Equity Research

# SGS N

Support Services - Switzerland
Business Support Services

18 January 2011

**FY results postview - Large Caps**

| Rating | TP | EPS 10 | EPS 11 |
|---|---|---|---|
| | | ↘ (1%) | |

## Neutral

| | |
|---|---|
| Target price | **CHF1,700 (+8%)** |
| Sector rating | **Neutral** |

| **Price (17 January 2011)** | **CHF1,570** |
|---|---|
| Market cap. (CHFbn / EURbn) | 12.0 / 9.3 |
| Free float (CHFbn / EURbn) | 6.2 / 4.8 |
| EV (CHFbn / EURbn) | 12.0 / 9.3 |
| 3m avg. volume (CHFm / EURm) | 26.7 / 20.8 |
| Reuters/Bloomberg | SGSN.VX/SGSN VX |

| **Financial data** | **12/10** | **12/11e** | **12/12e** | **12/13e** |
|---|---|---|---|---|
| Adjusted EPS (CHF) | 78.5 | 83.1 | 94.1 | 105.0 |
| EPS - IBES (CHF) | 78.7 | 81.6 | 94.4 | 105.0 |
| Net dividend (CHF) | 65.00 | 46.52 | 52.66 | 63.85 |
| Sales (CHFm) | 4,757 | 5,075 | 5,554 | 6,054 |
| Adjusted EBITA (CHFm) | 848 | 891 | 1,008 | 1,120 |
| Adj. net profit (CHFm) | 598 | 633 | 716 | 799 |
| Adj. net debt / EBITDA (x) | - | - | - | - |

| **Stockmarket ratios*** | **12/10** | **12/11e** | **12/12e** | **12/13e** |
|---|---|---|---|---|
| P/E (x) | 19.1 | 18.9 | 16.7 | 15.0 |
| P/BV (x) | 5.7 | 5.6 | 4.8 | 4.2 |
| Net yield (%) | 4.3 | 3.0 | 3.4 | 4.1 |
| FCF yield (%) | 4.7 | 3.9 | 4.3 | 5.3 |
| EV/Sales (x) | 2.4 | 2.4 | 2.1 | 2.0 |
| EV/EBITDA (x) | 10.7 | 10.2 | 8.9 | 8.2 |
| EV/EBITA (x) | 13.5 | 13.5 | 11.7 | 10.6 |

** Yearly average price for FY ended 12/10*

| **Performance* (%)** | **1w** | **1m** | **3m** | **12m** |
|---|---|---|---|---|
| Absolute | 2 | (4) | 0 | 18 |
| Rel. Support Services | (1) | (7) | (4) | 7 |
| Rel. DJ STOXX50 | (3) | (8) | (1) | 27 |

** In listing currency, with dividend reinvested*

**Price relative to DJ STOXX50**


# Good FY10 results: a positive read-across for peers

► **Good signal from the first TIC to report**

SGS delivered solid FY10 results, which is reassuring for the TIC sector. We expect both BVI and ITRK to report good results (respectively 28 February and 7 March).

► **H2 10 organic sales improved as expected**

FY10 organic sales rose 3.2%, with +5.5% in H2 10 as expected. This was mainly led by Minerals (+12% vs +10%e, i.e. +c.19% in H2), Certification (+7.9%, i.e. +8% in H2) and Consumer testing (+7%, i.e. +8.4% in H2). The other activities performed fairly poorly as anticipated for Auto, Agri and Industry, but showed improving trends in H2.

► **Good news on the margin side, paving the way again for cash returns**

The EBITA margin reached a record high of 17.8% (+40bp y/y vs consensus at 0bp, EBNPP +c.10bp), including +c.60bp in H2 y/y, thanks to an improved mix and capacity utilisation, especially in Minerals, Consumer testing services and Automotives which peaked at a record high. This also reflects a different investment phasing that should be loaded in 2011/12. SGS is proposing a CHF65 dividend (+8% y/y), of which CHF35 is a bonus dividend (consensus expected a total dividend of CHF42, EBNPP CHF46). This will be paid on 22 March (ex div. on 17 March).

► **Positive outlook for 2011 could fuel low single-digit hike in consensus EPS**

In 2011, SGS expects to deliver organic sales growth in the high single digits mainly led by minerals (seen posting an "at least double digit" rise) and consumer testing, accounting together for c.40% of group EBIT. SGS will also benefit from improvements at the laggards (Auto, Agri, Industry and Environment) and easier comps than peers, at least in H1 11 (H1 10 was up 1%). We maintain our forecast of 8% l/l sales growth and still expect the EBITA margin to narrow by a 30bp to 17.5%. We expect consensus to revise up in the low single-digit range on better margins.

► **Neutral rating reiterated, TP of CHF1,700**

We expect this release to provide relief after the weak performance recently. At 13.5x EV/EBIT 11e, however, we see limited re-rating potential.

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## A good set of results for the first TIC to report FY10

SGS reported its FY10 results on 17 January 2011. Group sales were CHF4,757m, slightly below estimates of CHF4,800-4,829m on FX headwinds resulting from the strength of the Swiss franc (especially vs the euro). Profitability metrics, in contrast, beat estimates slightly, with adjusted EBITA reaching CHF848m (vs CHF838-839me), showing an EBITA margin of 17.8% (+40bp y/y).

Net income reached CHF588m (+3.9% y/y), in line with the consensus estimate of CHF589m with slightly higher interest charges (as anticipated) offsetting a better-than-expected operating performance. Adjusted net income came in at CHF599m, close to our estimate of CHF600m.

FY10 OCF remained nearly flat y/y at CHF783m. Net cash dropped to CHF259m at end-December from CHF476m a year earlier, primarily as a result of CHF455m in dividend payments and CHF307m in debt repayments.

