

Lafarge North America Inc.

Security Analysis

Fall 2003

By: Benjamin Yashar

Lafarge North America Inc.

Fall 2003 Security Analysis

LAFARGE NORTH AMERICA INC.	1
CURRENT MARKET STATISTICS	2
INDUSTRY AND COMPANY BACKGROUND	3
NATURE OF THE BUSINESS AND INDUSTRY	4
<i>Life Cycle Stage</i>	5
MARKETING STRENGTH	6
<i>Operating and Economic Environment</i>	7
<i>Environmental Policy</i>	8
<i>Summary</i>	9
POSITION OF THE COMPANY IN AGGREGATES, CONCRETE, & CEMENT INDUSTRY	10
<i>Company Size</i>	10
<i>Diversification</i>	11
<i>Reputation and Recognition</i>	11
<i>Competitive Position</i>	11
EVALUATION OF MANAGEMENT	12
LAFARGE NORTH AMERICA FINANCIAL STATISTICS	13
FINANCIAL STABILITY	15
PROFITABILITY	19
OPERATING STATISTICS	21
SECURITY EVALUATION: CONCLUSION AND RECOMMENDATION	24
VALUATION OF QUALITY, INTRINSIC VALUE, AND RELATIVE ATTRACTIVENESS	24
SUMMARY OF ALL DATA LEADING TO CONCLUSION	27
<i>Capitalized Operating Leases</i>	28
STRONG RECOMMENDATION	29

Preface

This report contains information for the prudent investor to consider acquiring common share of stocks or other related security of Lafarge North America, Inc., and holding it for a period of 10 years or less.

The information contained in this report is from the following sources:

- ❑ Form 10-K, Filing Date: March 27, 2003
- ❑ Form 10-Q, Filing Date: November 14, 2003
- ❑ Value Line Investment Survey
- ❑ Security Analysis and Ratios
- ❑ U.S. Government Bond Rates
- ❑ Hoover's Online

Lafarge North America Inc.

“Lafarge North America Inc., together with its subsidiaries, is the largest supplier of cement and a leading ready-mix concrete supplier in North America (United States and Canada)” (Form 10-Q – Nov. 14, 2003).

Lafarge North America Inc. (**Lafarge**) is one of the major producers of construction aggregates. Lafarge produces the following construction aggregates:

- ❑ Crushed Stone
- ❑ Sand
- ❑ Gravel

Lafarge is a leading manufacturer of Gypsum drywall.

Lafarge produces:

- ❑ Cement
- ❑ Ready-Mix Concrete
- ❑ Asphalt

Current Market Statistics

- Lafarge stock price closed at \$39.03 on December 12, 2003.
- 10-Year U.S. Treasury Bond rate is at 4.24%.
- Strong markets are:
 - Gold
 - Oil & Gas Shares
 - Beverage
 - Homebuilding
 - Biotech
- Weak markets are:
 - Department Stores
- S&P 500 (now at 1,074) and Dow (now at 10,042) both reached new 52-week closing highs for the first time since May 2002.
- Expected economic growth in 2004 is 4.0% to 4.5% on average.

Industry and Company Background

Lafarge belongs to the ***Cement and Aggregates industry***. The original Lafarge, a European-based company funded in 1833, began operations in France. Lafarge began operations in Northern America once they acquired cement and concrete-related operations and plants in Canada and U.S.; established as far back as 1909.

Lafarge constructed its first North American cement plant in 1956. This was the establishment of Lafarge Cement of North America, where the new company started the Richmond plant in Canada.

Lafarge began operations in Brazil in 1959.

Lafarge Canada had become the third largest cement producer in Canada by 1968 with an annual production capacity of 900,000 tones.

Lafarge signed a merger agreement with Coppée, and formed a new group, which became Lafarge Coppée in 1980.

Acquisitions in the United States and Canada established Lafarge Coppée as the number one cement producer in North America; where the size of the establishment rose from 12,000 to 17,000 employees.

The acquisitions continued in the rest of the twentieth century, leading to the establishment of Lafarge North America.

