



SGS

Hold

Switzerland

Ind. Holding Cos.

18-01-11

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CHF 1,570 on 17-01-11

Equity Research
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Back on track, promising start to the year

SGS posted a solid set of 2010 results considering the tough market environment early in the year and the termination of a large concession in the Automotive division. The acceleration of top-line growth reported in the second half-year is likely to continue in the current year, with divisions such as Minerals and Consumer Testing Services returning to double-digit rates of growth. However, 2011 will be a transition year in terms of operating profit as the company is spending considerable sums of money on future growth. The operating profit margin is therefore likely to suffer somehow, although underlying operating profit is likely to increase in absolute terms. In the past few weeks, the company also stepped up the pace of acquisitions. Since the announcement of its strategic "Plan 2014" last September, SGS has made seven acquisitions totalling more than CHF 100 mn in sales. Management expects to announce two or three more acquisitions in the next four weeks, which should be positive. However, the deals will primarily involve bolt-on acquisitions (sales of CHF 10-20 mn). Based on the published results, we update our financial model, including our new foreign currency assumptions and the recent acquisitions (especially the higher margin ITV). While we keep our organic top-line estimates unchanged, we slightly lift our margin estimates for the current year on the back of higher-than-expected 2010 results and the positive impact of the ITV acquisition. All in all, our revisions have a positive impact of roughly 5% on our EPS estimates for 2011 and 2% for 2012. Considering current valuation levels (P/E 12E 16.6x, EV/EBITDA 9.2x) and our fair value calculations, we are maintaining our Hold rating with an unchanged price target of CHF 1,800 per share.

Outlook 2011: improvements in top-line growth compared to 2010, operating profit increase in absolute terms, but margin squeeze due to investments for the Plan 2014.



PER SHARE DATA	
Price target (CHF)	1,800
Price SGSN.VX on 17-01-11 CHF	1,570
No. of shares SGSN.VX in '000	7,642
Market cap. SGSN.VX (CHF mns)	11,998
Total market capitalization (CHF mns)	11,998
Free float %	58
Von Finck Family (voting 15%)	15
IFIL (voting 15%)	15
Allianz SE (voting 5%)	5
Daily avg number of share trades (12 mths)	18,426
Enterprise value (CHF mns)	12,574

SHARE VALUATION				
CHF	2009	2010	2011E	2012E
EPS	75.5	77.7	80.0	92.3
EPS growth %	-17	3	3	15
P/E	18.2	20.2	19.1	16.6
CEPS	75.5	77.7	80.0	92.3
P/CE	20.8	20.2	19.6	17.0
Dividend	60.0	65.0	50.0	53.0
Dividend yield %	4.4	4.1	3.3	3.5
Book value	276	271	292	338
Price/Book	5.7	5.8	5.7	4.9
EV/EBITDA	9.6	11.5	10.5	9.2

HIGH	12-MONTH	LOW
1,704		1,332

BREAKDOWN				
Sales 2010				
- by sector	CHF mns	Change	Share	
Agricultural Services	344	-3.4%	7.2%	
Mineral Services	616	14.9%	12.9%	
Oil, Gas & Chemical Services	957	0.6%	20.1%	
Life Science Services	194	-3.2%	4.1%	
Consumer Testing Services	821	3.9%	17.3%	
Sys & Services Certification	386	5.1%	8.1%	
Industrial Services	738	-0.8%	15.5%	
Environmental Services	278	-3.2%	5.9%	
Automotive Services	195	-26.7%	4.1%	
Govt & Institutions Services	229	6.8%	4.8%	
Total	4,757	1.0%	100%	

KEY DATA				
CHF mns	2009	2010	2011E	2012E
Sales	4,712	4,757	5,076	5,596
- growth %	-2	1	7	10
EBITDA margin %	22.1	22.3	21.9	22.5
EBIT margin %	16.9	17.6	17.3	18.0
EBIT growth %	-15	5	5	15
Shareholders' net profit	566	588	606	699
- growth %	-18	4	3	15
Return on equity %	29.0	28.4	28.2	28.0
Gearing %	-23.0	-12.5	-9.8	-14.7
Equity ratio %	56.5	53.0	50.3	52.8
Net debt	-476	-259	-216	-378
Operating cash flow	840	783	822	951

EXCESS PERFORMANCE		
	SPIX ¹	DJSFISV ²
3M	-2.7%	-12.5%
6M	-5.0%	-22.3%
12M	12.6%	-7.0%

¹SPI ex Div.

²DJ STOXX Financial Services

FY10 results review

Acceleration of top-line growth in 2H10

SGS reported FY10 results that were broadly in line with expectations. While sales of CHF 4,757 mn were slightly lower than anticipated, the underlying operating margin of 17.8% surpassed the market expectation of 17.6%. SGS reported organic growth of 3.2%, a clear acceleration from the 0.9% seen in 1H10 (5.5% in 2H10).

COMPARISON OF FY10 RESULTS AND VONTOBEL ESTIMATES

In CHF mn	FY to Dec. 31	FY 10E	FY 10A	delta %	consensus	delta cons.
Revenues		4'767	4'757	-0.2%	4'800	-0.9%
Salaries and sub-contractor expenses		-2'547	-2'541	-0.2%		
Other operating expenses		-1'156	-1'155	-0.1%		
Exceptional items		0	0	n.m.		
Total operating expenses		-3'703	-3'696	-0.2%		
EBITDA		1'064	1'061	-0.3%		
Depreciation & amortization		-237	-225	-4.9%		
Operating income (before exceptionals)		840	848	1.0%	836	1.4%
EBIT		827	836	1.0%	836	0.0%
Interest income/expenses (net)		-1	-7	n.m.		
Pretax profit		827	829	0.3%		
Taxes		-215	-215	0.0%		
Net Group profit		612	614	0.4%		
Minority interests		-29	-26	-9.1%		
Net profit		583	588	0.8%	591	-0.5%
Adjusted net profit		583	588	0.8%		
Basic EPS		78.1	77.64	-0.6%		
Diluted EPS (adjusted)		77.4	77.22	-0.3%		

