

SGS SA

Price CHF2,023

CMD feedback: When you need to be sure! FV trimmed

Fair Value CHF2300 vs. CHF2360 (+14%)

BUY

| | |
|----------------------------|---------------|
| Bloomberg | SGS VX |
| Reuters | SGS.VX |
| 12-month High / Low (CHF) | 2,314 / 1,755 |
| Market Cap (CHF) | 15,824 |
| Ev (BG Estimates) (CHF) | 16,365 |
| Avg. 6m daily volume (000) | 16.20 |
| 3y EPS CAGR | 6.7% |

During CMD in Poland, management adjusted its FY 2016 lfl revenue growth to approximately 2.5% vs. 2.5%-3.5% guided at the end of H1. Adjustment was due to OGC, MIN and IND still under pressure due to current market conditions. So 2016 and 2017 are expected to be softer than initial planning. We reduce our 2016 top-line growth to 2.5% vs. 3.1% previously and 2017 to 2.6% vs. 3.4%. Based on our new estimates, our FV moves to CHF2,300 from CHF2,360.

ANALYSIS

- **Short-term top-line growth lowered...:** After stronger than anticipated H1 lfl revenue growth up 3.4%, management downgraded its FY 2016 guidance to approximately 2.5% vs. between 2.5%-3.5% previously which implies a significant slowdown in H2 to around 1.6% compared with H1. The main reason was again energy related business lines i.e. **OGC** (20% consolidated revenue), **MIN** (11%) and **IND** (15%) under pressure and 2016, 2017 are expected to be softer than the initial expectation. We decided to reduce our lfl revenue growth to 2.5% in line with management new guidance in 2016e and to 2.6% from 3.4% in 2017e.
- **...with improved adjusted operating income:** Regarding adjusted operating result, management confirmed higher result in 2016 vs. last year. Our forecast is EUR944m i.e. an improvement of EUR27m, representing an operating margin of 15.6% (maintained) down 40bps vs. 2015 after our downgrade at the end of H1.

Main adjustments on our estimates

| | 2016e | | | 2017e | | | 2018e | | |
|---------------|-------|-------|----------|-------|-------|----------|--------|-------|----------|
| | Old | New | Change % | Old | New | Change % | Old | New | Change % |
| SALES | 6 082 | 6 052 | -0,5% | 6 351 | 6 268 | -1,3% | 6 669 | 6 563 | -1,6% |
| EBITDA | 1 254 | 1 248 | -0,5% | 1 327 | 1 310 | -1,3% | 1 411 | 1 388 | -1,6% |
| | 20,6% | 20,6% | -0 bp | 20,9% | 20,9% | -0 bp | 21,1% | 21,2% | 0 bp |
| Adjusted EBIT | 949 | 944 | -0,5% | 1 013 | 1 000 | -1,3% | 1 079 | 1 062 | -1,5% |
| | 15,6% | 15,6% | 0 bp | 16,0% | 16,0% | 1 bp | 16,2% | 16,2% | 1 bp |
| EPS | 85,86 | 85,48 | -0,4% | 94,57 | 93,65 | -1,0% | 100,96 | 99,68 | -1,3% |

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

- **Nevertheless, management remains confident about its medium-term targets (2016-2020):** Despite that adjustment on 2016e lfl revenue growth (which follows the downward revision of the adjusted operating margin after H1 2016), management remains committed and confident that it can deliver on its medium numbers with notably mid-single-digit organic growth on average, contribution from acquisitions to revenue of EUR1bn during the period and adjusted operating margin of at least 18%.

VALUATION

- Based on average valuation between a DCF and the 10-year historical EV/EBIT multiple used as the exit multiple FY+3, our FV moves to CHF2,300. Note that our estimates are based on lower numbers than guided by the management notably on adjusted operating margin using a long-term target of 17%.
- At the current share price, the stock is trading at 17.3x EV/EBIT 2016e and 16.4x 2017e which compares with a median historic multiple of 14.8x and CAGR 2015-2018 of 5%.

NEXT CATALYSTS

- CMD on 27th & 28th October (Krakow, Poland)



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| | |
|---------|---|
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