

Sector View

Business Services

Top pick Q1 2016 : Elior

	1 M	3 M	6 M	31/12/14
Travel&Leisure	0.5%	4.8%	3.0%	17.6%
DJ Stoxx 600	-6.5%	-0.2%	-7.4%	4.3%

*Stoxx Sector Indices

Companies covered

COMPASS GROUP	NEUTRAL	1200 p vs.1150p
Last Price	1140p	Market Cap. GBP18,751m
EDENRED	NEUTRAL	EUR20
Last Price	EUR16,595	Market Cap. EUR3,831m
SODEXO	NEUTRAL	EUR88 vs.80
Last Price	EUR89,32	Market Cap. EUR14,035m
ELIOR	BUY	EUR23.5
Last Price	EUR18.92	Market Cap. EUR3,260m
BUREAU VERITAS	NEUTRAL	EUR22
Last Price	EUR18.065	Market Cap. EUR7,985m
SGS SA	BUY	CHF2150
Last Price	CHF1859	Market Cap. CHF14,541m



LOOKING BACK ON Q4 2015

Positive performances in Q4 in euro terms for all, except Bureau Veritas, in absolute terms or relative to the DJ Stoxx in euros.

Regarding **Foodservices**, following the FY results on 19th November, slightly ahead of expectations with a share buy-back programme of EUR300m, i.e. around 2.1% of the share capital, **Sodexo** reported the best performance, up 21.8% in absolute terms and 15.8% vs. the DJ Stoxx. A rebound for **Edenred** (+19.6% and 13.7% vs. DJ Stoxx) with again significant volatility during the quarter due to the group's exposure to the Brazilian economy (around 40% of consolidated issue volume at the end of 9 months). **Compass Group** and **Elior** registered nearly the same performances during the quarter, up 11.6% and 12.9% respectively in absolute terms and 6.1% and 7.3% vs. the DJ Stoxx.

For the FY, the great disparity between stocks is **Elior** which registered the best performance, up over 56.9% (+46.9% vs. DJ Stoxx). **Sodexo** and **Compass Group** registered approximately the same performances (+10.9% and 12.4% respectively in absolute terms) and **Edenred** the worse, down 24% in absolute terms and -28.8% vs. the DJ Stoxx.

On the TIC sector, there were erratic performances between **Bureau Veritas** and **SGS** quarter after quarter during the FY (**Bureau Veritas** was down 2.4% in Q4 in absolute terms and 7.2% vs. the DJ Stoxx and **SGS** was up 12.7% and 7.2% vs. the DJ Stoxx). During the last 12 months, **Bureau Veritas** underperformed the DJ Stoxx by 6% and **SGS** by -3.2%.

WHAT WE SEE FOR Q1 2016

On **Foodservices**, we take the opportunity to adjust our forecasts and FV on **Sodexo** (contact), maintaining our neutral recommendation with a FV of EUR88 from EUR80 mainly due to a higher margin improvement than initially anticipated. The stock price increase after the FY results release was a bit surprising for us. In fact, beyond the results and the (limited) share buy-back announcement, management again highlighted the volatility of the economy with low GDP in developing countries and especially in Brazil (5% consolidated revenue and 20% EBIT), the impact of oil & gas and minerals price decreases, currency volatilities and a "halting" recovery in Europe. For FY 2015-16, management's objectives are for organic growth of around 3% with growth in operating profit excluding currency effects and before exceptional of around 8%

On **Compass Group**, we move our FV to 1,200p from 1,150p mainly due to the rollover of our DCF on 2016 numbers with neutral confirmed. 2016 business trends should be more or less similar to 2015's with NA still the main growth engine, a continued recovery in Europe & Japan and another challenging environment in Fast growing & Emerging countries. All in all, we are anticipating lfl revenue growth of 5.1% with the EBIT margin stable vs. last year. **No cash return to shareholders anticipated before 2017**, with higher capex announced for 2016 at around 3% of revenue (2.8% in 2015), infill acquisitions (£100m in our model), and based on our estimates, the net debt/EBITDA ratio should be only slightly lower 1.5x (1.6x in 2015) which is the level required to maintain a strong investment grade. 2017e net debt on EBITDA is 1.2x.

