

Support Services - Testing & Inspection

What's next? Recent outperformance to continue

Equities

Europe including UK
Industrial Services

Denis Moreau

Analyst

denis.moreau@ubs.com

+44-20-7568 2094

Rory McKenzie

Analyst

rory.mckenzie@ubs.com

+44-20-7568 1977

Growth momentum improving, defensive appeal still intact

We reiterate our positive view on the sector. Organic growth is re-accelerating or about to do so, while the defensive appeal of the sector is intact. Most companies are also likely to step up M&A efforts. Valuations have however become more demanding and Intertek and Applus remain our top picks in the sector. We like Intertek because it offers the strongest growth prospects in the sector (+8.3% CAGR in EPS between 2015 and 2020E, excluding any additional M&A) but still trades at a 17% discount to SGS (P/E 2016E of 20.5x vs. 24.7x). Applus also offers a compelling risk/reward ratio as it trades on a P/E 2016E of just 11.4x for an expected 4.6% CAGR in EPS (2015-20E).

Organic growth: is the worst behind us?

After a sharp deceleration since 2008 organic growth is reaccelerating (SGS, Intertek) or is about to do so (Bureau Veritas, Applus). This has started to be reflected in the shares' valuation but the companies are, however, at different stages: SGS and Intertek organic growth momentums troughed in H1'15 and H2'14, respectively, while we expect both Applus and Bureau Veritas to trough in H1'16 (-6.2%e and -0.1%e, respectively).

Q1 previews on Bureau Veritas, Intertek

Applus results (May 9) were weak (tough comps, lag effect on the Oil & Gas activity) but we believe valuation already more than reflects this, and we believe it is approaching the inflection point in organic growth. Bureau Veritas (May 12) results are also likely to be weak. We are more positive on Intertek: after a solid performance in H2'15 (+2.2% organic growth), we expect a positive trading update (due May 25) with an encouraging outlook for a further acceleration (+3% in H2'16E, UBSE).

Valuation: Intertek and Applus our Top picks in the sector

We have cut our EPS by 9% on Applus but upgraded our EPS on Intertek by 3-4% (separate notes out today on both stocks). Our increased Price Targets also reflect the stronger growth momentum across the sector as organic growth has troughed (Intertek, SGS), or is about to do so (Bureau Veritas, Applus). Our Price Targets are derived from P/E multiples applied to our 12 months forward EPS estimates.

Figure 1: Changes to Ratings, Price Targets and Estimates

Company	Rating		Price Target			PE		EV/EBITA		FY16e EPS		FY17e EPS	
	New	Old	New	Old	chg.	FY16	FY17	FY16	FY17	New	chg.	New	chg.
Applus (€)	Buy	unch.	10.5	11.0	-4.5%	11.4x	11.0x	11.6x	11.1x	0.67	-8.5%	0.70	-9.2%
Bureau Veritas (€)	Neutral	unch.	20.5	19.8	3.5%	20.4x	19.5x	13.9x	13.2x	0.98	unch.	1.03	unch.
Intertek (p)	Buy	unch.	3,650	3,200	14.1%	20.5x	19.2x	15.3x	14.0x	158	3.0%	169	4.5%
SGS (CHF)	Neutral	unch.	2,000	1,900	5.3%	24.5x	22.9x	17.4x	16.6x	84.8	0.1%	90.7	0.4%

Source: UBS estimates Note: EPS estimates are basic EPS

Testing and Inspection

UBS Research THESIS MAP MOST FAVORED

LEAST FAVORED

Applus, Intertek

Bureau Veritas, SGS

PIVOTAL QUESTIONS

Q: When will organic growth really re-accelerate?

The main driver for a re-acceleration is related to the commodity cycle (30-45% of the sector revenues depend on Oil & gas and mining), which means a material pick up in the growth rates is unlikely before 2018. The rest of the business is doing well.

Q: Can profitability expand from here?

Yes. Cost discipline is stronger and some further sector consolidation will help; critical mass is key.

Q: Can the sector continue to create value through acquisitions?

Yes, the sector remains fragmented (Top 5 accounts for just 20% of the accessible/outourced part of the TIC market) and valuation multiples have not been materially expanding.

WHAT'S PRICED IN?

Valuation multiples stand at the high end of historical range, but growth is still modest for now. The sector is trading on an EV/ EBIT forward that ranges between 11x (Applus) to 17x (SGS), which reflects different perceptions on the pace of the re-acceleration of profit growth: low and uncertain in the case of Applus, which is excessively discounted in our view; and certain and strong in the case of SGS, which, on the other hand, might prove too optimistic. We also believe that the market starts to factor in the value creation that future acquisitions could create.

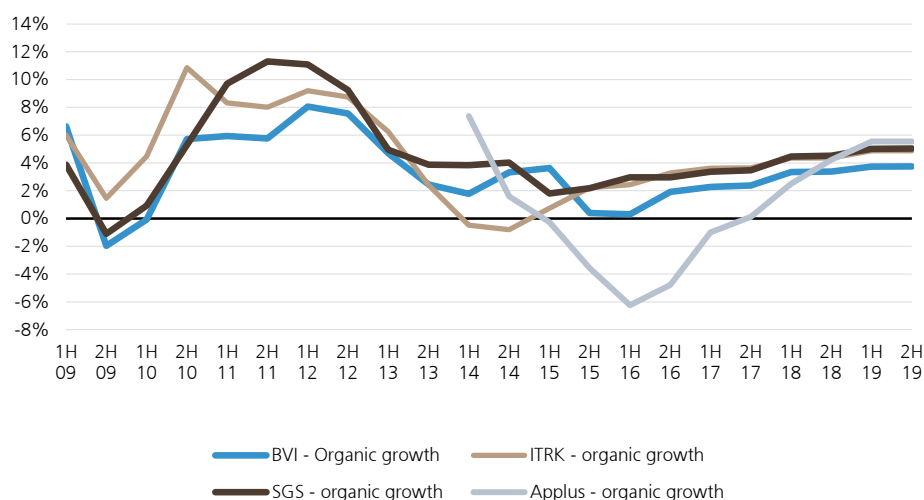
UBS VIEW

Buy the stocks offering the best momentum/valuation ratios: We are Buyers of Intertek as it offers the strongest growth potential in the sector with +8.3% pa CAGR EPS growth in 2015-20E, above SGS, for a valuation that is actually 17% below SGS in EV/EBIT terms. We also like Applus as the stock offers a lot of value at this level: multiples are low and earnings are also distressed. The company trades on an EV/sales multiple of just 1.0x (vs. SGS at 2.7x), which is actually lower than the average multiple paid for acquisitions of private companies in the sector (c1.3-1.5x).

EVIDENCE

Momentum is improving. Organic growth rates seem to have bottomed out at both SGS and Intertek and the indications given by the management of Bureau Veritas and of Applus also suggest that momentum is set to make further progress in H2 2016.

Organic growth momentum has bottomed out or is about to



Source: UBS

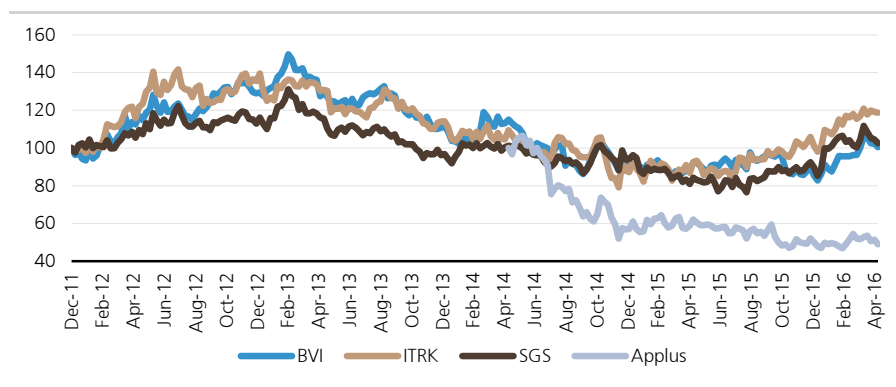
What's new?

Outperforming again, after 2-3 years of underperformance

After some underperformance against the broader market since Q1 2013, the stocks of the Testing sector have started to outperform again last year. But the timing of the turning point has greatly differed from one stock to another. SGS was the first stock to bottom out in June after falling more than 30% (at constant currency) against the Stoxx 600 index since its peak level reached in early March 2013. Intertek followed shortly, while Bureau Veritas bottomed out in November and Applus seems to have troughed at the end of February 2016..

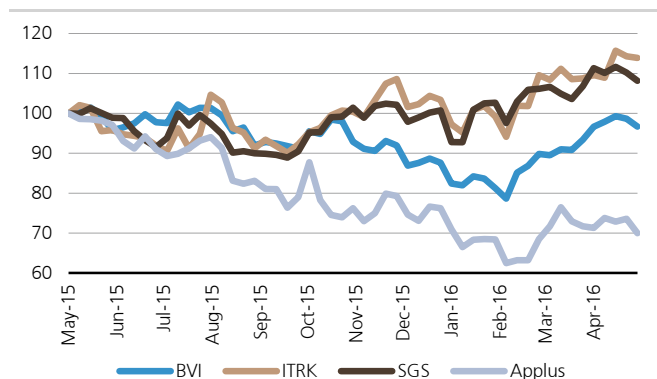
- **SGS:** it reached a trough level in relative terms (vs. Stoxx 600 index) on 25 June 2015, three weeks before the publication of its H1 results publication and 6 months before
- **Intertek:** it reached a trough level on 27 July 2015, on the day before the publication of the strong H1 results publication
- **Bureau Veritas:** trough in relative terms on 20 November 2015, after the disappointing Q3 sales publication
- **Applus:** trough on 24 February 2016, two days before the publication of its full year results.

Figure 2: Relative performance against the Stoxx 600 index since January 2012



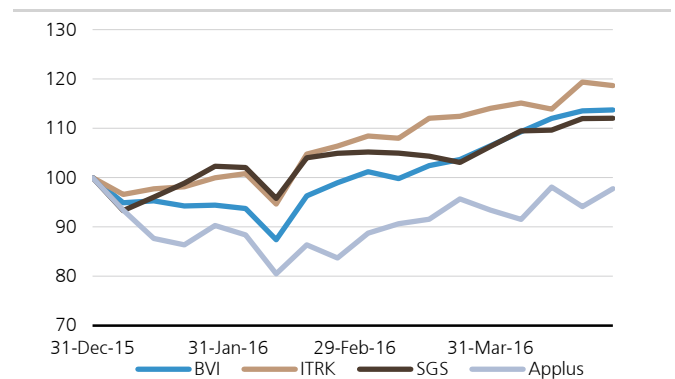
Source: Thomson Reuters

Figure 3: Diverse fortunes over the past 12 months (*)



Source: Thomson Reuters, (*) relative performance against the Stoxx600 index

Figure 4: A strong outperformance Year-to-Date (*)

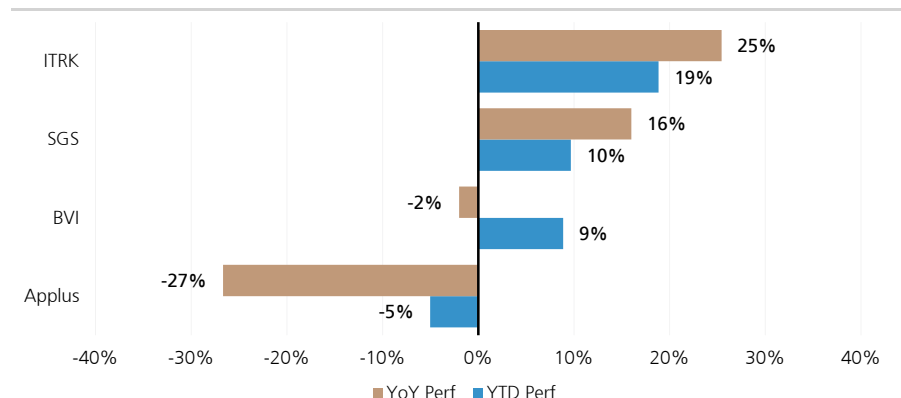


Source: Thomson Reuters, (*) relative performance against the Stoxx600 index

Intertek has been the best performer in the sector since the beginning of the year (+19% YTD and +25% over the past twelve months); its earnings momentum has improved; the change of management has been perceived positively; and the recent acquisition by the CEO of 100,000 shares at an average cost of 3,272p is a significant sign of confidence to that respect.

Applus on the other hand has been the worst performer; its high exposure to the Oil and Gas segment has not helped; and the confidence of the market in analysts' estimates remains low, which is reflected through the valuation of the shares, trading on the lowest EV/sales multiple in the sector.