Growth	2010E	FY 10A	delta %	consensus	delta cons.
Revenues (net)	1.2	1.0	-17.0%		
- Organic growth	3.0	3.2	6.4%		
- FX impact	-2.7	-3.1	18.3%		
- M&A impact	0.8	0.9	12.2%		
EBITDA	2.6	1.8	-29.7%		
Operating income	1.6	3.2	93.3%		
EBIT	4.2	5.3	26.1%		
Net profit	3.0	3.9	28.4%		

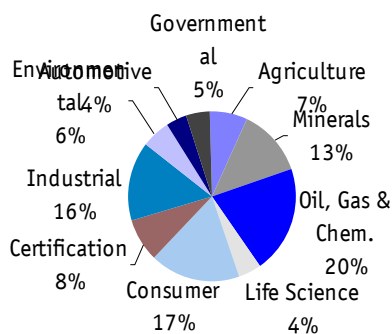
Margin analysis	2010E	FY 10A	delta %	consensus	delta cons.
Salaries & sub-contr. exp./revenues	53.4	53.4	0.0%		
Other op. expenses/revenues	24.3	24.3	0.1%		
Unusual items/revenues	0.0	0.0	n.m.		
EBITDA margin	22.3	22.3	-0.1%		
Operating income margin	17.4	17.8	2.7%	17.4%	
EBIT margin	17.4	17.6	1.3%		
Tax rate	26.0	25.9	-0.3%		
Net profit margin	12.2	12.4	1.0%	12.3%	

Source: Company data, Vontobel Equity Research

Minerals as star performer in 2H10

Excluding the negative impact of the termination of the Irish statutory vehicle testing concession, the organic growth rate would have amounted to 4.6%. Growth was mainly driven by the Minerals Services division, which reported 12.2% organic growth (18.9% in 2H10). With organic growth in excess of 7%, the Consumer Testing (CTS), Governments & Institutions Services (GIS) and Systems & Services Certification (SSC) divisions also all contributed to the increase. By contrast, revenue growth at Agricultural, Environmental and Industrial Services remained negative despite positive growth in 2H, which was unable to offset the decline in 1H10. Automotive reported a 21.8% sales decline on the back of the termination of the contract in Ireland (CHF 65 mn sales in 2009). Excluding this impact, the division reported positive growth of 3%.

DIVISIONAL BREAKDOWN – FY10 SALES



Source: Company data, Vontobel Equity Research

COMPARISON OF FY10 REVENUES WITH VONTOBEL ESTIMATES

Divisional Revenues

Division	FY 10E	FY 10A	delta %
Agricultural Services	345	344	-0.3%
Mineral Services	585	616	5.2%
Oil, Gas & Chemical Services	968	957	-1.2%
Life Science Services	206	194	-5.9%
Consumer Testing Services	818	821	0.4%
Systems & Services Certification	386	386	-0.1%
Industrial Services	743	738	-0.7%
Environmental Services	284	278	-2.0%
Automotive Services	200	195	-2.3%
Government & Institutions Services	231	229	-1.2%
Total	4767	4757	-0.2%

Divisional Revenue Growth in % (volume & prices)

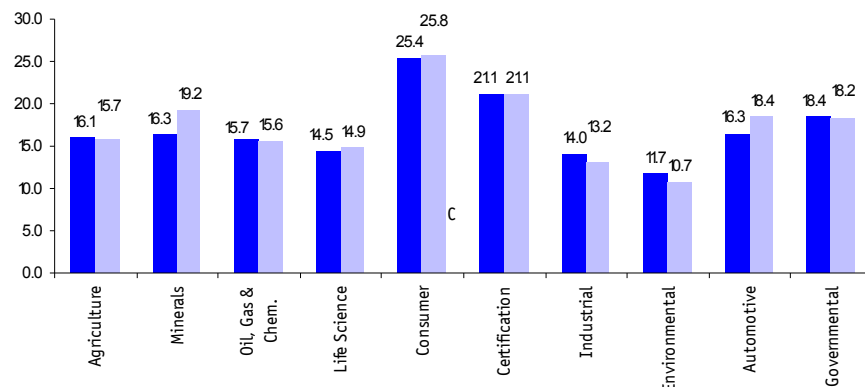
Division	FY 10E	FY 10A	delta %
Agricultural Services	-0.5	-0.1	
Mineral Services	11.0	12.2	
Oil, Gas & Chemical Services	4.5	4.2	
Life Science Services	4.0	2.6	
Consumer Testing Services	6.5	7.0	
Systems & Services Certification	8.0	7.9	
Industrial Services	-1.0	-0.6	
Environmental Services	0.0	-1.3	
Automotive Services	-23.0	-21.8	
Government & Institutions Services	11.0	9.2	
Total	3.0	3.1	4.3%

Source: Company data, Vontobel Equity Research

Operating profit margin up 40bp to 17.8%

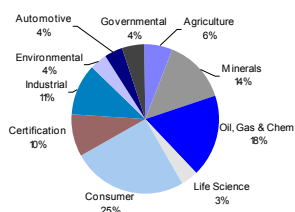
The adjusted operating profit margin expanded 40bp to 17.8% (up 50bp to 19.1% in 2H10), primarily due to an improved mix at Minerals as well as enhanced margins at Automotive Services and CTS.

OPERATING MARGIN 2009-10 BY DIVISION



Source: Company data, Vontobel Equity Research

DIVISIONAL BREAKDOWN – FY10 OPERATING PROFIT



Source: Company data, Vontobel Equity Research

COMPARISON OF FY10 OPERATING PROFIT WITH VONTOBEL ESTIMATES

Divisional Operating Income (pre-exceptionals)

Division	FY 10E	FY 10A	delta %
Agricultural Services	50	54	7.9%
Mineral Services	105	118	12.0%
Oil, Gas & Chemical Services	146	149	1.9%
Life Science Services	31	29	-6.7%
Consumer Testing Services	205	212	3.6%
Systems & Services Certification	82	82	0.1%
Industrial Services	100	97	-2.5%
Environmental Services	32	30	-6.3%
Automotive Services	35	36	2.8%
Government & Institutions Services	43	42	-2.3%
Total	827	848	2.4%

