

20th January 2016

Business Services

SGS SA

Price CHF1,849

FY results: Pretty resilient in a challenging environment

Fair Value CHF2150 (+16%)

BUY

Bloomberg	SGS VX
Reuters	SGS.VX
12-month High / Low (CHF)	1,989 / 1,626
Market Cap (CHF)	14,463
Ev (BG Estimates) (CHF)	14,977
Avg. 6m daily volume (000)	21.10
3y EPS CAGR	5.2%

2015 numbers were in line with expectations and confirmed the group's resilience. In fact total revenue reached CHF5.712bn, down 2.9% in reported terms and 2% on a lfl basis (H1 was up 1.8%) compared with the consensus at CHF5.747bn with lfl of 1.8%. Adjusted EBITA was CHF917m compared with CHF947 last year and CHF924m anticipated by the consensus i.e. a margin flat at 16.1%. The SGS Board is to recommend a dividend of CHF68 like last year representing a dividend yield of 3.7%. For the year ahead, SGS expects to deliver lfl revenue growth of between 2.5% and 3.5% (our current estimate is 2.7%) with stable EBITA margin compared to 2015 (our estimate is +20bp) and solid cash flow.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.7%	3.1%	1.8%	-3.2%
Inds Gds & Svs	-8.0%	-5.3%	-17.1%	-9.0%
DJ Stoxx 600	-7.8%	-8.6%	-17.9%	-9.0%

YEnd Dec. (CHFm)	2014	2015e	2016e	2017e
Sales	5,883	5,741	5,938	6,277
% change		-2.4%	3.4%	5.7%
EBITDA	1,245	1,137	1,254	1,343
EBIT	946.9	933.9	976.2	1,048
% change		-1.4%	4.5%	7.4%
Net income	662.2	532.9	659.9	711.7
% change		-19.5%	23.8%	7.9%

	2014	2015e	2016e	2017e
Operating margin	16.1	16.3	16.4	16.7
Net margin	11.3	9.3	11.1	11.3
ROE	28.5	24.9	36.1	36.9
ROCE	19.4	19.3	19.6	20.1
Gearing	14.1	23.3	47.2	45.6

(CHF)	2014	2015e	2016e	2017e
EPS	82.69	70.67	89.27	96.28
% change		-14.5%	26.3%	7.9%
P/E	22.4x	26.2x	20.7x	19.2x
FCF yield (%)	4.3%	4.2%	4.6%	4.9%
Dividends (CHF)	68.00	68.00	68.00	73.16
Div yield (%)	3.7%	3.7%	3.7%	4.0%
EV/Sales	2.5x	2.6x	2.6x	2.5x
EV/EBITDA	11.9x	13.2x	12.3x	11.5x
EV/EBIT	15.6x	16.0x	15.7x	14.7x

ANALYSIS

- **Resilient results with revenue up 3.6% at constant currency and 2% on a lfl basis:** This was despite further difficult trading conditions in 2015 with lower commodity prices affecting mainly **OGC** (19.6% of consolidated revenue) down 2.2% on constant currency, **Minerals** (11.1%) down 1.8% and **Industrial Services** (15.5%) down 0.6%. On the other hand, constant currency revenues were sustained in **Governments & Institutions** (4.6%) up 12%, **Automotive** (5.6%) up 13.8%, **Systems & Services** (7.3%) up 7.2%, **Life Science** (3.7%) up 6.8%, **Environmental** (6.4%) up 16.9%, **Consumer** (19.8%) up 6.3% and **Agriculture** (6.4%) up 4%.
- **Stable EBITA margin:** Before the restructuring measures of CHF64m (in line with forecasts) announced in H1 2015 to adjust operations to the current economic environment, adjusted EBITA margin reached CHF917m i.e. an EBITA margin stable at 16.1%, slightly lower than the consensus. Operating cash flow improved to CHF1.062bn from CHF912m expected (CHF64m vs. CHF65m anticipated).
- **2016 expectations:** SGS management expects to deliver organic growth of between 2.5% and 3.5% (our forecast is 2.7%) with stable margin compared to 2015 at 16.1% and "solid" cash flow.

VALUATION

- At the current share price, the stock is trading at 15.7x EV/EBIT 2016e and 14.7x 2017e which compares with the historical median of 14.8x.

NEXT CATALYSTS

- Meeting (webcast) at 2.30pm (Paris time)
- AGM on 14th March 2016

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Analyst :

Bruno de La Rochebrochard

33(0) 1 56 68 75 88

bdelarochebrochard@bryangarnier.com

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BUY ratings 57,9%

NEUTRAL ratings 33,1%

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London	Paris	New York	Geneva	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	rue de Grenus 7	The Imperial Hotel
15 St. Botolph Street	75008 Paris	New York, NY 10022	CP 2113	Janpath
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Genève 1, CH 1211	New Delhi 110 001
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	Tel +4122 731 3263	Tel +91 11 4132 6062
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member	Fax+4122731 3243	+91 98 1111 5119
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