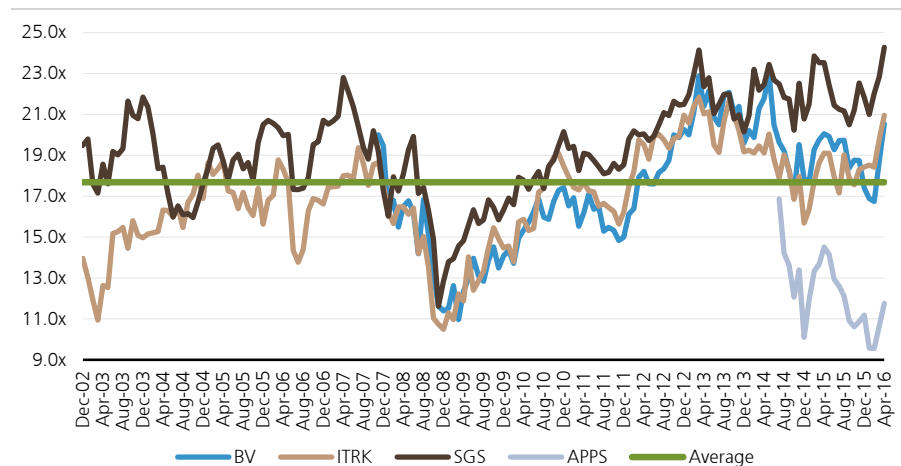
Figure 5: Best and worst performers in the sector



Source: Thomson Reuters

The sector has enjoyed some valuation re-rating in the past 6-9 months and now trades again in line with its historical peak P/E forward multiples, although organic growth is not back to the levels where it was back in 2007 or 2012.

Figure 6: P/E forward of the sector



Source: Thomson Reuters

Momentum comparison

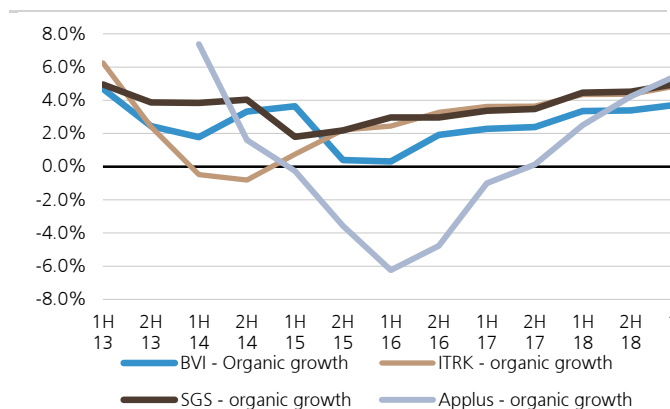
Based on the deals that have been announced so far, Intertek earnings are to grow the fastest in the sector between 2015 and 2020 at +8.3% per annum, CAGR, versus +6.9% for SGS, despite a organic growth being similar to SGS. The main reasons for the stronger bottomline relates to 1) the full effect in 2016 of the consolidation of PSI into Intertek's earnings and 2) a more favourable currency effect at Intertek as 95% of revenues are not denominated in GBP and the reported accounts will benefit from the weakening of the GBP since the end of 2015.

Figure 7: 2015-2020 annual CAGR: Intertek has the stronger growth profile

	Applus	Bureau Veritas	Intertek	SGS
Sales	1.6%	2.7%	6.3%	4.5%
organic growth	1.7%	2.9%	4.1%	4.2%
EBITA	2.5%	3.4%	7.9%	6.8%
EPS	4.6%	5.5%	8.3%	6.9%
P/E 2016E	11.1	20.8	20.5	24.7

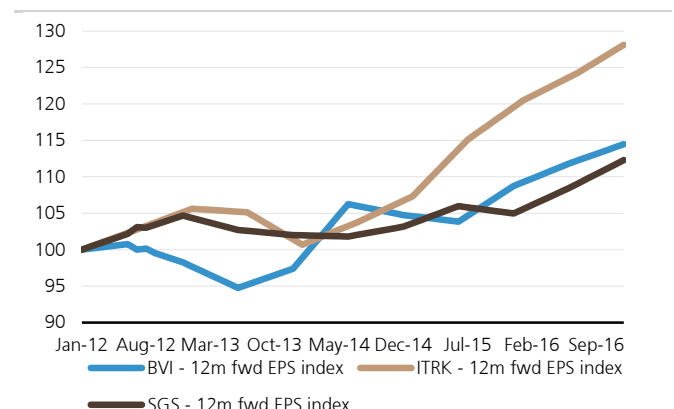
Source: UBS estimates

Figure 8: Intertek growing as fast as SGS (organically) and above Bureau Veritas...



Source: UBS estimates

Figure 9: ... and the EPS momentum is also improving



Source: UBS estimates, EPS 12 months forward

Consensus EPS have also trended higher in the past few months, whereas they were under pressure still one year ago. We note however some differences, as can be seen in the following charts.

Intertek consensus EPS for 2016 has been continuously upgraded since October 2015 and are now 9% above their October 2015 level.

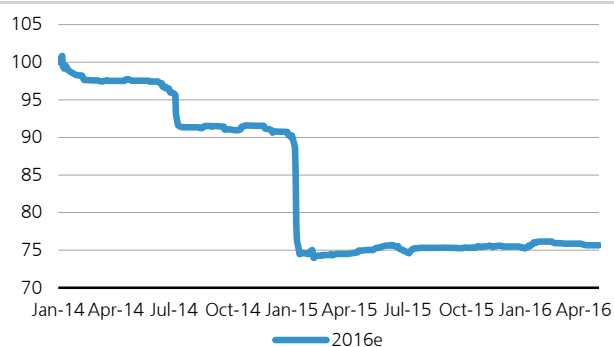
SGS consensus EPS have been fairly stable since the beginning of 2015, after the reappreciation of the CHF

Bureau Veritas consensus EPS seems to have troughed around the FY15 results publications

Applus consensus EPS is still under pressure

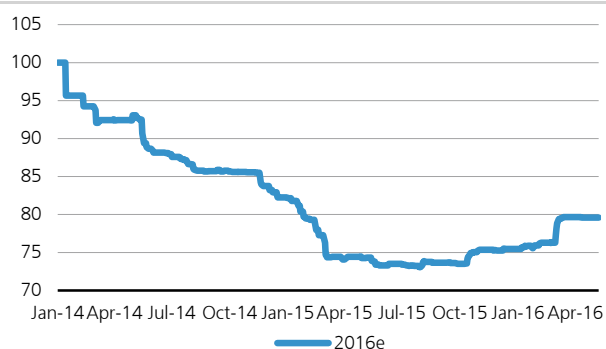
Intertek 2016 consensus EPS upgraded by 9% since October, Applus under pressure

Figure 10: SGS - 2016E consensus EPS (CHF)



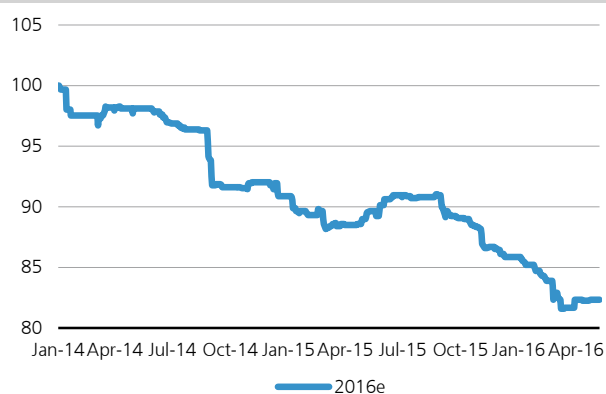
Source: Bloomberg

Figure 11: Intertek - 2016E consensus EPS



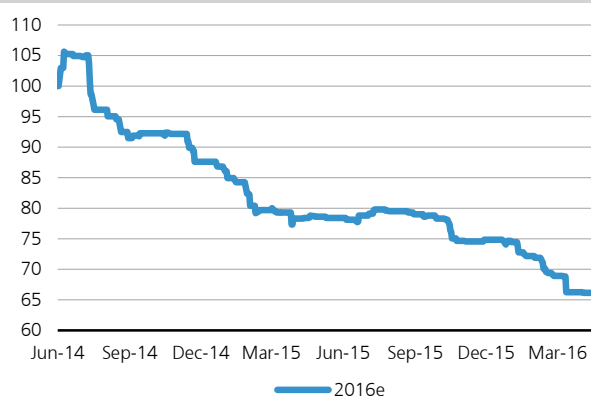
Source: Bloomberg

Figure 12: Bureau Veritas - 2016E consensus EPS



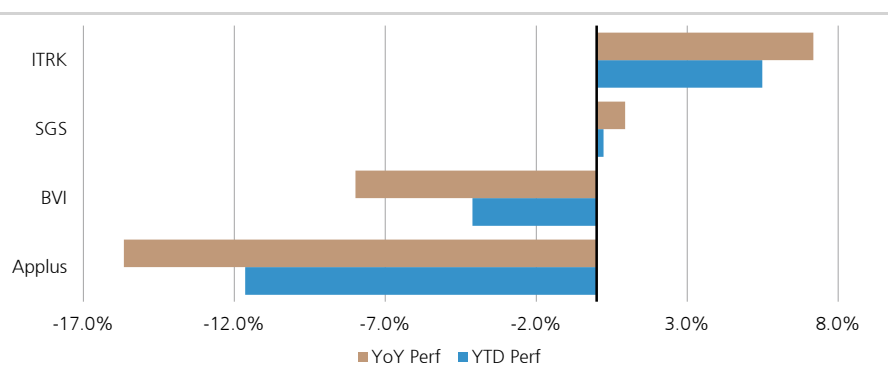
Source: Bloomberg

Figure 13: Applus - 2016E consensus EPS



Source: Bloomberg

Figure 14: 2016 consensus EPS changes



Source: Bloomberg

Adjustments to our forecasts

- **EPS:** We have upgraded our forecasts for Intertek, both in terms of underlying sales, EBITA and EPS but have downgraded our forecasts on Applus. We had not changed our EPS forecasts on Applus after the publication of the full year results, hence the relatively large cut in our estimates. We have mostly left our Bureau Veritas and SGS forecasts unchanged.
- **Price Targets:** Our Price target changes broadly follow the direction of the earnings estimates: e.g., at Applus we lower our Price Target to €10.5 from €11.0 (but this still represents significant upside, >35%).

Figure 15: Our new forecasts

Company	Sales			Organic Growth			EBITA Margin			EPS			Net Debt		
	2016e	2017e	2018e	2016e	2017e	2018e	2016e	2017e	2018e	2016e	2017e	2018e	16E ch.	17E ch.	18E ch.
Applus (€)	1589	1587	1646	-5.2%	-0.4%	3.4%	9.1%	9.2%	9.4%	0.67	0.70	0.77	-8.5%	-9.2%	-8.8%
Bureau Veritas (€)	4629	4736	4895	1.1%	2.3%	3.4%	16.7%	16.8%	17.0%	0.98	1.03	1.09	0.0%	0.0%	0.0%
Intertek (p)	2472	2562	2674	2.9%	3.6%	4.4%	15.9%	16.2%	16.6%	158.0	169.1	182.1	3.0%	4.5%	4.3%
SGS (CHF)	5998	6206	6471	3.0%	3.4%	4.5%	16.0%	16.4%	16.9%	84.8	90.7	98.7	0.1%	0.4%	0.4%

Source: UBS estimates Note: EPS estimates are basic EPS.

Figure 16: Changes to our Sales and EBITA forecasts

Company	Sales 2016e			Sales 2017e			Sales 2018e			EBITA 2016e			EBITA 2017e			EBITA 2018e		
	NEW	OLD	Δ	NEW	OLD	Δ	NEW	OLD	Δ	NEW	OLD	Δ	NEW	OLD	Δ	NEW	OLD	Δ
Applus (€)	1589	1643	-3.3%	1587	1636	-3.0%	1646	1697	-3.0%	144	154.3	-6.5%	145	155.4	-6.4%	156	165.9	-6.2%
Bureau Veritas (€)	4629	4629	0.0%	4736	4736	0.0%	4895	4895	0.0%	774	774.1	0.0%	796	796	0.0%	830	830.3	0.0%
Intertek (p)	2472	2445	1.1%	2562	2512	2.0%	2674	2619	2.1%	392	389.5	0.7%	414	409.3	1.2%	444	437.8	1.3%
SGS (CHF)	5998	6042	-0.7%	6206	6231	-0.4%	6471	6501	-0.5%	961	965.7	-0.5%	1015	1017	-0.2%	1096	1098	-0.2%

Source: UBS estimates

We differ to consensus mainly on Intertek (3-4% above) and on Bureau Veritas (2-4% below). We are also more optimistic on the pace of the recover for Applus in 2018.