**Figure 1: SGS's reported FY (H2) 10 sales and l/l sales growth vs our est. (CHFm)**

| | H2 09 | FY09 | H1 10 | H2 10 pub | FY10 pub | FY10 est. | Delta (%) vs. our est. |
|---|---|---|---|---|---|---|---|
| Agricultural Services | 180 | 356 | 170 | 174 | 344 | 348 | (1%) |
| Mineral Services | 274 | 536 | 291 | 325 | 616 | 607 | 1% |
| Oil, Gas & Chemical Services | 482 | 951 | 480 | 476 | 957 | 982 | (3%) |
| Life Science Services | 100 | 201 | 98 | 96 | 194 | 199 | (3%) |
| Consumer Testing Services | 398 | 789 | 407 | 414 | 821 | 837 | (2%) |
| Systems & Services Certification | 192 | 367 | 189 | 198 | 386 | 394 | (2%) |
| Industrial Services | 372 | 744 | 368 | 370 | 738 | 744 | (1%) |
| Environmental Services | 148 | 288 | 137 | 142 | 278 | 289 | (4%) |
| Automotive Services | 128 | 266 | 100 | 95 | 195 | 196 | 0% |
| Government & Institution Services | 111 | 214 | 112 | 117 | 229 | 235 | (3%) |
| **Group revenues** | **2,385** | **4,712** | **2,352** | **2,405** | **4,757** | **4,829** | **(1%)** |
| **Organic sales growth** | | | | | | | |
| Agricultural Services | (0.8) | 4.1 | (3.1) | 2.8% | -0.1% | -1.1% | 100bp |
| Mineral Services | (12.0) | (10.3) | 5.6 | 18.5% | 12.2% | 10.1% | 210bp |
| Oil, Gas & Chemical Services | (1.4) | 0.2 | 3.8 | 4.6% | 4.2% | 4.9% | (70bp) |
| Life Science Services | (0.8) | 3.1 | 1.2 | 4.0% | 2.6% | 2.6% | 0bp |
| Consumer Testing Services | 6.4 | 9.1 | 5.6 | 8.4% | 7.0% | 7.3% | (30bp) |
| Systems & Services Certification | 4.2 | 4.6 | 7.8 | 8.0% | 7.9% | 8.4% | (50bp) |
| Industrial Services | (0.5) | 2.1 | (3.3) | 2.1% | -0.6% | -1.9% | 130bp |
| Environmental Services | (1.8) | 1.1 | (4.4) | 1.6% | -1.3% | -0.2% | (110bp) |
| Automotive Services | (8.8) | (4.3) | (25.0) | -18.4% | -21.8% | -23.5% | 170bp |
| Government & Institution Services | **4.7** | **6.9** | 10.6 | 7.9% | 9.2% | 11.9% | (270bp) |
| **Group revenue growth** | **(1.1)** | **1.3** | **1.0** | **5.5%** | **3.2%** | **3.0%** | **20bp** |

*Source: Exane BNP Paribas estimates*

FY10 organic sales rose 3.2%, with a 5.5% increase in H2 10 as broadly expected (+5%e in H2). This was mainly led by Minerals (+12% vs +10%e, i.e. +18.5% in H2), Certification (+7.9%, i.e. +8% in H2) and Consumer testing (+7%, i.e. +8% in H2). The other activities performed poorly as expected, with Auto, Environment, Agri and Industry, all slightly down like-for-like although they showed a sequential improvement.

### 60bp EBITA margin gain y/y in H2 10

SGS delivered a 40bp yoy EBITA margin gain to 17.8% (vs consensus of 17.3%, EBNPP 17.4%), thanks to an improved mix and capacity utilisation, especially for Minerals (+280bp to 19.1%), Automotive Services (+210bp to 18.4%) and Consumer Testing services (+30bp to 25.8%) all reaching record highs. Better margins also reflected the lack of investment in the new strategic plan initially expected in H2 10 and to be loaded into 2011 and 2012. Lastly the group now reports its margins excluding the amortisation of intangible assets and restructuring and transaction-related costs (reflecting its acquisitive strategy in 2010 compared to previous years). This inflated the EBITA margin by c.10bp (FY09 having been restated from 17.3% to 17.4%).

**Figure 2: SGS's reported FY (H2) 10 EBITA and EBITA margin vs our forecasts**

| CHFm | H2 09 | FY09 | H1 10 pub | H2 10 pub | FY10 pub | FY10e | Delta (%) vs. our est. |
|---|---|---|---|---|---|---|---|
| **EBITA** | | | | | | | |
| Agricultural Services | 30 | 57 | 23 | 31 | 54 | 48 | 12% |
| Mineral Services | 50 | 87 | 52 | 66 | 118 | 112 | 5% |
| Oil, Gas & Chemical Services | 81 | 149 | 65 | 83 | 149 | 147 | 1% |
| Life Science Services | 18 | 29 | 13 | 16 | 29 | 30 | (4%) |
| Consumer Testing Services | 101 | 201 | 102 | 110 | 212 | 210 | 1% |
| Systems & Services Certification | 44 | 78 | 36 | 45 | 82 | 83 | (2%) |
| Industrial Services | 55 | 104 | 47 | 50 | 97 | 98 | (1%) |
| Environmental Services | 20 | 34 | 13 | 17 | 30 | 32 | (8%) |
| Automotive Services | 23 | 44 | 17 | 19 | 36 | 30 | 19% |
| Government & Institution Services | 21 | 39 | 20 | 22 | 42 | 43 | (3%) |
| **Group EBITA** | **442** | **822** | **388** | **460** | **848** | **839** | **1%** |
| **EBITA Margins (%)** | | | | | | | |
| Agricultural Services | 16.4% | 16.1% | 13.4% | 17.9% | 15.7% | 13.9% | 180bp |
| Mineral Services | 18.1% | 16.3% | 17.7% | 20.4% | 19.1% | 18.5% | 60bp |
| Oil, Gas & Chemical Services | 16.7% | 15.7% | 13.6% | 17.5% | 15.6% | 15.0% | 60bp |
| Life Science Services | 17.4% | 14.4% | 13.0% | 16.8% | 14.9% | 15.0% | (20bp) |
| Consumer Testing Services | 25.4% | 25.5% | 25.1% | 26.5% | 25.8% | 25.1% | 70bp |
| Systems & Services Certification | 22.9% | 21.1% | 19.3% | 22.9% | 21.1% | 21.2% | 0bp |
| Industrial Services | 14.7% | 14.0% | 12.8% | 13.5% | 13.2% | 13.2% | 0bp |
| Environmental Services | 13.6% | 11.7% | 9.5% | 11.9% | 10.7% | 11.2% | (50bp) |
| Automotive Services | 18.3% | 16.3% | 16.7% | 20.2% | 18.4% | 15.4% | 300bp |
| Government & Institution Services | 19.3% | 18.4% | 17.5% | 18.9% | 18.2% | 18.2% | 0bp |
| **Group EBITA margin** | **18.5%** | **17.4%*** | **16.5%** | **19.1%** | **17.8%** | **17.4%** | **40bp** |

