continue to be Ireland and the UK, accounting for a combined 60% of 2008 revenues. Kingspan is well represented beyond these two countries with a strong footprint across Western and Central Eastern Europe and a more modest, but growing, presence in North America and Asia. In FY09, we expect Ireland to represent only c.7% of Group revenues.

Strategy

Kingspan has a strong track record for innovation which has been used to expand its product line up beyond the manufacture of steel structures where the Group has its origins. Specifically, the Group's product range has been expanded to position Kingspan as an integrated solutions provider to the construction industry.

The Group has been at the forefront of new product development to capitalise on the increase in regulatory standards relating to energy performance within the construction sector. Key legislation includes the EU Energy Performance of Buildings Directive arising from which national policies such as Ireland's Building Energy Rating (BER) system have been established. In North America, the regulatory drivers are at present less apparent, however moves to implement improved frameworks are being steadily advanced.

Development has been achieved through a mix of organic growth and acquisitions. The Group entered the Access Floor market through acquisitions in the UK and US. Other high profile acquisitions included that of Ireland's largest timberframe manufacturer Century Homes (part of the Offsite & Structural division) in 2005 for an initial consideration of €67m and US based Metecno for \$115m in 2008.

Geographical expansion has been undertaken based on targeting markets in which 1) there is a significant move towards sustainable building solutions and 2) it can achieve a top two position within a realistic timeframe. Kingspan's core business remains insulation (panels and boards) where it is the market leader in the UK and Ireland (25% share), CEE (25%), Canada (70%) and Australasia (60%). Kingspan has also grown its market share to c.15% in the German and Benelux markets. Looking beyond the current downcycle (2012) the Group has long term ambitions to expand into Central and South America.

Bull Points

Energy conservation agenda is here to stay. Governments are more aware than ever of the need to better manage energy requirements which includes improving the energy performance of both existing and new buildings. Kingspan has positioned itself (both in terms of products and markets) to take advantage of the growing importance of the “energy agenda” in governments’ policies.

Geographical spread diversifies earnings base. Kingspan’s spread of operations beyond Ireland & the UK diversifies the Group’s earnings base and offers higher future growth potential from larger markets such as the US and Australia. Last year’s acquisition of Metecno delivered critical mass in the US market where it is estimated that over 40% of all energy consumed is from the built environment.

Penetration still low. The current level of penetration of rigid board insulation solutions shows that significant future growth opportunities exist. The Irish and UK markets have the highest penetration rate at present at 35-40% of the total market. The opportunity is more interesting in Western and Eastern Europe where penetration has only reached low to mid single digit percentages and could reasonably double over a five year timeframe.

Strong financial position. Kingspan ended 2008 with net debt of €300m representing a conservative 1.5x net debt to EBITDA and providing significant headroom under its covenant level of 3.5x. Gearing stood at 58%. The Group put in place a five year €330m committed credit facility in the weeks prior to the freezing of credit markets following the failure of Lehmans. This facility increased Kingspan’s banking headroom to c.€280m.

Bear Points

Access Floors yet to trough. Access Floors (12% 2008 sales) posted a strong 2008 result with sales ahead by 11% on a constant currency basis as existing office projects were completed. Early 2009 has proved more difficult with sales down 19% in the first four months of the year. Kingspan has signalled that its leading indicator - order intake activity - was “down substantially more” over the same period and that it does not expect this segment to trough until 2010.

No dividend. Kingspan is a late cycle business that will lag other names in the construction sector in a recovery. On the basis that trading will remain challenging until 2011 we do not see a return of the dividend until this point.

Warranty costs weigh on margins. In the Environmental and Renewables division (16% 2008 sales) margins continue to be negatively impacted by a long standing (2002/3) warranty issue relating to defective raw materials. This will see margins remain under pressure until 2010 at the earliest.

Key questions ahead of interim results (24 August)

Rationale for new divisional structure? We understand that the interim results will see a change to the divisions under which segmental performance will be presented. The changes will see the Offsite & Structural division disappear with the Offsite business reported under Insulation and the Structural business under Panels. What is the rationale for this new structure (closer integration of businesses, removal of costs, more centralised management)?

Progress on rationalisation? Kingspan is targeting €50m in annualised cost savings in FY09. An update on year to date progress would be useful. We see scope for further rationalisation plans to be announced which would help offset the relatively high operational gearing which magnifies the impact of lower sales volumes on operating profits.

Dividend policy going forward? We do not expect Kingspan to contemplate paying a dividend either at the interim or full year stage. The Group's current focus is to conserve cash and maintain its strong balance sheet. Our view is that no dividend will be forthcoming until 2011. Management may provide an update on the current thinking in relation to the dividend policy.

