UBS

UBS Investment Research

SGS

"2014" on track: investor days feedback

Global Equity Research

Switzerland

Industrial Services

12-month rating	Neutral *Unchanged*
12m price target	CHF1,600.00/US$18.77 *Unchanged*
Price	CHF1,644.00/US$19.29 (ADR)

RIC: SGSN.VX BBG: SGSN VX

31 May 2011

■ A positive and useful event in Toronto

The 2 days of presentations and site visits in Toronto on 26-27 May built on the similar event in Rouen in September 2010 and gave further useful operational background. While disclosure remains high-level and (as expected) there were no revelations, SGS remains "best in class" at explaining its complex and diverse mix of businesses to the investor community in our view.

■ Solid trading YTD

CEO and CFO presentations indicated solid operational progress YTD. All divisions are said to be growing, with group revenue growth of >10% and organic growth tracking in the high single digits (UBS FY11e 10%). The business saw some impact from the Chinese New Year in Consumer (but not materially impacting the division) and little impact from events in Japan or the Middle East. Margins are likely to be quite resilient in 1H11 as timing of investment in some growth projects has slipped more into 2H11/1H12.

■ 2014 Strategic Plan remains on track

Given its recent (September 2010) launch, it is perhaps no surprise the 2014 plan remains fully on track. We remain more confident on the margin improvement story (given higher value "upstream" potential in most divisions) than sustainable >10% organic revenue growth (long-term average is c.8%). However, refinancing and a strong pipeline mean SGS is increasingly upbeat on acquisitive growth.

■ Valuation

Our PT is DCF-derived

Highlights (CHFm)	12/09	12/10	12/11E	12/12E	12/13E
Revenues	4,712	4,757	5,180	5,699	6,183
EBIT (UBS)	822	848	899	1,032	1,162
Net Income (UBS)	587	599	630	725	819
EPS (UBS, CHF)	78.3	79.1	83.3	95.8	108.2
Net DPS (UBS, CHF)	60.0	65.0	65.0	65.0	65.0
Profitability & Valuation	**5-yr hist av.**	**12/10**	**12/11E**	**12/12E**	**12/13E**
EBIT margin %	16.3	17.8	17.4	18.1	18.8
ROIC (EBIT) %	50.4	48.7	46.9	50.2	52.8
EV/EBITDA (core) x	10.8	10.8	10.7	9.5	8.5
PE (UBS) x	19.1	19.0	19.7	17.2	15.2
Net dividend yield %	3.2	4.3	4.0	4.0	4.0

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of CHF1,644.00 on 30 May 2011 20:33 EDT

Trading data (local/US$)	
52-wk range	CHF1,717.00-1,410.00/US$19.90-12.15
Market cap.	CHF12.9bn/US$15.1bn
Shares o/s	7.82m (REG)/782m (ADR)
ADR ratio	100 ADR:1 REG
Free float	64%
Avg. daily volume ('000)	16/31
Avg. daily value (m)	CHF26.9/US$0.6

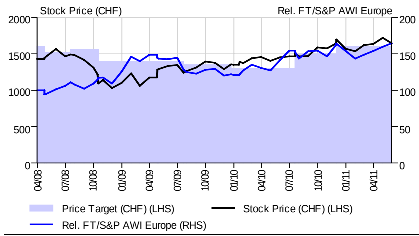
Balance sheet data 12/11E	
Shareholders' equity	CHF2.23bn
P/BV (UBS)	5.5x
Net Cash (debt)	CHF0.29bn

Forecast returns	
Forecast price appreciation	-2.7%
Forecast dividend yield	4.0%
Forecast stock return	+1.3%
Market return assumption	5.7%
Forecast excess return	-4.4%

EPS (UBS, CHF)

	12/11E		12/10
	UBS	Cons.	Actual
H1E	38.5	-	38.5
H2E	46.2	-	42.9
12/11E	83.3	*81.8*	
12/12E	95.8	*94.7*	

Performance (CHF)



Source: UBS

www.ubs.com/investmentresearch

William Vanderpump
Analyst
william.vanderpump@ubs.com
+44 207 56 82094

Jaime Brandwood, CFA
Analyst
jaime.brandwood@ubs.com
+44 207 56 81976

Shang Liew
Associate Analyst
shang.liew@ubs.com
+44 207 56 81977

General observations:

A positive and useful event

The **Investor Days in Toronto on 26 and 27 May** were a positive, well presented, and well-attended event. However, given the similar recent event in Rouen in September last year when the 2014 Strategic Plan was announced, there was unsurprisingly little new financial information disclosed. The intention was clearly to build on the Rouen event and further improve the investor community's knowledge of the company's relatively diverse and complicated operations. In our view, SGS is "best in class" of the testing companies at explaining its operations and giving access to second and third tiers of management.

We summarise the content of the various individual presentations and site visits later on in this note. In terms of current trading information, we highlight:

No surprises in current trading; high single digit organic revenue growth

- No specific trading update was given although the CEO and CFO each alluded to YTD trading conditions in their presentations. This was positive with all 10 businesses said to be growing YTD, group revenue growth "in excess of 10%" and group organic revenue growth in the "high single digits";
- The company had seen no real impact from the events in North Africa or Japan. Japan itself represents only c. SFr 50m (or 1%) of group revenues: most of this is in the SSC division;
- There had been some impact from the timing of the Chinese New Year and resulting extended shutdowns in the Consumer business. The company indicated that strong performance elsewhere in and the relatively broadly mixed structure of the division (between electrical, softlines, hardlines and food) meant there had been relatively little impact on growth. Margins in the business YTD are, however, "a little lower".