*Source: Exane BNP Paribas estimates *2009 margins have been restated (to exclude amortisation of intangible assets and exceptional items)*

## A special dividend above expectations

To reflects SGS's confidence in its cash generation profile, the board decided to once again pay a special dividend for 2010: the group is proposing a CHF65 dividend per share, up 8% y/y, of which CHF35 is a bonus dividend. This shows a 4.1% dividend yield and will be paid on 22 March (ex div. on 17 March). We expected SGS to pay a special dividend of CHF15/share alongside the regular dividend, which we projected at CHF31/s based on a similar payout, giving a total dividend of CHF46 (vs consensus at CHF42/s). However, it was in fact much higher despite the 2014 targets, which imply more capex in the short term, and the recent flow of acquisitions (for a total consideration of CHF302m in 2010).

**Figure 3: A special dividend above last year's**

SGS dividend policy since 2004

| CHF | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010p |
|---|---|---|---|---|---|---|---|
| Regular dividend/share | 12.0 | 31.0 | 20.0 | 25.0 | 35.0 | 30.0 | 30.0 |
| Special dividend/share | 0.0 | 0.0 | 0.0 | 10.0 | 15.0 | 30.0 | 35.0 |
| Total dividend /share | 12.0 | 31.0 | 20.0 | 35.0 | 50.0 | 60.0 | 65.0 |
| Dividend yield | 1.7% | 3.6% | 1.7% | 2.5% | 3.9% | 4.9% | 4.1% |
| Payout ratio | 32% | 63% | 42% | 52% | 68% | 52% | 60% |
| Payout ratio on regular dividend | 33% | 63% | 36% | 37% | 46% | 39% | 39% |
| Consensus dividend forecasts | | | | | | | 42 |

*Source: Company, Exane BNP Paribas estimates*

## FY11 outlook to fuel minor consensus EPS revisions

In 2011, SGS expects to deliver organic sales growth in the high single digits, mainly driven by the Minerals markets and consumer testing activities. The group will also benefit from easier comps than peers, at least in H1 11 (H1 10 was up 1%) and the first benefits of the initiatives taken (cross-selling revenue opportunities) for the 2014 plan by H2 onwards.

Indeed, the best performer should remain Mineral Services (13% of sales, 14% of EBIT), where the group foresees “at least double digit” sales growth. This factors in exploration spend expected to return to 2008 levels, a strong pipeline of metallurgical projects and a negative impact of Queensland flooding.

In addition, market conditions are expected to remain buoyant in Consumer Testing services (17% of sales and 25% of group EBITA), bolstered by helpful legislation, soft lines, food and automotive services (as we saw in 2010). The group guided for a “very positive outlook with growth across all sectors in Asia and market share gain”.

Some specific issues seen in FY10 may, however, remain, including the weak situation in Agricultural services (dragged down by the Russian exports ban expected to last), in Industrial services (still penalised by the Spanish construction services business, although some improvement is forecasted in 2011), and in Life Science (where market conditions remain tough in CRO with price pressure and a reduced molecule pipeline).