Divisional Operating Income Margin Breakdown

Division	FY 10E	FY 10A	delta %
Agricultural Services	14.5	15.7	
Mineral Services	18.0	19.2	
Oil, Gas & Chemical Services	15.1	15.6	
Life Science Services	15.0	14.9	
Consumer Testing Services	25.0	25.8	
Systems & Services Certification	21.1	21.1	
Industrial Services	13.4	13.2	
Environmental Services	11.2	10.7	
Automotive Services	17.5	18.4	
Government & Institutions Services	18.4	18.2	
Total	17.4	17.8	2.6%

Source: Company data, Vontobel Equity Research

Higher net financial expenses

Net financial expense amounted to CHF 7 mn, including the cost of temporary funding for the CHF 455 mn dividend payment and the impact of the issuance of a 1.875% CHF 550 mn bond. The tax rate increased slightly to 26.0%, in line with expectations, resulting in a net profit increase of 3.9% to CHF 588 mn. Overall, the results were in line with our expectations (see table above).

**Flat cash flow at nearly CHF 800 mn,
net cash of CHF 259 mn**

At first glance, flattish cash flow generation to CHF 783 mn is disappointing. However, SGS partly reversed the negative 1H10 working capital performance (impacted by cyclical and seasonal effects). DSO (days sales outstanding) were stable compared to last year (60 days). Capex increased by nearly 20% to CHF 250 mn, corresponding to 5.2% of sales. The pace of capital spending on fixed assets returned to pre-2009 levels in 2H10. Net cash decreased from CHF 476 mn to CHF 259 mn (CHF 455 mn dividend outflow, CHF 307 mn loan repayment).

**Proposed dividend payment of CHF
65, dividend yield 4.1%**

The board will recommend a dividend of CHF 65 per share at the AGM to be held on 15 March, CHF 35 of which is a special dividend which reflects the company's healthy cash generation. At CHF 30, the ordinary dividend is at the same level as last year (payout ratio of 38.6% vs 39.7% last year). The CHF 65 dividend payment corresponds to a dividend yield of 4.1%. Last year, the company paid a special dividend of CHF 30 following an exceptional cash in from the government of the Philippines. We therefore believe that the CHF 35 proposed this year reflects the company's strong confidence for future earnings. Management reiterated its policy of a 25% to 33% payout ratio.

Pace of acquisitions accelerating

**Ten acquisitions for a total
consideration of CHF 302 mn**

After a relative quiet 2009 with only two acquisitions totalling sales of less than CHF 10 mn, SGS accelerated the pace last year. It made ten acquisitions, which represent annualized sales of roughly CHF 146 mn (nearly 3% of sales) and operating profit before amortisation of acquisition intangibles of CHF 34 mn (margin 23.3%). The acquisitions added staff of roughly 1,400. SGS spent CHF 302 mn for the ten acquisitions (which would correspond to EV/sales of 2.1x). With the exception of Inspeccion Tecnica de Vehiculos, which generates sales in excess of CHF 80 mn, the other acquisitions were relatively small (sales of between CHF 1 mn and CHF 20 mn).

SGS ACQUISITIONS IN 2010					
Target	Region	Sales in CHF	Price in CHF	Employees	Division
Verilab	Chile	5	3	110	Minerals
Intron Group	Netherlands	20	23	121	Industrial
Australian Soil Testing	Australia	3	1	16	Minerals
Korea Constr. Quality Test	Korea	8	8	60	Industrial
Assayers Canada	Canada	3	3	14	Minerals
Am'Tech Medical	France	4	4	17	Industrial
Yan Tai Huajian Inspection	China	5	8	120	Industrial
M-Scan	UK	12	24	61	Life Science
Atest	Switzerland	3	4	11	Industrial
Inspeccion Tecnica de Vehiculos	Spain	83	225	833	Automotive
Total		146	302	1363	

Source: Company data, Vontobel Equity Research

BV and Intertek also active last year

Main competitors Bureau Veritas and Intertek were also active last year. The French competitor entered the Minerals and Oil, Gas & Chemicals sectors with a pricey acquisition of Inspectorate from 3i. It was one of the biggest acquisitions in the sector seen in the past years. With this move, Bureau Veritas' business profile has neared SGS's. Last year, Intertek made five smaller acquisitions for a total consideration of GBP 40 mn.

Larger scale acquisitions in 2010

We should also highlight two acquisitions made by 3i, which divested Inspectorate to BV. 3i acquired Trescal and Stork Materials Technology for a total consideration of EUR 180 mn. These two acquisitions are relatively big for the sector (2,000 employees) as both companies generate sales in excess of EUR 100 mn. Applus, an investment vehicle from private equity Carlyle, was also active last year with four acquisitions totalling sales of more than USD 220 mn. Applus' acquisitions included Velosi, a relatively big player which will strengthen the company's position in the industrial segment. Finally, German rivals likewise made several acquisitions, especially Dekra, which acquired sales of more than EUR 60 mn thanks to four acquisitions.

