

Bureau Veritas SA

CORE HOLDING*

Recommended since 20.04.15

16.08.2022



Country	FR	Market capitalization (bn)	EUR	12.3	Perf. since reco. (%)	
Sector	Industrial Goods & Services	Free float		64.0%	Bureau Veritas SA	29.8
Factset	BVI-FR	Closing price	EUR	26.89	Sector	38.7
ISIN	FR0006174348	ESG Risk score*	11.3	Low risk		

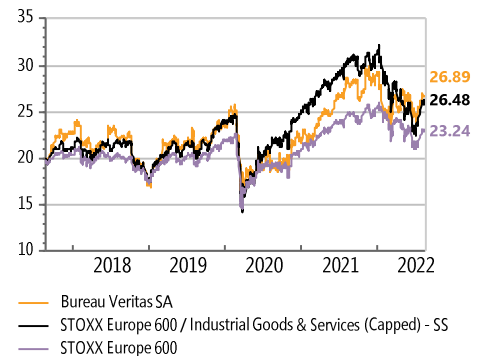
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely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

Profile

Established in 1828, Bureau Veritas (BV) is the world number two in testing, inspection and certification (TIC). The group has more than 82,000 employees in c. 1,600 offices and laboratories spread across 140 countries.

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.



Source: Factset

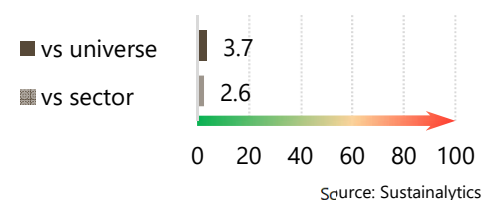
Investment case

- After the group's cyclical businesses (one third of its sales at the time) suffered a sharp correction over the 2015-2016 period, resulting in negative organic growth and a dip in the operating margin in 2016, business bottomed out in 2017 and all business units returned to growth in 2018. This trend firmed up and, indeed, quickened in 2019: in the final quarter, just before Covid crisis, the group posted its strongest organic growth of the seven previous years.
- In our opinion, this trajectory reflects the success of the strategy pursued by CEO Didier Michaud-Daniel over the past few years, which hinges around five initiatives and the corresponding key segments, where structural growth is strongest: operating expenditure (as opposed to capital expenditure) in the commodities, chemicals and power sectors; agri-food; construction and infrastructure; automotive and vehicle connectivity; and "SmartWorld".
- These last two segments illustrate the growing importance of digitalisation, both in the company's internal processes and in terms of market opportunities, all harnessed via the Digital@BV programme. The repositioned group will have a more sustainable and relatively less cyclical growth profile than it used to, making its cash flows more predictable.
- After a FY2020 marked by the violent downturn, with -6% organic growth and a 290 bps squeeze on the adjusted operating margin, FY2021 witnessed a sharp rebound with a 9.4% organic growth and operating margin surged 270 bp and BV. Considering H1-2022 results, we forecast a 5% organic growth for 2022, including effects due to lockdowns in China. A pace that should be kept in the medium term, with c. 3% from self-financed acquisitions coming on the top, with an adjusted operating margin set to reach the group's target level of 17% by 2025.

ESG - risks and key points

- Bureau Veritas is rated low risk for environmental, social and governance factors: its exposure to these factors is medium and its management of them is considered robust.
- 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 EUR

Current price	Value Bordier Scenario
26.9	28.5

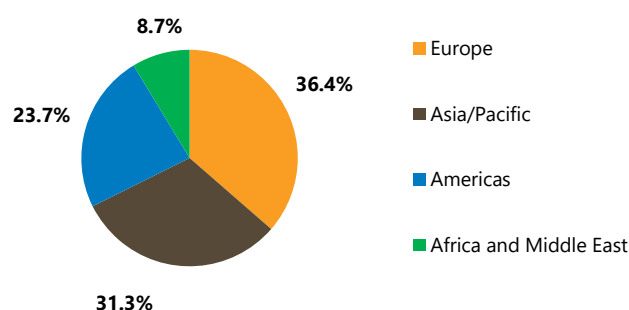
Our fundamental valuation assumes European long term yields of 2.0%, the growth and operating margin trajectory set out above and a flow of recurring acquisitions adding c. 3% a year to sales for the first few years before tending to zero towards the end of the decade.

***) 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 EUR	2020	2021	2022e	2023e	2024e
Sales revenue	4'601	4'981	5'429	5'864	6'333
Sales growth %	-9.8%	8.3%	9.0%	8.0%	8.0%
<i>o/w organic</i>	-6.0%	9.4%	5.0%	5.0%	5.0%
EBIT adjusted	615	802	869	967	1077
% of sales	13.4%	16.1%	16.0%	16.5%	17.0%
Net income	125	421	452	514	586
Adjusted EPS	0.52	1.08	1.17	1.33	1.51
Adjusted EPS growth	-47.2%	106.1%	8.4%	14.1%	13.5%
Free cash-flow	622	546	513	493	566
FCF/Sales	13.5%	11.0%	9.5%	8.4%	8.9%
Dividend per share	0.36	0.53	0.60	0.65	0.70
Dividend yield	1.3%	2.0%	2.2%	2.4%	2.6%
ROCE - WACC	3.6%	11.4%	12.7%	14.7%	16.8%
ROE (%)	18.7%	29.2%	28.6%	29.4%	29.6%
Net debt/Ebitda	141.4%	98.6%	70.9%	50.0%	28.5%

Source: Factset, Bordier estimates

Sales breakdown - 12/2021**Ratios**

	Bureau Veritas SA	Sector	Stoxx Europe 600
PE (x)***		Industrial Goods & Serv.	STOXX 600
2021	27.0	20.3	15.4
2022e	23.0	15.7	12.8
2023e	20.2	15.7	12.4
P/B (x)***			
2021	7.9	3.5	2.0
2022e	6.6	2.9	1.8
2023e	5.9	2.6	1.7
Beta (2Y, daily) vs market: 0.82			

***) 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 01.03.2012: CEO Mr Didier Michaud-Daniel.

Agenda

Q3-2022 Results: 26.10.2022

Key shareholders (if any):

With effect from March 2016, Wendel, which has a 35.6% stake, is no longer locked into the group's capital.

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

BV says it has put mechanisms in place to prevent undue control of the company. Eight of its 12 directors are independent.

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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