Figure 17: UBS vs. consensus

Company	2016e			2017e			2018e		
	UBS	Cons	Δ	UBS	Cons	Δ	UBS	Cons	Δ
Applus (€)	0.67	0.67	0.6%	0.70	0.69	1.0%	0.77	0.73	4.7%
Bureau Veritas (€)	0.98	1.00	-1.5%	1.03	1.06	-3.6%	1.09	1.12	-3.0%
Intertek (p)	158.0	154.1	2.5%	169.1	163.4	3.5%	182.1	176.1	3.4%
SGS (CHF)	84.8	86.1	-1.6%	90.7	92.3	-1.7%	98.7	99.0	-0.4%

Source: UBS estimates, Thomson Reuter

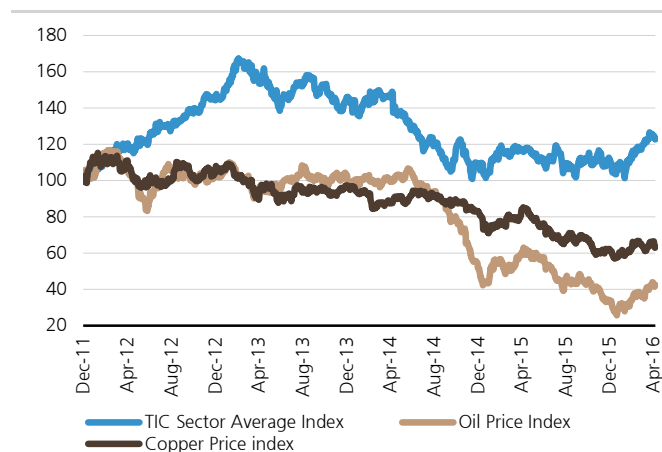
Recent trends

A couple of factors have helped the sector in the very last few months: 1) the recovery of the energy and commodity prices since February after a severe slump before; 2) some indications that growth in the non-commodity exposed markets remains robust and 3) signs that M&A activity was picking up in the sector.

Commodity prices recovering, emerging markets doing better

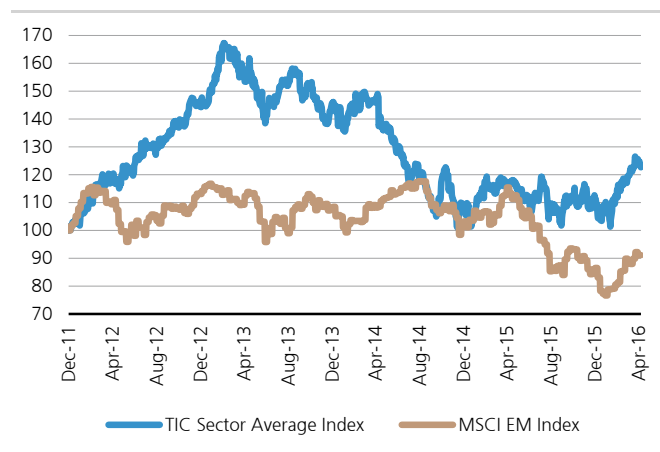
Given the sectors' exposure to commodities (c30-45% of sales exposed to Oil&Gas, exposure to the mining sector), the performance of the sector has benefited from the recovery of these markets, to some extent.

Figure 18: TIC sector perf. vs. Oil and copper prices



Source: Datastream

Figure 19: TIC sector performance vs. MSCI EM Index



Source: Datastream

Applus remains the most exposed company to Oil & Gas and we expect that its revenues in Oil & Gas have fallen 30% before it troughs in late-2018, at which point we expect a stabilisation.

The other companies have a smaller exposure, especially if we take into account the more stable trade inspection business. In that case, the real exposure of **Intertek** to oil & gas capex/opex would be 19% (24% adding back the mining-related revenues), which is consistent with the new reporting format indicating an exposure of 24% to "resources".

Perception on **SGS** has also benefited from the stabilisation/improvement in the mining sector given its sizable exposure to this market (c11% of group sales).

Figure 20: Exposure to Oil and Gas and Mining across the sector

	Revenues 2015 (€m)				Revenue in % of group			
	ITRK	APPS	BVI	SGS	ITRK	APPS	BVI	SGS
Oil and Gas	1,087	816	1,007	1,429	37%	48%	22%	27%
o/w capex	361	384	401	447	12%	23%	9%	9%
o/w opex	206	433	514	613	7%	25%	11%	12%
o/w trade/cargo	520	0	93	369	18%	0%	2%	7%
Mining	108	0	525	369	4%	0%	11%	7%
Total gross commodity exposure	1,196	816	1,533	1,797	41%	48%	33%	34%
Revenues at risk (Oil capex/opex+ Mining)	676	816	1,458	1,658	23%	48%	31%	31%

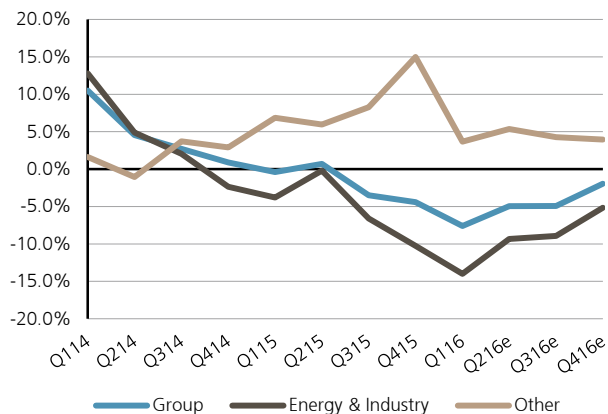
Source: UBS estimates

Applus Q1 2016 – A tough comp but now behind them

[Q1 results](#) were reported 9 May, at 8am CEST (conference call at 2pm CEST)

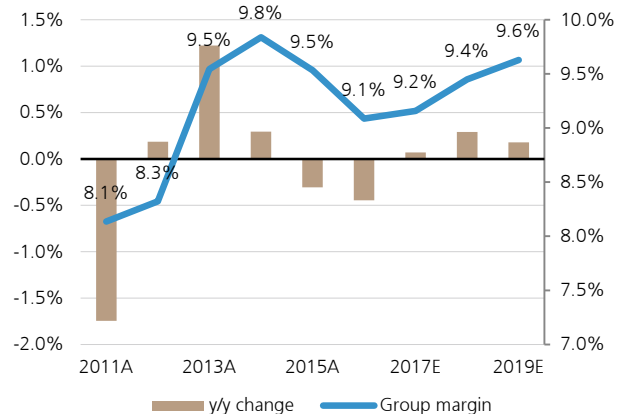
The revenue trend looked in-line with expectations, and we believe will represent the trough of organic growth for Applus – the most challenging prior year comparator is now behind them. The margin (-60bps y/y) was a bit weaker than we had expected however, but this looks to be mainly due to phasing of cost savings (€10m benefit in FY16e will be H2-weighted; we forecast H1 margins down 60bps y/y and H2 margins down 30bps y/y).

Figure 21: Organic revenue growth trends



Source: UBS estimates, company data

Figure 22: Group margin outlook

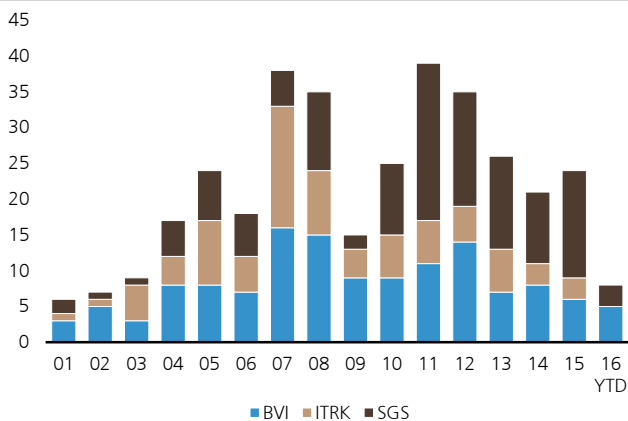


Source: UBS estimates

M&A activity picking up

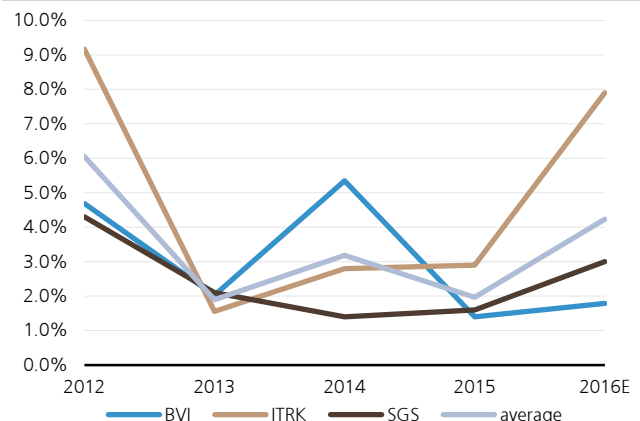
After some relatively more quiet activity in 2013/14, which coincided with some changes in top management at both Intertek and SGS, M&A activity in the sector has been picking up since the summer 2015 at these two companies. The momentum at Bureau Veritas is not as strong as the company had been on the contrary quite active in 2013-14 and its leverage is somewhat higher (Net debt-to-EBITDA of 1.8x (Dec. 2016E) compared to 0.5x and 1.2x for SGS and Intertek, respectively). Applus is unlikely to make any acquisitions in the near term given balance sheet constraints.

Figure 23: Number of deals announced per year



Source: company data, UBS estimates

Figure 24: M&A contribution to sales growth



Source: company data, UBS estimates

- **SGS has been most active and has already secured a +2.7% acquisitions-related growth in revenues in 2016, some room for more to come.** The company has closed 17 deals for a total turnover in excess of CHF220m since January 2015, with a clear acceleration since Q4 (65% of the CHF220m sales acquired have been acquired in Q4'15 and Q1'16). This equates to a c3-4% increase in sales on a full year basis, which represents a noticeable acceleration compared to 2013-2015 (1.5-2.1% per annum), and is consistent with the group's target to acquire CHF1bn in revenues in 2016-2020. Given the strong balancesheet of SGS and the somewhat sub-optimal financial leverage at the light of the low interest rates in Switzerland, we think the market would welcome some further releveraging of the balance sheet.
- **Intertek: more focus on mid-sized deals rather smaller acquisitions, PSI to add 8% to 2016 revenues.** This deal signed in October 2015 has not been fully consolidated yet and although PSI will have a 30bps dilutive effect on the profit margin in 2016 (no synergies assumed yet), this acquisitions looks quite encouraging in a few respects: 1) it is c75% exposed to the US non-residential construction sector for which the outlook looks solid in H2'16 and longer term and 2) the synergies: 300bps margin improvement on the target's sales expected by Intertek management in 2018. On our forecasts if Intertek does not make any additional acquisition financial leverage would drop from 1.8x in 2015A to 0.9x in 2017, against an historical average in the range of c1.5x, which leaves some room for more mid-sized deals like PSI, i.e., somewhat larger than the deals typically made by SGS (the largest deal made by SGS was of \$65m of acquired revenues compared to \$254m with Intertek's PSI).
- **Bureau Veritas: about to re-accelerate?** After being very active in 2014 (e.g., Maxxam), Bureau Veritas has been comparatively less acquisitive in 2015 (M&A added just 1.4% to full year sales, mostly thanks to the acquisitions made in 2014. Since the beginning of 2016 Bureau Veritas has been quite active through the signing of 4 deals (annualised sales of €84m, i.e. 1.8% of 2015 sales on a full year basis). We expect M&A to continue at a sustained pace (bolt-on acquisitions) in 2016-17.
- **Applus: no material M&A action expected, respecting the covenants remains central.** After the renegotiation of the debt covenants Applus has gained some headroom as the company's leverage currently stands at 3x against covenants of 4.5x for the next twelve months (and 4.0x for the nine months afterwards). Despite this better financial flexibility, the company is very unlikely to be acquisitive in 2016-17.

The non-commodities endmarkets continue to do well.

Certification account for a modest portion of the revenues of the TIC companies, given their overall diversification but this activity has been growing well and the outlook for 2016 looks strong in our view

- **Strong growth in certification/assurance, encouraging results from BSI.** BSI (UK) is a non-for-profit company UK based company (with 50% of its revenues outside the EMEA region) that generate c75% of its £331m revenues in Assurance/certification. It offers both systems and product certification and some training. BSI revenues grew by 9% like-for-like in 2015 and indicated similar trends for 2016. Although this activity is of relatively modest size at the big TIC companies (SGS, Bureau Veritas), it is encouraging to see this business growing as strong in 2016.

- **Life sciences, healthcare, food: strong Q1 results from Eurofins.** Eurofins (ERF FP, €5bn market cap, not covered by UBS) reported a 10% organic growth in revenues

Transatlantic Trade deal facing challenges

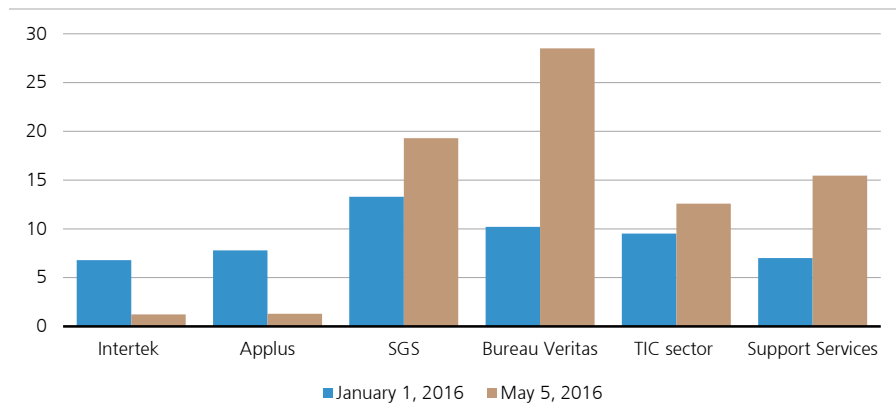
The Transatlantic Trade and Investment Partnership (TTIP) is a proposed trade agreement between the EU and the US with the aim to facilitate trade. One of its key features relates to a simplification of the testing requirements for goods imported into the EU and the US. Such a convergence and simplification would potentially hurt the level of activity of the Testing companies (one test - although more thorough – would replace a set of two). However, controversy has emerged and the recent indications seen in the press suggest the TTIP faces serious challenges [article in The Guardian, 1st of May 2016](#). Should the TTIP still go through, we doubt it would have any meaningful impact for the TIC sector before 2020 and the chances it will not go through in its current form have considerably increased.

