Applus Services SA

**Economic Moat**

- Uncertainty: High
- Price/Fair Value: 0.9
- ESG Risk Rating Assessment: 1.67
- Trading Dividend Yield %: 0.24
- Market Cap: Small Core
- Sector: Industrials
- Industry: Specialty Business Services

**Price/Fair Value**

<table>
<thead>
<tr>
<th>Year</th>
<th>Last Close</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>10.24</td>
<td>9.60</td>
</tr>
</tbody>
</table>

**Business Description**

Applus Services SA is a Spain-based company that provides testing, inspection and certification services. The company operates through four divisions. The energy and industry division, which accounts for the majority of revenue, is primarily engaged in industrial and environmental inspection, technical assistance, technical staffing, and others. The automotive division conducts statutory vehicle inspection services for safety and emissions. The IDIADA division provides vehicle proving ground, engineering, design and other services. The laboratories division conducts product testing and certification services for laboratories. Europe, North America, Asia Pacific are the three biggest markets for the company.

**Valuation**

Applus Services achieves a 3-star quantitative star rating based on Morningstar's equity model. This reflects the company's valuation and uncertainty scores under this assessment system.

**Fundamentals**

- The Quantitative Fair Value estimate is 10.11, above the previous closing price of 9.63. The stock has been trading between a 38.61% and 2.43% discount to its quantitative fair value over the past year. The stock's current valuation rating sits at the 89th percentile in the coverage universe and 82nd percentile in the industrials sector (higher percentile indicates more undervalued). The quantitative uncertainty rating for Applus Services is High.

Morningstar maintains a quantitative moat rating of None on the company. The firm’s quantitative moat score of 0.44 sits at the 43rd percentile in the industrials sector. This is a decrease from 0.54, the maximum of its moat scores over the past year. The quantitative financial health rating for Applus Services is Moderate. Its financial health score, termed Distance to Default, sits at the 34th percentile in the universe and 33rd percentile in the sector.

- The significant drivers of these ratings are the company’s book value yield and annualized trailing 12-month volatility. The book value yield for Applus Services is 48.89%, and its annualized trailing 12-month volatility is 25.87%. They sit at the 43rd and 34th percentile in the global equity universe, respectively.

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Earnings as of 3 Aug 2023

<table>
<thead>
<tr>
<th>Earnings</th>
<th>Dividend Yield*</th>
<th>Payout Ratio*</th>
<th>Price to Earnings</th>
<th>Price to Cash Flow</th>
<th>ROIC**</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.6%</td>
<td>42.3%</td>
<td>27.1%</td>
<td>7.2%</td>
<td>4.0%</td>
</tr>
<tr>
<td></td>
<td>32.0%</td>
<td>62.0%</td>
<td>70.0%</td>
<td>26.0%</td>
<td>35.0%</td>
</tr>
</tbody>
</table>

Dividends as of 4 Aug 2023

Valuation as of 4 Aug 2023

Fair Value: 10.24
Uncertainty: High
Last Close: 9.60

Contact
https://www.aplus.com

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Morningstar’s quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the “Quantitative Ratings”).

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i. Quantitative Fair Value Estimate: Intended to represent Morningstar’s estimate of the per share dollar amount that a company’s equity is worth today. Morningstar calculates the Quantitative Fair Value Estimate using a statistical model derived from the Fair Value Estimate Morningstar’s equity analysts assign to companies. Please go to http://global.morningstar.com/eqtdisclosures for information about Fair Value Estimate Morningstar’s equity analysts assign to companies.

ii. Quantitative Economic Moat: Intended to describe the strength of a firm’s competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- **Narrow** – assigned when the probability of a stock receiving a “Wide Moat” rating by an analyst is greater than 70% but less than 99%
- **Wide** – assigned when the probability of a stock receiving a “Wide Moat” rating by an analyst is greater than 99%
- **None** – assigned when the probability of an analyst receiving a “Wide Moat” rating by an analyst is less than 70%.

iii. Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, Quantitative Uncertainty Rating, and momentum. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

- ★ - the stock is overvalued with a reasonable margin of safety.
  - Log (Quant FVE/Price) < -1*Quantitative Uncertainty
  - Micro-Caps: Log (Quant FVE/Price) < -1.5*Quantitative Uncertainty
- ★★ - the stock is somewhat overvalued.
  - Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)
  - Micro-Caps: Log (Quant FVE/Price) between (-1.5*Quantitative Uncertainty, -0.75*Quantitative Uncertainty)
- ★★★ - the stock is approximately fairly valued.
  - Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)
  - Micro-Caps: Log (Quant FVE/Price) between (-0.75*Quantitative Uncertainty, 0.75*Quantitative Uncertainty)
- ★★★★ - the stock is undervalued with a reasonable margin of safety.
  - Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)
  - Micro-Caps: Log (Quant FVE/Price) between (0.75*Quantitative Uncertainty, 1.5*Quantitative Uncertainty)
- ★★★★★ - the stock is undervalued.
  - Log (Quant FVE/Price) > 1*Quantitative Uncertainty
  - Micro-Caps: Log (Quant FVE/Price) > 1.5*Quantitative Uncertainty

After the initial calculation for the star rating, there is a final filtering step based on the momentum of the company. We rank the companies based on their 12-1 month momentum, then restrict those below the 30th percentile to a maximum of 3 stars.

iv. Quantitative Uncertainty: Intended to represent Morningstar’s level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rating is expressed as Low, Medium, High, Very High, and Extreme.

- **Low** – the interquartile range for possible fair values is less than 10%
- **Medium** – the interquartile range for possible fair values is less than 15% but greater than 10%
- **High** – the interquartile range for possible fair values is less than 35% but greater than 15%
- **Very High** – the interquartile range for possible fair values is less than 80% but greater than 35%
- **Extreme** – the interquartile range for possible fair values is greater than 80%

v. Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- **Weak** – assigned when Quantitative Financial Health < 0.2
- **Moderate** – assigned when Quantitative Financial Health is between 0.2 and 0.7
- **Strong** – assigned when Quantitative Financial Health > 0.7

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- **Undervalued** – Last Price is below Morningstar’s quantitative fair value estimate.
- **Fairly Valued** – Last Price is in line with Morningstar’s quantitative fair value estimate.
- **Overvalued** – Last Price is above Morningstar’s quantitative fair value estimate.

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Sustainalytics analyzes over 1,300 data points to assess a company’s exposure to and management of ESG risks. In other words, ESG Risk Ratings measure a company’s unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk...
Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all industries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

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