

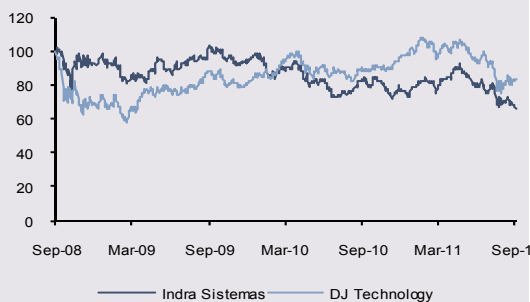
INDEPENDENT RESEARCH
UPDATE

22nd September 2011

IT Software & Services

Bloomberg	I DR SM
Reuters	I DR.MC
12-month High / Low (€)	16.0 / 10.8
Market Cap (€ m)	1,776
EV (BG estimate) (€ m)	2,310
Av. 3m daily volume ('000 shares)	1,379
Free float	60%
EPS CAGR (10-13e)	2%
Gearing (2010)	27%
Dividend yield (2010)	6.3%

YE: 31st Dec	2010	2011e	2012e	2013e
Sales (€ m)	2,557	2,680	2,858	2,943
% change yoy	1.7%	4.8%	6.7%	3.0%
Adj. EBIT (€ m)	290	280	300	326
Adj. EBIT margin	11.3%	10.4%	10.5%	11.1%
Adjusted EPS (€)	1.26	1.19	1.23	1.33
EV / Sales	0.8	0.9	0.8	0.8
EV / EBIT	7.1	8.3	7.8	7.1
P/E (x)	8.6	9.1	8.8	8.1
PEG	4.8	5.1	4.9	4.5



Indra Sistemas

Not yet out of the woods

Fair value € 10 vs. € 12 (Price € 10.82)

SELL

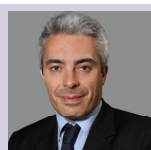
We cut our DCF-derived fair value to €10 from €12, based on our more conservative approach towards 2012-13 and our new equity risk premium of 6.25% (vs. 5.5%). As well as a valuation which remains demanding, we deem Indra's growth and cash flow at risk, given growing economic concerns.

■ **Politec does not erase economic concerns.** We reduce our sales and adj. EPS ests. 3% for 2012 and 6% for 2013 amidst increasing economic tensions. Despite the positive impact of the Politec acquisition in Brazil – which is expected to reduce the group's exposure to Spain (to an est. 53% from 60%) and increase Latin America (to an est. 22% from 15%) – we foresee Indra continuing to face revenue pressures. In particular, with more austerity in the Spanish State budget under way, we anticipate IT spend will remain under pressure in Security & Defence, Public Administration & Healthcare, and Transport & Traffic, especially if the Partido Popular (right) wins the general elections in November 2011.

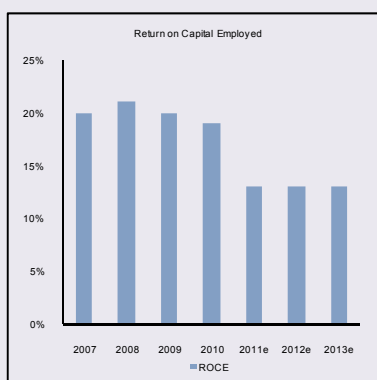
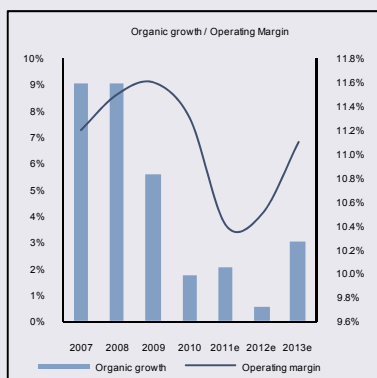
■ **Cash generation could be improved.** We expect net debt to surge to €534m at the end of 2011 (est. net gearing: 48%) from €275m end 2010 (27%): 1). Net working capital, excluding Politec, has been guided to increase to 100 days (vs. 93 end 2010) due to an unfavourable revenue mix change (less prepaid revenues as Defence revenues shrink, while Indra is likely to increase client financing); 2). Politec's est. net debt before its acquisition was R\$175m (est. €70m); 3). We cannot rule out the fact Politec's DSOs could increase due to the strong growth of the Brazilian market.