Further regulatory drivers on the horizon? Legislation supporting the green agenda has been central to increasing the attraction of Kingspan's products in both the residential and non-residential sectors. Ireland and the UK have been to the forefront of developments while mainland Europe continues to move forward. Further progress of US building energy standards (as advocated by the Obama administration) would be a major positive for Kingspan, in particular following the \$115m Metecno acquisition in 2008.

New capacity on track? A number of new capacity additions are scheduled for the second half. Do the new Panels plant in Toronto and the replacement Boards plant in Holland remain on schedule for the current quarter (Q3)? Is the Vancouver Panels plant commissioned in Q1 going ahead as planned? Does the planned new capacity for Poland in 2010/2011 fit within the Group's current capex plans?

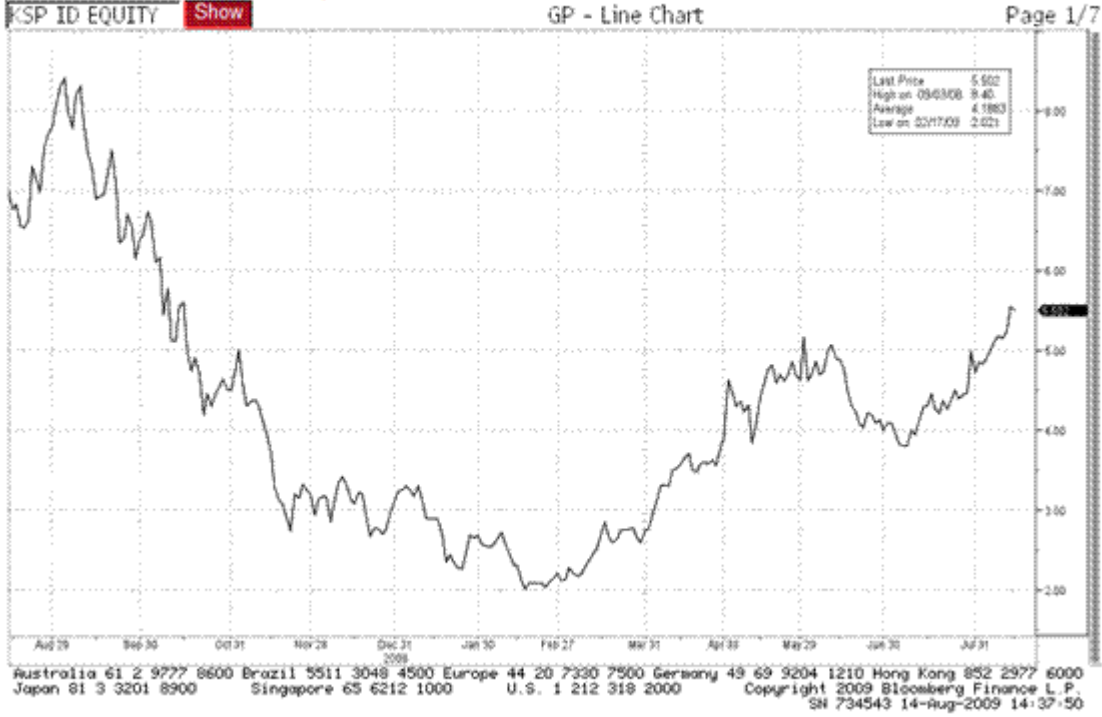
Stabilisation since May update? Has the anticipated seasonal improvement occurred over the summer months? Kingspan reported that April had seen a 'marginal improvement' in its largest segment - Insulated Panels. Has this trend continued? In CEE has the expected stabilisation occurred following the sharp fall off in early 2009?

Access Floors order intake activity? Current order intake acts as a leading indicator of activity for next year. Despite tentative signs of stabilisation in the residential sector the decline in non-residential continues. Given the difficult outlook for Access Floors can operating margins be maintained above 5% through 2009 and 2010 (2008: 14%)?

Offsite & Structural still suffering from drought? The Offsite & Structural division (14% 2008 sales) is reliant entirely on new build activity. With Irish activity down 70% from its 2007 peak and UK activity down over 60% steep cuts to operating costs have been implemented with five of nine plants closed. Is this division now operating at its minimum or could additional savings come from further closures given that no near term recovery is anticipated? The Environmental & Renewables division consolidated six locations down to just one.

