

CORE HOLDING*

Recommended since 09.11.15

19.07.2022

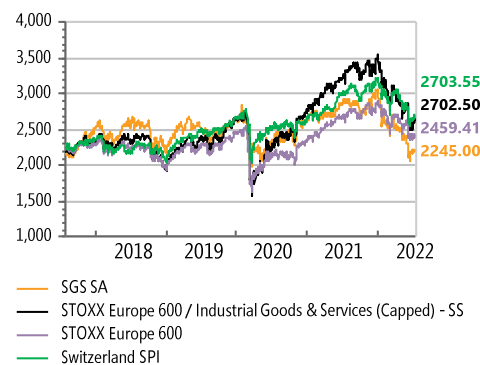


Country	CH	Market capitalization (bn)	CHF	16.7	Perf. since reco. (%)	
Sector	Industrial Goods & Services	Free float		80.9%	SGS SA	17.5
Factset	SGSN-CH	Closing price	CHF	2245.00	Sector	40.2
ISIN	CH0002497458	ESG Risk score*	18.8	Low risk		

*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

SGS is the global leader in testing, inspection and certification (TIC) services. Established in 1878 and based in Geneva since 1919, the group employs 95,000 people at c. 2,600 sites and laboratories worldwide and serves practically every end market.



Source: Factset

Market - competition - positions - barriers to entry

TIC is a global sector worth c. €80bn a year. Its aim is to ensure that assets, products and processes comply with quality, health and environmental standards and regulations. Its average growth outpaces global GDP growth (due to ever more stringent standards and, more recently, digitalisation of the economy); barriers are high: specific accreditations, network density, integrity and brand image. The three leaders (SGS, BV and Intertek) between them hold c. 15% of the market.

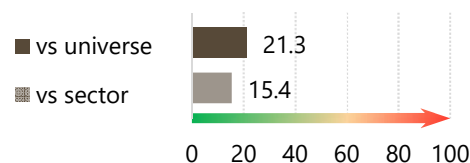
Investment case

- SGS returned to 4-5% organic growth in 2017-18 after a dip in 2015-16 linked to weak end markets (notably in commodities). After dropping off in 2019, sales have fallen further in 2020 due to the COVID crisis. Going forward, as economies and trade normalise, the group's organic growth will return to at least the same level as GDP growth.
- Since end 2019, the group has adopted a more aggressive stance on two key issues: (1) the business portfolio, with the ongoing disposal of non-core or underperforming assets (with a positive effect on the operating margin) counterbalanced by the resumption of a flow of acquisitions that had been missing for the past two to three years; and (2) a management team systematically focused – thanks to the group's new CFO – on value creation, whether in relation to organic investment or, indeed, acquisitions.
- The ten acquisitions closed in 2021, in particular in businesses more resilient and more geared towards future megatrends, and the 5% contribution to growth from acquisitions in FY2021, tend to confirm this shift in how the group is being managed.
- After a limited -6.5% in organic growth in FY2020, SGS posted a more than 14% y/y growth in 2021, along with a further improvement in its adjusted operating margin. For 2022, we project a 3.8% sales revenue organic growth, below its potential in the aftermath of the Ukrainian conflict, and a limited acquisitions flow. Operating margin should slightly decrease due to soaring costs inflation but, medium term, we forecast a gradual improvement towards the group's c. 17% target level by 2025.
- First half 2022 results tend to validate the scenario and our subsequent fundamental valuation, that justifies confirming SGS as one of our European Core Holdings.

ESG - risks and key points

- SGS is rated low risk in relation to environmental, social and governance constraints: its exposure to these issues is deemed moderate and they are well managed.
- The main risk is reputational risk, inherent in the company's business of certification, where the notions of trust and brand image are key.
- Next is data security, in relation to which the group is considered to have in place a suitable management and control system.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in CHF

Current price	Value Bordier Scenario
2'245	2'647

Our valuation assumes Swiss long-term yields of 1.75% and the growth and margin scenario set out above, more or less in keeping with management's guidance.

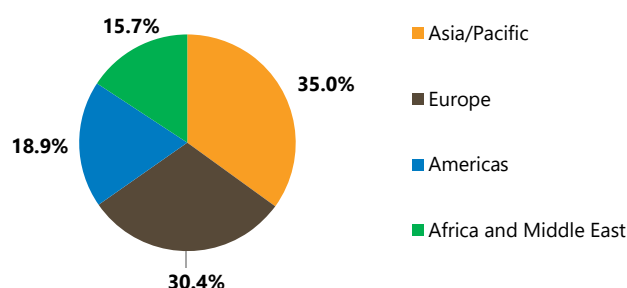
**) The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of CHF	2020	2021	2022e	2023e	2024e
Sales revenue	5'604	6'405	6'616	7'080	7'575
Sales growth %	-15.1%	14.3%	3.3%	7.0%	7.0%
o/w organic	-6.5%	8.9%	3.8%	4.0%	4.0%
EBIT adjusted	900	1055	1045	1133	1212
% of sales	16.1%	16.5%	15.8%	16.0%	16.0%
Net income	505	655	627	702	757
Adjusted EPS	73.64	86.90	86.03	94.18	101.50
Adjusted EPS growth	-14.0%	18.0%	-1.0%	9.5%	7.8%
Capex/Sales	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash-flow	453	360	653	495	535
FCF/Sales	8.1%	5.6%	9.9%	7.0%	7.1%
Dividend per share	80.00	80.00	85.00	90.00	95.00
Dividend yield	3.6%	3.6%	3.8%	4.1%	4.3%
ROCE - WACC	16.0%	14.8%	17.7%	17.1%	17.3%
ROE (%)	52.0%	58.3%	61.0%	68.4%	74.2%
Net debt/Ebitda	112.7%	114.6%	114.2%	115.7%	118.4%

Source: Factset, Bordier estimates

Sales breakdown - 12/2021



Ratios

	SGS SA	Stoxx Europe 600 Sector	Market
PE (x)***		Indus. Good & Serv.	STOXX 600
2021	35.1	20.3	15.4
2022e	26.1	14.7	12.2
2023e	23.8	14.4	11.6
P/B (x)***			
2021	15.1	3.5	2.0
2022e	15.9	2.6	1.7
2023e	16.3	2.4	1.6
Beta (2Y, daily) vs market: 0.94			

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

Governance and ownership structure

Since 03.2015 CEO: Frankie Ng, with the group since 1994.

Key shareholders (if any):

19.1% owned by Groupe Bruxelles Lambert.

Longstanding shareholders, the Von Finck family sold their residual stake in August 2020.

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

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Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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