**Figure 4: No change overall in our forecasts for 2011**

Our organic sales growth and EBITA margin estimates for FY11

| | H1 10 | H2 10 | FY10 | H1 11e | H2 11e | FY11e | Comments/Divisional 2011 outlook |
|---|---|---|---|---|---|---|---|
| **REVENUES – l/l sales gr.** | | | | | | | |
| Agricultural Services | (3.1%) | 2.9% | (0.1%) | 4.0% | 4.0% | 4.0% | Good revenue growth expected (importance of Yield improvement as a growth driver for crop) - New supply chain services in China and laboratory expansion in USA, Canada and Malaysia |
| Mineral Services | 5.6% | 18.0% | 12.2% | 17.0% | 14.0% | 15.4% | Negative impact of Queensland flooding - But strong pipeline of metallurgical projects, targeted investments in emerging markets and high commodities demand |
| Oil, Gas & Chemical Services | 3.8% | 4.6% | 4.2% | 6.0% | 10.0% | 8.0% | Outsourcing of PTO as a major driver - Current high prices of oil & gas and economic recovery are likely to stimulate growth |
| Life Science Services | 1.2% | 3.9% | 2.6% | 4.0% | 6.0% | 5.0% | Lab top-line improvement in USA, EU and Asia - Good potential from added-value services (Immuno-analysis, peptide mapping, virology…) - Leveraging M-Scan acquisition to drive growth |
| Consumer Testing Services | 5.6% | 8.3% | 7.0% | 8.0% | 10.0% | 9.0% | Positive developments in key markets + market share gains - Solid growth across all sectors in Asia - Development of domestic markets in BRIC |
| Systems & Services Certification | 7.8% | 8.0% | 7.9% | 9.0% | 11.0% | 10.0% | Strong demand for supply chain related services - New strategic segments and services to be added - New training services initiative |
| Industrial Services | (3.3%) | 2.1% | (0.6%) | 3.0% | 5.0% | 4.0% | Increasing demand from the nuclear sector in China/EU - New O&G inspection contracts in Asia, Africa and Middle East - Initiation of postponed Capex projects |
| Environmental Services | (4.4%) | 1.5% | (1.3%) | 3.0% | 5.0% | 4.0% | Further expansion in Africa, Asia and South Am. to drive growth - Impact of economic recovery - Multinational companies driving growth (sustainability services…) |
| Automotive Services | (25.0%) | (18.4%) | (21.8%) | 5.0% | 6.0% | 5.5% | Possible negative impact on statutory business in Ivory Coast - New statutory activities in Africa and South Am. - Expansion of commercial services in EU and USA |
| Government & Institution Services | 10.6% | 7.8% | 9.2% | 9.0% | 10.0% | 9.5% | Continued growth expected with new mandates for 2011, materialization of several tradenet and cargo tracking programmes, implementation of scanning programme in new countries |
| **Group revenue growth** | **1.0%** | **5.4%** | **3.2%** | **7.1%** | **8.8%** | **8.0%** | Growth expected compared to 2010 |
| **EBITA Margins** | | | | | | | |
| Agricultural Services | 13.4% | 17.9% | 15.7% | 13.5% | 17.2% | 15.4% | |
| Mineral Services | 17.7% | 20.4% | 19.1% | 18.0% | 20.8% | 19.5% | Focus on improvements in back office efficiencies - further improvement led by the operating leverage |
| Oil, Gas & Chemical Services | 13.6% | 17.5% | 15.6% | 13.5% | 15.5% | 14.5% | Outsourcing of PTO – Opportunities of cross-business collaboration with Minerals, Industrial and Env. services |
| Life Science Services | 13.0% | 16.8% | 14.9% | 12.5% | 15.8% | 14.2% | Reinforce sales to ensure cross-selling synergies - Operating margin improvement driven by increased capacity utilization |
| Consumer Testing Services | 25.1% | 26.5% | 25.8% | 25.0% | 26.0% | 25.5% | |
| Systems & Services Certification | 19.3% | 22.9% | 21.1% | 19.0% | 21.5% | 20.3% | |
| Industrial Services | 12.8% | 13.5% | 13.2% | 12.5% | 13.0% | 12.8% | |
| Environmental Services | 9.5% | 11.9% | 10.7% | 9.0% | 12.0% | 10.6% | Strong expansion in Africa, Asia and South America to drive margins |
| Automotive Services | 16.7% | 20.2% | 18.4% | 18.2% | 20.5% | 19.4% | Integration of ITV (Spain & Argentina) progressing smoothly - accretive on margins (+100bp at the div. level) |
| Government & Institution Services | 17.5% | 18.9% | 18.2% | 17.0% | 18.0% | 17.5% | |
| **Group EBITA margin** | **16.5%** | **19.1%** | **17.8%** | **16.5%** | **18.5%** | **17.5%** | Absolute EBITA 2011 > EBITA 2010 but margin squeeze |

*Source: company, Exane BNP Paribas estimates*

In terms of margins, the group guided for absolute EBIT growth y/y for 2011 (vs 2011 i.e. above CHF848m) but the EBITA margin should be squeezed by the opex investment related to the 2014 plan (to accelerate future top-line growth). We expect the consensus to raise its EBITA margin estimate for 2011 from its low levels (16.6-16.7%) above 17% (vs the 17.8% achieved in 2010). Margins will benefit from an improved mix, operating leverage (especially for Minerals and consumer testing activities) and the positive impact of the acquisitions made in 2010 (10 acquisitions adding CHF146m of annual revenues and CHF34m of EBITA, or EBITA margins of 23% on average).

We have fine-tuned our estimates by business line for both the top line and margin to reflect the H2 10 performances. Our FY11 forecasts remain unchanged overall: we are still looking for 8% sales growth l/l and have raised our EBITA margin to 17.5% from 17.1% offset by FX headwinds.

We have left our capex assumptions unchanged for 2011 (we expect capex to represent 7.5% of sales). SGS confirmed that capex is expected to rise from 5.3% of sales in 2010 to 6-8% (as previously indicated at its Investor Day), depending on the phasing of the investments related to the 2014 plan. In addition, CHF150m of opex will be spent starting in January 2011 and spread over the next half years (skewed to H2 11 and H1 12), hence weighing on the group's short-term profitability.

Lastly, regarding acquisitions, the group confirms that the pipeline remains very strong (from small to medium-sized deals i.e. less than USD250m). Hence, as we saw in 2010 (10 acquisitions for a total consideration of CHF302m adding CHF146m of annual revenues), there is scope for further deals to be announced in 2011.

## Positive read-across for peers

The good performance in the consumer goods, certification and minerals divisions bodes well for peers generally. In aggregate, they account for 50% and 60% of BV's and Intertek's EBIT. This is where we may see upside to consensus numbers for 2011.

We expect both Bureau Veritas and Intertek to report a good set of results, respectively on 28 February and 7 March 2011.

## Neutral stance reiterated, TP CHF1,700

Although we expect the shares to be supported by the projected revision of consensus estimates (the first since many months), we reiterate our Neutral stance on SGS with a CHF1,700 target price, showing 8% upside potential. At 13.5x EV/EBIT 11e, a re-rating appears rather limited in the short term.