Kingspan share price

KSP ID € **↑ 5.502** OTC **-.048** D 05.504/5.5450 2,140x203 Equity**GP**
At 14:13 Vol 43,958 Op 5.50 D Hi 5.55 D Lo 5.50 D ValTrd 242086



Kingspan vs sector

.KSPRV ↑ .52 - .01 Index **GP**
At 14:38 Vol 1 Op .52 Hi .52 Lo .51 Prev .52



Kingspan

Bloomberg

KSP ID equity

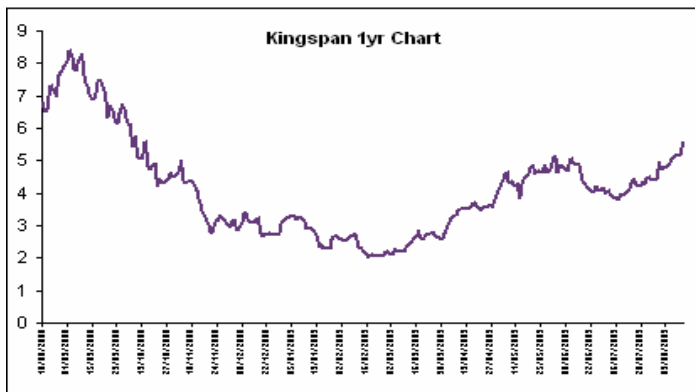
Last Price 5.50
Shrs ('m) 166
Mkt Cap 914
EV(€'m) 1213

Sector Building Materials
Year End Dec

Profit & Loss (€m)	2007 A	2008 A	2009 F	2010 F
Group Turnover	1863	1673	1129	1072
Insulated Panels & Boards	172	119	45	42
Offsite & Structural	21	9	-2	-1
Environmental & Renewables	10	2	5	5
Access Floors	34	28	7	5
EBIT	237	157	56	50
Depreciation & Amortisation	48	45	40	40
EBITDA	284	202	96	90
Interest	-12	-14	-16	-15
Exceptionals	0	-75	0	0
Pre tax profits	224	68	40	35
Tax	-37	-24	-7	-6
Profit after tax	187	44	33	29
Tax Rate	16.4%	14.6%	17.5%	17.5%
Minorities	0	1	0	0
Attributable Profit	187	45	33	29

	2007 A	2008 A	2009 F	2010 F
Basic EPS	110.5	26.7	19.7	17.2
Diluted EPS	110.5	76.0	19.7	17.2
DPS	25.0	8.0	0.0	0.0

	2007 A	2008 A	2009 F	2010 F
Debt	225	300	247	202
Shareholders funds	670	517	550	579
Capital Employed	895	817	797	781
NAV	397	308	320	336



Valuation Ratios	2007 A	2008 A	2009 F	2010 F
Price Earnings	5.0	7.2	28.0	31.9
Dividend Yield	4.5%	1.5%	0.0%	0.0%
EV/EBIT	5.1	7.7	21.8	24.2
EV/EBITDA	4.3	6.0	12.7	13.5
Price to Book	1.4	1.8	1.7	1.6
Margin Analysis	2007 A	2008 A	2009 F	2010 F
Overall Operating Margin	12.7%	9.4%	4.9%	4.7%

Cashflow (€m)	2007 A	2008 A	2009 F	2010 F
EBITDA	284	202	96	90
Working Cap	-56	53	30	10
Other	-1	-29	0	0
Operating Cashflow	227	226	126	100
Less Interest	-12	-13	-16	-15
Tax Paid	-27	-18	-9	-7
Capex	-138	-98	-50	-35
Free Cashflow	50	97	51	43
Acquisitions & disposals	-48	-93	0	0
Dividends	-36	-42	0	0
Share Issue	5	-33	2	2
Other/Fx	-9	-5	0	0
Debt Increase/Decrease	-37	-75	53	45
Opening Debt	-188	-225	-300	-247
Closing Debt	-225	-300	-247	-202

Balance Sheet (€m)	2007 A	2008 A	2009 F	2010 F
Tangible	399	411	421	416
Intangible	318	293	293	293
Financial / Other	3	1	1	1
Fixed assets	719	705	715	710
Working capital	285	222	192	182
Net debt	225	300	247	202
Other liabilities	110	111	111	112
Shareholders funds	670	517	550	579

Financial Ratios	2007 A	2008 A	2009 F	2010 F
EBIT/Interest	19.0	11.3	3.5	3.3
EBITDA/Interest	22.8	14.5	6.0	6.0
Dividend cover	4.4	9.5	0.0	0.0
Debt/EBITDA	0.8	1.5	2.6	2.2
Debt/FCF	4.5	3.1	4.9	4.7
Gearing	34%	58%	45%	35%

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