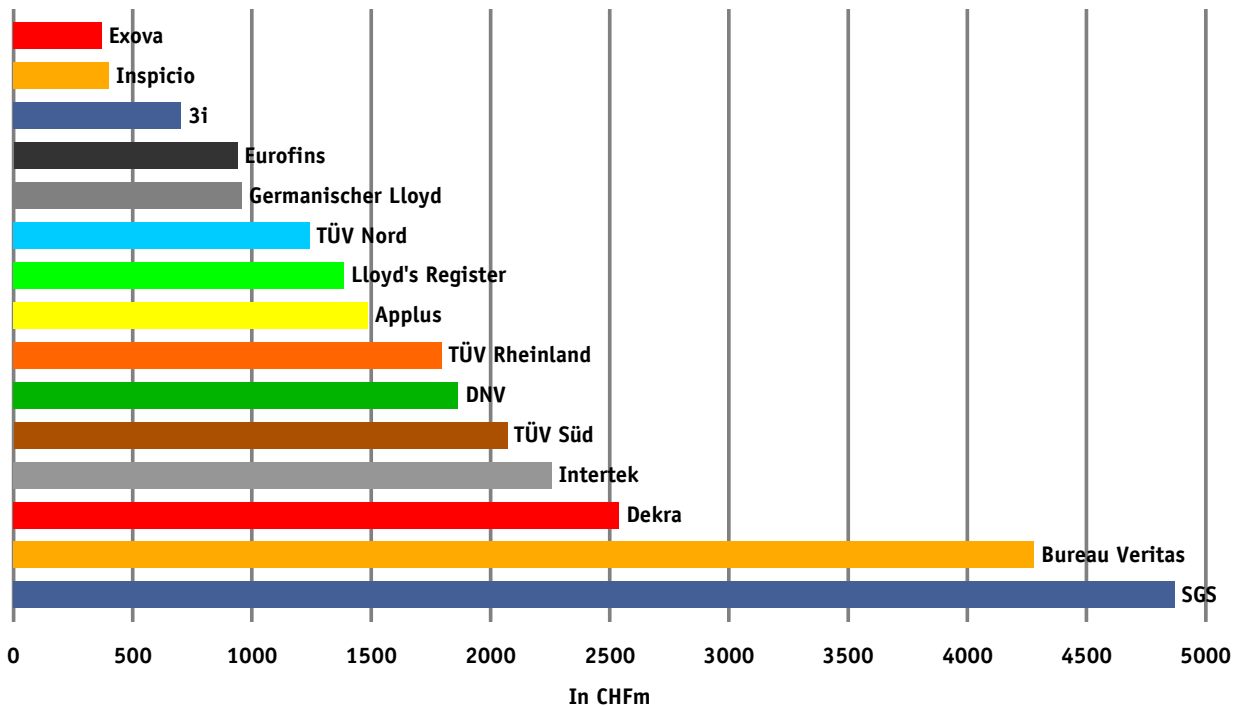
SECTOR'S LARGEST TRANSACTIONS IN 2010

Target	Buyer	Price in CHFm	Sales in CHFm	Employees	Activity
Inspectorate	Bureau Veritas	720	400	7,000	Commodities
Inspeccion Tecnica de Vehiculos	SGS	235	85	850	Automotive
Trescal	3i	120	150	1,200	Industrial
Stork Materials Technology	3i	210	n.a.	800	Industrial
Velosi	Applus	140	190	2,500	Industrial

Source: Company data, Vontobel Equity Research

Following last year's consolidation, SGS and Bureau Veritas remain the two major players in the industry both with sales of more than CHF 4 bn.

TOP 15 PLAYERS IN THE INDUSTRY (BASE: FY 2010 INCLUDING ACQUISITIONS)



Source: Company data, Vontobel Equity Research

SGS targeting acquisition of CHF 700 mn sales by 2014

Overall, in terms of sales, Bureau Veritas and 3i made the biggest acquisitions last year. In order to reach its acquired sales target of CHF 700 mn by 2014, SGS will most likely step up the pace or size of its acquisitions compared to last year. However, based on the recent announcements, we believe that the company is on track to reach its target, as it has stated that it should announce two or three acquisitions within a month. As seen last year with companies such as Velosi, Trescal or Stork Materials Technology, there are still acquisition targets in the sector. Since the announcement of its strategic "Plan 2014" last September, SGS has completed seven acquisitions totalling sales of CHF 100 mn. The company now has less than four years to acquire additional sales representing CHF 600 mn in order to reach its 2014 target.

Outlook and revised estimates

High single-digit organic growth in 2011?

SGS gave a rather vague outlook in its FY10 results report: improvement in top-line growth, with trading profit above the 2010 level in absolute terms. On the back of the increased investments related to the "Plan 2014", management expects an operating margin decline in 2011. We believe that the company is at least targeting high single-digit organic growth for the current year thanks to a sales boost in the following divisions:

- Minerals: Exploration spend is expected to return to 2008 levels, when the company reported nearly 28% organic growth. Moreover, demand for commodities such as iron ore, coking coal, etc. is likely to trigger additional revenues.
- CTS: We believe that the company is aiming for double-digit growth rates on the back of continued strong developments in emerging markets (BRIC countries), improving economic conditions in more mature countries as well as expected market share gains in the softlines and hardgoods sectors.
- Automotive: SGS is expecting to win two statutory businesses in Africa. Moreover, commercial services are expected to expand in Europe and North America. The integration of ITV will also be very positive for SGS overall.
- Rebound in divisions which underperformed in 2010 such as Agricultural (inland activities with more than 30% growth, new food safety and cold chain management services in India), Industrial (new contracts in oil and gas testing in Asia, the Middle East and Africa) and Environmental (economic recovery, expansion of services in Africa, South America and Europe).

In addition, we expect a gradual improvement at OGC (upstream services growth, economic recovery), Life Science (outsourcing trend, leveraging of the M-Scan acquisition), SSC and GIS (two new clients for scanning activities).

Negative impact from Ivory Coast and Australia?

The current political turmoil in Ivory Coast and Tunisia as well as the flooding in Queensland in Australia might have a marginally negative impact. SGS is constantly assessing the situations, but was unable to quantify the overall effect of these events.

Margin drop in 2011

Given the positive top-line growth and the improved mix towards upstream services, we expect an underlying operating profit margin improvement. However, SGS's "Plan 2014" implies substantial spending in 2011 (management would not quantify it) which is likely to offset the underlying improvement, indicating that the margin will probably contract in the current year.

EPS estimates revised upwards 5% for 2011E and 2% for 2012E

Based on FY10 results and the comments above, we update our financial model. Our underlying assumptions remain broadly unchanged. However, we adjust our currency impact assumptions on the back of the ongoing strength of the Swiss franc. We now expect a 4.2% negative impact (prev. -2.3%). We likewise include the recent acquisitions, totalling sales of roughly CHF 90 mn (mainly ITV acquisition, completed on 29 December). We also adjust our divisional estimates to reflect actual 2010 figures and management's outlook. All in all, we now expect organic growth of 8.6% (prev. 8.7%) for the current year, and an underlying margin contraction of 60bp to 17.2% (prev. -100bp to 16.4%). The higher margin is due to the better-than-expected FY10 margin and the positive impact of the ITV acquisition, which generates an estimated margin of 30%.

For the years to come, our assumptions remain broadly unchanged. Our revised estimates lead to an EPS increase of 5.0% in 2011 and 2.0% in 2012.

