UBS

Global Equity Research

Switzerland

Industrial Services

UBS Investment Research

SGS

12-month rating	Neutral *Unchanged*
12m price target	CHF1,350.00/US$12.56 ***Prior: CHF1,400.00/US$13.03***
Price	CHF1,252.00/US$11.71 (ADR)

RIC: SGSN.VX BBG: SGSN VX

21 July 2009

2009 h1 – Slowdown in organic growth

- **Q1 results were slightly below expectations**

Organic growth slowed to 4% consensus around 6-7% and EBIT was about 8% below our expectations. The main problem area was Minerals but Autos and Oil and Gas were also weak.

- **Management have taken action on costs, some signs of stabilisation**

Management have reduced costs significantly in Minerals, which should lead to a margin recovery in H2. Meanwhile there are signs that revenue is beginning to stabilise in this most cyclical divison.

- **Forecast reduction for 2009, 2010, but margins should remain good**

We are reducing our estimates for 2009, 2010 by around 7-8% by to reflect lower growth, though our margin assumptions are broadly unchanged

- **Valuation**

We are reducing our price target from 1400 to 1350 to reflect our lower estimates. Our price target is based on about 11x EV/EBITA for 2009E.

Highlights (CHFm)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	4,372	4,818	4,885	5,223	5,627
EBIT (UBS)	711	810	816	881	963
Net Income (UBS)	515	579	597	647	707
EPS (UBS, CHF)	67.37	76.13	78.29	84.81	92.61
Net DPS (UBS, CHF)	35.00	50.00	29.00	31.00	33.00

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	14.6	16.8	16.7	16.9	17.1
ROIC (EBIT) %	63.3	65.5	64.5	59.3	63.4
EV/EBITDA (core) x	11.3	9.4	8.7	7.6	6.6
PE (UBS) x	19.9	17.5	16.0	14.8	13.5
Net dividend yield %	2.5	3.8	2.3	2.5	2.6

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of CHF1,252.00 on 20 Jul 2009 16:33 EDT

Trading data (local/US$)

52-wk range	CHF1,568.00-904.00/US$15.09-7.38
Market cap.	CHF9.51bn/US$8.89bn
Shares o/s	7.60m (REG)/760m (ADR)
ADR ratio	100 ADR:1 REG
Free float	64%
Avg. daily volume ('000)	24/9
Avg. daily value (CHFm)	30.8/0.1

Balance sheet data 12/09E

Shareholders' equity	CHF2.18bn
P/BV (UBS)	4.4x
Net Cash (debt)	CHF0.55bn

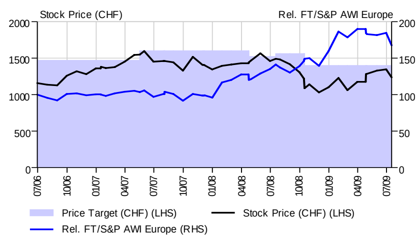
Forecast returns

Forecast price appreciation	+7.8%
Forecast dividend yield	2.3%
Forecast stock return	+10.1%
Market return assumption	5.5%
Forecast excess return	+4.6%

EPS (UBS, CHF)

	12/09E			12/08
	From	To	Cons.	Actual
H1E	37.78	35.23	-	34.92
H2E	46.17	43.06	-	41.21
12/09E	83.95	78.29	*80.94*	
12/10E	90.64	84.81	*84.91*	

Performance (CHF)



Source: UBS

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H1 comment

SGS was always regarded as the best Testing company (i.e. most highly rated) by virtue (amongst other things) of its broad range of activities. However in a wide ranging economic downturn that broad range has given it effectively very little place to hide from the appalling background. And if any thing its relatively high exposure to Natural Resources (Minerals and Oil and Gas together account for about 30% sales) have caused it to suffer more than its peers, Intertek and BV who have less exposure here. SGS saw an 8% decline in Minerals and 2% growth in Oil in organic terms

By contrast the one really strong are of testing at the moment is Consumer, and although SGS did well here, with organic growth of 15% and margins up, it account for less than 20% of revenue. And interestingly this growth is less than that which BV achieved in its Q1 (38%) or Intertek after 4 months (18%).

Looking forward we believe that organic growth will stay low in H2 – probably 3-4% but that margins will remain broadly stable as Minerals recovers in the second half and Consumer remains strong, which will offset the weakness elsewhere.

