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ISSUER COMMENT
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RATINGS

Long Term Issuer Rating	A3
Outlook	Stable

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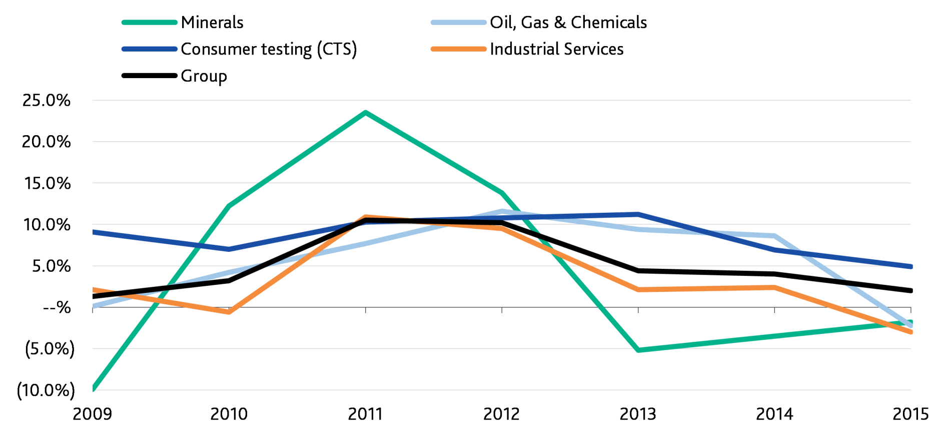
SGS SA

SGS withstands 2015 headwinds of oil and gas, commodities and Chinese slowdown to post positive organic growth

On 20 January 2016 SGS reported its full year results for the year ended 31 December (FY) 2015 which were broadly in line with our expectations. Organic growth was stronger in the second half of the year at 2.2%, compared to 1.8% in the first half. This was despite the ongoing decline in commodity prices, slowdown in China and challenging macroeconomic environment in some emerging markets. The results reflect the robustness of SGS's underlining business supported by its diversified sector split and broad geographic footprint. The company remains solidly positioned within the A3 rating category.

On a constant currency basis revenues grew by 3.6% in FY2015 compared to prior year, with 2% organic growth and 1.6% growth from acquisitions.

Exhibit 1
SGS's performance remains robust despite significant market headwinds
Organic revenue growth by main divisions from 2009 - 2015



Source: Company, Moody's analysis

Oil, Gas & Chemicals, Minerals and Industrial Services, which represent nearly half of the company's revenues, were the main segments affected by the commodity market headwinds. The Minerals division continued to decline for the third consecutive year and is closely correlated to the gold price which fell by approximately 8% in 2015. The decline has however slowed to 1.8% from 3.5% in FY2014 and 5.2% in FY2013 supported by strong performance in on-site laboratories. The continuous fall in oil price reduced organic revenues in the Oil, Gas & Chemicals and Industrial Services segments by 2.2% and 3% respectively. Whilst we expect further pressure in these divisions in FY2016, this is expected to be partially offset by the positive performance in trade-related services, construction and infrastructure projects as well as new contract wins.

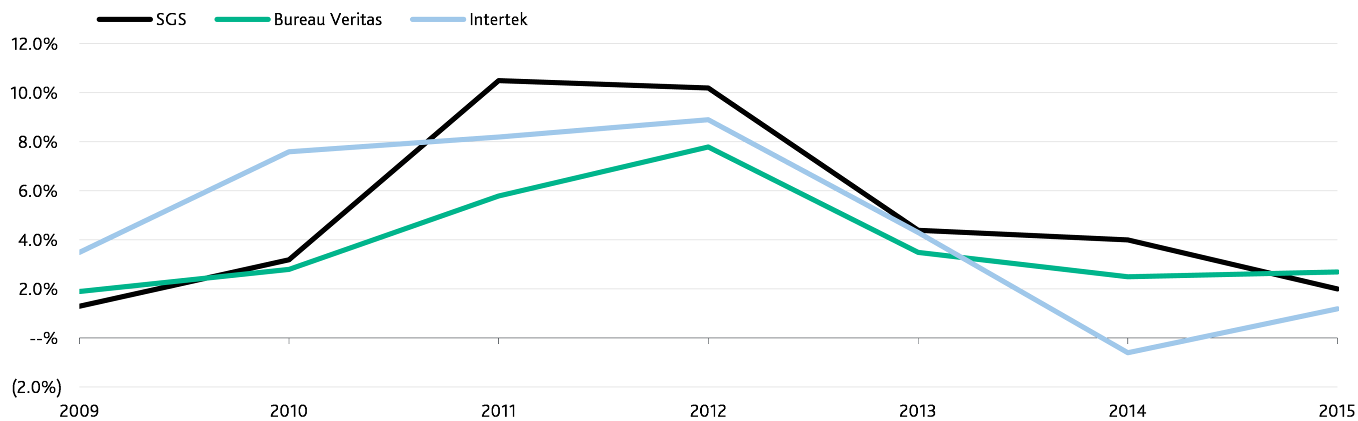
All the remaining divisions performed well. Whilst the Consumer Testing Services, which is an important growth driver, performed below previous year, it continued to generate solid organic revenue growth at 4.9%. Further slowdown in growth in the Chinese economy is likely to put some pressure on this division, however it is expected to continue to benefit from the increase in food testing activities in Asia as well as in the electrical & electronics and automotive parts testing.

The group's adjusted operating income margin remained stable at 16.1%. Margin pressure in certain divisions such as the Oil, Gas & Chemicals, Industrial and Consumer Testing Services were offset by stronger performance in the Agricultural, Environmental and Governments & Institutions Services. Cost saving and efficiency initiatives also mitigated some of the pressure and should further support margins in FY2016.

As expected Moody's adjusted gross leverage increased slightly to 2.1x from 2.0x in FY2014, largely due to the adverse currency movements following the removal of the Swiss franc's Europe peg, although partially offset by the appreciation of the US and Chinese currencies.

SGS's organic growth rate is similar to those of its closest competitors, Bureau Veritas and Intertek (both unrated), when compared to 2015 3rd quarter results of these peers. Whilst their full year results are not yet available, for the first 9 months 2015 Bureau Veritas generated 2.7% of organic growth and Intertek 1.2% for the first 10 months.

Exhibit 2
SGS's performance is in line with its closest competitors
Organic revenue growth vs peers 2009 - 2015



Revenue growth for FY2015 for Bureau Veritas is based on the first 9 months 2015 and Intertek on the first 10 months 2015 (full year results are not yet available).
Source: Company, Moody's analysis

SGS has guided towards organic revenue growth of 2.5-3.5% in FY2016 with stable margins. We expect the company's results to be at the lower end or slightly below this range, given the significant recent falls in the oil price and latest Chinese economic data. Its performance in FY2015 was very robust in this context. However it was sustained by strong growth in its Consumer Testing division supported by growth in China. A further slowdown in the Chinese economy represents in our view the most significant near-term threat to SGS although we expect solid results to continue given the overall business diversity.

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