KEY CHANGES TO VONTOBEL ESTIMATES

	New			Old			Change %		
	2010A	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
Revenues	4'757.0	5'076.5	5'596.1	4'766.6	5'086.2	5'605.9	-0.2%	-0.2%	-0.2%
EBITDA	1'061.0	1'111.5	1'259.4	1'063.9	1'082.6	1'250.1	-0.3%	2.7%	0.7%
Operating income	848.0	875.4	1'006.3	840.0	831.8	981.1	1.0%	5.2%	2.6%
EBIT	836.0	875.4	1'006.3	827.3	831.8	981.1	1.0%	5.2%	2.6%
Net profit	588.0	605.8	698.7	583.1	576.9	685.0	0.8%	5.0%	2.0%
EPS	77.2	80.5	92.8	77.4	76.6	91.0	-0.3%	5.0%	2.0%

Source: Company data, Vontobel Equity Research

Valuation

Unchanged price target of CHF 1,800

Based on our new estimates, SGS is trading at a P/E 12E of 16.6x and an EV/EBITDA 12E of 9.2x. This valuation is broadly in line with rivals Bureau Veritas (14.7x and 9.4x, respectively) and Intertek (16.0x and 9.4x, respectively). We consider a premium to both competitors justified given SGS's superior business mix (lower risk profile) and its sound financial situation. Based on our financial model and adjusted estimates, we derive an unchanged price target of CHF 1,800 per share.

Conclusion

Hold rating confirmed

SGS's FY10 results confirm the industry recovery. The company likewise demonstrated the resilience of margins in its business despite declining sales growth in some divisions. We expect the recovery to gradually improve during the year, so that SGS should be able to report high single-digit growth in the current year (soft comps in 1H11) driven by the Minerals and CTS divisions. We also expect some additional bolt-on acquisitions in the coming weeks, which should be positive for the stock's momentum. Based on current valuation levels and our fair value calculations, we are keeping our Hold rating with an unchanged price target of CHF 1,800.

INCOME AND CASH FLOW STATEMENT 2007-12E

In CHF mn FY to Dec. 31	2007	2008	2009	2010	2011E	2012E	CAGR 2007-2010
Revenues (gross)	4'372	4'818	4'712	4'757	5'076	5'596	2.9%
Salaries and wages	-2'076	-2'243	-2'209	-2'214	-2'373	-2'601	2.2%
Subcontractors' expenses	-307	-331	-319	-327	-345	-376	2.1%
Other operating expenses	-1'081	-1'220	-1'142	-1'155	-1'247	-1'360	2.2%
Exceptional items	-21	127	-20	0	0	0	n.m.
Total operating expenses	-3'485	-3'667	-3'690	-3'696	-3'965	-4'337	2.0%
EBITDA	908	1'024	1'042	1'061	1'111	1'259	5.3%
Depreciation of fixed assets	-166	-180	-191	-185	-196	-211	3.7%
Depr./impairm. of intangible assets	-31	-34	-37	-38	-40	-42	6.9%
Op. Inc. (pre-exceptionals)	711	810	822	848	875	1'006	6.0%
EBIT	690	937	794	836	875	1'006	6.6%
Interest income/expenses (net)	2	-1	-2	-7	-11	-8	n.m.
Pretax profit	692	933	791	829	865	998	6.2%
Taxes	-172	-219	-200	-215	-227	-264	7.7%
Net group profit	520	714	591	614	637	733	5.7%
Minority interests	-20	-22	-25	-26	-32	-35	9.1%
Net profit	500	692	566	588	606	699	5.6%
Net profit adjusted	515	579	581	588	606	699	4.5%

Growth		2007	2008	2009	2010	2011E	2012E
Revenues (net)	%	14.4	10.2	-2.2	1.0	6.7	10.2
EBITDA	%	16.9	12.8	1.8	1.8	4.8	13.3
Operating income (pre-excep.)	%	17.5	13.9	1.5	3.2	3.2	15.0
EBIT	%	10.6	35.8	-15.3	5.3	4.7	15.0
Net profit	%	12.9	38.4	-18.2	3.9	3.0	15.3

Margins analysis		2007	2008	2009	2010	2011E	2012E	CAGR 2007-2010
EBITDA margin	%	20.8	21.3	22.1	22.3	21.9	22.5	2.4%
Op. Inc. margin (pre-exception)	%	16.3	16.8	17.4	17.8	17.2	18.0	3.1%
EBIT margin	%	15.8	19.4	16.9	17.6	17.2	18.0	3.6%
Tax rate	%	24.9	23.5	25.3	25.9	26.3	26.5	1.4%
Net profit margin	%	11.4	14.4	12.0	12.4	11.9	12.5	2.6%
Operational cash flow margin	%	16.1	17.4	17.8	16.5	16.2	17.0	0.6%

Cash flow Statement

In CHF mn FY to Dec. 31	2007	2008	2009	2010	2011E	2012E	CAGR 2007-2010
Cash flow	871	860	827	816	874	987	-2.2%
Inc. (-)/dec. (+) in NWC	-165	-22	13	-33	-51	-35	-41.5%
Operating cash flow	706	838	840	783	822	951	3.5%
Total capex	341	415	233	233	373	410	-4.3%
Operating free cash flow	421	528	631	533	449	541	8.2%
Investing cash flow	-45	-147	16	-301	0	0	88.4%
Financing cash flow	-166	-202	-414	-177	-492	-379	2.2%
Inc. (+)/dec. (-) in cash	200	145	209	23	-43	163	-51.4%

Source: Company data, Vontobel Equity Research

DIVISIONAL SALES BREAKDOWN

Division		2008	H1 09	H2 09	2009	H1 10	H2 10	2010	2011E	2012E
Agricultural Services	CHF mn	358	176	180	356	170	174	344	350	374
Mineral Services	CHF mn	663	262	275	536	291	325	616	676	757
Oil, Gas & Chemical Services	CHF mn	954	469	482	951	480	476	957	993	1082
Life Science Services	CHF mn	204	100	100	200	98	96	194	210	235
Consumer Testing Services	CHF mn	734	392	399	790	407	414	821	884	1008
Systems & Services Certification	CHF mn	366	176	192	367	189	198	386	397	428
Industrial Services	CHF mn	739	371	372	744	368	370	738	761	829
Environmental Services	CHF mn	296	140	148	288	137	142	278	286	312
Automotive Services	CHF mn	293	139	128	266	100	95	195	285	314
Government & Institutions Services	CHF mn	212	103	111	214	112	117	229	235	256
Total	CHF mn	4818	2327	2385	4712	2352	2406	4757	5076	5596