We are downgrading our estimates on the back of lower revenue estimates – for Minerals we still assume a -10% decline in h2 in organic terms, and for Oil and Gas we see no acceleration from the first half's 2%

Table 1:

EBITA by Division	2008A	H1 09E	h2	2009E
Agricultural Services	55.9	27.7	33.2	60.9
Minerals Services	125.3	37.0	47.0	84.0
Oil, Gas & Chemical Services	140.3	67.1	71.5	138.6
Life Sciences	27.5	10.7	17.9	28.6
Consumer Services	170.3	99.2	118.8	218.0
Systems & Services Certification	70.0	33.6	36.9	70.5
Industrial	105.5	49.4	55.2	104.6
Environmental Services	31.4	13.5	17.1	30.6
Automotive	47.7	20.0	21.1	41.1
Government & institutions services	35.9	17.9	21.0	38.9
Total EBIT	809.8	376.1		816.0
EBITA-margin by Division				
	2008A	H1 09E	h2	2009E
Agricultural Services	15.6%	15.7%	16.2%	16.0%
Minerals Services	18.9%	14.1%	16.8%	15.5%
Oil, Gas & Chemical Services	14.7%	14.3%	14.3%	14.3%
Life Sciences	13.5%	10.5%	16.4%	13.6%
Consumer Services	23.2%	25.4%	26.6%	26.0%
Systems & Services Certification	19.2%	19.1%	18.9%	19.0%
Industrial	14.3%	13.3%	13.7%	13.5%
Environmental Services	10.6%	9.6%	11.3%	10.5%
Automotive	16.3%	14.4%	14.6%	14.5%
Government & institutions services	16.9%	17.4%	17.6%	17.5%
Continued Business	16.81%	16.16%	17.20%	16.7%

Source: UBS

Impact on valuation

SGS' premium rating was built on superior growth, strength of balance sheet and liquidity. The latter no longer seems to be the case, while company does not seem to be able to find acquisitions. Clearly it remains the most investable of the Testing companies. Until it can re-establish itself as the top performing company in the sector the case for a significant premium over its 2 peers will be diluted .Accordingly we lower the premium rating which we accord SGS in our price target in our valuation basis from 12x EV/EBITA to 11.

Table 2: Relative valuation

	2009	2009	2010	2010
	EV/EBITA	PE	EV/EBITA	PE
SGS	11	15.8	9.7	14.8
Intertek	8.8	12.7	9	11.9
BV	10	12.7	9.4	11.7

Source: UBS

SGS

Income statement (CHFm)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	2,885	3,308	3,820	4,372	4,818	4,885	*1.4*	5,223	*6.9*	5,627	*7.7*
Operating expenses (ex depn)	(2,363)	(2,666)	(3,043)	(3,463)	(3,794)	(3,843)	*1.3*	(4,091)	*6.4*	(4,386)	*7.2*
EBITDA (UBS)	522	642	777	909	1,024	1,042	*1.7*	1,132	*8.7*	1,240	*9.6*
Depreciation	(131)	(140)	(172)	(198)	(214)	(226)	*5.4*	(251)	*11.1*	(277)	*10.7*
Operating income (EBIT, UBS)	391	502	605	711	810	816	*0.8*	881	*8.0*	963	*9.3*
Other income & associates	(16)	0	0	0	0	0	-	0	-	0	-
Net interest	6	5	(1)	2	(4)	5	-	8	*60.0*	8	*0.0*
Abnormal items (pre-tax)	3	0	19	(21)	127	0	-	0	-	0	-
Profit before tax	384	507	623	692	933	821	*-12.0*	889	*8.3*	971	*9.2*
Tax	(93)	(119)	(155)	(172)	(219)	(199)	*-9.3*	(215)	*8.3*	(235)	*9.2*
Profit after tax	291	388	468	520	714	622	*-12.8*	674	*8.3*	736	*9.2*
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	(15)	(17)	(25)	(20)	(22)	(25)	*13.1*	(27)	*8.3*	(29)	*9.2*
Net income (local GAAP)	276	371	443	500	692	597	*-13.6*	647	*8.3*	707	*9.2*
Net Income (UBS)	289	371	424	515	579	597	*3.2*	647	*8.3*	707	*9.2*
Tax rate (%)	*24*	*23*	*25*	*25*	*23*	*24*	*3.0*	*24*	*0.0*	*24*	*0.0*
Pre-abnormal tax rate (%)	*23*	*23*	*26*	*25*	*25*	*24*	*-4.9*	*24*	*0.0*	*24*	*0.0*