2014 targets update:

Perhaps not surprisingly given its recent launch, there was a very clear message that the 2014 Strategic Plan remains well on track. No business was said to be behind, with Automotive already ahead of plan (thanks largely to the ITV acquisition completed in Q4 last year). There was no specific presentation or update on the 2014 targets, but the following themes arose during the event:

Organic and acquisition elements to the revenue growth targets

- On **growth**, we know SGS is targeting SFr 8b of revenue by 2014 to be reached via a combination of mostly organic growth, but also small/medium bolt-on acquisitions. Organic revenue momentum in the business is reasonable (high single digits organic ytd as discussed above). However, we note the Plan itself implies >10% organic revenue growth for 3-4 years which feels like a best-case scenario (being above the 10 year average of 8%). Acquisition activity has improved since Rouen with 12 deals completed. The pipeline is said to be very healthy with a substantial proportion of the latest management Operations Council meeting said to have been taken up with potential targets. The company indicated that multiples were on the rise again, as was competition, where smaller local and national private equity houses were said to be particularly active.

- SGS is targeting group **margins** of 20% by 2014. Overall, there was still no clear bottom-up description or even high-level quantification of how this will be achieved. The broader themes of the operational presentations and visits was of an increased focus on "upstream", higher value-added and therefore higher priced services which is clearly seen to be a big driver of the longer-term margin improvement. In the CEO's presentation, he touched on some of the HR, lean systems and management reporting initiatives that are under way and which should also provide support to the margin targets. In the shorter-term, progress has been made since Rouen on approving many of the growth projects (which have an opex budget of c.SFr 150m over 3 years). However these have been a little slower in getting started (and spending the money) implying the margin impact is likely to be more 2H11 and 1H12 weighted. In terms of the 2014 Plan, the CFO acknowledged that timing and allocation of investment was a risk "component that we can't ignore".

"Upstream" drives the margins targets; some growth projects a little later getting started

- The strength of the SGS **balance sheet** remains a notable positive in the investment case. The company is increasingly positive in this respect. Recent bond issuance (in July/August 2010 and April/May 2011) mean it has taken advantage of reasonable credit markets to secure attractive long-term financing. Acquisitions remain the preferred use of cash, although the CFO acknowledged there could still be another 1 or 2 special dividends. In either case we believe the company is now more comfortable with leverage and acknowledges a comfortable net debt position of 1x EBITDA (vs SFr 260m of net cash as at FY10). The Strategic Plan is more **capex** intensive and as a result, we forecast capex % sales going from the c.6% long-term average to 7-8% over the next 3-4 years.

Deals AND special dividends likely to continue

- Lack of clarity over **management incentives** to support the 2014 Plan remains a slight disappointment in our view. There was no detail in the 2010 Annual Report and we understand that this will not be released until the 2011 Annual Report (in January 2012). We understand that this is due to the extension of the main EPS-based scheme to a pool of some 200 people, larger than originally anticipated, as well as the introduction of an EBIT-based scheme for second tier management and staff. While we see this as a "good reason" for a delay, in our view it would be better to be clear about incentives as early as possible in the process.

Management incentives still not confirmed, which is a small disappointment

Table 1: Current UBS estimates

YE 31 Dec; SFrm	2009	2010	2011e	2012e	2013e	2014e	Comment
Revenue	4712	4757	5180	5699	6183	6692	-16% below Plan by 2014
Growth	-2.2%	1.0%	8.9%	10.0%	8.5%	8.2%	
- organic	1.3%	3.1%	9.9%	10.0%	8.5%	8.2%	
- acq	1.1%	0.9%	1.9%	0.0%	0.0%	0.0%	
- fx	-4.6%	-3.1%	-2.9%	0.0%	0.0%	0.0%	
EBITA	822	848	899	1032	1162	1304	-19% below Plan by 2014
Margin	17.4%	17.8%	17.4%	18.1%	18.8%	19.5%	
EPS	78.3	79.1	83.3	95.8	108.2	121.7	-13% below Plan (140 SFr) by 2014

Source: Company data; UBS estimates

Table 2: Modelling the SGS 2014 Plan

YE 31 Dec; SFrm	2009	2010	2011e	2012e	2013e	2014e	Comment
Revenue (u/l)	4659	4717	5125	6025	6925	7825	11.3% organic CAGR
Acquisitions	53	41	175	175	175	175	Assume 700m split evenly
Revenue total	4712	4757	5300	6200	7100	8000	2011e in line with co; then even progression
Growth	-2.2%	1.0%	11.4%	17.0%	14.5%	12.7%	Reported
- organic	1.3%	3.1%	10.7%	13.7%	11.7%	10.2%	
- acq	1.1%	0.9%	3.7%	3.3%	2.8%	2.5%	Based on distribution above
- fx	-4.6%	-3.1%	-2.9%	0.0%	0.0%	0.0%	
EBITA	822	848	875	1095	1337	1600	
Margin	17.4%	17.8%	16.5%	17.7%	18.8%	20.0%	2011e decline in line with co indications; then even progression
EBITA vs UBSe	0%	0%	-3%	6%	15%	23%	Long-term upgrades