Nature of the Business and Industry

Three divisions comprise Lafarge's primary businesses:

- ❑ Construction materials
- ❑ Cement and cement-related products
- ❑ Gypsum

Construction materials includes production and distribution of the following products:

- ❑ Construction aggregates
- ❑ Ready-Mix concrete
- ❑ Other concrete products and asphalt
- ❑ Construction and paving of roads

Cement and cement-related products included the production and distribution of:

- ❑ Portland and specialty cement
- ❑ Cementitious materials such as
 - Fly ash
 - Slag
 - Silica fume
 - Blended cements

"Gypsum includes the production and distribution of a full line of gypsum drywall products and joint compound" (Form 10-Q – Nov. 14, 2003).

Lafarge operates in Canada under its subsidiary called Lafarge Canada Inc. Lafarge does business in most U.S. states and all throughout Canada with approximately 1,000 construction materials facilities, ready-mix concrete plants, aggregate facilities, asphalt and paving facilities, and mining plants:

- 235 U.S. Locations of Construction Materials in Colorado, Louisiana, Maryland, Missouri, New Mexico, New York, and Ohio, comprised of:
 - 120 aggregate facilities
 - 80 ready-mixed concrete plants
 - 30 asphalt facilities
 - 15 paving facilities
- 675 locations in Canada, comprised of:
 - 300 aggregate facilities
 - 160 ready-mixed concrete plants
 - 65 asphalt facilities
 - 50 paving facilities

Life Cycle Stage

Lafarge Group, the parent company of Lafarge North America, has been in business since the first half of the nineteenth century. Lafarge Group is a mature company by itself.

Lafarge North America has been in business for more than eighty years and Lafarge is a mature company.

Ready-mix concrete and all its related products are heavy, and it is costly to deliver them to customers. Therefore, all Lafarge's customers are within a reachable vicinity of the plants and operations in order to keep cost down. The future is more reliable when investors look at market shares, as well as the age of the operational plants. When any plant is no longer operational due to age, Lafarge anticipates in advance switching or acquiring other plants to replace the production of the outdated ones.

Marketing Strength

Lafarge's customers are in two sectors in U.S. and Canada:

- The private sector
- The public sector

The public sector includes federal and state governments as Lafarge's customers. When the U.S. government or state governments have an economic deficit, then their purchase of cement and other road and construction related product declines. In fact, this decline in Lafarge's sales in U.S. did happen in 2003.

Interest rate fluctuations, as well as local and national economical changes influence the private sector's purchase of Lafarge's products.

Lafarge's sale is cyclical and its cycle depends on interest rates and economy. Lafarge lost sales in U.S. due to the decline of statewide purchase of their products for road improvements in June 2003. Value Line believes that the wet weather in Northern U.S. was to blame for this as well as the minimal highway spending.

Value Line analysts believe that U.S. spending on public construction will not increase quickly in U.S. until the states build up a strong tax revenue foundation before they allocate budget for such new road and public construction.

The Canadian market for Lafarge products is 40% of its sales. This Canadian market remains strong and Value Line analysts believe Lafarge's sale in Canada will compensate for its decline of sale in U.S. Nevertheless, the sales of Lafarge's products in Canada are still cyclical. The Canadian economy and their interest rates will have an impact on Lafarge's sales in future.

The private sector in U.S. and Canada, which comprises of licensed construction and road contractors and corporations, do decrease their activities when and if the interest rates reach 8 to 9 percent and up in years ahead. The U.S. interest rates are at very low rates today, and Alan Greenspan has announced that he does not intend to raise the U.S. interest rates much within the next two years.

Operating and Economic Environment

The Cement and Aggregate industry, being a cyclical industry, which is influenced by governmental and economical changes, is in a volatile stage of investment. The volatility of the investments in this industry is evident in the current sales in 2003, which has been different in various months. For example, Value Line reports that the Cement and Aggregate industry experiences a slow down from mid-October to late-October each year; in addition, the uncertain government funding and contract awarding climate, makes the economic climate for Lafarge unpredictable. Yet, the recent improvement in the general U.S. economy has resulted in an increase of the P/E ratios for the companies publicly traded in the Cement and Aggregate industry, and it has soared it to its all time high. This raise in stock prices are for the forthcoming improvements of the revenue in this industry and it has not been practically justified in reality yet.

The operating environment in Canada remains strong due to the strong Canadian market. The Canadian market accounts for 40% of Lafarge's sales. Lafarge is the only producer of ready-mix concrete, asphalt, and construction aggregates in Canada; Lafarge operates all over Canada. Lafarge has no competition for production of ready-mix concrete, asphalt, and construction aggregates in Canada.