■ **Momentum on margins is still not apparent.** We consider Indra's mid-term operating margin potential to be close to 11.5-12%, if we refer to 2005-09 levels. With more pressure in the Spanish IT Services market and Politec's currently low margins (2% in 2010, and est. losses in 2011 and 4% in 2012), we look for margins to stagnate in 2012 and barely reach 11% in 2013.

■ **Valuation remains demanding.** Our new DCF-derived fair value of €10 is based on mid-term lfl growth rate of 3% (vs. 4%) and a mid-term adj. EBIT margin of 11.5%. The shares are trading at 8.3x 2011 and 7.8x 2012 EV/EBIT multiples.



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Company description

Founded in 1992 and listed on the Spanish Stock Exchange since 1999, Indra is a Spanish IT Services and Defence group, employing more than 26,000 people. The group generates 73% of its revenue in Solutions (Consulting, Systems Integration, Simulation and Defence Electronic Equipment) and 27% in Services (IT Outsourcing, Application management, BPO). By region, Spain represents 64% of sales, the Rest of Europe 18%, Latin America 11%, North America 1%, and the Rest of World 6%. Defence (27%) is the largest contributor to sales, followed by Transport & Traffic (20%), Energy & Industry (15%), Public Administration & Healthcare (14%), Banking & Insurance (13%), and Telecom & Media (11%).

YE: 31st Dec

	2007	2008	2009	2010	2011e	2012e	2013e
Growth Credentials							
Organic growth	9.0%	9.0%	5.6%	1.7%	2.0%	0.5%	3.0%
Operating margin	11.2%	11.5%	11.6%	11.3%	10.4%	10.5%	11.1%
ROCE	20%	21%	20%	19%	13%	13%	13%
Free cash flow.	77.2	134.6	130.5	20.0	69.9	79.2	135.5
PEG ratio	6.7	5.4	5.1	4.8	5.1	4.9	4.5
Income Statement (key data) (€ m)							
Sales	2,167.6	2,379.6	2,513.3	2,557.0	2,679.7	2,858.3	2,943.1
Operating expenses	-1,910.4	-2,070.4	-2,184.4	-2,262.5	-2,358.1	-2,524.5	-2,573.3
EBITDA	257.2	309.2	328.9	294.5	321.6	333.8	369.8
Depreciation & amortisation (incl. goodwill)	-34.0	-38.7	-43.5	-42.7	-46.0	-48.0	-48.0
EBIT	223.2	270.5	285.4	251.8	275.6	285.8	321.8
Net interest (expense)	-12.4	-19.8	-24.5	-19.0	-18.0	-17.4	-12.3
Other income	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Tax	-57.4	-65.0	-62.8	-45.7	-59.2	-69.8	-89.8
Net income	148.4	182.4	195.6	188.4	199.1	199.5	220.9
Adjusted EPS (€)	0.96	1.10	1.19	1.26	1.19	1.23	1.33
Basic EPS (€)	0.90	1.11	1.19	1.15	1.21	1.22	1.35
Cash Flow Statement (€ m)							
Cash flow from operations	148.2	199.2	209.7	109.0	169.9	188.2	248.5
Net capex	-71.1	-64.7	-79.2	-89.1	-100.0	-109.0	-113.0
Free Cash Flow	77.2	134.6	130.5	20.0	69.9	79.2	135.5
Investing activities	-366.5	-14.4	-18.8	-48.1	-43.0	0.0	0.0
Dividends	-128.8	-82.4	-101.0	-106.8	-111.6	-113.3	-114.9
Capital increase	329.8	-21.5	12.9	-6.4	-1.4	0.0	0.0
Net increase/decrease in borrowing	46.4	-25.4	19.8	203.9	2.4	6.5	2.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total financing cash flows	376.2	-46.9	32.7	197.5	1.0	6.5	2.4
Net cash flow	-42.0	-9.1	43.4	62.5	-83.8	-27.5	23.0
Movement in net debt	91.5	-1.4	-14.4	140.2	258.8	27.5	-23.0
CFPS (€)	0.90	1.20	1.28	0.66	1.03	1.14	1.51
Balance Sheet (€ m)							
Tangible fixed assets	131	139	140	148	134	123	112
Goodwill, intangibles and other invests	525	562	615	727	1,016	1,091	1,170
Deferred tax assets	34	32	31	50	50	50	50
Trade debtors	1,591	1,651	1,581	1,849	1,991	2,141	2,206
Cash and equivalent	32	23	67	129	129	129	152
Other current assets	48	54	55	72	76	81	83
Total assets	2,361	2,462	2,490	2,976	3,396	3,615	3,773
L-T debt	46	47	102	248	423	423	423
Other non current liabilities	39	34	55	71	71	71	71
S-T debt	136	125	99	156	239	267	267
Other current liabilities	1,401	1,432	1,256	1,488	1,561	1,664	1,714
Consolidated equity	739	824	977	1,014	1,102	1,190	1,299
Total liabilities	2,361	2,462	2,490	2,976	3,396	3,615	3,773
Ratios							
ROCE	20%	21%	20%	19%	13%	13%	13%
ROE	20%	22%	20%	19%	18%	17%	17%
Dividend yield	4.6%	5.6%	6.1%	6.3%	6.4%	6.5%	6.8%
Gearing	20%	18%	14%	27%	48%	47%	41%
Interest cover	18.0	13.7	11.6	13.3	15.3	16.4	26.2
Cap ex/depreciation	210%	178%	190%	218%	217%	227%	235%
P/BV	2.4	2.2	1.8	1.8	1.6	1.5	1.4
EV / EBIT	7.9	7.0	6.6	7.1	8.3	7.8	7.1
EV / EBITDA	7.5	6.2	5.8	7.0	7.2	7.0	6.3