Source: Company data; UBS estimates

Investor days notes and details:

Below, we detail some of the key points from the divisional presentations and site visits:

Minerals Services – divisional EVP Mike Belton gave a broad overview of the Minerals strategy and an introduction to the Lakefield site. Minerals is a core part of the SGS Group and one of the star current performers (12% organic growth in FY10 making it the fastest growing division). While there is some cyclical benefit in the current strength of the division, we see this as one of the areas where the company is most positive about the "upstream" higher value-added services it can offer. As minerals are in increasingly short supply and in higher risk locations, SGS expertise in metallurgy, mineralogy and geochemistry as well as its large network can make a meaningful difference to the risk and financial viability of a project by reducing its technical risk. The **Lakefield facilities visit** showcased many of these capabilities. Of particular interest was the pilot project demonstration, where SGS runs "mini" extraction processes to test the viability of projects.

North America – COO Jeff McDonald gave a description of regional operations which cover some 150 locations. Minerals and OGC dominate currently, but the objective is to grow many of the "smaller pieces" like Agriculture (actually the original SGS offering in the region) and Industrial (where there are strongly relationships to build on in the energy and minerals industries).

Agricultural Services – EVP Jeff Newell outlined the importance of and pressures on the global agricultural industry. He also highlighted the SGS strategy of moving up the value chain in Agri, by remixing away from traditional trade inspection and testing and towards laboratory food safety and genetics as well as the precision farming market (especially seed and crop testing). There was a separate presentation by Olivier Coppey, Global Business Manager of **Inland Services** for Agri. He focused on the success of SGS Seed & Crop Services, originally acquired in 2007, but which has grown strongly (30% organic in FY10 for example) to now account for 15% of the division. Precision farming (using SGS expertise to increase yields) and contract and market research, as well as acquisitions in general, are seen to be key areas of future growth. There were also separate presentations from managers of recent acquisitions in the space **SGS Agri-Food Laboratories** and **SGS Agri Research USA**.

Industrial Services EVP Beat In-Albon gave a good presentation which simplified one of the most diverse (in terms of both geographies and services) divisions in the SGS group. The basic strategy is to focus on asset integrity and mitigate risk and reduce complexity. The division has 4 key markets (oil & gas, power, construction, and transportation) so there is a relatively high indirect exposure to the commodities industry in our view. There was also a separate demonstration from David Scott, the director of product development about the **Pipewrx mobile system**. This is a tablet PC based tool to increase both the accuracy and utilisation of inspectors in the field.

Plant and Terminal Operations is a relatively low profile part of the SGS Oil, Gas and Chemicals division and was presented by the North American regional VP Brian Haymon. He was part of Petroleum Service Corp which was acquired by SGS in 2004. The division is slightly unusual in that it is more of an operator rather than a tester or inspector. It runs a network of skilled individuals who operate and supervise the transfer of oil and chemicals at terminals onto water and rail transport. Overall it accounts for some 15% of the OGC division (and is below divisional margins). The growth story is based on outsourcing, given even in the core US Gulf market some 50% of these activities are carried out inhouse as well as international expansion.

The **Life Sciences** presentation was led by EVP Anne Hays although much of the content was delivered by Cedric Volanti the Head of Global Biologics. In our view, this was an excellent presentation which effectively simplified a very complex subject. There was a clear illustration of why biologics (using larger, complex molecules as drugs or vaccines) are important to SGS given their increasing share of the global pharma market. Biologics are one of the key drivers for the aggressive Life Sciences targets within the 2014 plan (it is expected to double in size, albeit from a relatively small base). Life Sciences were also the focus of the **Mississauga Lab visit.** This large facility outside Toronto provides almost the full range of Life Sciences services such as biotechnology (analysis of the raw materials used in pharma industry R&D), stability testing (analysis of the durability and stability of drugs and pharma products), small molecule testing and microbiology and sterility (quality control of drugs in production). There was also a useful separate demonstration of some of the proprietary technology SGS offers to the oil and gas industry.

Current divisional forecasts and assumptions:

