

Sector View

Business services

	1 M	3 M	6 M	31/12/15
Inds Gds & Svs	-1.4%	8.2%	6.0%	2.8%
DJ Stoxx 600	-1.1%	5.6%	1.5%	-7.1%

*Stoxx Sector Indices

Companies covered

BUREAU VERITAS	NEUTRAL	EUR21
Last Price	19.10	Market EUR8,440m
EUROFINS SCIENTIFIC	SELL	EUR400
Last Price	404.35	Market EUR6,818m
SGS SA	BUY	CHF2360
Last Price	2,275	Market CHF17,014m

Companies covered

COMPASS GROUP	NEUTRAL	1450p vs.1200p
Last Price	1,495p	Market GBP24,592m
EDENRED	NEUTRAL	EUR22
Last Price	EUR20.81	Market EUR4,866m
ELIOR	BUY	EUR24 vs.EUR23
Last Price	EUR20.38	Market EUR3,514m
SODEXO	NEUTRAL	EUR92 vs.EUR88
Last Price	EUR106	Market EUR16,297m



Top picks: Elior maintained

LOOKING BACK ON Q3 2016

In the TIC sector, **Eurofins Scientific** reported the best performance in Q3, up 20.5% in absolute terms (after 0.2% in Q1 and 3.5% in Q2) and 17% vs. the DJ Stoxx. At the same time, **Bureau Veritas** was again down 0.2% in absolute terms (after -2.9% in Q2 and -0.7% in Q1) and 3.2% vs. the DJ Stoxx and **SGS** consolidated down 3.5% in Q3 (after 9.5% in Q2 and 6.3% in Q1 6.3%).

In Foodservices, **Compass Group** was the only group to report a negative performance, down 1% in Q3 and -4% vs. the DJ Stoxx, after one of the best performances in H1 (+7.3% in absolute terms and 19% vs. DJ Stoxx). **Elior**, our Q3 top pick was up 4.5% in absolute terms and slightly positive vs. the DJ Stoxx (+1.4%). **Edenred**, as in Q2, continued to benefit from the re-appreciation in the BRL/EUR exchange rate and was up 5.1% and 2% vs. the DJ Stoxx during Q3. **Sodexo** reported the best performance in Q3 up 7.2% in absolute terms and 4% vs. the DJ Stoxx.

WHAT WE SEE FOR Q4 2016

For **Foodservices**, we have upgraded our FV on **Sodexo**, **Elior** and **Compass Group** due to the roll-over to 2017 numbers with **Sodexo's FV** moved to EUR92 vs. EUR88 and **Elior** to EUR24 from EUR23.

Regarding **Compass Group**, our FV moves to 1,450p mainly boosted by positive currency impacts after Brexit, ahead of a slightly positive impact from roll-over, bearing in mind that revenue outside the UK represents c.90% of consolidated revenue. At the end of July (Q3 IMS), management announced that if current spot rates continue for the remainder of the year, foreign exchange translation is expected to benefit 2015 reported revenue and underlying EBIT by around GBP700m (4% of consolidated revenue) and GBP60m (4.5%) respectively. But, the main positive effect will be on 2016-17 numbers, with a boost of around GBP1,800m (9.2%) to revenue and GBP140m (9.5%) to underlying EBIT at the current spot rate.

Finally, remember that our FVs for **Sodexo** and **Compass Group** are derived from the average between a DCF and historical median multiples as the exit multiple on FY+3 (Sodexo: DCF=EUR102 & exit multiple=EUR82; Compass Group: DCF=1,700p & exit multiple=1,205p).

For **Edenred**, we are confirming our FV upgrade after better than anticipated H1 results, with a positive trend, which should continue in H2 and management's guidance for FY, which should be exceeded (our forecast is for EUR372m compared with management's guidance for between EUR350m/EUR370m and consensus at EUR364m). Moreover, newsflow in October should be sustained with the capital market day scheduled for 19th October (London) after Q3 revenue on 13th October.

In the **TIC** sector, newsflow will be limited on **SGS** and **Bureau Veritas** as for **Eurofins**, having recently increased its FY 2016 guidance with the first indications for 2017 expectations. Nevertheless, Eurofins is to hold an investor day in Hamburg on 20th October and in Lancaster on 7th November.

CONCLUSIONS AND TOP PICKS

We are maintaining **Elior** as our top pick.

After 9m results (29th July), slightly above expectations, management confirmed its FY guidance anticipating organic growth at or above 3%, excluding the impact of voluntary contract exits which is expected to be less than 200bps. EBITDA margin should improve by 20bp or more to 8.6%. With the consolidation of Preferred meals in Q4, adding a USD50m contribution to revenue with no contribution to EBITDA due to the seasonal nature of the business in the education segment, the integration will be slightly negative by 10bp on margin.

In all, a significant rise is still expected in reported and adjusted EPS (we expect an improvement of respectively c.35% and 27%).

After 2015-16, we remain confident that at least the mid-range of management's 2020 targets could be reached i.e. total revenue of EUR7.5bn with an EBITDA margin of 9.4%, bearing in mind that the group confirmed its expectation of 9% by the end of 2016-17. For EPS, our forecasts point to a 3y CAGR of c.25% compared with the current P/E of 16.7x 2016-17e and 14.5x 2017-18e.

NEXT CATALYSTS

Edenred: Q3 Revenue on 13th October 2016; Capital Market Day on 19th October 2016 (London)

Eurofins: Capital Market Day on 20th October (Hamburg) and on 7th November (Lancaster)

SGS: Investor days on 27th & 28th October 2016 (Poland)

Bureau Veritas: Q3 Trading update on 4th November 2016

Sodexo: FY 2015-16 Results on 17th November 2016

Compass Group: FY 2015-16 Results on 24th November 2016

Elior: FY 2015-16 Results on 9th December

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