

19th October 2016

Business Services

Bureau Veritas

Price EUR17.90

Feed back conference call: No significant recovery expected in FY 2016. FV reduced.

Fair Value EUR20 vs. EUR21 (+12%)

NEUTRAL

Bloomberg	BVI FP
Reuters	BVI.PA
12-month High / Low (EUR)	21.0 / 16.1
Market Cap (EUR)	7,910
Ev (BG Estimates) (EUR)	9,753
Avg. 6m daily volume (000)	655.8
3y EPS CAGR	3.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.6%	-6.9%	-13.2%	-2.7%
Inds Gds & Svs	0.6%	4.9%	4.2%	3.1%
DJ Stoxx 600	1.4%	1.1%	-0.5%	-6.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	4,635	4,563	4,700	4,909
% change		-1.6%	3.0%	4.5%
EBITDA	782	846	902	962
EBIT	775.2	745.7	770.8	821.2
% change		-3.8%	3.4%	6.5%
Net income	420.3	421.3	436.6	470.0
% change		0.2%	3.6%	7.7%

	2015	2016e	2017e	2018e
Operating margin	16.7	16.3	16.4	16.7
Net margin	9.1	9.2	9.3	9.6
ROE	38.4	39.4	34.3	30.3
ROCE	15.2	14.9	14.9	15.2
Gearing	166.0	167.8	132.6	100.0

(EUR)	2015	2016e	2017e	2018e
EPS	0.96	0.96	1.00	1.07
% change	-	0.3%	3.6%	7.7%
P/E	18.6x	18.6x	17.9x	16.7x
FCF yield (%)	6.8%	6.5%	7.0%	7.5%
Dividends (EUR)	0.51	0.51	0.53	0.57
Div yield (%)	2.8%	2.9%	3.0%	3.2%
EV/Sales	2.1x	2.1x	2.1x	1.9x
EV/EBITDA	12.5x	11.5x	10.7x	9.9x
EV/EBIT	12.6x	13.1x	12.5x	11.6x

Following Q3 revenue, management has lowered its FY 2016 guidance and is now expecting "slightly" negative lfl revenue growth (i.e. first negative FY number since the IPO) with adjusted operating margin of 16-16.5% compared with 16.5-17% previously and 16.7% last year. We have lowered our estimates for lfl revenue growth from 0.9% to -0.3% (consensus was at 0.4%) maintaining our adjusted operating margin at 16.3% (consensus was at 16.6%). Based on our new numbers, our FV moves to EUR20 vs. EUR21 based on a DCF and historical multiple EV/EBIT on FY+3. Too early to revisit the stock.

ANALYSIS

- Lfl revenue growth now expected to be "slightly" negative in FY 2016...:** Despite positive trends in some segments i.e. Certification (7.6% consolidated revenue), Consumer product (14.2%), a rebound in Metals & Minerals (33% of commodities representing 16.7% of consolidated revenue), the persistently challenging oil & gas markets with an earlier and sharp reversal in Marine, have definitely delayed the group's lfl recovery expected in H2 2016. As such, taking into account favourable comps in Q4 with no specific changes vs. Q3, management now expects "slightly" negative lfl revenue growth vs. between 1% and 3% previously (consensus was at +0.4% and our forecast at 0.9%). We move our 2016e to -0.3% and reduce 2017e to 1.4% vs. 2.9% previously (consensus was at 2.5%).

LFL revenue growth trend

	Q1 16	Q2 16	Q3 16	Q4 16e	FY 2016e	FY 2017e	FY 2018e
Marine	1,2%	4,8%	-9,8%	-10,0%	-3,4%	-4,0%	4,0%
Industry	-8,1%	-11,4%	-9,0%	-8,0%	-9,1%	-5,0%	2,0%
In-Service Inspection & Construction	5,1%	5,4%	3,7%	3,0%	4,3%	4,0%	4,0%
Certification	0,8%	0,1%	-1,6%	0,0%	-0,2%	3,0%	3,0%
Commodities (Inspectorate)	3,6%	6,9%	7,6%	7,0%	6,3%	5,0%	5,0%
Consumer products	1,6%	0,8%	3,9%	4,0%	2,6%	3,0%	3,0%
GSIT	1,6%	3,1%	4,5%	5,0%	3,5%	5,0%	5,0%
GSIT	-5,2%	-3,2%	-4,1%	-3,0%	-3,9%	3,0%	3,0%
Total group	-0,6%	-0,6%	-1,0%	0,0%	-0,3%	1,4%	3,5%

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

- ...which will weigh on operating margin:** Adjusted operating margin guidance has been reduced to 16-16.5% vs. 16.5-17% previously and compared to 16.7% in 2015. Already anticipating lower numbers than management with operating margin of 16.3%, we are maintaining our current forecast. In all, our top line adjustment will impact our 2016 EBIT by EUR10m.

Main changes

	2016e			2017e			2018e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
SALES	4 632	4 563	-1,5%	4 810	4 700	-2,3%	5 011	4 909	-2,0%
EBITDA	859	846	-1,5%	923	902	-2,3%	982	962	-2,0%
	18,5%	18,5%	0 bp	19,2%	19,2%	0 bp	19,6%	19,6%	0 bp
EBIT	755	746	-1,3%	787	771	-2,1%	837	821	-1,9%
	16,3%	16,3%	3 bp	16,4%	16,4%	4 bp	16,7%	16,7%	3 bp
EPS	0,98	0,96	-1,5%	1,02	1,00	-2,4%	1,10	1,07	-2,1%

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

VALUATION

- At the current share price, the stock is trading at 2016e and 2017e EV/EBIT of 13.1x and 12.5x respectively, compared with an historical median of 14.3x and CAGR EBIT2015-2018 of c.2%.

NEXT CATALYSTS

- FY results on 24th February 2017



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