Lafarge is the leading supplier of ready-mix concrete, and Lafarge is one of the top producers of construction aggregates in both U.S. and Canada.

Environmental Policy

Lafarge complies with all applicable laws, regulations; and conducts business consistent with pollution prevention and sustainable development principles. This includes minimization of production of waste, air emissions, and water consumption and wastewater discharges.

With today's environmental regulations, both on the federal and states levels, Lafarge is committed in complying with these regulations.

Summary

Lafarge is in a great position in both production and competition in U.S. and Canada. Although the volatility of sales in any year contributes to changes in P/E Ratio and Lafarge's stock price, the U.S. and the Canadian markets for construction related materials remain strong today, and it seems to remain strong for the next few years.

Even though the construction and road projects lead the demand for purchase of construction products, these projects are to continue at all times. Rainy and wet seasons do exist in northern U.S. and particularly in northeast. Construction projects are simply postponed to the next season. The roads have to be made or fixed, therefore, Lafarge's sales will continue.

The interest rates are most likely to stay low for the next few years. This encourages the private sector to continue construction projects. In northern United States and Canada concrete-based housing and building is very important because of resistance to rain and snow. While in California, for example, it rains much less than the state of Washington. The need for construction-based building and houses are much less in southern California than in New York. Lafarge operates primarily in Canada and northern U.S. states, where the need for its products is high.

Position of the Company in Aggregates, Concrete, & Cement Industry

Company Size

Lafarge has the most number of employees (15,500 employees) than other companies in the Cement and Aggregate industry.

Lafarge's total sales of \$3,251.6 million in 2002 is the highest sales among all companies in its industry.

Lafarge's sales of 2002 alone comprised one-third of the total sales of the companies in the Cement and Aggregate industry.

Lafarge owns all of their cement plants and the land on which they are located, free of major mortgages, except for one cement plant and two other plants.

Lafarge has the largest Current Assets of \$1,184 million among all companies in its industry. Lafarge has \$225.7 million of Cash Assets, \$496.0 million of Receivables, \$350.9 million of Inventory, and Other Assets of \$111.4 million. Other companies in the same industry have Current Assets ranging from a low amount of \$371.2 million to a high amount of \$730.0 million.

The Cash Assets for Lafarge is extremely high: \$225.7 million. Lafarge has the greatest Cash Asset in its industry. Four other companies in the same industry have Cash Assets ranging from \$1.4 million to \$100.8 million – with an average Cash Assets of \$29.5 million, and a median of \$8.8 million.

Diversification

Lafarge has diversified both its production and its sales. On the production side, Lafarge produces all the elements listed above. Lafarge's sales are in two countries, U.S. and Canada; and the distribution in Canadian provinces and U.S. states. The production is from nearly 1000 plants in Northern America; and the delivery is local due to the cost of transportation.

Reputation and Recognition

Lafarge North America's history dates back nearly 100 years, it originated in Canada. Lafarge expanded into the United States through a series of mergers and acquisitions, and went public in 1983 as Lafarge Corporation. Lafarge Corporation was renamed Lafarge North America in 2001. Lafarge has its headquarter located outside of Washington, D.C.

Lafarge Gypsum division announced it has earned Lowe's Home Improvement Warehouse Supplier of the Year Award in the Building Materials category in 2002.

Lafarge is the leading and the major producer of concrete and concrete-related products in North America.

Competitive Position

Lafarge holds a strong leading position in its market among its competition. Lafarge gained the largest sales in 2002 in its industry.

Its competitors are smaller companies than Lafarge, employee numbers ranging from 1,530 employees to 9,160 employees. Lafarge had 15,500 employees as of December 31, 2002.

The competitors' sales range from \$501.3 million to \$2,545.1 million in 2002. Lafarge had the leading sales of \$3,251.6 million in 2002.

Evaluation of Management

Lafarge management has done a great job because the Net Profits ranges from \$80.6 million in 1994 to \$247.5 million in 2002, and it has almost increased year-after-year.

Lafarge's Net Profit has more than tripled and Sales has more than doubled in eight years.

Only a great management team can produce such flow of increase in Net Profits and Sales.

