

## Sector View

## Business services

## Top picks: We are maintaining Elixir

	1 M	3 M	6 M	31/12/15
Inds Gds & Svs	-6.6%	-2.6%	-4.6%	-6.9%
DJ Stoxx 600	-5.0%	-1.2%	-9.7%	-11.4%

\*Stoxx Sector Indices

## Companies covered

Company	Rating	Target Price
<b>BUREAU VERITAS</b>	<b>NEUTRAL</b>	<b>EUR21</b>
Last Price	EUR18.535	Market Cap. EUR8,192m
<b>COMPASS GROUP</b>	<b>NEUTRAL</b>	<b>1200p</b>
Last Price	1445p	Market Cap. GBP23,737m
<b>EDENRED</b>	<b>NEUTRAL</b>	<b>EUR19</b>
Last Price	EUR19.07	Market Cap. EUR4,457m
<b>ELIOR</b>	<b>BUY</b>	<b>EUR23</b>
Last Price	EUR19.57	Market Cap. EUR3,372m
<b>EUROFINS SCIENTIFIC</b>	<b>SELL</b>	<b>EUR340</b>
Last Price	EUR329.75	Market Cap. EUR5,275m
<b>SGS SA</b>	<b>BUY</b>	<b>CHF2400</b>
Last Price	CHF2204	Market Cap. CHF17,240m
<b>SODEXO</b>	<b>NEUTRAL</b>	<b>EUR88</b>
Last Price	EUR96.9	Market Cap. EUR14,898m



## LOOKING BACK ON Q2 2016

**Bureau Veritas** was the only group to report negative performances in Q2 with a share price down 2.9% in absolute terms and -0.7% vs. the DJ Stoxx i.e. consolidating after a strong Q1 up respectively 6.4% and 14.1%. Main competitor **SGS** maintained its Q1 positive trend in Q2, up 10.5% in absolute terms (+5.7% in Q1) and 13% in Euros vs. the DJ Stoxx (+13.3% in Q1). **Eurofins Scientific** (coverage initiated on 27th May, 2016 at Sell with a FV of EUR340) was up 3.5% in absolute terms and 5.9% vs. the DJ Stoxx.

The picture was mixed again in **Foodservices**. After the best performance in Q1 due to positive newsflow, some consolidation was seen on **Sodexo**, up 2.1% in absolute terms and 4.5% vs. the DJ Stoxx. For **Elixir**, our top pick, stock price consolidation continued in Q2 (+1.8% in absolute terms) as was the case in Q1 after the strong outperformance in 2015 (up 56.9%) and despite positive newsflow, which makes us increasingly confident in management's expectations. The best performances stemmed from **Compass Group** and **Edenred** (after the worst ones in Q1), up respectively 10.5% and 8.3% in absolute terms and in euros (+13% and 10.9% vs. DJ Stoxx) with Edenred benefiting notably from the re-appreciation of BRL/EUR exchange rate.

## WHAT WE SEE FOR Q3 2016

In **Foodservices**, **Sodexo** is due to report 9m revenue on Friday 8th July for which we forecast total revenue of EUR15.603bn up 3.4% in reported terms implying -1.3% in Q3 (after +3.6% in Q2 and +9.6% in Q1) impacted by negative currencies of -3.7%. lfl growth should be largely in line with FY guidance (3% after RWC) estimated at 3.4% implying 2.3% in Q3 after 2.7% in Q2 and 4.7% in Q1. Visibility on **Edenred** remains limited and the current main driver i.e. the BRL parity difficult to anticipate. For H1 results, we do not expect many surprises pending the investor day in October. Regarding H1 results, we anticipate EUR524m in total revenue down 2.7% in reported terms with lfl growth of 5.4% implying 5.5% in Q2 and an EBIT of EUR153m vs. EUR165m last year. Management will guide on FY results (our estimate is EUR372m). No major surprises are anticipated for **Compass Group** Q3 IMS after the recent investor day: we anticipate lfl growth of 5.5% slightly lower in H1 at 5.7% mainly due to RoW. During the investor day, management confirmed its medium-term guidance for lfl revenue growth of between 4% and 6% with some margin improvement albeit "modest" and further cash returns. In fact, we estimate that between 2 to 3% of the group's equity capital can be bought back each year when net debt/EBITDA will be back to below 1.5x i.e. in 2016 based on our forecast of 1.3x.

Regarding **TIC**, having downgraded our estimates on **Bureau Veritas** ([see our note on 1st July](#)), we confirm that H1 numbers (especially lfl revenue growth down 0.6%) will greatly contrast with those of **SGS** with more FY guidance that could be at risk. Remember that for **SGS** we anticipate lfl revenue growth of 2.6% in H1 and 3.3% for the FY. Following the conference call on private equity issuance, no major surprises on **Eurofins Scientific's** H1 results are expected, management having confirmed that Q2 was robust even if lfl growth should be lower than in Q1 up over 10%.

## CONCLUSIONS AND TOP PICKS

We are maintaining **Elixir** as our top pick. (see our note on 22<sup>nd</sup> June: [On track with 2020 Ambitions](#))

Actually, following H1 2015-16 results on 27th May, management is clearly stepping up the roll-out of its 2020 Ambitions plan. It is particularly focused on the group's expansion via acquisitions, which is gaining momentum with around EUR400m in annualised revenue added since the beginning of the year, 50% of which stemming from Preferred Meals in the US acquired at the end of last May.

Having reported H1 revenue growth of 3.5% with organic growth of 1.5% taking into account the 1.9% negative effect of voluntary contract exits (vs. 1.5% initially anticipated) with an EBITDA margin up 20bp to 7.4%, management confirmed its full year objectives with: 1) organic growth of "more than 3%" excluding the impact of voluntary contract exits which is expected to be less than 200bp vs. 150bp previously announced, 2) EBITDA margin of over 8.6% i.e. at least a 20bp improvement taking into account some penalties from contract cancellations or the negative impact of acquisitions on margin. The full benefits, especially from contract exits, is expected in 2016-17 and management has confirmed its target for a 40bp EBITDA margin improvement to reach 9%.

In addition, early last May, the group undertook the early redemption of all the outstanding high yield 6.5% May 2020 Senior Secured Notes for a total amount of EUR186m. Simultaneously, the group raised the same amount from investors via a seven-year private placement at a variable rate plus 250bp. In all, taking into account recent M&A, we estimate net debt 2015-16 at around EUR1.6bn up EUR150m vs. last year with an average cost of 2.8% (vs. 3.3%).

In all, these actions make us increasingly confident in management's short and medium-term guidance. Our DCF valuation using a leverage beta of 1.3x yields our FV of EUR23. Our SOTP yields a valuation of EUR24 per share.

#### NEXT CATALYSTS

**Sodexo:** 9m 2015-16 Revenue on 8th July (before market)

**SGS:** H1 results on 18th July (before market). Capital market days on 27 & 28 October (Geneva)

**Edenred:** H1 results on 22nd July (before market). Capital market day on 19th October (London)

**Bureau Veritas:** H1 results on 28th July (before market)

**Compass Group:** 9m 2015-16 Trading update on 28th July (before market)

**Elior:** 9m 2015-16 Revenue on 28th July (before market)

**Eurofins Scientific:** H1 results on 2nd August (before market)

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