Table 3: UBS organic revenue growth forecasts

Organic growth	2003A	2004A	2005A	2006A	2007A	2008A	2009A	2010A	2011e	2012e	2013e	2014e	2015e
Agricultural	0.0%	7.4%	12.2%	5.8%	4.3%	8.3%	4.0%	-0.1%	6.0%	7.0%	7.0%	7.0%	7.0%
Minerals	4.8%	16.0%	17.5%	16.1%	17.3%	25.3%	-10.3%	12.2%	17.5%	15.0%	12.0%	10.0%	10.0%
Oil, Gas & Chemicals	15.8%	12.6%	9.5%	13.4%	12.5%	10.8%	0.1%	4.2%	7.5%	7.5%	7.5%	7.5%	7.5%
Life Science	-4.5%	-4.2%	15.6%	9.1%	4.3%	8.6%	3.1%	2.6%	7.0%	6.0%	5.0%	5.0%	5.0%
Consumer Testing	12.5%	22.1%	27.5%	22.0%	10.3%	15.8%	9.1%	7.0%	12.5%	15.0%	10.0%	10.0%	10.0%
Systems & Services	13.3%	3.9%	15.3%	14.9%	9.2%	9.2%	4.6%	7.9%	10.0%	7.5%	7.5%	7.5%	7.5%
Industrial	3.4%	15.1%	12.6%	13.1%	16.0%	15.7%	2.1%	-0.6%	10.0%	10.0%	7.5%	7.5%	7.5%
Environmental	6.2%	9.2%	9.0%	6.3%	13.8%	9.8%	1.1%	-1.3%	7.5%	7.5%	7.5%	7.5%	7.5%
Automotive	-3.3%	-13.4%	-0.5%	4.0%	10.3%	22.3%	-4.3%	-21.8%	0.0%	5.0%	7.5%	7.5%	7.5%
Trade Assurance	5.5%	17.0%	-10.5%	-26.1%	19.8%	10.5%	6.9%	9.2%	10.0%	7.5%	7.5%	7.5%	7.5%
GROUP	6.7%	10.6%	11.5%	10.4%	12.1%	14.3%	1.3%	3.1%	9.9%	10.0%	8.5%	8.2%	8.2%

Source: Company data; UBS estimates

Table 4: UBS EBITA margin forecasts

Margins	2003A	2004A	2005A	2006A	2007A	2008A	2009A	2010A	2011e	2012e	2013e	2014e	2015e
Agricultural	10.0%	9.2%	11.4%	11.7%	13.4%	15.6%	16.1%	15.7%	15.0%	16.0%	17.0%	18.0%	19.0%
Minerals	12.7%	14.5%	15.9%	17.2%	17.5%	19.8%	16.3%	19.2%	19.0%	19.2%	19.4%	19.6%	19.8%
Oil, Gas & Chemicals	10.9%	11.9%	12.6%	14.4%	15.0%	14.2%	15.7%	15.6%	14.9%	15.9%	16.9%	17.9%	18.9%
Life Science	10.0%	12.0%	15.2%	13.2%	12.0%	13.5%	14.4%	14.9%	14.7%	15.7%	16.7%	17.7%	18.7%
Consumer Testing	14.5%	18.1%	21.4%	23.6%	23.2%	23.2%	25.5%	25.8%	24.8%	25.2%	25.6%	26.0%	26.4%
Systems & Services	15.1%	13.0%	17.0%	18.5%	18.4%	19.1%	21.1%	21.1%	20.8%	21.0%	21.2%	21.4%	21.6%
Industrial	10.6%	12.1%	13.2%	14.6%	16.1%	14.3%	14.0%	13.2%	12.4%	13.4%	14.4%	15.4%	16.4%
Environmental	6.5%	8.1%	11.1%	9.7%	9.8%	10.6%	11.7%	10.7%	10.0%	11.5%	13.0%	14.5%	16.0%
Automotive	9.9%	10.7%	12.6%	13.5%	13.6%	16.3%	16.3%	18.4%	19.4%	19.6%	19.8%	20.0%	20.2%
Trade Assurance	20.5%	24.1%	21.2%	13.7%	14.4%	16.9%	18.4%	18.2%	17.5%	17.7%	17.9%	18.1%	18.3%
GROUP	12.2%	13.6%	15.2%	15.8%	16.3%	16.8%	17.4%	17.8%	17.4%	18.1%	18.8%	19.5%	20.2%

Source: Company data; UBS estimates

SGS

Income statement (CHFm)	12/06	12/07	12/08	12/09	12/10	12/11E	% ch	12/12E	% ch	12/13E	% ch
Revenues	3,821	4,372	4,818	4,712	4,757	5,180	8.9	5,699	10.0	6,183	8.5
Operating expenses (ex depn)	-	-	-	-	-	-	-	-	-	-	-
EBITDA (UBS)	777	908	1,024	1,050	1,073	1,195	11.4	1,337	11.9	1,472	10.1
Depreciation	(172)	(197)	(214)	(228)	(225)	(296)	31.5	(305)	3.1	(309)	1.3
Operating income (EBIT, UBS)	605	711	810	822	848	899	6.1	1,032	14.8	1,162	12.7
Other income & associates	0	0	0	0	0	0	-	0	-	0	-
Net interest	(1)	2	(4)	(3)	(7)	(11)	53.4	(10)	-8.0	(8)	-18.7
Abnormal items (pre-tax)	19	(21)	127	(28)	(12)	(8)	-33.3	(8)	0.0	(8)	0.0
Profit before tax	623	692	933	791	829	880	6.3	1,014	15.2	1,146	13.1
Tax	(155)	(172)	(219)	(200)	(215)	(228)	6.2	(263)	15.2	(297)	13.1
Profit after tax	468	520	714	591	614	652	6.3	751	15.2	849	13.1
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	(25)	(20)	(22)	(25)	(26)	(28)	6.3	(32)	15.2	(36)	13.1
Net income (local GAAP)	443	500	692	566	588	624	6.3	719	15.2	813	13.1
Net Income (UBS)	424	515	579	587	599	630	5.3	725	15.0	819	13.0
Tax rate (%)	25	25	23	25	26	26	-0.1	26	0.0	26	0.0
Pre-abnormal tax rate (%)	26	25	25	25	26	26	0.9	26	0.0	26	0.0