**Figure 5: Peer group analysis for the top 3**

| Company | Current price | EV/sales (x) | | | EV/Adj. EBITA (x) | | | P/E (x) | | | FCF Yield (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 10 | 11e | 12e | 10 | 11e | 12e | 10 | 11e | 12e | 10 | 11e | 12e |
| SGS | 1570 | 2.4 | 2.4 | 2.1 | 13.5 | 13.5 | 11.7 | 19.1 | 18.9 | 16.7 | 4.7% | 3.9% | 4.3% |
| Bureau Veritas | 55.1 | 2.4 | 2.1 | 1.8 | 14.0 | 12.4 | 10.7 | 15.9 | 16.4 | 14.4 | 5.9% | 5.4% | 6.6% |
| Intertek | 18.11 | 2.3 | 2.2 | 1.9 | 14.1 | 12.9 | 11.4 | 17.4 | 17.9 | 15.8 | 3.7% | 3.9% | 4.7% |
| Average testing co | | 2.4 | 2.2 | 2.0 | 14.1 | 12.9 | 11.3 | 17.4 | 17.7 | 15.6 | 4.8% | 4.4% | 5.2% |

*2010 multiples based on 2010 average share price – prices as of 17 January 2011- Source: Datastream, Exane BNP Paribas estimates*

As a reminder we turned less bullish on the overall TIC sector in early January 2011 on the limited scope for a further re-rating after the strong 2010 share prices performances. In the sector, we now only buy Bureau Veritas, where we see stronger upside potential (our target price of EUR66.5 yields 21% upside potential) for company-specific reasons (Inspectorate, M&A opportunities) and its cheaper valuation (nearly one point below that of SGS).

The next catalysts include the Investor Days on 26 and 27 May 2011 in Toronto (Canada) and possibly some announcements of M&A deals.

## Funding Analysis

| SGS N | | | | |
|---|---|---|---|---|
| Gross cash position at 31 Dec. 10 | 815 | | | |
| **CHFm** | **Dec. 11** | **Dec. 12** | **Dec. 13** | **Dec. 14** |
| FCF | 475 | 531 | 645 | 777 |
| Gross debt reimbursements ¹ | (2) | (1) | 0 | 0 |
| New funds (debt, capital, divestment) | | | | |
| Other cash outflows (acquisitions etc) | | | | |
| Dividend base case | (495) | (364) | (412) | (499) |
| Share buybacks | 0 | 0 | 0 | 0 |
| **SURPLUS/(SHORTFALL)** | | | | |
| Annual | 794 | 166 | 233 | 278 |
| **Cumulative** | **794** | **960** | **1,193** | **1,471** |
| Annual if div is 0 | na | 530 | 645 | 777 |
| **Cumulative** if div is 0 | na | **1,323** | **1,969** | **2,746** |
| **Available credit lines** | | | | |

No covenant details available

¹ Gross debt reimbursement post Dec.14: CHF550m

► SGS ended 2010 with net cash of CHF259m, equivalent to 2% of its market cap and generates high cash flow (FCF ~CHF600m/year). In July 2010 the group raised CHF550m trough the issuance of a 6Y bond. (Comment updated on 17 Jan. 11)

*Source: Exane BNP Paribas estimates*

## Forthcoming events

| Date | Event |
|---|---|
| 15 Mar. 2011 | AGM |
| 18 Apr. 2011 (e) | Q1 2011 Results |

Price at 17 Jan. 11 / Target Price

**CHF1,570 / CHF1,700 +8%**

# SGS N (Neutral)

Reuters / Bloomberg: SGSN.VX / SGSN VX   Analyst: Laurent Brunelle (+33) 1 42 99 84 66

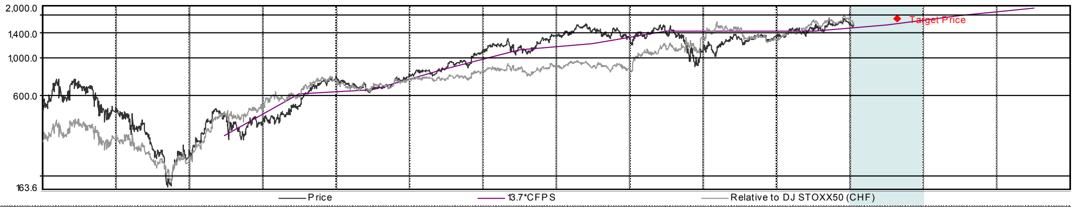
Business Support Services | Support Services (Neutral) - Switzerland

| Company Highlights | | CHFm / EURm |
|---|---|---|
| Enterprise value | | 11,993 / 9,346 |
| Market capitalisation | | 11,962 / 9,322 |
| Free float | | 6,220 / 4,848 |
| 3m average volume | | 27 / 21 |

| Performance (*) | 1m | 3m | 12m |
|---|---|---|---|
| Absolute | (4%) | 0% | 18% |
| Rel. Sector | (7%) | (4%) | 7% |
| Rel. DJ STOXX50 | (8%) | (1%) | 27% |

12m Hi/Lo (CHF) : 1,704 -8% / 1,315 +19%

| CAGR | 1996/2011 | 2011/2013 |
|---|---|---|
| EPS restated (**) | NC | 12% |
| CFPS | NC | 12% |