Lafarge North America Financial Statistics

Here is a summary of main Lafarge financial data for 2002 (*in millions*).

□ Cash and Cash Equivalentents = \$351.1

The ratio of Lafarge's Cash Asset to its Current Asset is 28%.

□ Current Assets = \$1,258.6

□ Current Liabilities = \$660.7

□ Long-term Debt = \$671.1

□ Total Assets = \$4,234.3

□ Total Liabilities = \$2,074.6

□ Total Shareholders' Equity = \$2,159.7

Other Assets such as Inventories and Property owned are:

□ Inventories = \$373.5

□ Property, Plant, and Equipment = \$2,236.2

The **Property and Plants** worth far more than the book value listed in Lafarge's financial statements. The **Property and Plants** refers to real property and all facilities attached and operational at those plants. The actual market values of those plants, needs to be estimated.

Lafarge Deferred Income Taxes and Tax Assets in 2002:

- Deferred Tax Assets = \$42.4
- Deferred Income Taxes = \$124.6

Lafarge has *Receivables, net* of \$386.2 million and *Goodwill, net* of \$471.5 million in 2002.

Selling and Administrative costs are \$318.1 million for 2002.

The Earnings before Taxes and Interest Expense (i.e. EBIT) for 2002 is \$420.6 million and EBITDA is \$238.4 million.

The Net Income for 2002 is \$268.4 million.

Number of common shares out by the end of 2002 is 73,000,000 shares.

Earning Per Share (EPS) for 2002 is \$3.64.

Financial Stability

Current Ratio

The Current ratio is 1.3, which is less than an acceptable current ratio of 1.5. Current ratio must be at least 1.5. This indicates that the current assets are just a bit more than the current liabilities. This would have been a more sound investment if the current assets were at least 1.5 times the current liabilities. Of course, this is just a single rule to consider.

In comparing the Current Ratio for Lafarge to the average Industry current ratio of 2.2, we again notice that the industry average current ratio is much higher than Lafarge's. Not good.

Quick Ratio

The Quick ratio is 1.1 and it is acceptable. We want the quick ratio to be at least 1.0. The average Industry quick ratio is only 1.3.

Interest Coverage

The Interest Coverage is 8.0 and it is good. The interest coverage must be at least 4.0. This means that the earnings, before the taxes and interest expense are deducted, is eight times more than its interest expense. In other words, Lafarge's liability for interest expense is not dramatically high.

Debt %

Lafarge's Debt% is 27.2%, which is not good. This shows that Lafarge does not take advantage of OPM (Other People's Money). Lafarge has \$351.1 million of cash sitting in the bank. In case Lafarge ever goes bankrupt, the shareholder's money will be at risk. It is, however, less likely that Lafarge will go bankrupt.

Equity %

Lafarge's Equity% is at 72.8%. In comparing this equity ratio to the same companies in the same industry (see below) I have found out that Lafarge's over 50% equity may not be so unreasonable since 4 out of 5 other companies in the same industry carry an equity % of over 50%.

Company Name	Debt %	Equity %
Texas Industries Inc	53%	47%
Vulcan Materials	41%	59%
Centex Construction Products Inc.	24%	76%
Florida Rock Industries Inc.	20%	80%
Martin Marietta Materials Inc.	46%	54%

Debt Due in 5 Years

Lafarge's Debt Due in Five Years is \$500 million (*Value Line 2003*). Lafarge has a long-term debt of \$7.2 billion (*Value Line 2003*).

Lafarge's contractual obligations in five years are as follows (*in millions*)
(10-K 2003):

□ Operating Leases Due in 2003:	\$43.5
□ Operating Leases Due in Five Year:	\$142.9
□ Long-Term Debt Due in 2003:	\$136.1
□ Long-Term Debt Due in Five Years:	\$399.0
□ Total Contractual Obligations Due in 2003:	\$1,420.5
□ Total Contractual Obligations Due Five Years:	\$758.7

Amortization and Depreciation

Lafarge's depreciation of assets for 2002 is \$182.2 million. Although Lafarge has shown a **Goodwill** value due to the acquisitions of plants of **\$471.5 million**, Lafarge's amortization of Goodwill for 2002 year-end is \$0.