Per share (CHF)	12/06	12/07	12/08	12/09	12/10	12/11E	% ch	12/12E	% ch	12/13E	% ch
EPS (local GAAP)	58.3	65.5	91.1	75.5	77.6	82.5	6.3	95.0	15.2	107.4	13.1
EPS (UBS)	55.8	67.4	76.2	78.3	79.1	83.3	5.3	95.8	15.0	108.2	13.0
Net DPS	19.7	35.0	50.0	60.0	65.0	65.0	0.0	65.0	0.0	65.0	0.0
Cash EPS	78.4	93.2	104.4	108.7	108.8	122.3	12.5	136.1	11.2	149.0	9.5
BVPS	199.7	248.1	233.3	265.0	264.5	298.8	13.0	334.2	11.8	382.7	14.5

Balance sheet (CHFm)	12/06	12/07	12/08	12/09	12/10	12/11E	% ch	12/12E	% ch	12/13E	% ch
Net tangible fixed assets	656	738	721	751	756	874	15.7	997	14.0	1,120	12.4
Net intangible fixed assets	644	716	759	777	982	982	0.0	982	0.0	982	0.0
Net working capital (incl. other assets)	407	418	464	431	426	445	4.4	468	5.3	486	3.9
Other liabilities	(332)	(275)	(332)	(326)	(317)	(317)	0.0	(317)	0.0	(317)	0.0
Operating invested capital	1,375	1,597	1,612	1,633	1,847	1,984	7.4	2,130	7.3	2,272	6.7
Investments	2	2	2	1	2	2	0.0	2	0.0	2	0.0
Total capital employed	1,377	1,599	1,614	1,634	1,849	1,986	7.4	2,132	7.3	2,274	6.7
Shareholders' equity	1,562	1,941	1,825	2,073	2,069	2,235	8.0	2,500	11.8	2,863	14.5
Minority interests	30	36	37	37	39	39	0.0	39	0.0	39	0.0
Total equity	1,592	1,977	1,862	2,110	2,108	2,274	7.9	2,539	11.6	2,902	14.3
Net debt / (cash)	(215)	(378)	(248)	(476)	(259)	(288)	11.1	(407)	41.4	(628)	54.3
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	1,377	1,599	1,614	1,634	1,849	1,986	7.4	2,132	7.3	2,274	6.7

Cash flow (CHFm)	12/06	12/07	12/08	12/09	12/10	12/11E	% ch	12/12E	% ch	12/13E	% ch
Operating income (EBIT, UBS)	605	711	810	822	848	899	6.1	1,032	14.8	1,162	12.7
Depreciation	172	197	214	228	225	296	31.5	305	3.1	309	1.3
Net change in working capital	(38)	16	(21)	12	(29)	(19)	-35.4	(23)	25.1	(18)	-22.5
Other (operating)	(10)	(40)	80	(35)	(42)	(36)	-15.2	(40)	11.8	(44)	10.4
Operating cash flow (pre tax/interest)	729	884	1,083	1,027	1,002	1,141	13.9	1,274	11.7	1,409	10.6
Net interest received / (paid)	(1)	2	(4)	(3)	(7)	(11)	53.4	(10)	-8.0	(8)	-18.7
Dividends paid	(248)	(178)	(281)	(391)	(480)	(486)	1.3	(486)	0.0	(486)	0.0
Tax paid	(144)	(177)	(195)	(217)	(215)	(228)	6.2	(263)	15.2	(297)	13.1
Capital expenditure	(248)	(285)	(290)	(221)	(261)	(414)	58.8	(427)	3.1	(433)	1.3
Net (acquisitions) / disposals	(154)	(57)	(172)	12	(291)	0	-	0	-	0	-
Other	(15)	(36)	75	(34)	(48)	(36)	-25.8	(40)	11.8	(44)	10.4
Share issues	(102)	(8)	(201)	15	85	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	(166)	181	(66)	224	(178)	1	-	87	7766.3	185	111.8
FX / non cash items	(49)	(18)	(64)	4	(40)	28	-	32	15.2	36	13.1
Balance sheet (inc)/dec in net debt	(215)	163	(130)	228	(217)	29	-	119	314.7	221	85.5
Core EBITDA	777	908	1,024	1,050	1,073	1,195	11.4	1,337	11.9	1,472	10.1
Maintenance capital expenditure	(221)	(221)	(221)	(221)	(221)	(221)	0.0	(221)	0.0	(221)	0.0
Maintenance net working capital	(195)	(195)	(195)	(195)	(195)	(195)	0.0	(195)	0.0	(195)	0.0
Operating free cash flow, pre-tax	360	492	608	634	656	779	18.7	921	18.2	1,055	14.6