| *Price (yearly avg from Dec. 00 to Dec. 10)* | *598.4* | *333.0* | *394.6* | *566.0* | *697.0* | *898.0* | *1 185.5* | *1 427.5* | *1 313.1* | *1 261.3* | *1 497.6* | *1 570.0* | *1 570.0* | *1 570.0* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **PER SHARE DATA (CHF)** | **Dec. 00** | **Dec. 01** | **Dec. 02** | **Dec. 03** | **Dec. 04** | **Dec. 05** | **Dec. 06** | **Dec. 07** | **Dec. 08** | **Dec. 09** | **Dec. 10** | **Dec. 11e** | **Dec. 12e** | **Dec. 13e** |
| No of shares year end, basic, (m) | 0.000 | 0.000 | 7.978 | 7.958 | 7.958 | 7.822 | 7.822 | 7.822 | 7.822 | 7.822 | 7.822 | 7.822 | 7.822 | 7.822 |
| Average no of shares, diluted, excl. treasury stocks (m) | 0.000 | 0.000 | 7.978 | 7.958 | 7.958 | 7.505 | 7.619 | 7.694 | 7.628 | 7.529 | 7.612 | 7.612 | 7.612 | 7.612 |
| *EPS reported* | *0.00* | *0.00* | *13.66* | *28.04* | *34.34* | *46.62* | *56.61* | *63.88* | *88.43* | *73.35* | *75.14* | *80.14* | *90.84* | *101.4* |
| EPS restated | | | 24.82 | 29.78 | 34.93 | 49.43 | 58.12 | 66.99 | 75.87 | 77.93 | 78.51 | 83.13 | 94.12 | 105.0 |
| *% change* | *0.0%* | *0.0%* | *NS* | *20.0%* | *17.3%* | *41.5%* | *17.6%* | *15.3%* | *13.3%* | *2.7%* | *0.7%* | *5.9%* | *13.2%* | *11.5%* |
| CFPS | | | 25.45 | 44.73 | 47.57 | 63.19 | 80.86 | 89.04 | 104.18 | 105.20 | 105.59 | 114.25 | 129.86 | 142.76 |
| Book value (BVPS) (a) | | | 112.4 | 134.7 | 146.1 | 184.0 | 198.4 | 248.1 | 233.3 | 265.0 | 264.6 | 281.5 | 325.8 | 374.6 |
| Net dividend | 5.80 | 6.00 | 6.00 | 8.85 | 11.80 | 30.47 | 20.00 | 35.00 | 50.00 | 60.00 | 65.00 | 46.52 | 52.66 | 63.85 |
| **STOCKMARKET RATIOS** | **YEARLY AVERAGE PRICES for end Dec. 00 to Dec. 10** | | | | | **Dec. 05** | **Dec. 06** | **Dec. 07** | **Dec. 08** | **Dec. 09** | **Dec. 10** | **Dec. 11e** | **Dec. 12e** | **Dec. 13e** |
| P / E (P/ EPS restated) | | | 15.9x | 19.0x | 20.0x | 18.2x | 20.4x | 21.3x | 17.3x | 16.2x | 19.1x | 18.9x | 16.7x | 15.0x |
| P / E relative to DJ STOXX50 | | | 72% | 120% | 143% | 137% | 184% | 196% | 129% | 141% | 182% | 192% | 187% | |
| P / CF | | | 15.5x | 12.7x | 14.7x | 14.2x | 14.7x | 16.0x | 12.6x | 12.0x | 14.2x | 13.7x | 12.1x | 11.0x |
| FCF yield | (0.0%) | 0.0% | 4.9% | 3.6% | 4.1% | 3.3% | 4.1% | 4.1% | 5.1% | 6.4% | 4.7% | 3.9% | 4.3% | 5.3% |
| P / BVPS | | | 3.51x | 4.20x | 4.77x | 4.88x | 5.98x | 5.75x | 5.63x | 4.76x | 5.66x | 5.58x | 4.82x | 4.19x |
| Net yield | 1.0% | 1.8% | 1.5% | 1.6% | 1.7% | 3.4% | 1.7% | 2.5% | 3.8% | 4.8% | 4.3% | 3.0% | 3.4% | 4.1% |
| Payout | 0.0% | 0.0% | 24.2% | 29.7% | 33.8% | 61.6% | 34.4% | 52.2% | 65.9% | 77.0% | 82.8% | 56.0% | 56.0% | 60.8% |
| EV / Sales | | | 1.17x | 1.64x | 1.81x | 1.96x | 2.37x | 2.44x | 2.06x | 1.97x | 2.40x | 2.36x | 2.13x | 1.97x |
| EV / Restated EBITDA | | | 9.0x | 10.2x | 10.3x | 10.1x | 11.7x | 11.8x | 9.7x | 8.9x | 10.7x | 10.2x | 8.9x | 8.2x |
| EV / Restated EBITA | | | 13.0x | 13.4x | 13.3x | 12.9x | 15.0x | 15.0x | 12.3x | 11.3x | 13.5x | 13.5x | 11.7x | 10.6x |
| EV / OpFCF | NC | | 16.4x | 20.9x | 17.4x | 19.4x | 17.4x | 17.0x | 14.9x | 11.2x | 14.7x | 16.4x | 14.4x | 12.4x |
| EV / Capital employed (incl. gross goodwill) | | | 4.0x | 5.3x | 5.6x | 5.2x | 5.7x | 4.7x | 4.2x | 3.9x | 4.4x | 4.4x | 4.1x | 3.9x |
| **ENTERPRISE VALUE (CHFm)** | | | **2,800** | **4,028** | **5,213** | **6,473** | **9,063** | **10,688** | **9,933** | **9,271** | **11,430** | **11,993** | **11,818** | **11,912** |
| Market cap | | | 3,148 | 4,504 | 5,547 | 6,740 | 9,033 | 10,877 | 10,005 | 9,610 | 11,411 | 11,962 | 11,962 | 11,962 |
| + Adjusted net debt | (488) | (446) | (402) | (493) | (439) | (430) | (199) | (378) | (248) | (476) | (259) | (248) | (423) | (329) |
| + Other liabilities and commitments | 85 | 81 | 80 | 61 | 150 | 219 | 286 | 176 | 194 | 194 | 194 | 194 | 194 | 194 |
| + Revalued minority interests | | | 63 | 76 | 124 | 169 | 169 | 202 | 203 | 172 | 321 | 321 | 321 | 321 |
| - Revalued investments | 92 | 88 | 89 | 120 | 169 | 225 | 225 | 189 | 221 | 229 | 237 | 237 | 237 | 237 |
| **P & L HIGHLIGHTS (CHFm)** | **Switch to IFRS data from FY ended 12/04** | | | | **Dec. 04** | **Dec. 05** | **Dec. 06** | **Dec. 07** | **Dec. 08** | **Dec. 09** | **Dec. 10** | **Dec. 11e** | **Dec. 12e** | **Dec. 13e** |
