

18th October 2016

Business Services

Bureau Veritas

Price EUR18.39

Q3 revenue: Substantially lower and FY guidance downgraded

Fair Value EUR21 (+14%)

NEUTRAL

Bloomberg	BVI.FP
Reuters	BVI.PA
12-month High / Low (EUR)	21.0 / 16.1
Market Cap (EUR)	8,128
Avg. 6m daily volume (000)	636.7

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.0%	-3.9%	-10.5%	0.0%
Inds Gds & Svs	-0.6%	3.5%	3.2%	1.9%
DJ Stoxx 600	-0.1%	-0.1%	-1.6%	-7.8%

	2015	2016e	2017e	2018e
P/E	19.2x	18.8x	18.0x	16.7x
Div yield (%)	2.8%	2.8%	2.9%	3.2%

ANALYSIS

• **Q3 revenue largely misses consensus...:** Bad surprise for Q3 revenue at EUR1,136m down 0.6% in reported terms with lfl revenue growth down 1% vs. +0.4% anticipated by consensus i.e. the rebound expected in Q3 after negative numbers in Q1 (-0.6%) and Q2 (-0.6) moved to a higher negative figure. Management gave two main explanations for this situation:

- **Marine** (8.7% consolidated revenue) revenue was down 9.8% lfl in Q3 (after +1.2% in Q1 and 4.8% in Q2) hit earlier than expected by the shipping cycle downturn;
- Still **challenging markets in Oil & Gas capex** (c.8% of consolidated revenue depending on oil & gas client capex) down 21%.

On the other hand, trends were better in **Consumer Products** (14.2% consolidated revenue), up 4.5% lfl (1.6% in Q1 and 3.1% in Q2), **Certification** (7.6%) up 7.6% (+3.6% in Q1 and 6.9% in Q2) and recovered in **Commodities** (16.7%) with especially Metal & Minerals back to positive.

... **forcing management to revise down its FY expectation:** For 2016, management now expects a "slightly negative" figure for lfl growth vs. between 1-3% previously and 0.4% forecast by the consensus (our forecast was based on 0.9%). In view of this, adjusted operating margin is lowered to between 16-16.5% vs. 16.5%-17% after 16.7% in 2015. The consensus is at 16.6% and our forecast was 16.3%.

VALUATION

- At the current share price, and before adjustment the stock is trading on 2016e and 2017e EV/EBIT multiples of 13.2x and 12.4x respectively, compared with an historical median of 14.3x and CAGR 2015-2018 EBIT of 2.8%.
- Based on consensus previous anticipations (lfl growth of 0.4% with adjusted operating margin of 16.6%), new guidance would impact valuation of around 3.5%.

NEXT CATALYSTS

- Conference call at 6.00pm
- FY results on 24th February

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