If confirmed, this would be a small positive as the TTIP weighed a bit on sentiment last year.

Short Interest has increased on the stocks of the sector

Short interest has decreased on both Intertek and Applus since the beginning of the year but has increased for both SGS and Bureau Veritas. It is quite interesting to note that the level of short interest has also increased across the whole support services space and remains slightly higher compared to the TIC sector.

Figure 25: Short Interest data (SI / Avg. 30d vol)



Short Interest has sharply been reduced on Intertek and Applus but has increased on SGS and BV

Source: UBS data

Intertek's CEO show of confidence: buying 100k shares at 3,272p

CEO André Lacroix purchased 100,000 shares at an average cost of 3,272p in a transaction dated 22 April, which puts his total ownership to 200k Intertek shares, which we see as a strong show of confidence.

Upcoming results / Preview

Summary

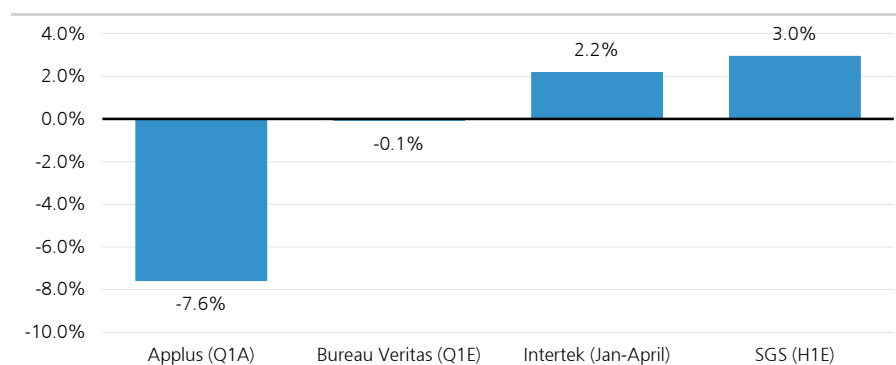
The organic growth momentum remains weak in Q1/H1 2016 at both Applus and BV but has continued to improve at SGS and Intertek.

Figure 26: Upcoming results publications in the TIC sector

	Reporting Date	Reporting Period	Sales					Profitability		
			in loc ccy	y/y ch %	Organic	M&A	FX	adj. EBITA margin		Net income
Bureau Veritas	12-May	Q1 sales	1084.5	-2.0%	-0.1%	1.1%	-3.0%	-	-	-
Intertek	25-May	Jan-April sales	-	13.1%	2.2%	-	-	-	-	-
SGS	18-Jul	H1 results	2890.3	5.0%	3.0%	2.9%	-0.8%	431	15%	284

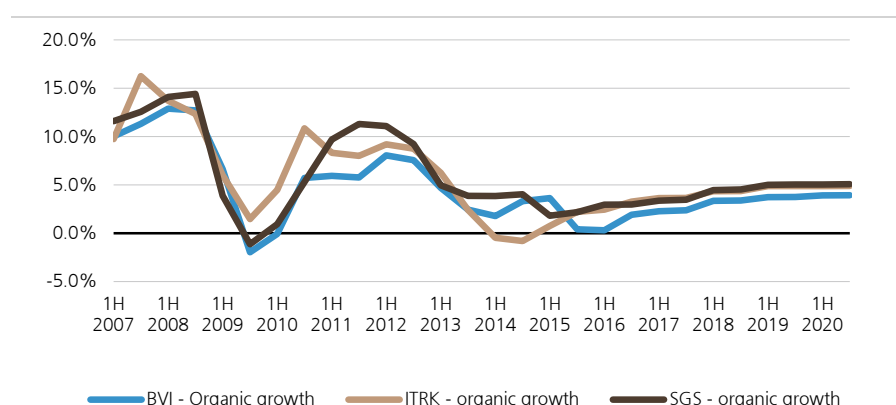
Source: UBS estimates

Figure 27: Organic growth momentum comparison – Q1/H1



Source: UBS estimates

Figure 28: Organic growth recovering after a material rebasing in 2013-14



Source: UBS estimates

Bureau Veritas: inflection point about to be reached

Q1 results due 12 May, after the market closes (6pm CET)

Our view: Bureau Veritas is expected to report a weak quarter and the company has warned about that at the full year results, but given the comps in the following quarters Q1 should represent the bottom of the organic growth momentum and growth should re-accelerate in the subsequent quarters and especially in H2. We indeed expect +0.1% organic growth in H1 but +2.0% in H2, i.e., +1.0% for the full year before a further slight acceleration in 2017 (+2.3%e)

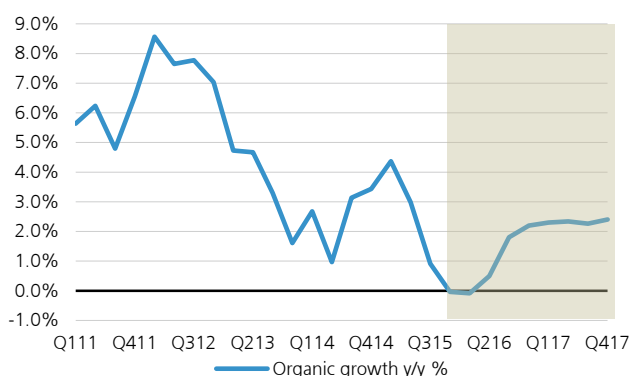
In the details, we expect Q1 sales to come in at €1,085m, -2% y/y of which -0.1% organic growth, +1.1% M&A and -3.0% forex effect. The average consensus expectation is for sales of €1,081m and -0.4% organic growth. This is consistent with the indications given at the full year results of a performance in line or slightly with Q4 (0% organic growth).

By segments, we expect no growth in Consumer (as in Q3'15 and Q4'15), some deceleration in Marine (very demanding comps) and a deterioration in the commodities segment at -2% against +1.9% in Q4'15 due to the tough comps (+6.3% in Q1'15). On the positive side, we expect some re-acceleration in construction (+3% vs. +0.5% in Q4'15) and in government services (+3% vs. -4.8% in Q4'15), while the IVS and certification are expected to have continue to do well at +3% and +4.5% respectively, in line with the previous quarters.

Outlook

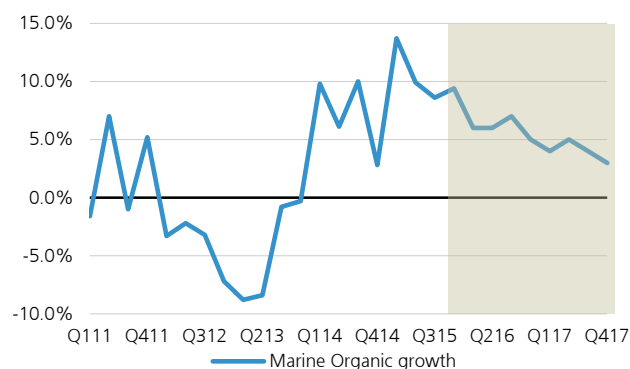
We expect Bureau Veritas to reiterate its full year guidance for an organic growth between +1% and +3% (UBSe: +1%, consensus: +1.5%) and for an adjusted operating margin between 16.5% and 17.0% (UBSe: 16.8%, consensus: 16.7%). We don't expect consensus EPS to change much after the results.

Figure 29: Organic growth expected to trough in H1



Source: UBS estimates

Figure 30: despite some slowdown in the Marine business



Source: UBS estimates

Figure 31: Bureau Veritas - Key quarterly figures by segment

REVENUE	Q1'15	Q2'15	H1'15	Q3'15	Q4'15	H2'15	FY15	Q1'16	Q2'16	H1'16	Q3'16	Q4'16	H2'16	FY16	FY17
Marine	99	103	202	102	102	203	405	103	106	208	107	104	211	419	436
organic growth	13.7%	9.9%	11.7%	8.6%	9.4%	9.0%	10.2%	6.0%	6.0%	6.0%	7.0%	5.0%	6.0%	6.0%	4.0%
Industry	259	274	533	252	245	498	1,031	236	253	488	241	235	476	964	949
organic growth	4.6%	2.6%	3.6%	-4.6%	-7.6%	-6.1%	-1.6%	-6.0%	-4.0%	-5.0%	-2.0%	0.3%	-0.9%	-3.0%	-1.5%
Inspection & In-Service Verification	141	147	288	146	166	311	599	141	145	286	146	171	318	604	622
organic growth	1.1%	2.5%	1.8%	2.7%	4.4%	3.6%	2.8%	3.0%	3.0%	3.0%	2.6%	2.6%	2.6%	2.8%	3.0%
Construction	132	142	274	142	142	283	558	141	151	292	152	148	300	592	617
organic growth	0.5%	1.4%	1.0%	2.9%	0.5%	1.6%	1.3%	3.0%	2.0%	2.5%	3.0%	2.0%	2.5%	2.5%	2.8%
Certification	81	94	175	78	99	177	352	84	97	181	82	106	188	369	386
organic growth	4.5%	4.4%	4.4%	4.9%	4.7%	4.8%	4.6%	4.5%	4.7%	4.6%	5.0%	5.7%	5.4%	5.0%	4.5%
Consumer Products	141	181	322	171	165	336	658	137	183	320	183	177	360	680	726
organic growth	5.1%	2.1%	3.4%	0.1%	-0.8%	-0.4%	1.4%	0.0%	1.0%	0.6%	4.0%	3.5%	3.8%	2.2%	5.0%
Government Services & Trade	65	68	132	65	63	127	260	63	66	130	65	65	130	260	269
organic growth	-0.7%	-4.8%	-2.9%	3.3%	-4.8%	-0.9%	-1.9%	1.0%	2.0%	1.5%	2.5%	2.5%	2.5%	2.0%	3.5%
Commodities	190	203	392	189	193	380	773	180	190	371	182	183	365	736	747
organic growth	6.3%	4.9%	5.6%	0.6%	1.9%	1.3%	3.3%	-2.0%	-2.0%	-2.0%	-1.0%	-0.1%	-0.5%	-1.3%	1.5%
Total	1,106	1,212	2,319	1,143	1,173	2,316	4,635	1,085	1,191	2,276	1,158	1,189	2,347	4,623	4,751
Growth	19.0%	16.7%	17.8%	7.3%	3.0%	5.1%	11.1%	-2.0%	-1.8%	-1.9%	1.3%	1.3%	1.3%	-0.3%	2.8%
Organic	4.4%	3.0%	3.6%	0.9%	0.0%	0.4%	1.9%	-0.1%	0.5%	0.2%	1.8%	2.2%	2.0%	1.1%	2.3%
Acquisitions	6.2%	4.6%	5.4%	2.9%	1.4%	2.1%	1.4%	1.1%	1.8%	1.4%	1.9%	1.8%	1.9%	1.7%	0.5%
Forex	8.5%	9.1%	8.8%	3.6%	1.7%	2.6%	1.6%	-3.0%	-4.0%	-3.5%	-2.4%	-2.7%	-2.5%	-3.0%	0.0%
EBITA	H1'15			H2'15			FY15	H1'16			H2'16			FY16	FY17
Marine	54.7			52.3			107	57.01			52.9			109.9	113.4
Margin	27.1%			25.8%			26.4%	26.9%			25.5%			26.2%	26.0%
Industry	74.6			71.9			146.5	68.33			63.83			132.2	130.2
Margin	14.0%			14.5%			14.2%	13.5%			14.0%			13.7%	13.7%
Inspection & In-Service Verification	31			51.8			82.8	31.28			50.98			82.25	85.03
Margin	0.108			0.166			0.138	0.106			0.165			0.136	0.137
Construction	38.8			47.6			86.4	43.41			50.04			93.45	96.9
Margin	14.1%			16.8%			15.5%	14.4%			17.2%			15.8%	15.7%
Certification	29.3			30.7			60	32.04			32.02			64.06	67.33
Margin	16.8%			17.4%			17.1%	17.1%			17.7%			17.4%	17.5%
Consumer Products	76.7			85.3			162	80.6			89.47			170.1	182.2
Margin	23.8%			25.4%			24.6%	24.2%			25.8%			25.0%	25.1%
Government Services & Trade	20.3			22.8			43.1	20.71			22.39			43.1	45.15
Margin	15.4%			17.9%			16.6%	15.4%			18.0%			16.6%	16.8%
Commodities	44.9			42.5			87.4	42.4			37.15			79.54	80.72
Margin	11.5%			1.8%			11.3%	11.0%			1.6%			10.8%	10.8%
core Operating Profit	370			405			775	376			399			775	801
Margin	16.0%			17.5%			16.7%	15.9%			17.6%			16.8%	16.9%
Growth	19.5%			5.4%			11.7%	1.5%			-1.5%			-0.1%	3.4%
exceptionals	34.7			163.6			198.3	33.3			76.4			109.7	98.7
interests	-47.6			-41.7			-89.3	-39			-39			-78	-66
PBT	288.3			200.1			488.4	303.5			283.4			586.8	636.2
Tax	-106.1			-114.6			-220.7	-108.9			-107.5			-216.4	-222.7
rate	36.8%			57.3%			45.2%	35.9%			37.9%			36.9%	35.0%
Net income	182.2			85.5			267.7	194.6			175.9			370.5	413.6
Minorities	-7.1			-5.3			-12.4	-10.1			-7.1			-17.2	-19.2
Net income group share	175.1			80.2			255.3	184.5			168.8			353.3	394.4

Source: UBS estimates

INTERTEK: some room for more positive surprises?