| **Sales** | **2,369** | **2,332** | **2,392** | **2,454** | **2,885** | **3,308** | **3,821** | **4,372** | **4,818** | **4,712** | **4,757** | **5,075** | **5,554** | **6,054** |
| **Restated EBITDA (b)** | **257** | **238** | **311** | **396** | **508** | **642** | **777** | **908** | **1,024** | **1,045** | **1,073** | **1,171** | **1,326** | **1,455** |
| Depreciation | (104) | (101) | (95) | (96) | (115) | (140) | (172) | (197) | (214) | (223) | (225) | (281) | (318) | (335) |
| **Restated EBITA (b) (**)** | **154** | **137** | **216** | **300** | **393** | **502** | **605** | **711** | **810** | **822** | **848** | **891** | **1,008** | **1,120** |
| Reported operating profit (loss) | 169 | (40) | 127 | 293 | 380 | 502 | 624 | 690 | 937 | 802 | 836 | 883 | 1000 | 1,112 |
| Net financial income (charges) | 18 | 17 | 13 | 10 | 6 | 5 | (1) | 2 | (4) | (3) | (7) | 4 | 7 | 9 |
| Affiliates | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other | | | | | | | | | | | | | | |
| Tax | (51) | (44) | (27) | (68) | (93) | (119) | (155) | (172) | (219) | (200) | (215) | (232) | (267) | (297) |
| Minorities | (7) | (8) | (4) | (8) | (15) | (17) | (25) | (20) | (22) | (25) | (26) | (28) | (29) | (30) |
| Goodwill amortisation | (4) | (8) | (9) | (10) | - | - | - | - | - | - | - | - | - | - |
| Net attributable profit reported | 129 | (75) | 109 | 227 | 278 | 371 | 443 | 500 | 692 | 574 | 588 | 627 | 711 | 793 |
| **Net attributable profit restated (c)** | **114** | **102** | **189** | **227** | **278** | **371** | **443** | **515** | **579** | **587** | **598** | **633** | **716** | **799** |
| **CASH FLOW HIGHLIGHTS (CHFm)** | **Dec. 00** | **Dec. 01** | **Dec. 02** | **Dec. 03** | **Dec. 04** | **Dec. 05** | **Dec. 06** | **Dec. 07** | **Dec. 08** | **Dec. 09** | **Dec. 10** | **Dec. 11e** | **Dec. 12e** | **Dec. 13e** |
| **EBITDA (reported)** | **276** | **69** | **231** | **399** | **495** | **642** | **796** | **887** | **1,151** | **1,025** | **1,061** | **1,163** | **1,318** | **1,447** |
| **EBITDA adjustment (b)** | **(19)** | **170** | **80** | **(3)** | **13** | **0** | **(19)** | **21** | **(127)** | **20** | **12** | **8** | **8** | **8** |
| Other items | (59) | (26) | (92) | 1 | (43) | (44) | 19 | (21) | (58) | (20) | (12) | (8) | (8) | (8) |
| Change in WCR | (167) | (76) | 72 | (33) | 36 | (60) | (31) | 12 | (22) | 13 | (33) | (52) | (54) | (59) |
| **Operating cash flow** | **32** | **137** | **291** | **364** | **501** | **538** | **765** | **899** | **944** | **1,038** | **1,028** | **1,112** | **1,264** | **1,388** |
| Capex | (121) | (116) | (121) | (171) | (201) | (205) | (245) | (271) | (278) | (209) | (250) | (381) | (444) | (424) |
| **Operating free cash flow (OpFCF)** | **(90)** | **20** | **171** | **193** | **300** | **333** | **520** | **628** | **666** | **829** | **778** | **731** | **820** | **964** |
| Net financial items + tax paid | (21) | (16) | (12) | (29) | (66) | (102) | (145) | (175) | (141) | (199) | (222) | (256) | (289) | (319) |
| **Free cash flow** | **(111)** | **5** | **159** | **164** | **234** | **231** | **375** | **453** | **525** | **630** | **556** | **475** | **531** | **645** |
| Net financial investments & acquisitions | 19 | (24) | (44) | (6) | (180) | (80) | (165) | (57) | (172) | (9) | (302) | 0 | 0 | 0 |
| Other | 1 | 23 | (112) | 3 | (40) | (70) | (61) | (31) | (15) | (12) | 9 | (28) | (29) | (30) |
| Capital increase (decrease) | 0 | 0 | 0 | 0 | 0 | 0 | (145) | (8) | (201) | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | (38) | (45) | (47) | (70) | (68) | (90) | (236) | (178) | (267) | (381) | (480) | (495) | (364) | (412) |
| **Increase (decrease) in net financial debt** | **128** | **42** | **44** | **(91)** | **54** | **9** | **231** | **(179)** | **130** | **(228)** | **217** | **47** | **(138)** | **(203)** |
| **Cash flow, group share** | **168** | **183** | **203** | **356** | **379** | **474** | **616** | **685** | **795** | **792** | **804** | **870** | **988** | **1,087** |
| **BALANCE SHEET HIGHLIGHTS (CHFm)** | **Dec. 00** | **Dec. 01** | **Dec. 02** | **Dec. 03** | **Dec. 04** | **Dec. 05** | **Dec. 06** | **Dec. 07** | **Dec. 08** | **Dec. 09** | **Dec. 10** | **Dec. 11e** | **Dec. 12e** | **Dec. 13e** |
| Fixed operating assets, incl. gross goodwill | 420 | 457 | 480 | 562 | 797 | 1,015 | 1,300 | 2,017 | 2,074 | 2,131 | 2,338 | 2,438 | 2,564 | 2,653 |