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

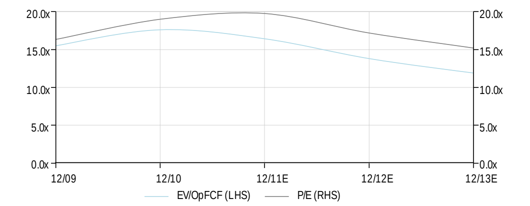
SGS

12-month rating	Neutral
12m price target	CHF1,600.00

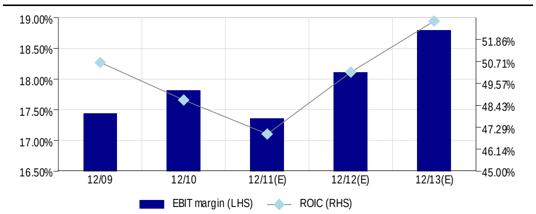
Company profile

SGS is the largest inspection, testing and certification organisation in the world. The core services offered by SGS (split between 10 divisions) can be divided into three categories: (1) inspection services - SGS inspects and verifies the quantity, weight and quality of traded goods; (2) testing services - SGS tests product quality and performance against various health, safety and regulatory standards; and (3) certification services - SGS certifies that systems or services meet the requirements of standards set by governments, standardisation bodies or by SGS customers.

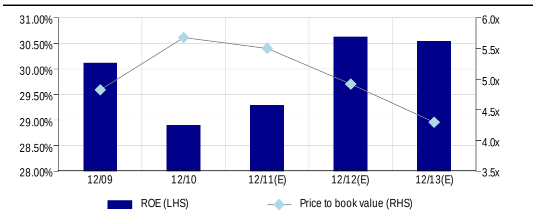
Value (EV/OpFCF & P/E)



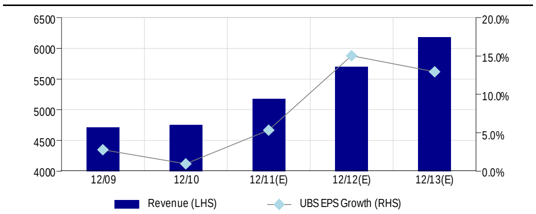
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
P/E (local GAAP)	18.8	17.0	19.5	20.0	17.4	15.4
P/E (UBS)	19.1	16.3	19.0	19.7	17.2	15.2
P/CEPS	13.8	11.8	13.8	13.4	12.1	11.0
Net dividend yield (%)	3.2	4.7	4.3	4.0	4.0	4.0
P/BV	5.5	4.8	5.7	5.5	4.9	4.3
EV/revenue (core)	2.2	2.1	2.4	2.5	2.2	2.0
EV/EBITDA (core)	10.8	9.4	10.8	10.7	9.5	8.5
EV/EBIT (core)	13.7	12.0	13.6	14.2	12.3	10.8
EV/OpFCF (core)	20.4	15.5	17.6	16.4	13.8	11.9
EV/op. invested capital	6.9	6.1	6.6	6.7	6.2	5.7

Enterprise value (CHFm)	12/09	12/10	12/11E	12/12E	12/13E
Average market cap	9,999	11,746	12,860	12,860	12,860
+ minority interests	37	38	39	39	39
+ average net debt (cash)	(362)	(368)	(273)	(347)	(517)
+ pension obligations and other	154	150	154	154	154
- non-core asset value	0	0	0	0	0
Core enterprise value	9,828	11,567	12,780	12,706	12,536

Growth (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
Revenue	9.3	-2.2	1.0	8.9	10.0	8.5
EBITDA (UBS)	13.1	2.6	2.1	11.4	11.9	10.1
EBIT (UBS)	13.1	1.5	3.1	6.1	14.8	12.7
EPS (UBS)	12.2	2.8	1.0	5.3	15.0	13.0
Cash EPS	12.4	4.2	0.1	12.5	11.2	9.5
Net DPS	18.6	20.0	8.3	0.0	0.0	0.0
BVPS	9.6	13.6	-0.2	13.0	11.8	14.5

Margins (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
EBITDA / revenue	20.8	22.3	22.5	23.1	23.5	23.8
EBIT / revenue	16.3	17.4	17.8	17.4	18.1	18.8
Net profit (UBS) / revenue	11.7	12.5	12.6	12.2	12.7	13.2

Return on capital (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
EBIT ROIC (UBS)	50.4	50.7	48.7	46.9	50.2	52.8
ROIC post tax	-	37.9	36.2	34.8	37.2	39.1
Net ROE	29.3	30.1	28.9	29.3	30.6	30.5

Coverage ratios (x)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
EBIT / net interest	-	NM	NM	NM	NM	NM
Dividend cover (UBS EPS)	1.8	1.3	1.2	1.3	1.5	1.7
Div. payout ratio (%, UBS EPS)	58.1	76.6	82.2	78.1	67.9	60.1
Net debt / EBITDA	NM	NM	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
Revenue / op. invested capital	3.1	2.9	2.7	2.7	2.8	2.8
Revenue / fixed assets	3.3	3.1	2.9	2.9	3.0	3.0
Revenue / net working capital	19.3	21.0	24.1	25.9	25.7	25.5

Investment ratios (x)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
OpFCF / EBIT	0.7	0.8	0.8	0.9	0.9	0.9
Capex / revenue (%)	5.9	4.7	5.5	8.0	7.5	7.0
Capex / depreciation	1.3	1.0	1.2	1.4	1.4	1.4

Capital structure (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
Net debt / total equity	(19.8)	(23.0)	(12.5)	(12.9)	(16.3)	(21.9)
Net debt / (net debt + equity)	(24.6)	(29.8)	(14.3)	(14.8)	(19.4)	(28.1)
Net debt (core) / EV	(3.7)	(3.7)	(3.2)	(2.1)	(2.7)	(4.1)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of CHF1,644.00 on 30 May 2011 20:33 EDT Market cap(E) may include forecast share issues/buybacks.