Source: Company Data; Bryan, Garnier & Co ests.

1. Changes to our forecasts

Fig. 1: BG estimate revisions (FY11-FY13e)

€m (FY to 31 Dec)	FY11e new	FY11e old	FY12e new	FY12e old	FY13e new	FY13e old
Revenues	2,680	2,690	2,858	2,955	2,943	3,118
% chg	+4.8%	+5.2%	+6.7%	+9.9%	+3.0%	+5.5%
<i>o/w Solutions</i>	1,797	1,805	1,762	1,848	1,784	1,928
% chg	-1.7%	-1.2%	-1.9%	+2.4%	+1.3%	+4.3%
<i>o/w Services</i>	883	885	1,096	1,107	1,159	1,190
% chg	+21.0%	+21.2%	+24.1%	+25.2%	+5.7%	+7.5%
Adjusted EBIT	280	280	300	311	326	348
Adj. EBIT margin (%)	10.4%	10.4%	10.5%	10.5%	11.1%	11.2%
EBIT	276	276	286	297	322	344
EBIT margin (%)	10.3%	10.3%	10.0%	10.1%	10.9%	11.0%
Adjusted EPS	1.19	1.20	1.23	1.28	1.33	1.42
Adj. EPS growth (%)	-5.6%	-4.8%	+3.4%	+6.7%	+8.1%	+10.9%

Source: Bryan, Garnier & Co ests.

Fig. 2: Changes to our DCF assumptions

FY to 31st Dec	New assumptions	Old assumptions
2014-21e sales organic growth	+3%	+4%
2014-21e average adj. EBIT margin	11.5%	11.5%
WCR as a % of sales (2014-21e)	20%	18%
2011e net debt	€534m	€535m
Equity risk premium	6.25%	5.5%
DCF-based valuation	€10	€12

Source: Bryan, Garnier & Co. ests.

Next catalysts

3Q11 results on 10th November after markets close.