(In millions)

□ Depreciation	\$182.2
□ Amortization	\$0
□ Goodwill	\$471.5

Modern Portfolio Theory Statistics

Risk Free Rate

The United States 10-Year Treasury bond rate is 4.24% as of today. If we are to keep security investment in Lafarge for 10 years, the Risk Free Rate is then to be set at 4.24%. The U.S. Treasury Bond is supposed to be the safest bond there is, and it is known to be risk free.

Inflation Rate

Most recently, Alan Greenspan declared that the economy was in the deflation. Today the inflation rate is 1.8%.

Beta

Value Line has a Beta of 1.05 for Lafarge and a Beta of 1.0 for the market. The higher the beta, the riskier the security is to purchase and hold. Yet, a beta of 1.05 is a reasonable beta in comparison to the beta of the market.

Profitability

Profit Margin

Lafarge's Profit Margin in 2002 was 8.3%. While Value Line has a 2003 and 2004 estimated profit margin of 6.3% and 8.0%, respectively, purchasing Lafarge's stock for a period of 2 to 4 years seems reasonable. A slow developing company with a small profit margin is far better than a company which tries to grow too fast. In addition, Lafarge has maintained a profit margin of over 7.3% since 1996.

Operating Margin

Except for 2002 where the operating margin was less than 7%, Lafarge has maintained a profit margin of over 8.2% since 1996. The estimated 2003 and 2004 Operating Margin for Lafarge is 11.4% and 13.8%, respectively. These amounts are based on the estimated Sales, Net profit, and Income Tax Rate values published by Value Line.

Return on Equity

Lafarge has maintained a return on equity of over 10% between 1995 and 2002. Value Line has predicted return on equity of 8% and 10% for 2003 and 2004, respectively. This is very positive that Lafarge is able to keep ROE > 10%. COE (Cost of Equity) is 12.5% for 2002. It is important that ROE (=12.9% for 2002) is greater than COE for 2002.

Return on Total Capital

ROTC is 11% for 2002. It is important to note that ROE (=12.9% for 2002) is bigger than ROC (=11.3 for 2002).

Cost of Equity

Cost of Equity (COE) is 12.5% for 2002. Once again, it is important and positive that ROE (=12.9%) is bigger than COE (=12.5%); and this is what we want to have.

Earnings Growth

	3 Years	5 Years	7 years
Earnings Growth	-1.2%	7.5%	12.2%

Earnings growth of 12.2% in 7 years is significant. Value Line has estimated earnings per share of \$2.80 and \$3.65 for 2003 and 2004, respectively. This results in an earnings growth of 5.3% for 2003.

Revenue Growth

	3 Years	5 Years	7 years
Revenue Growth	6.1%	12.5%	12%

The revenue growth of 12% for 7 years is very significant. We do not want to invest into companies who grow too fast. Lafarge has shown a steady growth in revenue since 1995.

Operating Statistics

Sales

Lafarge's sales have increased steadily since 1995. This is a very good sign that over a seven-year period Lafarge has improved and increased its sale. Value Line has estimated 2003 sale revenue for Lafarge of \$3,245 million, which is a bit less than 2002 revenue of \$3,251.6. This is due to weak market conditions. Yet, there is not much difference between 2002 and 2003 revenue, only a decline of \$6.6 million (i.e. **-0.2%**). Value Line's estimates for 2004 sales revenue are \$3,365 million, which means that sales are expected to increase by \$20 million by the end of 2004. It is promising. Not much increase, but the revenue is expected to stay high and steady by the end of 2004.

Earnings Per Share

Although there will be a decline in earnings per share by the end of 2003, a few points are worth mentioning here:

- Lafarge has had steady increases in EPS between 1994 and 1999, and between 2002 and 2003.
- EPS growth for 7-years is 12.2%, which is very promising.
- Earnings per share (EPS) are expected to decline to \$2.8 in 2003, and it is expected to increase to \$3.65 in 2004.

The decrease in EPS for 2003 is due to a decline in sales.

Note: The decline in sales has to do with the reduction of states' spending on fixing roads. They all go back to U.S. national and states' economical climates and

spending deficits. Value Line predicts that once the states will be able to rebuild their tax revenues, the states will be able to throw more money at fixing roads, and hence it will increase Lafarge's revenue and EPS.

