

## NEWS

18 January 2011

## BUSINESS SERVICES

## SGS

## Feedback FY-10 analyst conference

- Slight improvement in organic growth in 2011

Management appears confident in a further slight acceleration in organic growth into to high-single digits in 2011, slightly above the pace of underlying growth in H2-10 at around 7%. While a touch below our 10% forecast, this is marginally above consensus. Key drivers will be MIN (growth at least in the double-digits) and CTS (growth close to 10%, driven by further market share gains).

- Slight margin contraction this year

Management re-iterated that margins will be slightly squeezed in 2011 as investments for the 2014 plan (capex, hiring, development funding) take their toll. The CHF150m in development funding will be evenly spread over 2011-13E.

- High dividend testament of strong cash generation

The investment pipeline remains full and 2011 capex should be in the 7-8% of sales range, slightly below our forecasts. The pay-out ratio remains unchanged at 25-33% (despite 83% in FY-10), but we think actual pay-outs will continue to run at a higher level in light of strong cash generation and focus on value-creating acquisitions.

- M&A: pipeline full, focussed on value creation

The M&A pipeline remains full, with the biggest target worth USD250m but also a host of smaller targets. Further acquisitions are likely in the next few weeks. SGS highlighted the appeal of the recent ITV purchase, where margins are close to 25%, we estimate. The preferred avenue for value creation remains smaller bolt-on's, where sales can easily go up 5-10x over a five-year period as specific local know how is replicated across its network. Transaction multiples have remained stable in the last 3-6 months.

- Re-iterate 2/Outperform, CHF1,825 target price

Our estimates are unlikely to change materially, with higher margins and recent acquisitions offsetting lower organic growth in 2011.

## Summary

- Further acceleration in organic growth towards 8-9% likely in 2011, but margins to contract slightly
- High dividend testament of strong cash generation; M&A: pipeline full, focussed on value creation
- Re-iterate 2/Outperform, CHF1,825 target price, expect only marginal changes to our estimates

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Rating **2/Outperform**

Target price (6 months) **+16% CHF1825.00**

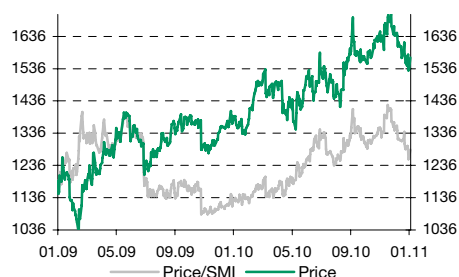
Price (17/01/11) **CHF1570.00**

Market capitalisation **CHF12.246bn**

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

## Performances

	1 month	3 months	12 months
Absolute perf.	-4.3%	0.4%	13.6%
Relative perf.	-4.9%	-1.7%	13.6%



To 31/12 (CHF)	2011E	2012E	2013E
Sales (m)	5101	5737	6326
NAP, rest. (m)	657	764	880
Clean EPS	87.60	101.87	117.33
P/E bef. GW (x)	17.9	15.4	13.4
EV/EBITDA (x)	10.6	9.2	7.9
EV/EBITA (x)	13.5	11.6	10.0
FCF yield (%)	3.2	3.5	4.8
ROE (%)	27.1	28.0	28.8
Net yield (%)	3.2	3.2	3.2

## Sector focus

Sector Top Picks

Least favoured

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

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