Per share (CHF)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	36.85	49.46	58.67	65.41	91.00	78.29	*-14.2*	84.81	*8.3*	92.61	*9.2*
EPS (UBS)	38.59	49.46	56.16	67.37	76.13	78.29	*2.8*	84.81	*8.3*	92.61	*9.2*
Net DPS	12.00	50.00	20.00	35.00	50.00	29.00	*-42.0*	31.00	*6.9*	33.00	*6.5*
Cash EPS	56.08	68.12	78.90	93.22	104.29	107.84	*3.4*	117.65	*9.1*	128.94	*9.6*
BVPS	148.68	183.98	197.34	250.17	238.64	286.14	*19.9*	339.19	*18.5*	397.97	*17.3*

Balance sheet (CHFm)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net tangible fixed assets	493	586	656	738	721	724	*0.3*	731	*1.1*	713	*-2.5*
Net intangible fixed assets	304	430	644	715	759	781	*2.9*	803	*2.8*	824	*2.6*
Net working capital (incl. other assets)	168	255	203	191	(80)	295	-	316	*7.0*	340	*7.7*
Other liabilities	(383)	(451)	(332)	(240)	(332)	(338)	*1.5*	(341)	*1.2*	(346)	*1.4*
Operating invested capital	582	820	1,171	1,404	1,068	1,463	*36.9*	1,509	*3.2*	1,531	*1.5*
Investments	169	225	189	184	221	221	*0.0*	221	*0.0*	221	*0.0*
Total capital employed	751	1,045	1,360	1,588	1,289	1,684	*30.6*	1,730	*2.7*	1,752	*1.3*
Shareholders' equity	1,163	1,439	1,544	1,957	1,813	2,184	*20.4*	2,588	*18.5*	3,037	*17.3*
Minority interests	26	36	49	49	49	49	*0.0*	49	*0.0*	49	*0.0*
Total equity	1,189	1,475	1,592	2,006	1,862	2,232	*19.9*	2,637	*18.1*	3,086	*17.0*
Net debt / (cash)	(438)	(430)	(233)	(418)	(572)	(549)	*-4.2*	(907)	*65.4*	(1,333)	*47.0*
Debt deemed provisions	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	751	1,045	1,360	1,588	1,289	1,684	*30.6*	1,730	*2.7*	1,752	*1.3*

Cash flow (CHFm)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Operating income (EBIT, UBS)	391	502	605	711	810	816	*0.8*	881	*8.0*	963	*9.3*
Depreciation	131	140	172	198	214	226	*5.4*	251	*11.1*	277	*10.7*
Net change in working capital	11	(60)	(31)	12	(22)	(375)	*1604.7*	(20)	*-94.6*	(24)	*19.7*
Other (operating)	4	(23)	(103)	(76)	28	30	*8.7*	-	-	-	-
Operating cash flow	537	559	643	844	1,071	697	*-35.0*	1,142	*64.0*	1,250	*9.4*
Net interest received / (paid)	6	5	(1)	2	2	5	*150.0*	-	-	-	-
Dividends paid	(69)	(90)	(236)	(153)	(267)	(227)	*-15.1*	(242)	*6.9*	(258)	*6.5*
Tax paid	(72)	(119)	(155)	(172)	(219)	(199)	*-9.3*	(215)	*8.3*	(235)	*9.2*
Capital expenditure	(187)	(190)	(224)	(342)	(278)	(250)	*-10.1*	(280)	*12.0*	(280)	*0.0*
Net (acquisitions) / disposals	(54)	(23)	(194)	(95)	(165)	0	-	(179)	-	0	-
Other	(34)	(13)	(151)	(17)	(96)	(25)	*-74.1*	(27)	*8.3*	(29)	*9.2*
Share issues	0	0	0	0	0	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	127	129	(318)	67	42	1	*-97.4*	207	*18722.3*	455	*120.4*
FX / non cash items	(182)	(137)	121	118	113	(25)	-	152	-	(29)	-
Balance sheet (inc)/dec in net debt	(55)	(8)	(198)	185	155	(24)	-	359	-	426	*18.8*
Core EBITDA	522	642	777	909	1,024	1,042	*1.7*	1,132	*8.7*	1,240	*9.6*
Maintenance capital expenditure	(108)	(129)	(137)	(195)	(210)	(221)	*5.1*	(247)	*11.8*	(275)	*11.3*
Maintenance net working capital	(115)	(132)	(153)	(175)	(193)	(195)	*1.4*	(209)	*6.9*	(225)	*7.7*
Operating free cash flow, pre-tax	299	381	487	539	621	625	*0.7*	676	*8.1*	741	*9.5*

