

Sector View

Business Services

Top picks Q2 2016: Elior again!

	1 M	3 M	6 M	31/12/15
Inds Gds & Svs	1.2%	-3.0%	3.8%	-3.0%
DJ Stoxx 600	-1.6%	-8.9%	-3.8%	-8.9%

*Stoxx Sector Indices

Companies covered

BUREAU VERITAS	NEUTRAL	EUR22
Last Price	EUR19.6	Market Cap. EUR8,653m
COMPASS GROUP	NEUTRAL	1200p
Last Price	1238p	Market Cap. GBP20,352m
EDENRED	NEUTRAL	EUR19 20
Last Price	EUR16.99	Market Cap. EUR3,922m
ELIOR	BUY	EUR23 23.5
Last Price	EUR19.345	Market Cap. EUR3,333m
SGS SA	BUY	CHF2150
Last Price	CHF2034	Market Cap. CHF15,910m
SODEXO	NEUTRAL	EUR88
Last Price	EUR94.43	Market Cap. EUR14,838m

LOOKING BACK AT Q1 2016

Compass Group and **Edenred** both turned in negative performances, losing 1.8% and 1.4% respectively in absolute terms and in euros. In relative terms, all stocks outperformed the DJ Stoxx in euros after FY results confirmed the resilience of business models or the ability to manage the market slowdown.

The picture was mixed for **Foodservices** stocks. **Sodexo** posted the best performance, up 6.3% in absolute terms benefiting from positive newsflow with i/ Q1 lfl revenue growth of 4.7% driven by RWC (released mid-January), ii/ Bellon SA's decision to increase its stake in Sodexo with the acquisition of around 2.2m shares no later than September 2016, iii/ a share buyback programme of EUR300m and iiiii/ NYSE Euronext's decision to include Sodexo in the CAC 40 index from 21st March. **Compass Group** was negative despite the good Q1 numbers released in early February while **Elior**, our top pick, was flat in Q1 2016 i.e. a consolidation after the strong outperformance in 2015 (up 56.9%). Volatility remained sharp for **Edenred** due to the group's exposure to the Brazilian economy.

In the **TIC sector**, **Bureau Veritas** and **SGS** had strong performances, up 6.4% and 5.7% respectively in absolute terms and in euros, and outperforming the DJ Stoxx by 14.1% and 13.3%. After share price volatility in 2015 reflecting macroeconomic uncertainties and the end of the commodities hyper cycle, FY 2015 results were reassuring and confirmed the groups' cost flexibility in an environment lacking visibility.

WHAT WE SEE FOR Q2 2016

In **Foodservices**, **Sodexo** is due to release its H1 results on 14th April. After strong Q1 lfl revenue growth, H1 is automatically set to be lower given the lack of specific events and the consensus is forecasting growth of 3.5% bearing in mind that the contribution from RWC stood at 2.7% in Q1. Operating margin is expected to come in at 6.4% up 20bps vs. last year with an EBIT of EUR668m. Management's FY guidance should be confirmed i.e. lfl revenue growth of around 3% and an increase in operating profit of around 8% (excluding currency effects and before exceptional items). Despite reporting better Q1 lfl revenue growth of 5.9% in early February, the **Compass** share price was broadly stable and should remain so. Indeed, business trends remain the same from one quarter to the next, with NA still the main growth engine, a continued recovery in Europe and ongoing challenges in the ROW. We also confirm that no cash return is anticipated before 2017. **Edenred's** share price volatility is likely to remain due to the group's exposure to the Brazilian economy. It is still too early to revisit the share in view of this situation and the stock remains a trading share.

FY 2015 results confirmed TIC sector fundamentals. Nevertheless, the short term still looks challenging with a lack of visibility reflected in 2016 group guidance expectations (more or less the same performance as in 2015 with a wide range of expectations).

Bureau Veritas is forecasting lfl revenue growth of between 1% and 3% compared with 1.9% in 2015 (our forecast is 1.6%, while the consensus was at 1.5% at end-March vs. 2.1% before FY 2015 results) with an adjusted EBITA margin of between 16.5% and 17% compared with 16.7% in 2015 (our forecast is flat at 16.7% in line with consensus recently downgraded from 16.8%). Lfl revenue growth is expected to be better in H2 2016 bearing in mind that Q1 lfl revenue should be negative (consensus at -0.4%) and H1 only slightly positive (consensus at 0.2%).

The same situation goes for **SGS**, with management expecting to deliver lfl growth of between 2.5% and 3.5% compared with 2% in 2015 (our forecast is 2.7%) with a stable margin vs. 2015 i.e. 16.1%.

CONCLUSIONS AND TOP PICKS

Elior (Buy, FV EUR23)

Last quarter, we decided to add Elior in our Top Picks list, given that the group's transformation was implemented more quickly than expected with significant concrete actions (see our note of 17th December) and **we maintain the stock in our Top Picks list in Q2**. In fact, Q1 2015-2016 results, released at the end February, confirmed positive expectations with i/ total revenue up 4.5% and lfl revenue growth of 1% with the termination or disposal of insufficiently profitable contracts impacting growth by 2.1%, ii/ EBITDA up 6.9% generating an EBITDA margin of 7.7%, up 20bp. FY 2015-2016



guidance has been reaffirmed, with management expecting lfl revenue growth of more than 3% excluding the impact of voluntary contract exits (probably less than 150bp) with an EBITDA margin up 20bp at least to 8.6%. Our forecast is 1.9% lfl revenue growth after contract exits with EBITDA margin slightly over 8.6%.

Our FV is based on a DCF (WACC of 8.4% with a leverage beta of 1.35) using our "Base Case" scenario anticipating:

- Total revenue of c. EUR7.5bn in 2020 i.e. the mid-point of management's target for between EUR7bn and EUR8bn, representing a 2015-2020 CAGR in revenue of 5.7% o/w 1.9% stemming from acquisitions.
- 2020 EBITDA margin of 9.3% compared with management's target for 9-10%.

In a "Blue sky" scenario, with total revenue of EUR8.1bn in 2020 and an EBITDA margin of 9.7%, our DCF valuation would be EUR29.5.

FV changes using our new ERP of 7% vs.6.2% previously with a RFR of 1.6% vs. 2%

	FV(before)	FV(after)	last price	Potential
Sodexo (EUR)	88	88	94.4	-6.8%
Compass Group (p)	1200	1200	1238	-3%
Elior (EUR)	23,5	23	19.3	19%
Edenred (EUR)	20	19	17	11.8%
Bureau Veritas (EUR)	22	22	19.6	12.2%
SGS (CHF)	2150	2150	2034	5.7%

Source: Bryan Garnier & Co. ests.

NEXT CATALYSTS

Sodexo: H1 2015-2016 results on 14th April

Edenred: Q1 2016 revenue on 14th April

Compass Group: H1 2015-2016 results on 11th May

Bureau Veritas: Q1 2016 trading update on 12th May

Elior: H1 2015-2016 results on 27th May

SGS: H1 2016 results on 18th July

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