Dividends Per Share

Lafarge's dividend per share has been 40 cents for 1996, 42 cents for 1997, 51 cents for 1998, and 60 cents (steady) for the past four years (i.e. 1999, 2000, 2001, 2002). In addition, Value Line has predicted 2003 and 2004 dividends of 70 cents and 80 cents per share, respectively. It is very promising, and it is a positive point.

Income Tax Rate

Except for 2002 where the income tax rate was at 27.3%, Lafarge's tax rate has been over 34% for all other years since 1995. Value Line estimates is 35.5% and 34.5% for the 2003 and 2004 income tax rates, respectively.

Book Value Per Share

The book value per share takes into account the goodwill for 2002, as our book value per share calculation takes out the 2002 goodwill. The book value per share has increased steadily between 1996 and 1999, from \$17.5 to \$26.3, and after a decline in 2000 to \$21.1; it stayed at \$21.1 per share in 2001, and increased to \$23.1 in 2002. Value Line estimates that Lafarge's book value per share will increase to \$33.95 and \$36.25 per share in 2003 and 2004, respectively.

Then the question is: why? Perhaps since Lafarge has a huge real estate and land assets. Value Line declares that Lafarge "hopes to double the size of its aggregates

production over the next 5 years, adding about 120 million tons in annual production”.

Working Capital

Lafarge’s working capital for year-end 2002 is \$597.3 million.

Working Capital Per Share

The working capital per share is \$8.18 in 2002.

Total Capital

Lafarge’s total capital for year-end 2002 is \$2,966.7.

Security Evaluation: Conclusion and Recommendation

Valuation of Quality, Intrinsic Value, and Relative Attractiveness

Terminal Growth

The estimated terminal growth values at 100% are \$55.50 and \$72.35 for the years 2003 and 2004, respectively, based on Value Line's 5.3% growth rate and 2003 EPS of \$2.8 and 2004 EPS of \$3.65.

I would recommend an investment in Lafarge North America common stock, if the investor purchases the stock at 80% of the terminal growth value or less, which is \$44.40. This leaves a reliable margin of safety of about \$11.10. Today, however, the market price is at \$39.00. Acquiring common share at \$39.00 is at 71% of the \$55.50 intrinsic value. Because Lafarge has so much real estate plants, land, and cement-related assets, a purchase of its share at \$39 is a great purchase for a mid-term investment.

P/E

The P/E ratio for 2002 is 10.43, which is less 20 and it is a very good ratio. If you, the investor, buy the stock at today's market price of \$39.00, your PE Ratio is $\$39.00 / 2.8 = 13.92$, which is way below 20. This is a recommended PE Ratio. This stock is a great buy.

Operating Cash Flow and Cash Flow Per Share

Cash flow per share for 2002 is \$5.69. The estimated cash flow per share for 2003 is \$5.20.

The Operating Cash Flow per share for year-end 2002 is \$415.4 million.

Compound Annual Growth Rate (CAGR)

The CAGR is as follows:

CAGR	3 Years	5 Years	6 Years	7 Years
Past Earnings Growth	-3.4%	7.1%	10.8%	9.0%
Past Revenue Growth	6.1%	12.5%	12.0%	12.0%

Dividend Yield

The Dividend Yields and Cash Dividends from 1997 to 2002 have all been positive and promising for investment.

For four years, Lafarge has kept up a Cash Dividend of 0.60 cents from 1999 to 2002. The estimated Cash Dividend for 2003 and 2004 are 0.70 cents and 0.80 cents, respectively (Value Line 2003).

The Dividend Yield has been at 0.02 for the most years since 1998. The estimated Dividend Yield for 2003 and 2004 is 0.02 (Value Line 2003).

E/P

Year 2002 E/P is 0.10 which greater than 10-Year U.S. Treasury Bond rate. This is a good E/P ratio.

Price to Book Value

Year 2002 Price to Book Value is 1.5. This is a good ratio, indicating that:

1. The 2002 average market price to 2002 book value is greater than the book value.
2. The market has recognized the value of the stock.
3. The market has not over-priced the stock.
4. For 2003, then the Price to Book Value changes to 1.1. Considering that Value Line's estimate suggests that the price will go up in 2003 to an average of \$31.15, the price to book value of 1.1 is good. In 2003, the market still recognizes the value of Lafarge's stock.