We remain neutral on **Edenred** due to the group's exposure to the Brazilian economy and our inability to determine what could be the evolution of BRL/EUR parity despite a current upside of c. 15%. Too early to come back regarding these uncertainties and the management transition. A trading share more than ever.

Short term uncertainties with lack of visibility should continue to weigh on TIC performances during the first quarter. Regarding **Bureau Veritas**, after our downgrade (too late...) last November, remember that we had based our forecast on 1.8% lfl revenue growth for the FY 2015 which implies -0.5% in Q4 and regarding 2016, it is difficult to be more positive and we assume lfl growth is lower than in 2015 at 1.6% with negative numbers during the 2016 first two quarters. We have maintained our buy recommendation on **SGS** even if the short term is also challenging with nevertheless less volatility regarding lfl revenue growth or results with a better balance between geographies or businesses.

CONCLUSIONS AND TOP PICKS

Elior (Buy, FV EUR23.5)

The group's transformation has been implemented more quickly than expected. In fact, only eight months after the appointment of Philippe Salle, it is clear that the group's transformation is well engaged with significant concrete actions, i.e. 100% ownership of Areas, 2016-2020 strategic plan launched, new organisation implemented with the top 20 management completed and the top 100 scheduled by the end of Q1, debt refinanced or innovation with investment in two start-ups. All eight projects of the strategic plan, announced at the end of September 2015, have already been launched and started to deliver results in marketing (SNCF contracts) or in M&A (two new acquisitions in contract catering in USA).

Our valuation is based on a DCF, using a WACC of 8.2% with a risk-free rate of 2%, a market risk premium of 6.4% with a leverage beta of 1.35 (unleveraged beta of 0.8 corresponding of the current beta of Sodexo or Compass Group).

- "Base case" with total revenue of EUR7,498m in 2020 and an EBITDA margin of 9.3% derive a DCF valuation of c.EUR23.5.
- "Blue sky" with total revenue of EUR8,121m in 2020 and an EBITDA margin of 9.7% derive a DCF valuation of EUR30.5.

Based on our FV, the share would be valued 10.6x EV/EBITDA 2015-2016e and 9.5x 2016-2017e.

NEXT CATALYSTS

Sodexo: Q1 2015-2016 revenue on 13th January

SGS: FY 2015 results on 20th January

Compass Group: AGM & Q1 2015-2016 IMS on 4th February

Edenred: FY 2015 results on 11th February

Bureau Veritas: FY 2015 results on 25th February

Elior: Q1 2015-2016 results on 26th February

Sodexo main adjustments

	2015			2016e			2017e			
	Old	New	Change %	Old	New	Change %	Old	New	Change %	
SALES	19 815	19 815	0.0%	20 274	20 240	-0.2%	21 029	20 702	-1.6%	
EBITDA	1 396	1 396	0.0%	1 485	1 499	1.0%	1 572	1 592	1.3%	
		7.0%	7.0%	-	7.3%	7.4%	8 bp	7.5%	7.7%	22 bp
EBIT	1 143	1 143	0.0%	1 221	1 236	1.2%	1 299	1 323	1.9%	
		5.8%	5.8%	-	6.0%	6.1%	8 bp	6.2%	6.4%	22 bp
EPS	4.60	4.60	0.0%	4.61	4.85	5.3%	4.88	5.21	6.8%	

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

Compass Group main adjustments

	2015			2016e			2017e			
	Old	New	Change %	Old	New	Change %	Old	New	Change %	
SALES	17 843	17 843	0.0%	18 658	18 718	0.3%	19 688	19 752	0.3%	
EBITDA	1 636	1 636	0.0%	1 701	1 706	0.3%	1 841	1 847	0.3%	
		9.2%	9.2%	-	9.1%	9.1%	0 bp	9.4%	9.4%	0 bp
EBIT	1 287	1 287	0.0%	1 336	1 341	0.3%	1 432	1 437	0.3%	
		7.2%	7.2%	-	7.2%	7.2%	0 bp	7.3%	7.3%	0 bp
EPS	52.91	52.91	0.0%	54.61	54.82	0.4%	60.51	60.73	0.4%	

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

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