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

SGS

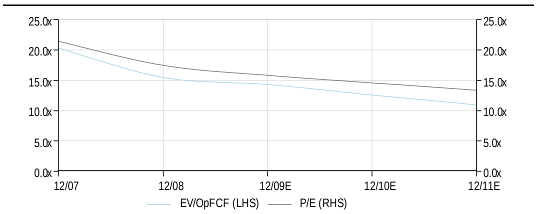
12-month rating: **Neutral**

12m price target: CHF1,350.00

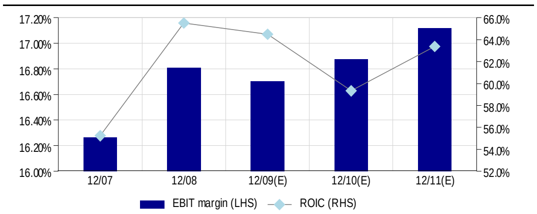
Company profile

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

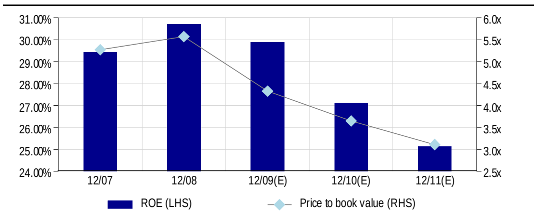
Value (EV/OpFCF & P/E)



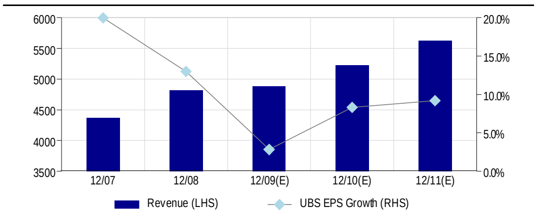
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	20.3	22.2	14.7	16.1	14.8	13.6
P/E (UBS)	19.9	21.4	17.5	16.0	14.8	13.5
P/CEPS	14.1	15.5	12.7	11.6	10.6	9.7
Net dividend yield (%)	2.5	2.4	3.8	2.3	2.5	2.6
P/BV	5.2	5.8	5.6	4.4	3.7	3.1
EV/revenue (core)	2.2	2.5	2.0	1.9	1.6	1.5
EV/EBITDA (core)	11.3	12.1	9.4	8.7	7.6	6.6
EV/EBIT (core)	14.7	15.4	11.9	11.1	9.8	8.5
EV/OpFCF (core)	19.2	20.3	15.5	14.5	12.7	11.1
EV/op. invested capital	9.3	8.5	7.8	7.2	5.8	5.4

Enterprise value (CHFm)		12/07	12/08	12/09E	12/10E	12/11E
Average market cap		11,302	10,098	9,511	9,511	9,511
+ minority interests		49	49	49	49	49
+ average net debt (cash)		(438)	(583)	(559)	(728)	(1,120)
+ pension obligations and other		50	54	60	0	0
- non-core asset value		(3)	(3)	(3)	(221)	(221)
Core enterprise value		10,960	9,615	9,058	8,611	8,219

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	15.5	14.4	10.2	1.4	6.9	7.7
EBITDA (UBS)	22.3	17.0	12.7	1.7	8.7	9.6
EBIT (UBS)	24.1	17.6	13.9	0.8	8.0	9.3
EPS (UBS)	21.9	20.0	13.0	2.8	8.3	9.2
Cash EPS	20.4	18.1	11.9	3.4	9.1	9.6
Net DPS	40.4	75.0	42.9	-42.0	6.9	6.5
BVPS	16.2	26.8	-4.6	19.9	18.5	17.3