Trading update due 25 May (at the time of the AGM)

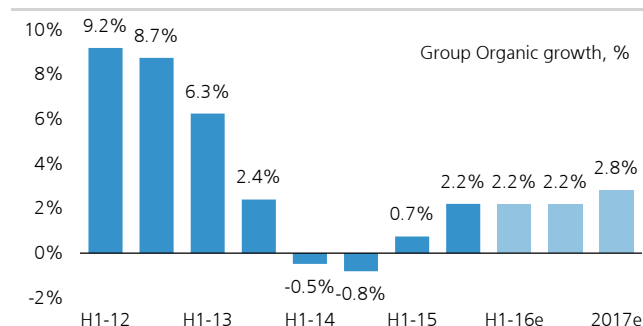
Our view: organic growth expected to gradually accelerate (+2.2% LFL in the first four months of the year, UBSe) although the comps are not as favourable as with the previous publications. Another good surprise is possible, we believe.

Details. Intertek does not report on a quarterly basis but gives an update on top of its annual and semi-annual publications at the time of its AGM and at the end of November. Intertek is expected to report on total revenues growth for the first 4 months of the year (UBSe: +13.1%) and to detail organic growth (UBSe: +2.2%) and give some indications regarding profitability (in line with H1'15 in our view).

Intertek is expected to communicate according to its new reporting three-tier format: Products (51% of sales, 68% of profits), Trade (25% of sales, 22% of profits) and Resources (24% of sales, 10% of profits). We expect +2.1% LFL growth at group level, which is consistent with the growth rates seen in H2'15 (+2.2%) and implicitly assume that organic growth excluding Industry&Assurance (I&A) will be as strong as in 2015A (>4% y/y), while the decline of the I&A segment should gradually ease (-4% in H1'16E vs. -8% in H1'15). Given the pace of the recovery in H2'15 we do not rule out another good surprise on LFL growth.

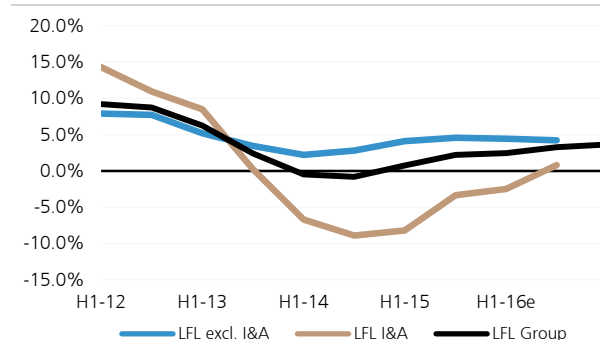
Outlook. FX supportive for now, a sharp depreciation of the GBP (in the case of a Brexit scenario) would boost Intertek reported figures (95% of sales in currencies other than the GBP), and vice-versa. The current share price of Intertek does not price in either a sharp depreciation or an appreciation of the GBP in our view.

Figure 32: Organic growth momentum: slowly recovering, on gradually tougher comps



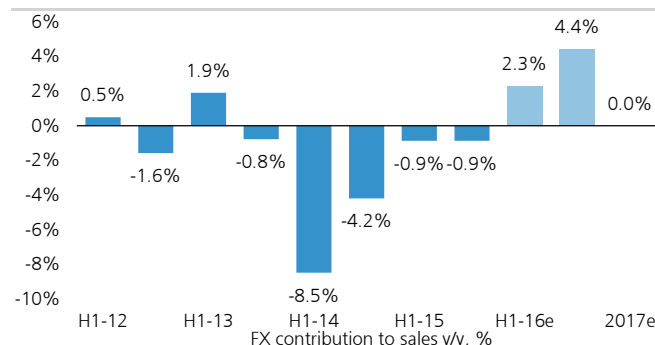
Source: Company data, UBS estimates

Figure 34: Industry&Assurance LFL: a key swing factor



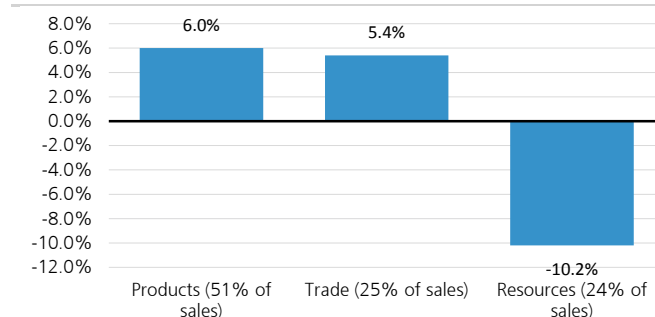
Source: Company data, UBS estimates

Figure 33: Forex to become a significant tailwind if current rates stay the same



Source: Company data, UBS estimates

Figure 35: 2015 organic growth (new reporting format)



Source: Company data, UBS estimates

Figure 36: Intertek - Key figures by segment

REVENUE	1H15	2H15	FY15	1H16	2H16	FY16	FY17
Consumer Goods	196.2	208.1	404.3	209.5	227.1	436.6	456.3
Organic growth	5.7%	3.3%	4.4%	4.3%	4.7%	4.5%	4.5%
Commercial & Electrical	194.6	217.1	411.7	281.4	299.3	580.6	612.6
Organic growth	5.4%	6.8%	6.1%	6.0%	5.1%	5.5%	5.5%
Commodities	277.2	277.6	554.8	291.8	297.8	589.6	609.6
Organic growth	4.6%	3.0%	3.8%	2.8%	2.8%	2.8%	3.4%
Chemicals & Pharmaceutical	87.5	96.3	183.8	95.4	105.9	201.3	211.3
Organic growth	3.2%	7.7%	5.5%	6.5%	5.5%	6.0%	5.0%
Industry & Assurance	304.7	307.0	611.7	324.4	339.7	664.1	672.3
Organic growth	-8.2%	-3.3%	-5.8%	-2.5%	0.8%	-0.9%	1.2%
Total	1,060.2	1,106.1	2,166.3	1,202.5	1,269.7	2,472.2	2,562.1
Growth	3.5%	3.5%	3.5%	13.4%	14.8%	14.1%	3.6%
Organic	0.7%	2.2%	1.5%	2.4%	3.3%	2.9%	3.6%
Acquisitions	4.7%	1.1%	2.9%	8.7%	7.1%	7.9%	0.0%
FX	-0.9%	-0.9%	-0.9%	2.3%	4.4%	3.4%	0.0%
EBITA	1H15	2H15	FY15	1H16	2H16	FY16	FY17
Consumer Goods	62.8	73.3	136.1	67.6	80.5	148.1	155.2
<i>Margin</i>	<i>32.0%</i>	<i>35.2%</i>	<i>33.7%</i>	<i>32.3%</i>	<i>35.4%</i>	<i>33.9%</i>	<i>34.0%</i>
Commercial & Electrical	29.7	30.8	60.5	42.6	42.1	84.7	92.4
<i>Margin</i>	<i>15.3%</i>	<i>14.2%</i>	<i>14.7%</i>	<i>15.2%</i>	<i>14.1%</i>	<i>14.6%</i>	<i>15.1%</i>
Commodities	36.8	42.3	79.1	40.2	46.8	87.0	88.7
<i>Margin</i>	<i>13.3%</i>	<i>15.2%</i>	<i>14.3%</i>	<i>13.8%</i>	<i>15.7%</i>	<i>14.8%</i>	<i>14.6%</i>
Chemicals & Pharmaceutical	10.1	12.2	22.3	11.7	14.2	25.8	27.5
<i>Margin</i>	<i>11.5%</i>	<i>12.7%</i>	<i>12.1%</i>	<i>12.2%</i>	<i>13.4%</i>	<i>12.8%</i>	<i>13.0%</i>
Industry & Assurance	25.0	20.4	45.4	25.3	21.2	46.5	50.4
<i>Margin</i>	<i>8.2%</i>	<i>6.6%</i>	<i>7.4%</i>	<i>7.8%</i>	<i>6.3%</i>	<i>7.0%</i>	<i>7.5%</i>
Operating Profit	164.4	179.0	343.4	187.4	204.7	392.1	414.3
Margin	15.5%	16.2%	15.9%	15.6%	16.1%	15.9%	16.2%
Growth	7.9%	4.0%	5.9%	14.0%	14.4%	14.2%	121.1%
Interest	-14.6	-9.6	-24.2	-12.4	-12.4	-24.7	-18.6
PBT	149.8	169.4	319.2	175.0	192.4	367.4	395.7
Tax	-37.0	-40.5	-77.5	-43.4	-47.7	-91.0	-98.0
Rate	-24.7%	-23.9%	-24.3%	-24.8%	-24.8%	-24.8%	-24.8%
Net income	112.8	128.9	241.7	131.6	144.7	276.3	297.6
Minorities	7.2	6.3	13.5	9.0	9.9	18.9	20.4
Net income group share	105.6	122.6	228.2	122.7	134.8	257.5	277.2
DPS	17.0	32.1	49.1	18.2	36.9	55.1	59.0

Source: UBS estimates, Intertek's old reporting format

SGS

SGS does not report on a quarterly basis. The next publication will be on July 18. We put below our current expectations ahead of the H1 numbers, which are likely to show a further sequential improvement in organic growth to +3.0% in H1'16 compared to +2.2% in H2'15. SGS is also likely to reiterate its full year guidance for an organic growth between +2.5% and +3.5% and for a stable profit margin in 2016 .

We note that the company has been relatively active on the M&A side in the past 12 months, which is consistent with the 2020 targets communicated at the 2015 Capital Market days. Given its very low (sub-optimal?) financial leverage, SGS is indeed in a very good position to step up acquisition efforts, which is likely to translate into a supportive newsflow throughout the year.

Figure 37: SGS - Key figures by segment (*)

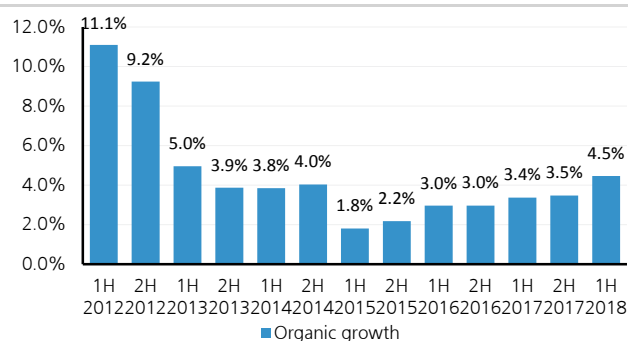
REVENUES	1H14	2H14	FY14A	1H15	2H15	FY15A	1H16	2H16	FY16E	FY17E
Agricultural	181	207	387	173	195	368	182	204	386	407
Organic	8.1%	5.3%	6.6%	3.2%	4.7%	4.0%	6.0%	6.0%	6.0%	6.5%
Minerals	341	362	703	315	318	633	315	325	641	639
Organic	-7.6%	-0.8%	-4.3%	-1.9%	-1.7%	-1.8%	-1.5%	-1.5%	-1.5%	-0.5%
Oil, Gas & Chemicals	576	625	1,201	554	565	1,120	539	558	1,097	1,086
Organic	8.9%	8.3%	8.6%	0.2%	-4.4%	-2.2%	-2.0%	0.0%	-1.0%	-1.0%
Life Science	108	105	213	100	111	211	116	122	238	257
Organic	7.9%	3.1%	5.5%	0.4%	12.5%	6.4%	14.0%	8.3%	11.0%	8.0%
Consumer Testing	511	582	1,093	535	598	1,133	564	643	1,208	1,268
Organic	6.8%	7.0%	6.9%	4.8%	5.0%	4.9%	5.0%	5.0%	5.0%	5.0%
Systems & Services	194	221	415	197	222	419	211	236	446	477
Organic	4.4%	7.3%	5.9%	6.6%	7.7%	7.2%	8.0%	7.1%	7.5%	7.0%
Industrial	472	505	977	426	458	884	441	455	897	897
Organic	3.3%	1.6%	2.4%	-3.3%	-2.7%	-3.0%	-2.2%	-2.8%	-2.5%	0.0%
Environmental	152	190	342	175	192	367	212	233	445	475
Organic	-0.1%	0.7%	0.3%	5.2%	5.2%	5.2%	5.5%	6.5%	6.0%	5.5%
Automotive	147	155	303	152	166	318	171	181	352	379
Organic	4.5%	2.5%	3.5%	6.6%	10.3%	8.5%	10.0%	6.2%	8.0%	7.0%
Trade Assurance	123	126	250	125	135	260	139	150	289	320
Organic	2.9%	-3.5%	-0.4%	8.4%	15.5%	12.0%	12.0%	12.0%	12.0%	12.0%
Total	2,805	3,078	5,883	2,752	2,960	5,712	2,890	3,108	5,998	6,206
Organic	3.8%	4.0%	3.9%	1.8%	2.2%	2.0%	3.0%	3.0%	3.0%	3.4%
M&A	1.4%	1.5%	1.4%	1.7%	1.6%	1.6%	2.9%	3.2%	3.0%	0.3%
FX	-7.0%	-2.0%	-4.5%	-5.4%	-7.6%	-6.5%	-0.8%	-1.2%	-1.0%	-0.2%

