

1st July 2016

Business Services

## Bureau Veritas

Price EUR19.01

Ahead of H1 results, some adjustments

Fair Value EUR21 vs. EUR22 (+10%)

NEUTRAL

Bloomberg	BVI FP
Reuters	BVI.PA
12-month High / Low (EUR)	21.8 / 16.1
Market Cap (EUR)	8,400
Ev (BG Estimates) (EUR)	10,230
Avg. 6m daily volume (000)	803.4
3y EPS CAGR	5.1%

Early last May, following Q1 revenue slightly lower than our anticipation on a lfl basis and the confirmation of management's FY guidance, we maintained our FY estimates. Today, our estimates look too aggressive taking into account the economic environment and forex, which could have a negative impact on margin. Based on our new numbers, our FV moves to EUR21 vs. EUR22 based on a DCF and historical multiple EV/EBIT on FY+3.

### ANALYSIS

- Ahead of the H1 release on 28th July, our FY estimates now look too aggressive to us taking into account the economic environment and forex, which could have a negative impact on margin.
- Confirming our H1 estimates for lfl revenue growth down 0.6% (Q2 at the same level than Q1 as guided by the management), we are downgrading our FY estimate to 0.9% vs. 1.6% previously which should imply H2 lfl revenue growth of 2.5% benefiting from better comps (H2 2015 was up 0.4%). Remember that current management guidance is between 1% and 3%.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.6%	-2.9%	3.3%	3.3%
Inds Gds & Svs	-5.9%	-3.0%	-4.5%	-4.5%
DJ Stoxx 600	-5.1%	-2.3%	-9.8%	-9.8%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	4,635	4,632	4,820	5,022
% change		-0.1%	4.0%	4.2%
EBITDA	782	887	935	984
EBIT	775.2	768.7	808.1	848.3
% change		-0.8%	5.1%	5.0%
Net income	420.3	436.1	461.4	488.1
% change		3.8%	5.8%	5.8%

	2015	2016e	2017e	2018e
Operating margin	16.7	16.6	16.8	16.9
Net margin	9.1	9.4	9.6	9.7
ROE	38.4	38.7	33.6	29.3
ROCE	15.2	15.1	15.3	15.4
Gearing	166.0	158.1	121.1	90.4

(EUR)	2015	2016e	2017e	2018e
EPS	0.96	1.00	1.05	1.11
% change	-	3.8%	5.8%	5.8%
P/E	19.8x	19.1x	18.0x	17.0x
FCF yield (%)	6.4%	6.5%	6.9%	7.3%
Dividends (EUR)	0.51	0.53	0.56	0.59
Div yield (%)	2.7%	2.8%	2.9%	3.1%
EV/Sales	2.2x	2.2x	2.1x	2.0x
EV/EBITDA	13.1x	11.5x	10.8x	10.1x
EV/EBIT	13.2x	13.3x	12.5x	11.7x

### LFL revenue growth trend

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	H1 2016e	FY 2016e
Marine	13,7%	9,9%	8,6%	9,4%	1,2%	1,2%	2,0%
Industry	4,6%	2,6%	-4,6%	-7,6%	-8,1%	-8,8%	-7,0%
In-Service Inspection & Construction	1,1%	2,5%	2,7%	4,6%	5,1%	5,1%	5,0%
Certification	0,5%	1,4%	2,9%	0,5%	0,8%	1,0%	1,5%
Commodities (Inspectorate)	4,5%	4,4%	4,9%	4,7%	3,6%	3,8%	4,5%
Consumer products	6,3%	4,9%	0,6%	1,9%	1,6%	1,8%	2,0%
GSIT	5,1%	2,1%	0,1%	-0,8%	1,6%	1,6%	3,0%
GSIT	-0,7%	-4,8%	3,3%	-4,8%	-5,2%	-4,0%	3,0%
<b>Total group</b>	<b>4,4%</b>	<b>3,0%</b>	<b>0,9%</b>	<b>0,0%</b>	<b>-0,6%</b>	<b>-0,6%</b>	<b>0,9%</b>

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

- Moreover, as noted in Q2, negative currency effects are set to be worse than previously calculated using current parities vs. the EUR (-5.4% calculated in Q2 after -4.4% in Q1 and -3.3% calculated for the FY). Largely due to emerging countries, such trends could hit the margin as observed historically. Our adjusted operating margin moves to slightly lower than 16.6% (down 6bps vs. previously) compared with management's guidance for between 16.5% and 17%.

### Main changes

	2016			2017			2018		
	Old	New	% change	Old	New	% change	Old	New	% change
SALES	4 740	4 632	-2,3%	4 925	4 820	-2,1%	5 139	5 022	-2,3%
EBITDA	913	887	-2,8%	960	935	-2,6%	1 012	984	-2,8%
	19,3%	19,2%	-10 bp	19,5%	19,4%	-10 bp	19,7%	19,6%	-10 bp
EBIT	789	769	-2,6%	829	808	-2,5%	871	848	-2,6%
	16,6%	16,6%	-6 bp	16,8%	16,8%	-6 bp	17,0%	16,9%	-6 bp
EPS	1,03	1,00	-2,9%	1,08	1,05	-2,8%	1,15	1,11	-3,0%

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

- Finally, we continue to believe these numbers will greatly contrast with those of SGS (see our note of 27th May). Remember that we are anticipating for SGS (Buy, FV CHF2,400) lfl revenue growth of 2.6% in H1 (released on 18th July) and 3.3% for the full year with adjusted operating margin flat vs. last year at 16.1%.

### VALUATION

- At the current share price, the stock is trading at 2016e and 2017e EV/EBIT of 13.3x and 12.5x respectively, compared with an historical median of 14.3x and CAGR EBIT2015-2018 of 3%.

### NEXT CATALYSTS

- H1 results on 28th July



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