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	19.0	20.8	21.2	21.3	21.7	22.0
EBIT / revenue	14.6	16.3	16.8	16.7	16.9	17.1
Net profit (UBS) / revenue	10.7	11.8	12.0	12.2	12.4	12.6

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	63.3	55.2	65.5	64.5	59.3	63.4
ROIC post tax	-	41.5	48.8	48.9	45.0	48.0
Net ROE	27.2	29.4	30.7	29.9	27.1	25.1

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	-	-	NM	-	-	-
Dividend cover (UBS EPS)	2.5	1.9	1.5	2.7	2.7	2.8
Div. payout ratio (%, UBS EPS)	49.8	52.0	65.7	37.0	36.6	35.6
Net debt / EBITDA	NM	NM	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	4.2	3.4	3.9	3.9	3.5	3.7
Revenue / fixed assets	3.6	3.2	3.3	3.3	3.4	3.7
Revenue / net working capital	16.4	22.2	86.7	45.3	17.1	17.1

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	0.8	0.8	0.8	0.8	0.8	0.8
Capex / revenue (%)	6.5	7.8	5.8	5.1	5.4	5.0
Capex / depreciation	1.5	1.7	1.3	1.1	1.1	1.0

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	(28.0)	(21.3)	(31.6)	(25.1)	(35.1)	(43.9)
Net debt / (net debt + equity)	(39.0)	(27.1)	(46.1)	(33.6)	(54.0)	(78.3)
Net debt (core) / EV	(5.7)	(4.0)	(6.1)	(6.2)	(8.5)	(13.6)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of CHF1,252.00 on 20 Jul 2009 16:33 EDT Market cap(E) may include forecast share issues/buybacks.

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■ SGS

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■ Statement of Risk

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

■ Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	44%	38%
Neutral	**Hold/Neutral**	39%	36%
Sell	**Sell**	17%	25%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	33%
Sell	**Sell**	less than 1%	33%

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

Source: UBS. Rating allocations are as of 30 June 2009.

UBS Investment Research: Global Equity Rating Definitions

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

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

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.
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UBS Limited: Mark Shepperd; Jaime Brandwood, CFA.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Bureau Veritas[4, 5]	BVI.PA	Neutral	N/A	€33.77	17 Jul 2009
Intertek Group plc	ITRK.L	Buy	N/A	1,080p	17 Jul 2009
SGS[4, 5, 13, 15, 18a, 18b]	SGSN.VX	Neutral	N/A	CHF1,238.00	17 Jul 2009