Divisional Revenue Growth in % (volume & prices)

Division		2008	H1 09	H2 09	2009	H1 10	H2 10	2010	2011E	2012E
Agricultural Services	%	8.3	9.7	-0.9	4.0	-3.1	2.8	-0.1	5.0	7.0
Mineral Services	%	25.3	-8.4	-11.1	-9.9	5.6	18.7	12.2	14.0	12.0
Oil, Gas & Chemical Services	%	10.8	1.8	-1.6	0.1	3.8	4.4	4.2	8.0	9.0
Life Science Services	%	8.6	7.2	-0.8	3.1	1.2	3.8	2.6	8.0	12.0
Consumer Testing Services	%	15.8	12.1	6.5	9.1	5.6	8.2	7.0	12.0	14.0
Systems & Services Certification	%	9.2	5.0	4.2	4.6	7.8	7.8	7.9	7.0	8.0
Industrial Services	%	15.7	4.8	-0.4	2.1	-3.3	2.1	-0.6	6.0	9.0
Environmental Services	%	9.8	4.3	-1.9	1.1	-4.4	1.7	-1.3	7.0	9.0
Automotive Services	%	22.3	0.2	-8.8	-4.3	-25.0	-17.2	-21.8	8.0	10.0
Government & Institutions Services	%	10.5	9.5	4.7	6.9	10.6	7.7	9.2	7.0	9.0
Total	%	14.3	3.9	-1.1	1.3	0.9	5.3	3.1	8.6	10.2

Divisional Revenue Breakdown in % of Total Revenues

Division		2008	H1 09	H2 09	2009	H1 10	H2 10	2010	2011E	2012E
Agricultural Services	%	7.4	7.6	7.5	7.6	7.2	7.2	7.2	6.9	6.7
Mineral Services	%	13.8	11.2	11.5	11.4	12.4	13.5	12.9	13.3	13.5
Oil, Gas & Chemical Services	%	19.8	20.1	20.2	20.2	20.4	19.8	20.1	19.6	19.3
Life Science Services	%	4.2	4.3	4.2	4.2	4.2	4.0	4.1	4.1	4.2
Consumer Testing Services	%	15.2	16.8	16.7	16.8	17.3	17.2	17.3	17.4	18.0
Systems & Services Certification	%	7.6	7.5	8.0	7.8	8.0	8.2	8.1	7.8	7.7
Industrial Services	%	15.3	16.0	15.6	15.8	15.7	15.4	15.5	15.0	14.8
Environmental Services	%	6.2	6.0	6.2	6.1	5.8	5.9	5.9	5.6	5.6
Automotive Services	%	6.1	6.0	5.4	5.6	4.2	4.0	4.1	5.6	5.6
Government & Institutions Services	%	4.4	4.4	4.6	4.5	4.8	4.9	4.8	4.6	4.6
Total	%	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company data, Vontobel Equity Research

DIVISIONAL OPERATING PROFIT BREAKDOWN

Division		2008	H1 09	H2 09	2009	H1 10	H2 10	2010	2011E	2012E
Agricultural Services	CHF mn	56	28	30	57	23	31	54	52	57
Mineral Services	CHF mn	125	38	50	87	51	67	118	125	144
Oil, Gas & Chemical Services	CHF mn	140	69	81	149	65	84	149	149	168
Life Science Services	CHF mn	28	11	18	29	13	16	29	29	38
Consumer Testing Services	CHF mn	170	100	101	201	102	110	212	217	252
Systems & Services Certification	CHF mn	70	34	44	78	36	45	82	81	90
Industrial Services	CHF mn	106	50	54	104	46	51	97	99	116
Environmental Services	CHF mn	31	14	20	34	13	17	30	30	36
Automotive Services	CHF mn	48	21	23	44	19	17	36	50	57
Government & Institutions Services	CHF mn	36	18	22	39	20	22	42	42	49
Total	CHF mn	810	380	442	822	388	460	848	875	1006

Divisional Operating Income Margin Breakdown

Division		2008	H1 09	H2 09	2009	H1 10	H2 10	2010	2011E	2012E
Agricultural Services	%	15.6	15.7	16.4	16.1	13.3	18.1	15.7	15.0	15.3
Mineral Services	%	18.9	14.4	18.1	16.3	17.7	20.5	19.2	18.5	19.0
Oil, Gas & Chemical Services	%	14.7	14.6	16.7	15.7	13.6	17.6	15.6	15.0	15.5
Life Science Services	%	13.5	11.1	18.0	14.5	13.0	16.8	14.9	14.0	16.0
Consumer Testing Services	%	23.2	25.5	25.4	25.4	25.1	26.5	25.8	24.5	25.0
Systems & Services Certification	%	19.1	19.1	23.0	21.1	19.3	22.9	21.1	20.5	21.0
Industrial Services	%	14.3	13.4	14.6	14.0	12.6	13.7	13.2	13.0	14.0
Environmental Services	%	10.6	9.6	13.6	11.7	9.2	12.2	10.7	10.5	11.5
Automotive Services	%	16.3	14.9	17.9	16.3	19.1	17.6	18.4	17.5	18.0
Government & Institutions Services	%	16.9	17.3	19.5	18.4	17.4	18.9	18.2	18.0	19.0
Total	%	16.8	16.3	18.5	17.4	16.5	19.1	17.8	17.2	18.0