Pricing (5 Years)

Since the year 2000, Lafarge has been and is to be on the upsurge for:

1. Stock Price – Value Line's 2003 Estimate is a high of \$36.00 and a low of \$26.30.
2. The average stock price estimate for 2003 is \$31.15.
3. Price to Cash Flow is expected to stay above 5.00 for both 2003 and 2004. This is a very good ratio.
4. Price to earnings is to stay above 11 for 2003 and above 9 for 2004.

Summary of All Data Leading to Conclusion

Many of the values and ratios stated above are within the expected range for their own analytical purposes. The quantitative analysis is only one end of the determination process for acquiring Lafarge North America. I am glad to recommend investment in Lafarge North America from this perspective.

The qualitative analysis takes a new route.

The Trend

The trend is another factor to consider. Value Line has made a point in its publications that the U.S. States will come around eventually after fixing their budget deficits and tax issues, and spends money on roads.

Supply & Demand

The supply and demand of both the general market and the Cement & Aggregates Industry is yet another. As stated in Real Estate Land Economy, nearly 65% of total sales in the United States are related to real estate in general and construction in particular. Hence, the need to purchase and consume cement and aggregates for roads and construction will always be there. In addition, as the U.S. economy grows, the construction industry will become stronger. The fact that interest rates are so low helps such future growth in construction. Value Line does not anticipate that interest rates will rise in the next few years.

Real Estate and Land Assets

Lafarge owns the majority of their real estate properties free and clear from encumbrances.

1. Aggregate quarries and pits.
2. Facilities for production of ready-mixed concrete and asphalt.
3. Paving and road construction equipment.
4. By the end of 2002, Lafarge owned nearly \$2.24 billion dollars of Property, Plant, and Equipment, and this is just a book value shown on Lafarge's balance sheet.
5. The real value of the real estate is most likely much higher than what is shown on the books, since Lafarge North America has been around since 1909.

Capitalized Operating Leases

Operating Lease Due in 2003 is \$43.5 million.

The 2003 Capitalized Operating Lease is: \$22.9 million.

Strong Recommendation

Lafarge North America is the largest supplier of cement and a leading ready-mix supplier in United States and Canada. Today, Homebuilding is one the Strongest markets. The expected economic growth in 2004 is 4% to 4.5% on average. Lafarge's operating environment in Canada remains strong due to the strong Canadian market. The Canadian market accounts for 40% of Lafarge's sales. Lafarge complies with all applicable environmental laws and regulation, and conducts business consistent with pollution of waste, air emissions, and water consumption and wastewater discharges. Lafarge has diversified both its production and its sales. Lafarge's reputation and history in North America dates back nearly 100 years. Lafarge holds a strong leading position in its market among its competition. Lafarge gained the largest sales in 2002 in its industry. Lafarge's total assets in 2002 were \$4.2 billion, which includes cash asset of \$0.35 billion, inventories of \$0.37 billion, and current assets of 1.26 billion.

The most important assets for Lafarge are the ownership of real estate property, plants, and equipments, which accounts for \$2.2 billion on books. The actual value of the property and plants are far more than what shows on the books. It may worth as mush as \$10 billion.

Lafarge's sales in 2002 are \$3.25 billion and the PE Ratio was 10.4, which is an excellent PE Ratio.

These are all the strong reasons why an investment in Lafarge North America is a Strong Buy.

Lafarge North America Inc. & Subsidiaries	SYMBOL: LAF	PRICE: \$37.96	P/E: 12.55	E/P: 7.97%	DIV: 0.50%
--	--------------------	-----------------------	-------------------	-------------------	-------------------

I - FINANCIAL STABILITY	Industry	Market	Company Description	II-MPT
Int Coverage (x EBIT):	8.0	9.6	12.3	Inflation 1.8
Current Ratio:	1.3	2.2	1.8	R_M 12.1%
Quick Ratio:	1.1	1.3	1.3	R_F 0.043
Debt (%):	27.2%	37%	50%	Beta 1.05
Equity (%):	72.8%	63%	50%	COE 12.5%
Book Value / Share:	31.35			WACC 10.9%
BV / Share (Excluding Goodwill):	23.13			ROE 12.9%
				ROTC 11.0%
				ROC 11.3%