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

4. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company/entity.
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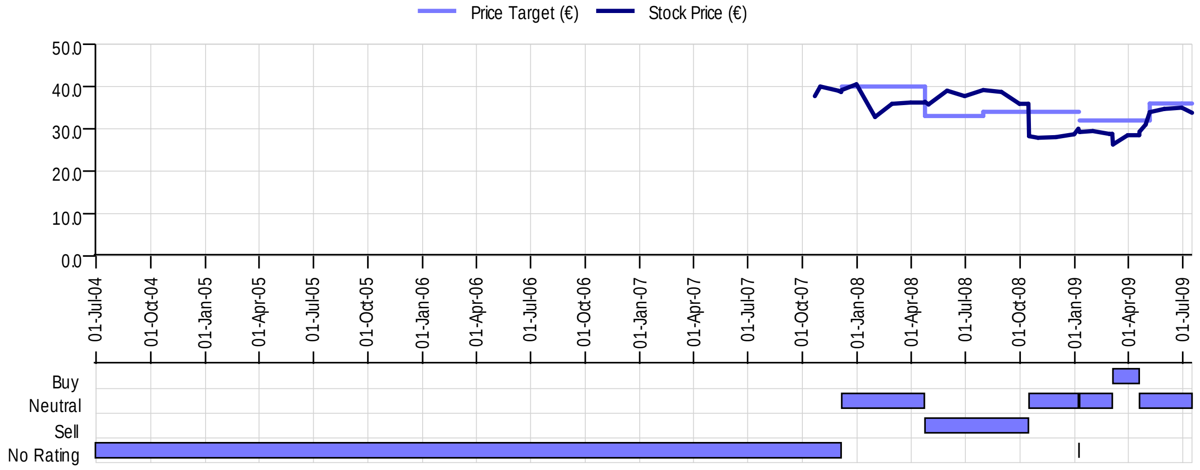
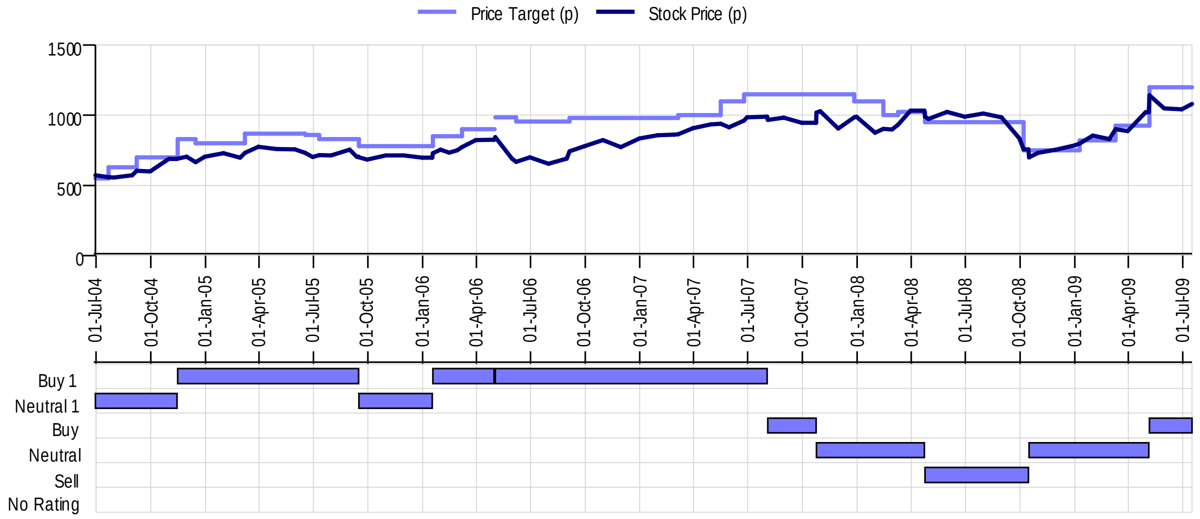
Bureau Veritas (€)



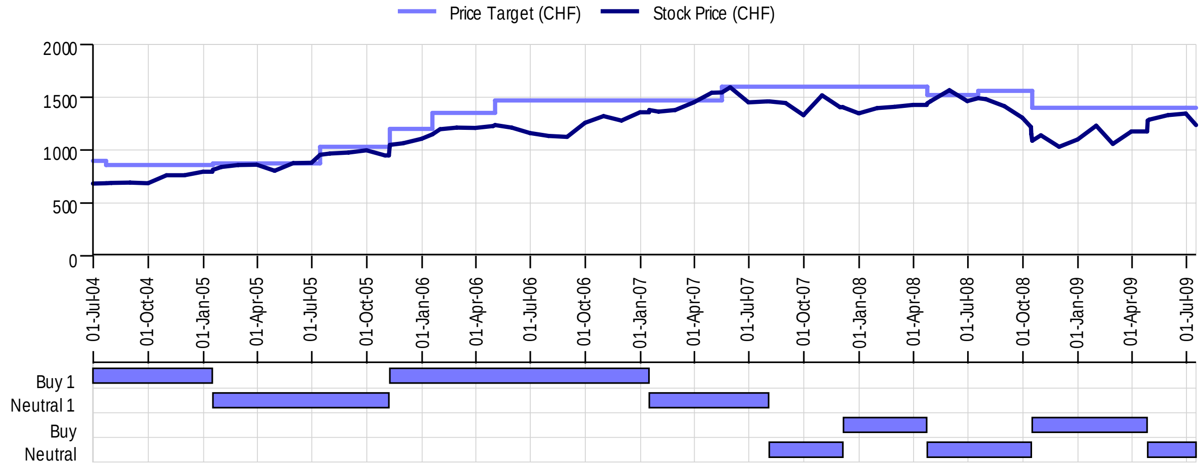
Source: UBS; as of 17 Jul 2009

Intertek Group plc (p)



Source: UBS; as of 17 Jul 2009

SGS (CHF)



Source: UBS; as of 17 Jul 2009

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

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