Divisional Operating Profit Growth YoY

Division		2008	H1 09	H2 09	2009	H1 10	H2 10	2010	2011E	2012E
Agricultural Services	%	17.4	27.6	-13.7	2.3	-18.4	6.4	-5.6	-2.9	9.1
Mineral Services	%	27.6	-36.5	-25.0	-30.4	36.7	34.1	35.2	6.1	15.0
Oil, Gas & Chemical Services	%	5.2	0.6	11.8	6.3	-5.0	3.8	-0.2	0.0	12.6
Life Science Services	%	14.1	-0.9	9.8	5.5	14.4	-10.1	-0.7	2.0	28.0
Consumer Testing Services	%	12.1	30.3	8.1	18.1	2.5	8.2	5.4	2.3	16.3
Systems & Services Certification	%	7.7	7.0	14.0	10.9	8.0	3.0	5.2	-0.4	10.6
Industrial Services	%	4.9	0.6	-2.7	-1.1	-7.2	-6.6	-6.9	1.9	17.4
Environmental Services	%	13.8	6.3	7.5	7.0	-7.4	-13.9	-11.3	0.8	19.4
Automotive Services	%	41.1	-15.2	-2.1	-8.8	-7.3	-26.6	-17.5	39.2	13.1
Government & Institutions Services	%	24.7	15.6	5.4	9.7	9.6	2.3	5.6	1.6	15.1
Total	%	13.9	2.7	0.5	1.5	2.0	4.0	3.1	3.2	14.9

Divisional Operating Profit as % of total

Division		2008	H1 09	H2 09	2009	H1 10	H2 10	2010	2011E	2012E
Agricultural Services	%	6.9	7.3	6.7	7.0	5.8	6.8	6.4	6.0	5.7
Mineral Services	%	15.5	9.9	11.2	10.6	13.3	14.5	13.9	14.3	14.3
Oil, Gas & Chemical Services	%	17.3	18.0	18.3	18.1	16.8	18.2	17.6	17.0	16.7
Life Science Services	%	3.4	2.9	4.0	3.5	3.3	3.5	3.4	3.4	3.7
Consumer Testing Services	%	21.0	26.3	22.9	24.5	26.4	23.8	25.0	24.8	25.1
Systems & Services Certification	%	8.6	8.8	10.0	9.4	9.4	9.9	9.6	9.3	8.9
Industrial Services	%	13.0	13.1	12.3	12.7	11.9	11.1	11.5	11.3	11.5
Environmental Services	%	3.9	3.6	4.5	4.1	3.2	3.8	3.5	3.4	3.6
Automotive Services	%	5.9	5.4	5.2	5.3	4.9	3.7	4.2	5.7	5.6
Government & Institutions Services	%	4.4	4.7	4.9	4.8	5.0	4.8	4.9	4.8	4.8
Total	%	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company data, Vontobel Equity Research

BALANCE SHEET

In CHF mn FY to Dec. 31	2007	2008	2009	2010	2011E	2012E	CAGR 2007-2010
Cash & marketable securities	438	583	792	815	772	935	23.0%
Inventories	206	184	201	222	236	261	2.5%
Trade and other receivables	867	919	812	772	876	997	-3.8%
Other receivables and prepayments	184	194	174	197	197	197	2.3%
Current assets	1'695	1'880	1'979	2'006	2'082	2'389	5.8%
Net fixed assets	738	721	751	756	888	1'037	0.8%
Intangibles	153	165	148	125	101	79	-6.5%
Goodwill	563	594	629	857	887	916	15.0%
Other long-term assets	145	184	193	201	201	201	11.5%
Long-term assets	1'638	1'701	1'757	1'975	2'112	2'269	6.4%
Total assets	3'333	3'581	3'736	3'981	4'194	4'658	6.1%

In CHF mn FY to Dec. 31	2007	2008	2009	2010	2011E	2012E	CAGR 2007-2010
Trade and other payables	452	403	388	401	428	472	-3.9%
Short-term interest-bearing debt	40	325	308	3	3	3	-57.8%
Other current liabilities	574	649	596	599	639	705	1.4%
Current liabilities	1'066	1'377	1'292	1'003	1'070	1'179	-2.0%
Long-term interest-bearing debt	20	10	8	553	553	553	202.4%
Pension provisions	78	162	146	139	139	139	21.2%
Deferred taxes	64	65	77	77	77	77	6.4%
Other provisions	98	105	103	101	101	101	1.0%
Long-term liabilities	260	342	334	870	870	870	49.6%
Shareholders' equity	1'971	1'825	2'073	2'071	2'216	2'571	1.7%
Minority interests	36	37	37	37	37	37	0.9%
Equity & l.t. liabilities	2'267	2'204	2'444	2'978	3'123	3'478	9.5%
Total liabilities & sh. equity	3'333	3'581	3'736	3'981	4'194	4'658	6.1%

Balance Sheet Analysis

Working capital analysis		2007	2008	2009	2010	2011E	2012E	CAGR 2007-2010
Net work. cap. (NWC)	CHF mn	231.0	245.0	203.0	191.0	242.5	277.8	-6.1%
NWC/turnover	%	5.3	5.1	4.3	4.0	4.8	5.0	-8.7%
Working capital	days	19.3	18.6	15.7	14.7	17.4	18.1	-8.7%
Inventory	days	17	14	16	17	17	17	-0.3%
Receivables	days	72	70	63	59	63	65	-6.5%
Payables	days	38	31	30	31	31	31	-6.6%

Capital structure		2007	2008	2009	2010	2011E	2012E	CAGR 2007-2010
Average equity	CHF mn	1'766.5	1'898.0	1'949.0	2'072.0	2'143.7	2'393.8	5.5%
Net fin. pos. (year-end)	CHF mn	378.0	248.0	476.0	259.0	216.1	378.7	-11.8%
Capital employed	CHF mn	1'707.0	1'776.0	1'780.0	1'988.0	2'176.2	2'368.5	5.2%
Equity/total assets	%	60.2	52.0	56.5	53.0	53.7	56.0	-4.2%
Gearing (year-end)	%	-19.2	-13.6	-23.0	-12.5	-9.8	-14.7	-13.3%

Breakdown of ROE		2007	2008	2009	2010	2011E	2012E
Net profit margin	%	11.4	14.4	12.0	12.4	11.9	12.5
Asset turnover	%	131.2	134.5	126.1	119.5	121.1	120.1
Return on assets (ROA)	%	15.0	19.3	15.1	14.8	14.4	15.0
Leverage (assets/equity)	x	1.9	1.9	1.9	1.9	2.0	1.9
Return on equity (ROE)	%	28.3	36.5	29.0	28.4	28.3	29.2