| WCR | 434 | 286 | 216 | 196 | 138 | 223 | 287 | 256 | 274 | 224 | 241 | 293 | 346 | 405 |
| **Capital employed, incl. gross goodwill** | **853** | **743** | **696** | **758** | **935** | **1,238** | **1,587** | **2,273** | **2,348** | **2,355** | **2,579** | **2,731** | **2,910** | **3,058** |
| Shareholders' funds, group share | 1,099 | 981 | 897 | 1,072 | 1,163 | 1,439 | 1,552 | 1,941 | 1,825 | 2,073 | 2,070 | 2,202 | 2,549 | 2,930 |
| Minorities | 20 | 26 | 18 | 18 | 26 | 36 | 40 | 36 | 37 | 37 | 38 | 66 | 95 | 125 |
| Provisions/ Other liabilities | 314 | 270 | 272 | 281 | 354 | 418 | 383 | 300 | 361 | 321 | 141 | 86 | 27 | (33) |
| Net financial debt (cash) | (488) | (446) | (402) | (493) | (439) | (430) | (199) | (378) | (248) | (476) | (259) | (212) | (350) | (553) |
| **FINANCIAL RATIOS (%)** | **Dec. 00** | **Dec. 01** | **Dec. 02** | **Dec. 03** | **Dec. 04** | **Dec. 05** | **Dec. 06** | **Dec. 07** | **Dec. 08** | **Dec. 09** | **Dec. 10** | **Dec. 11e** | **Dec. 12e** | **Dec. 13e** |
| Sales (% change) | (23.2%) | (1.6%) | 2.6% | 2.6% | 17.6% | 14.7% | 15.5% | 14.4% | 10.2% | (2.2%) | 1.0% | 6.7% | 9.4% | 9.0% |
| Organic sales growth | 1.0% | 7.0% | 6.0% | 6.7% | 10.6% | 11.4% | 10.3% | 12.0% | 14.2% | 1.3% | 3.2% | 8.0% | 9.5% | 9.0% |
| Restated EBITA (% change) (**) | (15.9%) | (10.7%) | 57.5% | 38.9% | 31.0% | 27.7% | 20.5% | 17.5% | 13.9% | 1.5% | 3.2% | 5.0% | 13.2% | 11.1% |
| Restated attributable net profit (% change) (**) | (64.1%) | (6.3%) | 79.4% | 19.7% | 17.3% | 33.5% | 19.4% | 16.4% | 12.3% | 1.4% | 1.9% | 5.9% | 13.2% | 11.5% |
| Personnel costs / Sales | 52.6% | 53.8% | 52.3% | 50.5% | 49.7% | 48.8% | 49.2% | 49.3% | 48.4% | 47.0% | 46.7% | 49.0% | 49.1% | 49.2% |
| Restated EBITDA margin | 10.9% | 10.2% | 13.0% | 16.1% | 17.6% | 19.4% | 20.3% | 20.8% | 21.3% | 22.2% | 22.6% | 23.1% | 23.9% | 24.0% |
| Restated EBITA margin | 6.5% | 5.9% | 9.0% | 12.2% | 13.6% | 15.2% | 15.8% | 16.3% | 16.8% | 17.4% | 17.8% | 17.5% | 18.1% | 18.5% |
| Tax rate | 26.9% | NC | 18.1% | 21.7% | 24.1% | 23.5% | 24.9% | 24.9% | 23.5% | 25.0% | 26.0% | 26.2% | 26.5% | 26.5% |
| Net margin | 5.7% | (2.9%) | 4.7% | 9.6% | 10.2% | 11.7% | 12.2% | 11.9% | 14.8% | 12.7% | 12.9% | 12.9% | 13.3% | 13.6% |
| Capex / Sales | 5.1% | 5.0% | 5.0% | 7.0% | 7.0% | 6.2% | 6.4% | 6.2% | 5.8% | 4.4% | 5.3% | 7.5% | 8.0% | 7.0% |
| OpFCF / Sales | (3.8%) | 0.9% | 7.1% | 7.9% | 10.4% | 10.1% | 13.6% | 14.4% | 13.8% | 17.6% | 16.4% | 14.4% | 14.8% | 15.9% |
| WCR / Sales | 18.3% | 12.3% | 9.0% | 8.0% | 4.8% | 6.7% | 7.5% | 5.9% | 5.7% | 4.8% | 5.1% | 5.8% | 6.2% | 6.7% |
| Capital employed (excl. gross goodwill) / Sales | 34.6% | 29.1% | 24.7% | 24.9% | 21.9% | 24.5% | 24.7% | 22.7% | 20.7% | 20.7% | 21.0% | 22.6% | 23.9% | 24.4% |
| ROE | 10.7% | 11.2% | 22.1% | 22.1% | 23.9% | 25.8% | 28.5% | 26.6% | 31.7% | 28.3% | 28.9% | 28.7% | 28.1% | 27.3% |
| Gearing | (44%) | (44%) | (44%) | (45%) | (37%) | (29%) | (13%) | (19%) | (13%) | (23%) | (12%) | (11%) | (16%) | (11%) |
| EBITDA / Financial charges | NC | NC | NC | NC | NC | NC | 863.1x | NC | 256.0x | 326.5x | 157.8x | NC | NC | NC |
| Adjusted financial debt / EBITDA | NC | NC | NC | NC | NC | NC | NC | NC | NC | NC | NC | NC | NC | NC |
| ROCE, excl. gross goodwill | 13.7% | 15.3% | 30.0% | 38.4% | 47.3% | 47.5% | 48.2% | 53.7% | 62.3% | 63.2% | 63.0% | 57.2% | 56.1% | 56.1% |
| ROCE, incl. gross goodwill | 13.2% | 13.9% | 25.4% | 31.0% | 31.9% | 31.0% | 28.6% | 23.5% | 26.4% | 26.2% | 24.3% | 24.1% | 25.6% | 27.1% |
| WACC | 8.1% | 8.8% | 8.7% | 8.9% | 9.0% | 8.0% | 7.9% | 8.0% | 8.4% | 9.1% | 9.0% | 9.1% | 9.1% | 9.1% |
| Average number of employees | 30,532 | 30,625 | 32,288 | 32,436 | 36,659 | 41,460 | 45,928 | 50,331 | 55,026 | 57,153 | 60,321 | | | |

(a) Intangibles: CHF756.00m, or CHF97 per share. (b) adjusted for capital gains/losses, impairment charges, exceptional restructuring charges, capitalized R&D, pension charge replaced by service cost

(c) adj.for capital gains losses, imp.charges, capitalized R&D, am. of intangibles from M&A, exceptional restructuring, (*) In listing currency, with div. reinvested, (**) also adjusted for am. of intangibles from M&A, or for am. of gwill for pre IFRS years

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