

NEWS

30 May 2011

BUSINESS SERVICES

SGS

Investor days support our Buy case

■ Key initiatives to achieve ambitious targets

There were few surprises at SGS' investor days which provided incremental visibility into its longer-term strategy. The company continues its move towards higher value-add services such as upstream/inland testing as well as more integrated solutions. Bundling and cross-selling of services should allow for an increased leveraging of its existing customer base.

■ Current trading healthy

Constant FX growth is above 10% and in the high-single digits organically. All ten divisions and regions are in positive territory. There were no explicit comments on margins but we feel that those are holding up well, particularly in H1 as the CHF150m investment programme is slightly delayed and underlying trading is solid.

■ M&A: moving up the agenda

While not too much explicit was said, the pipeline seems healthy and we feel it also includes some slightly larger transactions with sales still <CHF100m. SGS is taking a more proactive approach. Prices are going back up again as the sector's attractions are now better known and PE players become more active.

■ Happy with a bit of financial leverage

While SGS remains committed to retain a strong balance sheet, they seem to be happy with slightly higher gearing as evidenced by recent bond issues (H1-11E gross cash estimated at >CHF800m). They are ok with some leverage (up to 1x EBITDA ie some CHF1bn of net debt) to fund both M&A and keep pay-out's generous (c33% ordinary pay-out and special dividends).

■ Maintain positive view

SGS remains our preferred pick in the sector. Its higher exposure to commodities should allow for above-peer growth, margin resilience is underestimated and it most spare cash (for M&A/dividends).

Summary

- **Key initiatives: move further upstream and towards integrated solutions, push cross-selling, replication key in M&A**
- **Current trading is firm with growth above 10% at constant FX and in high single digits organically**
- **Capital structure: SGS happy with slightly higher gearing to fund M&A and keep pay-outs high**

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BEST REGARDS,
CHEUVREUX

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Rating **2/Outperform**

Target price (6 months) **+14.5% CHF1900.00**

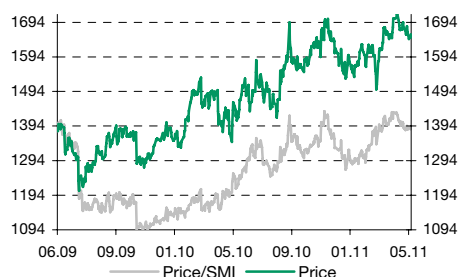
Price (27/05/11) **CHF1660.00**

Market capitalisation **CHF12.985bn**

Reuters: **SGSN.VX** Bloomberg: **SGSN VX**

Performances

	1 month	3 months	12 months
Absolute perf.	-2.8%	4.1%	15.3%
Relative perf.	-3.1%	4.8%	12.0%



To 31/12 (CHF)	Dec11E	Dec12E	Dec13E
Sales (m)	5167	5808	6406
NAP, rest. (m)	646	745	858
Clean EPS	85.33	98.40	113.33
P/E bef. GW (x)	19.5	16.9	14.6
EV/EBITDA (x)	11.4	9.8	8.4
EV/EBITA (x)	14.0	12.2	10.5
FCF yield (%)	3.4	3.8	5.0
ROE (%)	33.0	34.7	35.1
Net yield (%)	3.9	4.1	4.3

Sector focus

Sector Top Picks

Least favoured

 [Link to our latest Company figures.](#)

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