Source: UBS estimates, (*) Old reporting format

Our forecasts assume a stability in the profit margin at both the full year level and in H1 (-10bps y/y), in line with the company guidance. We expect some pressure on the consumer testing and Industrial segments but some progress in the Agricultural and Automotive segments,

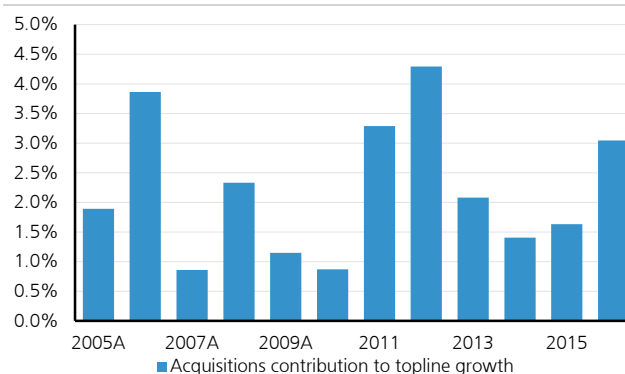
Note that the company will report H1 results using a new reporting format, as indicated at the 2015 CMD and detailed after the FY15 results presentation.

Figure 38: Organic growth momentum: slowly recovering, on gradually tougher comps



Source: UBS estimates

Figure 39: Acquisitions to contribute increasingly more to total growth in 2016-20E



Source: UBS estimates

Figure 40: SGS Margin forecasts by segment (*)

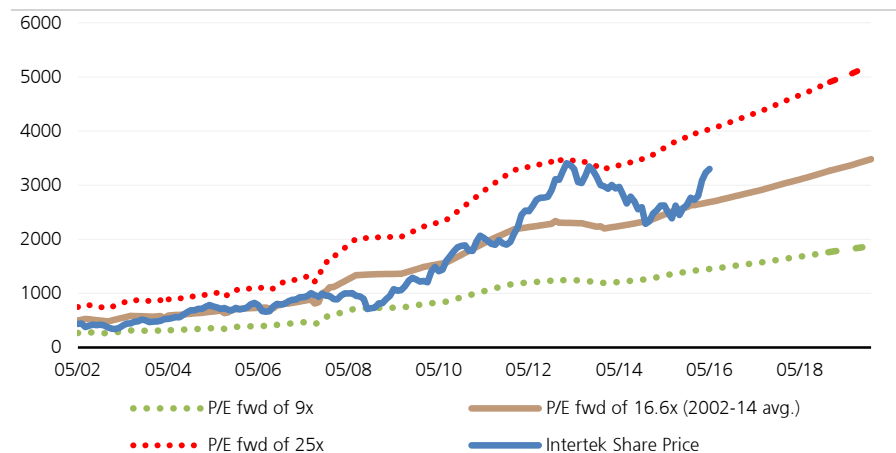
EBITA	1H14	2H14	FY14A	1H15	2H15	FY15A	1H16	2H16	FY16E	FY17E
Agricultural Margin	27 14.9%	37 17.9%	64 16.5%	27 15.3%	37 19.1%	64 17.3%	29 16.0%	40 19.6%	69 17.9%	75 18.4%
Minerals Margin	48 14.1%	51 14.0%	99 14.1%	42 13.3%	48 15.1%	90 14.2%	43 13.8%	51 15.5%	94 14.7%	95 14.8%
Oil, Gas & Chemicals Margin	67 11.6%	78 12.4%	145 12.0%	60 10.8%	69 12.2%	129 11.5%	58 10.7%	66 11.8%	124 11.3%	128 11.8%
Life Science Margin	9 8.4%	11 10.4%	20 9.4%	9 8.6%	14 12.8%	23 10.8%	13 11.2%	16 13.6%	29 12.4%	33 12.9%
Consumer Testing Margin	116 22.7%	154 26.4%	270 24.7%	119 22.3%	151 25.2%	270 23.8%	122 21.6%	157 24.4%	279 23.1%	289 22.8%
Systems & Services Margin	30 15.7%	44 19.7%	74 17.8%	29 14.5%	43 19.1%	71 16.9%	30 14.3%	44 18.9%	74 16.7%	82 17.2%
Industrial Margin	51 10.8%	72 14.2%	123 12.5%	47 11.1%	53 11.5%	100 11.3%	42 9.6%	50 11.0%	92 10.3%	94 10.5%
Environmental Margin	12 8.0%	22 11.6%	34 10.0%	23 13.0%	24 12.6%	47 12.8%	27 13.0%	29 12.6%	57 12.8%	62 13.0%
Automotive Margin	30 20.5%	32 20.5%	62 20.5%	28 18.1%	34 20.7%	62 19.5%	32 18.6%	38 20.9%	70 19.8%	75 19.8%
Trade Assurance Margin	29 23.8%	29 22.6%	58 23.2%	29 23.4%	33 24.5%	62 24.0%	34 24.4%	38 25.5%	72 25.0%	82 25.6%
Total	420	527	947	412	506	917	431	530	961	1,015
Margin growth	15.0%	17.1%	16.1%	15.0%	17.1%	16.1%	14.9%	17.1%	16.0%	16.4%
	-4.2%	-2.0%	-3.0%	-2.0%	-4.1%	-3.2%	4.7%	4.8%	4.8%	5.6%

Source: UBS estimates, (*) Old reporting format

Valuation: where are we compared to historical metrics?

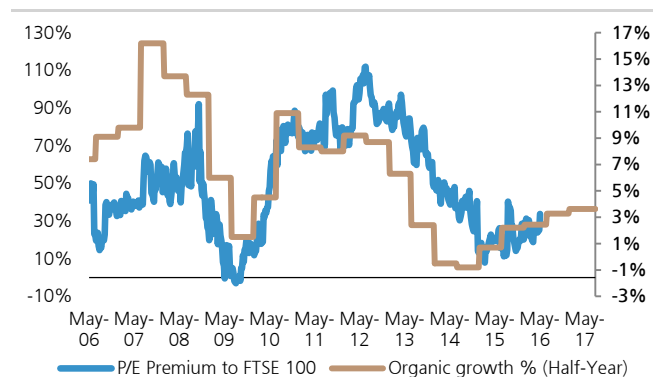
INTERTEK: some re-rating in absolute terms, but not against the broader market or SGS

Figure 41: INTERTEK P/E forward valuation range



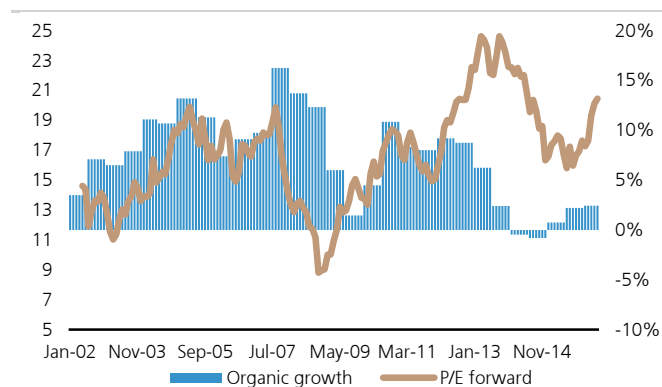
Source: UBS estimates

Figure 42: ITRK P/E Premium to FTSE 100 vs. Org. growth



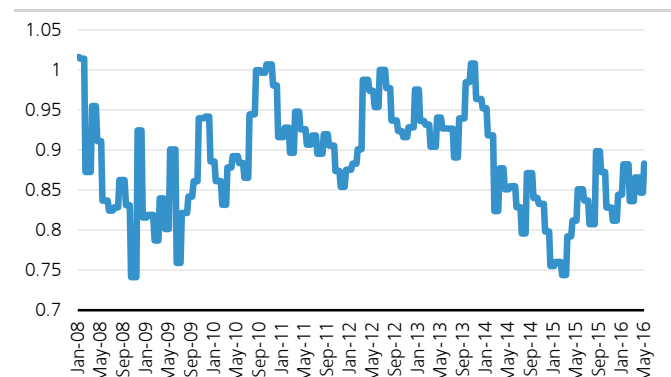
Source:

Figure 44: ITRK P/E valuation vs. organic growth



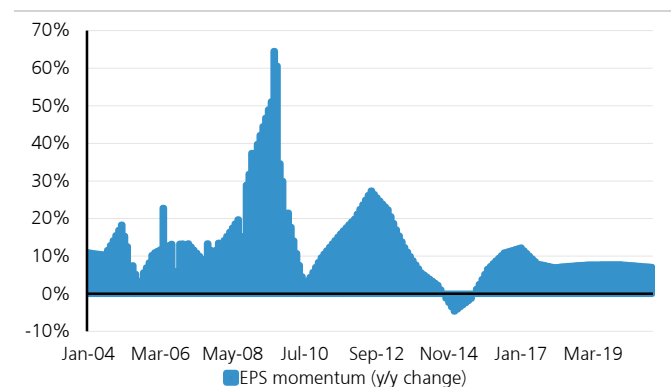
Source: UBS estimates

Figure 43: Intertek P/E relative to SGS



Source: Thomson Reuters

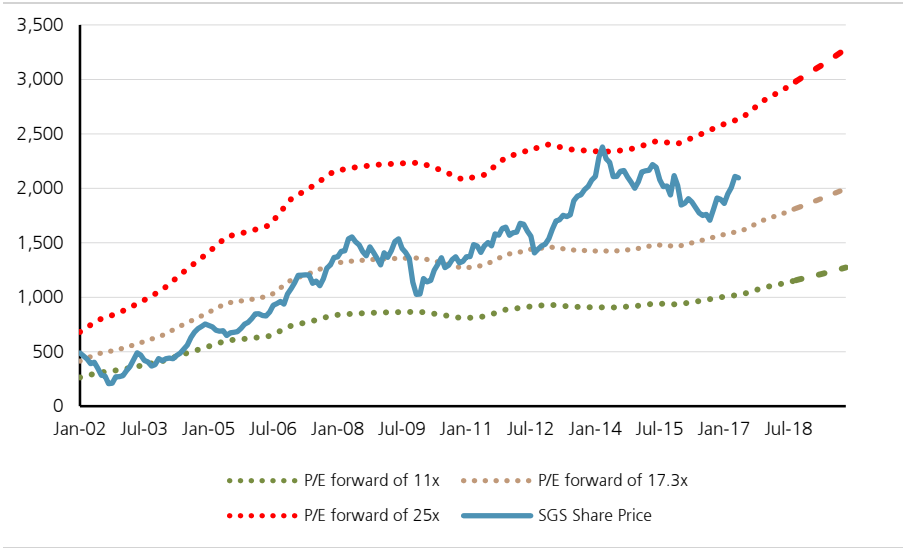
Figure 45: ITRK EPS momentum (y/y change%)



Source: UBS estimates

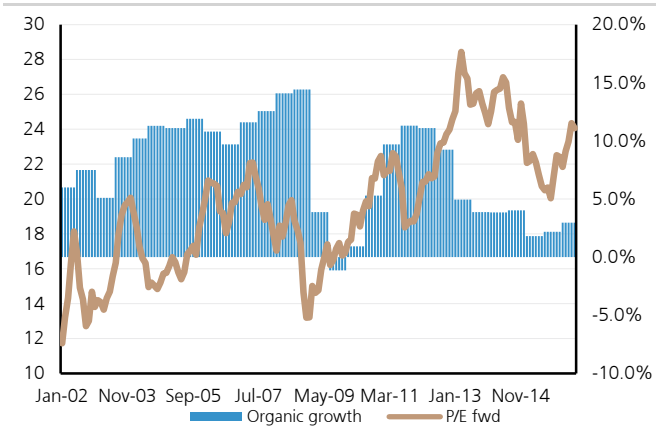
SGS: strong fundamentals, room for more re-rating looks limited in the near term

