25th February 2016

Business Services

Bureau Veritas

Price EUR17.63

FY 2015 results: In line except net result. Resilient 2016 results expected.

Fair Value EUR22 (+25%) **NEUTRAL**

Bloomberg	BVI FP
Reuters	BVI.PA
12-month High / Low (EUR)	21.8 / 16.1
Market Cap (EURm)	7,781
Ev (BG Estimates) (EURm)	9,782
Avg. 6m daily volume (000)	864.7
3y EPS CAGR	7.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.3%	-7.3%	-7.9%	-4.2%
Inds Gds & Svs	-2.0%	-11.9%	-4.0%	-9.2%
DJ Stoxx 600	-5.4%	-14.8%	-6.4%	-12.5%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	4,172	4,643	4,797	5,024
% change		*11.3%*	*3.3%*	*4.7%*
EBITDA	778	896	928	985
EBIT	694.0	777.2	802.3	848.6
% change		*12.0%*	*3.2%*	*5.8%*
Net income	391.3	446.9	462.8	492.5
% change		*14.2%*	*3.6%*	*6.4%*

	2014	2015e	2016e	2017e
Operating margin	16.6	16.7	16.7	16.9
Net margin	9.4	9.6	9.6	9.8
ROE	35.3	33.8	31.2	29.6
ROCE	13.0	13.6	13.6	13.7
Gearing	164.7	147.2	128.4	113.3

(EUR)	2014	2015e	2016e	2017e
EPS	0.90	1.02	1.06	1.13
% change	-	*13.6%*	*3.6%*	*6.4%*
P/E	19.6x	17.2x	16.6x	15.6x
FCF yield (%)	5.9%	6.3%	6.5%	7.0%
Dividends (EUR)	0.48	0.54	0.56	0.60
Div yield (%)	2.7%	3.1%	3.2%	3.4%
EV/Sales	2.3x	2.1x	2.0x	1.9x
EV/EBITDA	12.4x	10.9x	10.5x	9.9x
EV/EBIT	13.9x	12.6x	12.1x	11.4x

Results were in line with expectations except net result due to exceptional charges amounting to EUR121m. 2016 should be challenging again due to oil & gas and minerals. Nevertheless, management expects lfl revenue growth of between 1% and 3% (our forecast is 1.6% vs. consensus at 2.1%) with a gradual improvement in H2 (notably due to construction in France representing around 5% of consolidated revenue). Adjusted EBITA margin should be maintained at a high level between 16.5% and 17% after 16.7% in 2015. Our forecast is flat at 16.7% compared with the consensus of 16.8%. Management will propose a dividend of EUR0.51, up 6.3%.

ANALYSIS

- **Results were in line except net result, affected by exceptional charges: Total revenue** reached EUR4,635m up 11.1% in reported terms with lfl growth of 1.9%, which compared with the consensus at EUR4,648m with organic growth of 2.1% and BG estimates of EUR4,643m up 1.8% (Q4 alone was flat on a lfl basis vs. -0.5% anticipated by us). **Adjusted EBITA** reached EUR775m (consensus EUR776m and EUR777 from BG) i.e. an EBITA margin of 16.7% representing an improvement of 10bps. **Net profit** at EUR255m was down 13.3% vs. last year largely affected by exceptionals of EUR121m o/w EUR100m of impairment of goodwill relating to commodities business and EUR21m restructuring charges (EUR20m in 2014) mainly in the Americas and in Australia for Industry and Commodities. Strong Operating Cash Flow up 16.4% to EUR706m (our expectation was EUR639m) and free cash flow of EUR462m vs. EUR402m in 2014. Finally, adjusted net debt was EUR1,863m i.e. representing a leverage of 2.02x vs. 2.16x in December 2014.
- **Resilient results anticipated in 2016 with improvement in H2:** The economic environment is still challenging and volatile especially in the oil & gas and minerals segments (24% of consolidated revenue o/w c.8% is linked to client capex and about 90% of this 8% concern the industry segment). Nevertheless, management expects **lfl revenue growth** of between 1% and 3% (our forecast is 1.6% vs. consensus at 2.1%) with a gradual improvement in H2 (notably due to construction in France representing around 5% of consolidated revenue). **Adjusted EBITA margin** should be maintained at a high level between 16.5% and 17% after 16.7% in 2015. Our forecast is flat at 16.7% compared with consensus of 16.8%.

VALUATION

- At the current share price, the stock is trading on 2016e and 2017e EV/EBIT of 12.1x and 11.4x, compared with the median historical multiple of 14.4x and an EBIT CAGR 2014-2017 of c.7%.
- We have based our forecasts on lfl revenue growth of 1.6% in 2016e (consensus 2.1%) after 1.9% in 2015 and 3% in 2017e (consensus 3.9%).

NEXT CATALYSTS

- Meeting at 3.00pm (Paris time)
- Q1 2016 revenue on 12th May 2016

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Distribution of stock ratings

BUY ratings 63% NEUTRAL ratings 28,1% SELL ratings 8,9%

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