Deutsche Bank

32 SGS – Tom Sykes, BUY, close CHF2579, CHF2620 tgt, 2% upside

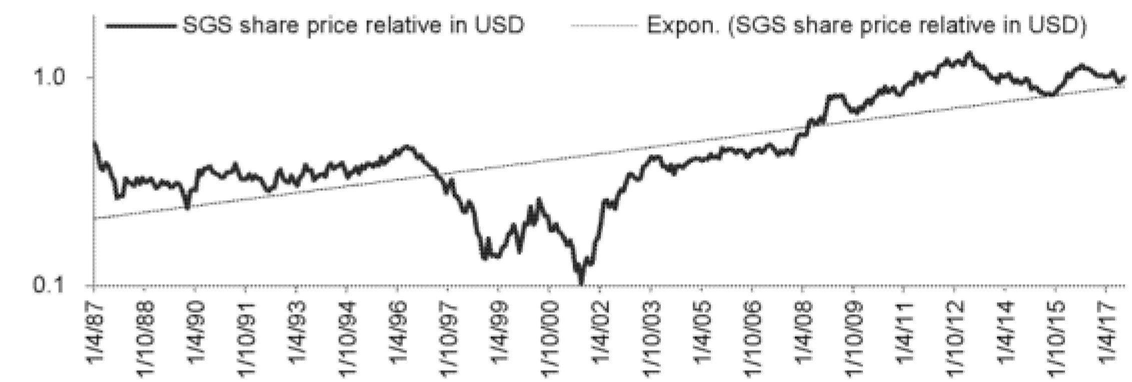
- **SGS is a long term outperformer.** In line with the Business Services team's late cycle view, we prefer more resilient stocks. SGS is a long-term outperformer offering 10% TSR.
  - It is a global leader in the testing and inspection field, with a CHF18bn market cap.
- **SGS beat the market in 2007-11**, suggesting relative upside in the event of a potential downturn.
- **We forecast 8% 18E organic EBITA growth, with good optionality.** There is also potential for cyclical upside via c27% EBITA exposure to commodities (we forecast 18E Minerals growth at 6%, up from 4%)
- **Structural growth opportunities** from Consumer and Food + Agri businesses.
- **Rock-solid balance sheet means M&A upside potential.** Net Debt/EBITDA is only 0.4x.
- **Margin upside potential.** We model a 50bps improvement in 18E from commodities improvement, lower GIS provisions and procurement and back-office gains. In 19E/20E we model a further 30bps and 20bps, with our 2020E forecast of 16.3% still shy of the company's target of at least 18%.
- SGS is not cheap at 24.6x 18E P/E, but we do not see a relative de-rating until well into a cyclical cut in earnings.
- Catalysts: FY results 23-Jan-18, commodities related commentary on capex and opex spend & bolt-on acquisition spend

Related DB Research:

SGS: Store of value (Sykes)

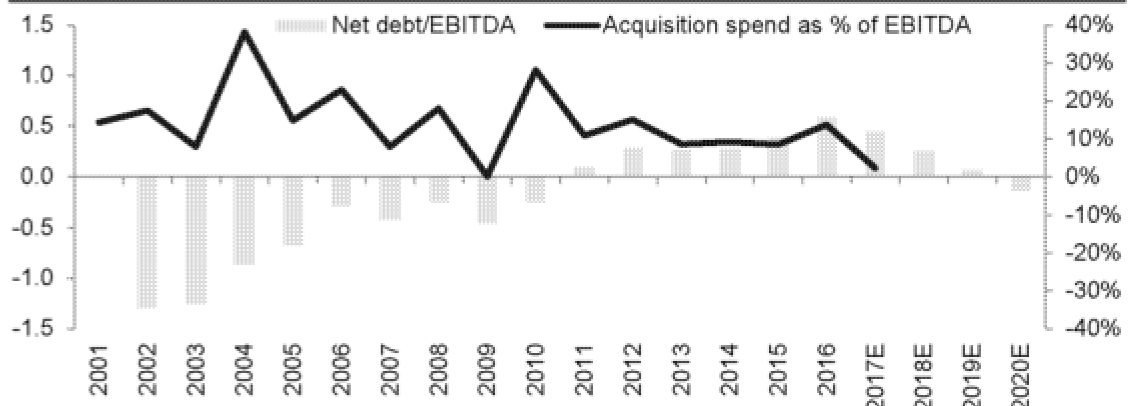
Business Services 2018 outlook: Relative outperformers for 2018 (Sykes)

SGS is a long term outperformer of the market



Source: Deutsche Bank, company data

Room for considerable M&A, with a rock-solid balance sheet



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