Figure 46: SGS P/E forward valuation range



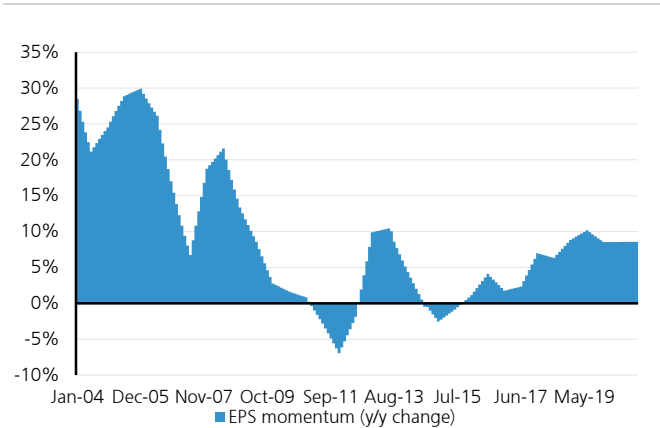
Source: UBS estimates

Figure 47: SGS P/E valuation vs. organic growth



Source: UBS estimates

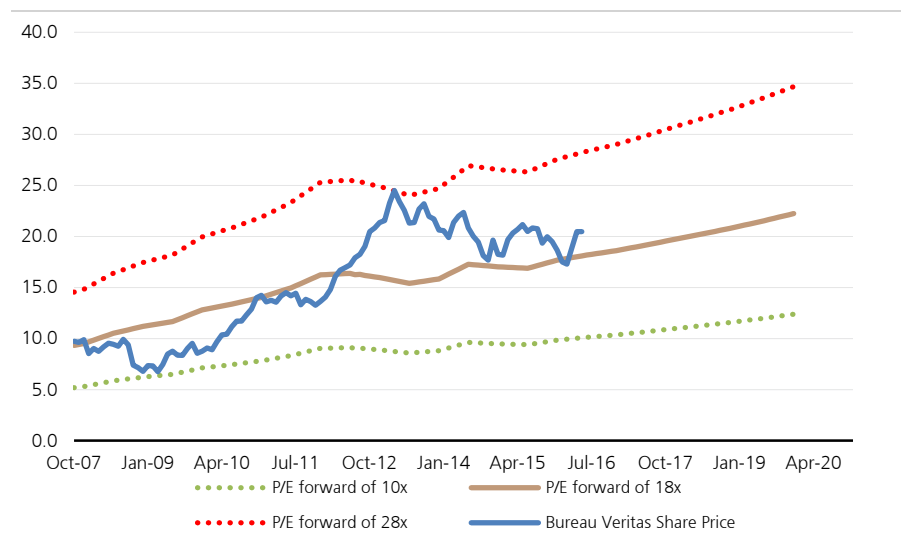
Figure 48: SGS EPS momentum (y/y change%)



Source: UBS estimates

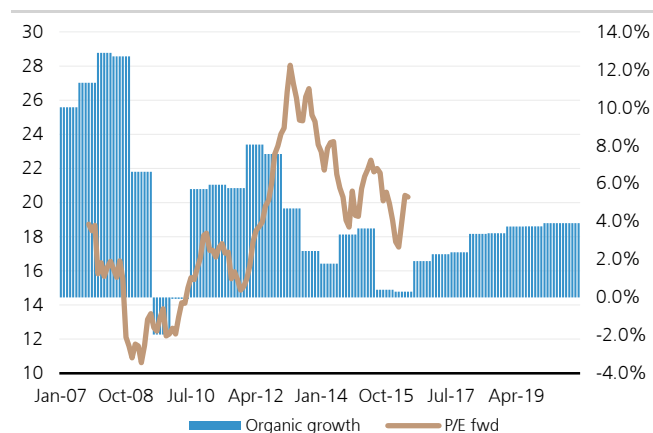
BUREAU VERITAS: An attractive valuation but weaker growth momentum compared to SGS and Intertek

Figure 49: Bureau Veritas P/E forward valuation range



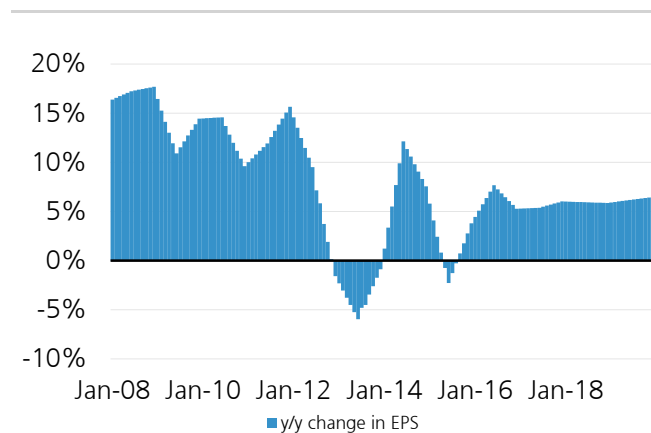
Source: UBS estimates

Figure 50: Bureau Veritas P/E valuation vs. organic growth



Source: UBS estimates

Figure 51: Bureau Veritas EPS momentum (y/y change%)



Source: UBS estimates

Valuation Method and Risk Statement

Testing, Inspection, and Certification companies are complex and decentralised businesses operating across many different markets. Driving a coherent strategy and operating efficiency is a significant operational challenge, especially while integrating acquisitions. (Loss of) key personnel risk can be significant in the business, and we would extend this to divisional management given the operating structure. All TIC businesses are exposed to legal or reputational risks from an erroneous inspection or test. A prolonged downturn in specific end markets can weigh considerably on firms to different extents (e.g. the oil & gas industry; minerals; Asian Consumer testing). Exposure to emerging markets is high at c40% of revenues for the sector, which presents both operational and growth challenges at this point in the cycle. Our price targets are based on P/E multiples applied to our 12 months forward EPS estimates..

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 acts or may act as principal in the debt securities (or in related derivatives) that may be the subject of this report.

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.

UBS Investment Research: Global Equity Rating Definitions

12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	49%	32%
Neutral	FSR is between -6% and 6% of the MRA.	38%	26%
Sell	FSR is > 6% below the MRA.	14%	19%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2016.

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.

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 FINRA. Such analysts may not be associated persons of UBS Securities LLC and therefore are not subject to the FINRA restrictions 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: Denis Moreau; Rory McKenzie.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Applus Services SA ^{2, 4, 13}	APPS.MC	Buy	N/A	€7.78	10 May 2016
Bureau Veritas	BVI.PA	Neutral	N/A	€20.38	10 May 2016
Intertek Group plc	ITRK.L	Buy	N/A	3,276p	10 May 2016
SGS ^{5, 7, 13}	SGSN.S	Neutral	N/A	CHF2,096.00	10 May 2016

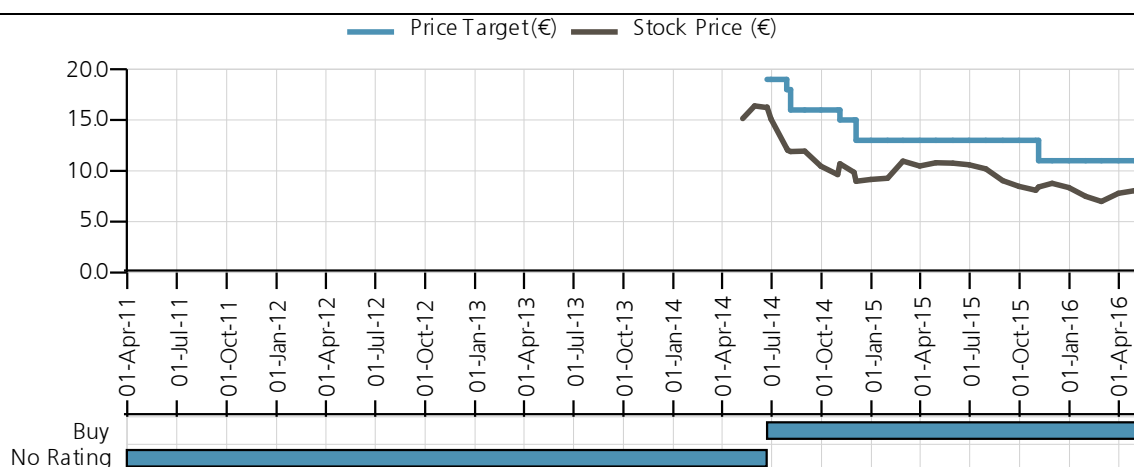
Source: UBS. All prices as of local market close.

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 or one of its affiliates.
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.
7. Within the past 12 months, UBS Securities LLC and/or its affiliates have received compensation for products and services other than investment banking services from this company/entity.
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).

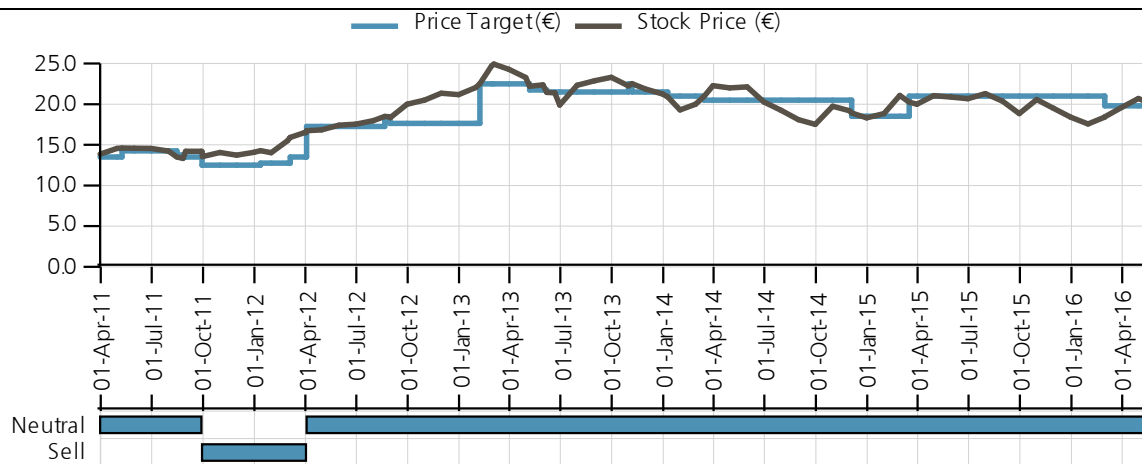
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report. For a complete set of disclosure statements associated with the companies discussed in this report, including information on valuation and risk, please contact UBS Securities LLC, 1285 Avenue of Americas, New York, NY 10019, USA, Attention: Investment Research.

Applus Services SA (€)



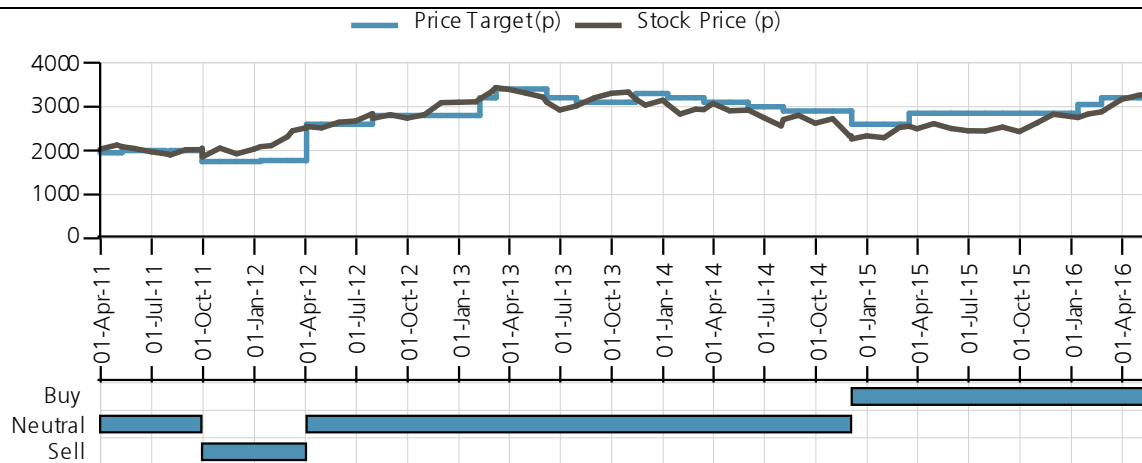
Source: UBS; as of 10 May 2016

Bureau Veritas (€)



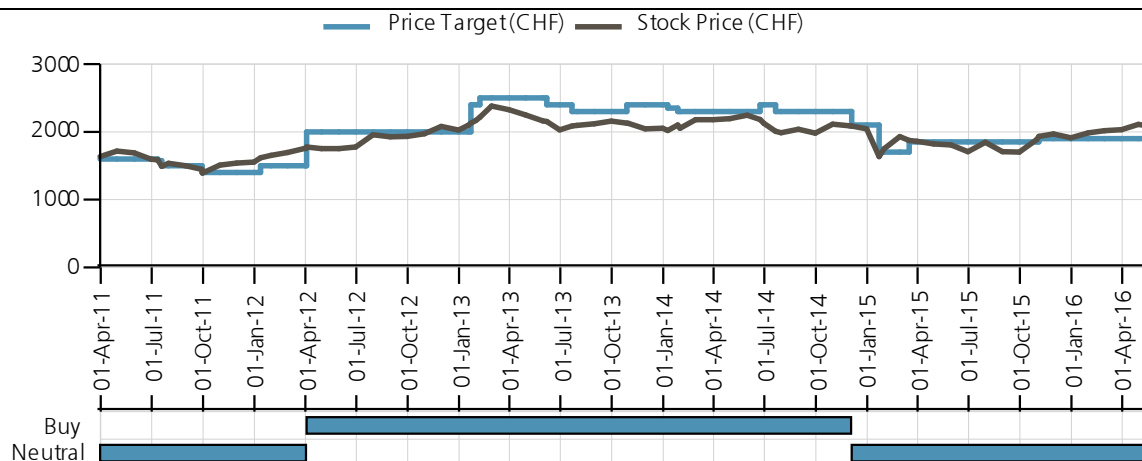
Source: UBS; as of 10 May 2016

Intertek Group plc (p)



Source: UBS; as of 10 May 2016

SGS (CHF)



Source: UBS; as of 10 May 2016

Global Disclaimer

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

Global Research is provided to our clients through UBS Neo and, in certain instances, UBS.com (each a "System"). It may also be made available through third party vendors and distributed by UBS and/or third parties via e-mail or alternative electronic means. The level and types of services provided by Global Research to a client may vary depending upon various factors such as a client's individual preferences as to the frequency and manner of receiving communications, a client's risk profile and investment focus and perspective (e.g. market wide, sector specific, long-term, short-term, etc.), the size and scope of the overall client relationship with UBS and legal and regulatory constraints.