William Vanderpump
Analyst
william.vanderpump@ubs.com
+44 207 56 82094

Jaime Brandwood, CFA
Analyst
jaime.brandwood@ubs.com
+44 207 56 81976

Shang Liew
Associate Analyst
shang.liew@ubs.com
+44 207 56 81977

■ SGS

SGS is the largest inspection, testing and certification organisation in the world. The core services offered by SGS (split between 10 divisions) can be divided into three categories: (1) inspection services - SGS inspects and verifies the quantity, weight and quality of traded goods; (2) testing services - SGS tests product quality and performance against various health, safety and regulatory standards; and (3) certification services - SGS certifies that systems or services meet the requirements of standards set by governments, standardisation bodies or by SGS customers.

■ Statement of Risk

Risks for SGS include a weakening US dollar, loss of reputation, and a lack of or unfavourable regulation.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

This report has been prepared by UBS Limited, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit www.ubs.com/disclosures. The figures contained in performance charts refer to the past; past performance is not a reliable indicator of future results. Additional information will be made available upon request. UBS Securities Co. Limited is licensed to conduct securities investment consultancy businesses by the China Securities Regulatory Commission.

UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	52%	41%
Neutral	**Hold/Neutral**	40%	37%
Sell	**Sell**	8%	20%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	30%
Sell	**Sell**	less than 1%	17%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2011.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Research analysts contributing to this report who are employed by any non-US affiliate of UBS Securities LLC are not registered/qualified as research analysts with the NASD and NYSE and therefore are not subject to the restrictions contained in the NASD and NYSE rules on communications with a subject company, public appearances, and trading securities held by a research analyst account. The name of each affiliate and analyst employed by that affiliate contributing to this report, if any, follows.

UBS Limited: William Vanderpump; Jaime Brandwood, CFA; Shang Liew.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
SGS[2, 4, 5, 13, 15, 16, 18a, 18b]	SGSN.VX	Neutral	N/A	CHF1,644.00	30 May 2011

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

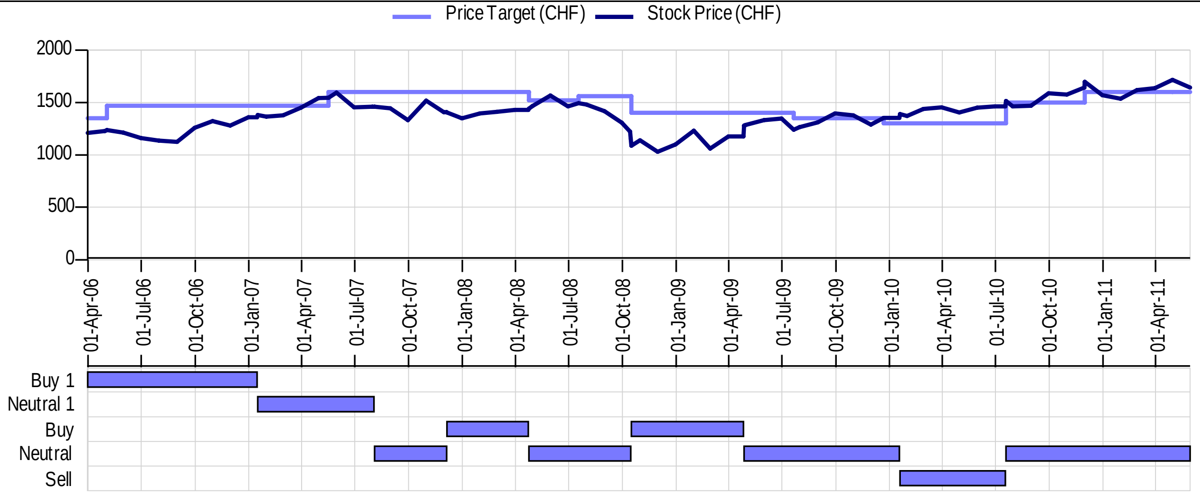
2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company/entity or one of its affiliates within the past 12 months.
4. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company/entity.
5. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.
13. UBS AG, its affiliates or subsidiaries beneficially owned 1% or more of a class of this company`s common equity securities as of last month`s end (or the prior month`s end if this report is dated less than 10 days after the most recent month`s end).
15. UBS AG, its affiliates or subsidiaries has issued a warrant the value of which is based on one or more of the financial instruments of this company.
16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

18a. A director or an employee of UBS AG, its affiliates or subsidiaries is a director of this company.

18b. UBS AG is acting as agent on SGS` announced share buy-back programme.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

SGS (CHF)



Source: UBS; as of 30 May 2011

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

Global Disclaimer

This report has been prepared by UBS Limited, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS. In certain countries, UBS AG is referred to as UBS SA.