Source: Company data, Vontobel Equity Research

SUMMARY & VALUATION								
Price (registered)			2007	2008	2009	2010	2011E	2012E
Price (year-end)	CHF		1'339	1'100	1'374	1'569	1'531	1'531
High	CHF		1'595	1'607	1'430	1'709	n.a.	n.a.
Low	CHF		1'286	884	1'028	1'308	n.a.	n.a.
Shares outstanding			2007	2008	2009	2010	2011E	2012E
Average shares outstanding	('000)		7'637	7'597	7'498	7'571	7'571	7'571
Year-end shares outstanding	('000)		7'629	7'473	7'500	7'642	7'642	7'642
Market capitalization	CHF mn		10'214	8'221	10'305	11'990	11'700	11'700
Aggregate data			2007	2008	2009	2010	2011E	2012E
Revenues (net)	CHF mn		4'372	4'818	4'712	4'757	5'076	5'596
EBITDA	CHF mn		908	1'024	1'042	1'061	1'111	1'259
EBIT	CHF mn		690	937	794	836	875	1'006
Net profit	CHF mn		500	692	566	588	606	699
Enterprise value	CHF mn		9'950	8'172	10'012	11'907	11'660	11'497
Growth (CHF)			2007	2008	2009	2010	2011E	2012E
Revenues (net)	%		14.4	10.2	-2.2	1.0	6.7	10.2
EBITDA	%		16.9	12.8	1.8	1.8	4.8	13.3
EBIT	%		10.6	35.8	-15.3	5.3	4.7	15.0
Net profit	%		12.9	38.4	-18.2	3.9	3.0	15.3
Book value	%		26.2	-7.4	13.6	-0.1	7.0	16.0
Per-share data			2007	2008	2009	2010	2011E	2012E
EPS (reported)	CHF		65.5	91.1	75.5	77.7	80.0	92.3
EPS (adjusted)	CHF		66.8	75.9	77.2	78.1	80.5	92.8
EBITDA	CHF		118.9	134.8	139.0	140.1	146.8	166.4
EBIT	CHF		90.3	123.3	105.9	110.4	115.6	132.9
Cash flow	CHF		114.1	113.2	110.3	107.8	115.4	130.3
Op. cash flow	CHF		92.4	110.3	112.0	103.4	108.6	125.6
BVPS (reported)	CHF		258.1	240.2	276.5	273.5	292.7	339.6
BVPS (adjusted)	CHF		241.8	245.2	307.2	334.5	380.3	453.8
Dividend	CHF		35.0	50.0	60.0	65.0	50.0	53.0
Valuation (CHF)			2007	2008	2009	2010	2011E	2012E
P/E (reported)	x		20.5	12.1	18.2	20.2	19.1	16.6
P/E (adjusted)	x		20.0	14.5	17.8	20.1	19.0	16.5
P/Cash flow	x		11.7	9.7	12.5	14.6	13.3	11.7
P/Op. cash flow	x		14.5	10.0	12.3	15.2	14.1	12.2
P/Book (reported)	x		5.2	4.6	5.0	5.7	5.2	4.5
P/Book (adjusted)	x		5.5	4.5	4.5	4.7	4.0	3.4
Dividend yield	%		2.6	4.5	4.4	4.1	3.3	3.5
EV/Revenues	x		2.3	1.7	2.1	2.5	2.3	2.1
EV/EBITDA	x		11.0	8.0	9.6	11.2	10.5	9.1
EV/EBIT	x		14.4	8.7	12.6	14.2	13.3	11.4

Source: Company data, Vontobel Equity Research

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The author(s) of this document owns securities in the analysed companies: None

The document was not submitted to the analysed companies before publication or distribution

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The Ratings and / or Rating Outlook of the analysed companies were last changed as follows:
SGS [SGSN.VX] was last changed from Buy to Hold on 18-06-2008

4. Global rating breakdown

	VT Research universe	VT Research universe	Share of VT IB clients in rating category
	No.	As %	As %
Buy	58	34	33
Hold	105	61	34
Reduce	9	5	33

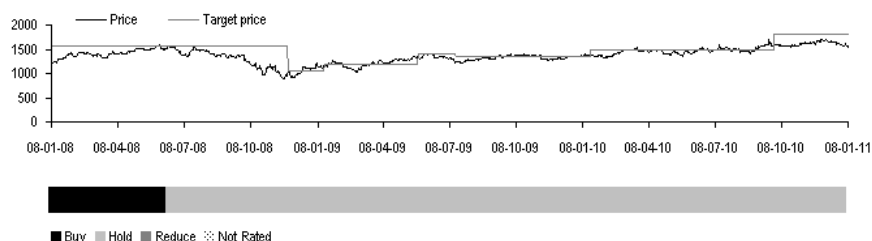
The table above is revised at the beginning of each quarter, i.e. it currently reflects the status as at 31st December 2010.

5. Rating Plotter Charts

The data used for the share price and/or price target chart may have to be adjusted to reflect corporate actions undertaken by the company.

Not Rated: Currently no rating assigned to company due to e.g. review of rating, advising of analysed company in a capital market transaction or a similar reason.

SGS[SGSN.VX] as at 8-1-2011



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Rating	Definition
Large Cap	SLI Index (inc. tolerance) / non-Swiss stocks of similar market capitalisation
Buy	Price target (when set) implies 10% or more upside on a 12-month horizon
Hold	Price target (when set) implies 0-10% upside on a 12-month horizon
Reduce	Price target (when set) implies downside on a 12-month horizon

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Hold	Price target (when set) implies 0-15% upside on a 12-month horizon
Reduce	Price target (when set) downside on a 12-month horizon

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Buy: When upside to price target falls below 5% (all caps).

Hold: When upside to price target reaches or exceeds 15% for large caps or 20% for mid & small cap; when downside to price target reaches or exceeds 5% (all caps).

Reduce: When upside to price target reaches or exceeds 5% (all caps).

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For more information on our methodology and rating system see www.vontobel.ch.

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