All Global Research is available on UBS Neo. Please contact your UBS sales representative if you wish to discuss your access to UBS Neo.

When you receive Global Research through a System, your access and/or use of such Global Research is subject to this Global Research Disclaimer and to the terms of use governing the applicable System.

When you receive Global Research via a third party vendor, e-mail or other electronic means, your use shall be subject to this Global Research Disclaimer and to UBS's Terms of Use/Disclaimer (<http://www.ubs.com/global/en/legalinfo2/disclaimer.html>). By accessing and/or using Global Research in this manner, you are indicating that you have read and agree to be bound by our Terms of Use/Disclaimer. In addition, you consent to UBS processing your personal data and using cookies in accordance with our Privacy Statement (<http://www.ubs.com/global/en/legalinfo2/privacy.html>) and cookie notice (<http://www.ubs.com/global/en/homepage/cookies/cookie-management.html>).

If you receive Global Research, whether through a System or by any other means, you agree that you shall not copy, revise, amend, create a derivative work, transfer to any third party, or in any way commercially exploit any UBS research provided via Global Research or otherwise, and that you shall not extract data from any research or estimates provided to you via Global Research or otherwise, without the prior written consent of UBS.

This document is for distribution only as may be permitted by law. It is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject UBS to any registration or licensing requirement within such jurisdiction. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document ('the Information'), except with respect to Information concerning UBS. The Information is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. UBS does not undertake to update or keep current the Information. Any opinions expressed in this document may change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS. Any statements contained in this report attributed to a third party represent UBS's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party.

Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgement in making their investment decisions. The financial instruments described in the document 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 or other market conditions. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument referred to in the document. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

The value of any investment or income may go down as well as up, and investors may not get back the full (or any) amount invested. Past performance is not necessarily a guide to future performance. Neither UBS nor any of its directors, employees or agents accepts any liability for any loss (including investment loss) or damage arising out of the use of all or any of the Information.

Any prices stated in this document are for information purposes only and do not represent valuations for individual securities or other financial 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.

This document and the Information are produced by UBS as part of its research function and are provided to you solely for general background information. UBS has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. In no circumstances may this document or any of the Information be used for any of the following purposes:

- (i) valuation or accounting purposes;
- (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or
- (iii) to measure the performance of any financial instrument.

By receiving this document and the Information you will be deemed to represent and warrant to UBS that you will not use this document or any of the Information for any of the above purposes or otherwise rely upon this document or any of the Information.

Research will initiate, update and cease coverage solely at the discretion of UBS Investment Bank Research Management. The analysis contained in this document is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this document may interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting market information. 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 document 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.

For financial instruments admitted to trading on an EU regulated market: UBS AG, its affiliates or subsidiaries (excluding UBS Securities LLC) 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 document. For financial instruments admitted to trading on a non-EU regulated market: UBS may act as a market maker save that where this activity is carried out in the US in accordance with the definition given to it by the relevant laws and regulations, such activity will be specifically disclosed in this document. UBS may have issued a warrant the value of which is based on one or more of the financial instruments referred to in the document. 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; such transactions or positions may be inconsistent with the opinions expressed in this document.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this material is distributed by UBS Limited to persons who are eligible counterparties or professional clients. UBS Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France S.A. UBS Securities France S.A. is regulated by the ACPR (Autorité de Contrôle Prudentiel et de Résolution) and the Autorité des Marchés Financiers (AMF). Where an analyst of UBS Securities France S.A. has contributed to this document, the document 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 für 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:** Distributed by UBS Limited. No information in this document is provided for the purpose of offering, marketing and sale by any means of any capital market instruments and services in the Republic of Turkey. Therefore, this document may not be considered as an offer made or to be made to residents of the Republic of Turkey. UBS AG is not licensed by the Turkish Capital Market Board under the provisions of the Capital Market Law (Law No. 6362). Accordingly, neither this document nor any other offering material related to the instruments/services may be utilized in connection with providing any capital market services to persons within the Republic of Turkey without the prior approval of the Capital Market Board. However, according to article 15 (d) (ii) of the Decree No. 32, there is no restriction on the purchase or sale of the securities abroad by residents of the Republic of Turkey. **Poland:** Distributed by UBS Limited (spółka z ograniczoną odpowiedzialnością) Oddział w Polsce regulated by the Polish Financial Supervision Authority. Where an analyst of UBS Limited (spółka z ograniczoną odpowiedzialnością) Oddział w Polsce has contributed to this

document, the document is also deemed to have been prepared by UBS Limited (spółka z ograniczoną odpowiedzialnością) Oddział w Polsce. **Russia:** Prepared and distributed by UBS Bank (OOO). **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. UBS AG is regulated by the Swiss Financial Market Supervisory Authority (FINMA). **Italy:** Prepared by UBS Limited and distributed by UBS Limited and UBS Limited, Italy Branch. Where an analyst of UBS Limited, Italy Branch has contributed to this document, the document is also deemed to have been prepared by UBS Limited, Italy Branch. **South Africa:** Distributed by UBS South Africa (Pty) Limited (Registration No. 1995/011140/07), an authorised user of the JSE and an authorised Financial Services Provider (FSP 7328). **Israel:** This material is distributed by UBS Limited. UBS Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. UBS Securities Israel Ltd is a licensed Investment Marketer that is supervised by the Israel Securities Authority (ISA). UBS Limited and its affiliates incorporated outside Israel are not licensed under the Israeli Advisory Law. UBS Limited is not covered by insurance as required from a licensee under the Israeli Advisory Law. UBS may engage among others in issuance of Financial Assets or in distribution of Financial Assets of other issuers for fees or other benefits. UBS Limited and its affiliates may prefer various Financial Assets to which they have or may have Affiliation (as such term is defined under the Israeli Advisory Law). Nothing in this Material should be considered as investment advice under the Israeli Advisory Law. This Material is being issued only to and/or is directed only at persons who are Eligible Clients within the meaning of the Israeli Advisory Law, and this material must not be relied on or acted upon by any other persons. **Saudi Arabia:** This document has been issued by UBS AG (and/or any of its subsidiaries, branches or affiliates), a public company limited by shares, incorporated in Switzerland with its registered offices at Aeschenvorstadt 1, CH-4051 Basel and Bahnhofstrasse 45, CH-8001 Zurich. This publication has been approved by UBS Saudi Arabia (a subsidiary of UBS AG), a Saudi closed joint stock company incorporated in the Kingdom of Saudi Arabia under commercial register number 1010257812 having its registered office at Tatweer Towers, P.O. Box 75724, Riyadh 11588, Kingdom of Saudi Arabia. UBS Saudi Arabia is authorized and regulated by the Capital Market Authority to conduct securities business under license number 8113-37. **Dubai:** The information distributed by UBS AG Dubai Branch is intended for Professional Clients only and is not for further distribution within the United Arab Emirates. **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 document 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 document must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. UBS Securities LLC is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule"), and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule. **Canada:** Distributed by UBS Securities Canada Inc., a registered investment dealer in Canada and a Member-Canadian Investor Protection Fund, or by another affiliate of UBS AG that is registered to conduct business in Canada or is otherwise exempt from registration. **Brazil:** Except as otherwise specified herein, this material is prepared by UBS Brasil CCTVM S.A. to persons who are eligible investors residing in Brazil, which are considered to be: (i) financial institutions, (ii) insurance firms and investment capital companies, (iii) supplementary pension entities, (iv) entities that hold financial investments higher than R\$300,000.00 and that confirm the status of qualified investors in written, (v) investment funds, (vi) securities portfolio managers and securities consultants duly authorized by Comissão de Valores Mobiliários (CVM), regarding their own investments, and (vii) social security systems created by the Federal Government, States, and Municipalities. **Hong Kong:** Distributed by UBS Securities Asia Limited and/or UBS AG, Hong Kong Branch. **Singapore:** Distributed by UBS Securities Pte. Ltd. [MCI (P) 018/09/2015 and Co. Reg. No.: 198500648C] or UBS AG, Singapore Branch. Please contact UBS Securities Pte. Ltd., an exempt financial adviser 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 document. The recipients of this document 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 Co., Ltd. to professional investors (except as otherwise permitted). Where this document has been prepared by UBS Securities Japan Co., Ltd., UBS Securities Japan Co., Ltd. is the author, publisher and distributor of the document. Distributed by UBS AG, Tokyo Branch to Professional Investors (except as otherwise permitted) in relation to foreign exchange and other banking businesses when relevant. **Australia:** Clients of UBS AG: Distributed by UBS AG (Holder of Australian Financial Services License No. 231087). Clients of UBS Securities Australia Ltd: Distributed by UBS Securities Australia Ltd (Holder of Australian Financial Services License No. 231098). Clients of UBS Wealth Management Australia Ltd: Distributed by UBS Wealth Management Australia Ltd (Holder of Australian Financial Services License No. 231127). This Document contains general information and/or general advice only and does not constitute personal financial product advice. As such, the Information in this document has been prepared without taking into account any investor's objectives, financial situation or needs, and investors should, before acting on the Information, consider the appropriateness of the Information, having regard to their objectives, financial situation and needs. If the Information contained in this document relates to the acquisition, or potential acquisition of a particular financial product by a 'Retail' client as defined by section 761G of the Corporations Act 2001 where a Product Disclosure Statement would be required, the retail client should obtain and consider the Product Disclosure Statement relating to the product before making any decision about whether to acquire the product. The UBS Securities Australia Limited Financial Services Guide is available at: www.ubs.com/ecs-research-fsg. **New Zealand:** Distributed by UBS New Zealand Ltd. The information and recommendations in this publication are provided for general information purposes only. To the extent that any such information or recommendations constitute financial advice, they do not take into account any person's particular financial situation or goals. We recommend that recipients seek advice specific to their circumstances from their financial advisor. **Korea:** Distributed in Korea by UBS Securities Pte. Ltd., Seoul Branch. This document 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 (Capital Markets Services License No.: CMSL/A0063/2007). This material is intended for professional/institutional clients only and not for distribution to any retail clients. **India:** Prepared by UBS Securities India Private Ltd. (Corporate Identity Number U67120MH1996PTC097299) 2/F, 2 North Avenue, Maker Maxity, Bandra Kurla Complex, Bandra (East), Mumbai (India) 400051. Phone: +912261556000. It provides brokerage services bearing SEBI Registration Numbers: NSE (Capital Market Segment): INB230951431, NSE (F&O Segment) INF230951431, NSE (Currency Derivatives Segment) INE230951431, BSE (Capital Market Segment) INB010951437; merchant banking services bearing SEBI Registration Number: INM000010809 and Research Analyst services bearing SEBI Registration Number: INH000001204. UBS AG, its affiliates or subsidiaries may have debt holdings or positions in the subject Indian company/companies. Within the past 12 months, UBS AG, its affiliates or subsidiaries may have received compensation for non-investment banking securities-related services and/or non-securities services from the subject Indian company/companies. The subject company/companies may have been a client/clients of UBS AG, its affiliates or subsidiaries during the 12 months preceding the date of distribution of the research report with respect to investment banking and/or non-investment banking securities-related services and/or non-securities services. With regard to information on associates, please refer to the Annual Report at: http://www.ubs.com/global/en/about_ubs/investor_relations/annualreporting.html

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

UBS specifically prohibits the redistribution of this document in whole or in part without the written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect. Images may depict objects or elements that are protected by third party copyright, trademarks and other intellectual property rights. © UBS 2016. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