This report is for distribution only under such circumstances as may be permitted by applicable law. Nothing in this report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances or otherwise constitutes a personal recommendation. It is published solely for information purposes, it does not constitute an advertisement and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments in any jurisdiction. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. UBS does not undertake that investors will obtain profits, nor will it share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks and investors should exercise prudence in making their investment decisions. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. Research will initiate, update and cease coverage solely at the discretion of UBS Investment Bank Research Management. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. UBS is under no obligation to update or keep current the information contained herein. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of UBS Investment Bank as a whole, of which investment banking, sales and trading are a part.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates and other market conditions. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. For financial instruments admitted to trading on an EU regulated market: UBS AG, its affiliates or subsidiaries (excluding UBS Securities LLC and/or UBS Capital Markets LP) acts as a market maker or liquidity provider (in accordance with the interpretation of these terms in the UK) in the financial instruments of the issuer save that where the activity of liquidity provider is carried out in accordance with the definition given to it by the laws and regulations of any other EU jurisdictions, such information is separately disclosed in this research report. UBS and its affiliates and employees may have long or short positions, trade as principal and buy and sell in instruments or derivatives identified herein.

Any prices stated in this report are for information purposes only and do not represent valuations for individual securities or other instruments. There is no representation that any transaction can or could have been effected at those prices and any prices do not necessarily reflect UBS's internal books and records or theoretical model-based valuations and may be based on certain assumptions. Different assumptions, by UBS or any other source, may yield substantially different results.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are eligible counterparties or professional clients and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, retail clients. UBS Limited is authorised and regulated by the Financial Services Authority (FSA). UBS research complies with all the FSA requirements and laws concerning disclosures and these are indicated on the research where applicable. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France SA. UBS Securities France S.A. is regulated by the Autorité des Marchés Financiers (AMF). Where an analyst of UBS Securities France S.A. has contributed to this report, the report is also deemed to have been prepared by UBS Securities France S.A. **Germany:** Prepared by UBS Limited and distributed by UBS Limited and UBS Deutschland AG. UBS Deutschland AG is regulated by the Bundesanstalt fur Finanzdienstleistungsaufsicht (BaFin). **Spain:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities España SV, SA. UBS Securities España SV, SA is regulated by the Comisión Nacional del Mercado de Valores (CNMV). **Turkey:** Prepared by UBS Menkul Degerler AS on behalf of and distributed by UBS Limited. **Russia:** Prepared and distributed by UBS Securities CJSC. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Prepared by UBS Limited and distributed by UBS Limited and UBS Italia Sim S.p.A.. UBS Italia Sim S.p.A. is regulated by the Bank of Italy and by the Commissione Nazionale per le Società e la Borsa (CONSOB). Where an analyst of UBS Italia Sim S.p.A. has contributed to this report, the report is also deemed to have been prepared by UBS Italia Sim S.p.A.. **South Africa:** UBS South Africa (Pty) Limited (Registration No. 1995/011140/07) is a member of the JSE Limited, the South African Futures Exchange and the Bond Exchange of South Africa. UBS South Africa (Pty) Limited is an authorised Financial Services Provider. Details of its postal and physical address and a list of its directors are available on request or may be accessed at http:www.ubs.co.za. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a **'non-US affiliate'**), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Pte. Ltd [mica (p) 039/11/2009 and Co. Reg. No.: 198500648C] or UBS AG, Singapore Branch. Please contact UBS Securities Pte Ltd, an exempt financial advisor under the Singapore Financial Advisers Act (Cap. 110); or UBS AG Singapore branch, an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110) and a wholesale bank licensed under the Singapore Banking Act (Cap. 19) regulated by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with, the analysis or report. The recipient of this report represent and warrant that they are accredited and institutional investors as defined in the Securities and Futures Act (Cap. 289). **Japan:** Distributed by UBS Securities Japan Ltd to institutional investors only. Where this report has been prepared by UBS Securities Japan Ltd, UBS Securities Japan Ltd is the author, publisher and distributor of the report. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services License No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services License No. 231098) only to 'Wholesale' clients as defined by s761G of the Corporations Act 2001. **New Zealand:** Distributed by UBS New Zealand Ltd. An investment adviser and investment broker disclosure statement is available on request and free of charge by writing to PO Box 45, Auckland, NZ. **Dubai:** The research prepared and distributed by UBS AG Dubai Branch, is intended for Professional Clients only and is not for further distribution within the United Arab Emirates. **Korea:** Distributed in Korea by UBS Securities Pte. Ltd., Seoul Branch. This report may have been edited or contributed to from time to time by affiliates of UBS Securities Pte. Ltd., Seoul Branch. **Malaysia:** This material is authorized to be distributed in Malaysia by UBS Securities Malaysia Sdn. Bhd (253825-x).**India :** Prepared by UBS Securities India Private Ltd. 2/F,2 North Avenue, Maker Maxity, Bandra Kurla Complex, Bandra (East), Mumbai (India) 400051. Phone: +912261556000 SEBI Registration Numbers: NSE (Capital Market Segment): INB230951431 , NSE (F&O Segment) INF230951431, BSE (Capital Market Segment) INB010951437.

The disclosures contained in research reports produced by UBS Limited shall be governed by and construed in accordance with English law.

UBS