II - Profitability	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 (E)	2004 (E)
Revenues (\$million):	1563.3*	1472	1649.3	1806.4	2508.5	2721.6	2787.6	3223	3251.6	3245	3365
Earnings Per Share (reported):	1.18	1.82	1.95	2.54	3.24	3.77	3.51	3.21	3.64	2.8	3.65
Earnings Per Share (Adjusted):	1.03	1.61	1.59	2.09	2.74	3.26	3.01	2.66	3.5	2.8	3.65
Income Tax Rate:	28.7%*	37.4%*	36.7%	38.2%	38.0%	37.0%	36.3%	32.4%	27.3%	35.5	34.5
Profit Margin (%):			8.5%	10.1%	9.4%	10.1%	9.2%	7.3%	8.3%	6.3%	8.0%
Operating (Profit) Margin (%):			8.2%	10.8%	10.0%	11.5%	9.4%	6.4%	7.3%	11.4%	13.8%
Return on Equity (ROE) (%):		10.9%*	12.7%*	14.2%	17.6%	17.6%	14.2%	12.0%	12.9%	8.0%	10.0%
Return On Total Capital (ROTC)(%):					15.6%	14.4%	11.8%	10.2%	11.0%	7.0%	9.0%
Book Value / Share:			17.5	19.6	23.5	26.3	21.1	21.1	23.1	33.95	36.25
Cash Flow Per Share:			3.36	3.94	5.38	5.91	5.73	5.61	5.69	5.2	6.1

IV - Growth	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 (E)	2004 (E)
Past Revenues Growth				9.5%	38.9%	8.5%	2.4%	15.6%	0.9%	-0.2%	3.7%
Past Earnings Growth (reported)				30.3%	27.6%	16.4%	-6.9%	-8.5%	13.4%	-23.1%	30.4%
Past Earnings Growth (adjusted)				31.4%	31.1%	19.0%	-7.7%	-11.6%	31.6%	-20.0%	30.4%
CAGR	3 years	5 years	6 years	7 years							
Past Earnings Growth	2.4%	10.9%	14.1%	11.7%							
Past Revenues Growth	6.1%	12.5%	12.0%	12.0%							
Projected EPS & Growth		Valueline	First Call	Multex	SFP						
2003 (EPS)		2.8									
2004 (EPS)		3.65									
Growth%		8.4%									

V - Dividends	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 (E)	2004 (E)
Cash Dividend			0.40	0.42	0.51	0.60	0.60	0.60	0.60	0.70	0.80
Dividend Yield				0.01	0.02	0.02	0.03	0.02	0.02	0.02	0.02

VI - Valuation	Terminal Growth Value				PE					
	Earnings Growth %	120%	100%	80%	60%		120%	100%	80%	60%
Growth	11.7%	111.45	92.88	74.30	55.73	33.1701	145.29	121.07	96.86	58.11
Valueline	8.4%	88.35	73.63	58.90	44.18	26.2959	115.18	95.98	76.78	57.59
Buy B/E										
Sell B/E										
D/J Bond (Risk Free Rate)	4.24%	29.64	24.70	19.76	14.82	8.82075	38.63	32.20	25.76	15.45
S&P 500 PE	25.1	2003(E)				2004(E)				

	2002	Current	Next	Analyst Latest Observations
Working Capital Per Share	8.18	-	-	- No preferred stock.
E/P	0.09	0.0785	0.07376	- Market Cap: \$2.55 billion.
PE Ratio	10.85	12.7383	\$13.56	- Lafarge is considering share buybacks.
PEG	0.92	1.09		- PEG = .85 > .8, it means the market is anticipating.
Relative PE (S&P)	0.43	0.51		
Price to Book	1.5	1.1		

VII - Pricing	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003(E)	2004(E)
High				33.56	40.50	40.80	28.30	39.00	45.20	36.00	40.00
Low				25.81	24.19	25.94	16.75	22.40	25.90	26.30	28.00
Average				29.69	32.35	33.37	22.53	30.70	35.55	31.15	34.00
Price To Book Value				1.52	1.37	1.27	1.07	1.45	1.54	0.92	0.94
Price To Cash Flow				7.54	6.01	5.64	3.93	5.47	6.25	5.99	5.57
Price To Earnings (Adjusted)				14.20	11.80	10.24	7.48	11.54	10.16	11.13	9.32

* Value taken directly from Valueline.
All other values have been taken from 10K or have been calculated.