2. Financial Statements

2.1. Income Statement

€m (FYE 31/12)	2007	2008	2009	2010	2011e	2012e	2013e	CAGR 10-13e
Net revenue	2,167.6	2,379.6	2,513.3	2,557.0	2,679.7	2,858.3	2,943.1	4.8%
% change	54.1%	9.8%	5.6%	1.7%	4.8%	6.7%	3.0%	
Gross margin	1,419.5	1,610.9	1,702.0	1,711.8	1,818.2	1,940.5	2,008.7	
% of revenue	65.5%	67.7%	67.7%	66.9%	67.9%	67.9%	68.3%	
Other third-party expenses	-297.0	-343.5	-376.6	-345.5	-402.0	-423.0	-429.7	
% of revenue	13.5%	14.2%	14.7%	13.2%	14.6%	14.4%	14.2%	
Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Personnel costs	-854.2	-974.8	-1,003.4	-1,044.4	-1,117.4	-1,197.6	-1,233.2	
% of revenue	38.9%	40.3%	39.2%	39.8%	40.6%	40.8%	40.8%	
Other expenses	38.1	58.8	60.6	74.4	97.8	102.0	106.0	
Amortisation	-34.0	-37.7	-42.0	-42.1	-46.0	-48.0	-48.0	
Net operating provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Adjusted EBIT	242.5	274.4	291.0	289.6	279.6	299.8	325.8	4.0%
% of revenue	11.2%	11.5%	11.6%	11.3%	10.4%	10.5%	11.1%	
Net restructuring charge	-16.0	0.0	0.0	-33.4	0.0	-10.0	0.0	
Capital gains or losses	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	
Goodwill amortisation	0.0	-1.0	-1.5	-0.6	0.0	0.0	0.0	
Stock-based compensation	-3.0	-3.0	-3.5	-3.2	-4.0	-4.0	-4.0	
Other exceptional gains (losses)	0.0	0.1	-0.7	-0.5	0.0	0.0	0.0	
EBIT	223.2	270.5	285.4	251.8	275.6	285.8	321.8	8.5%
% of revenue	10.3%	11.4%	11.4%	9.8%	10.3%	10.0%	10.9%	
Cost of net debt	-12.4	-19.8	-24.5	-19.0	-18.0	-17.4	-12.3	
Other financial gains (losses)	0.6	0.0	0.0	0.0	0.0	0.0	0.0	
Profit before tax	211.5	250.7	260.9	232.8	257.5	268.4	309.5	10.0%
Income taxes	-57.4	-65.0	-62.8	-45.7	-59.2	-69.8	-89.8	
<i>Tax rate</i>	<i>27.2%</i>	<i>25.9%</i>	<i>24.1%</i>	<i>19.6%</i>	<i>23.0%</i>	<i>26.0%</i>	<i>29.0%</i>	
Consolidated net profit	154.0	185.7	198.2	187.1	198.3	198.6	219.8	5.5%
% of revenue	7.1%	7.8%	7.9%	7.3%	7.4%	6.9%	7.5%	
Profit from associates	1.3	0.4	-0.2	0.7	2.5	3.0	3.5	
Minority interests	7.0	3.7	2.4	-0.6	1.8	2.2	2.4	
Attributable net profit	148.4	182.4	195.6	188.4	199.1	199.5	220.9	5.4%
Avg no. of shares - basic (m)	164.13	164.13	164.13	164.13	164.13	164.13	164.13	
Avg no. of shares - diluted (m)	164.13	166.36	164.13	164.13	165.03	165.03	165.03	
Basic EPS	0.90	1.11	1.19	1.15	1.21	1.22	1.35	5.5%
% change	15.4%	23.3%	7.2%	-3.4%	5.2%	0.8%	10.7%	
Adjusted EPS	0.96	1.10	1.19	1.26	1.19	1.23	1.33	1.8%
% change	24.7%	14.6%	8.2%	5.9%	-5.6%	3.4%	8.1%	

Source: Company Data; Bryan, Garnier & Co ests.

2.2. Balance Sheet

€m (FYE 31/12)	2007	2008	2009	2010	2011e	2012e	2013e
Goodwill	424.3	431.6	440.2	456.3	676.6	676.6	676.6
Intangible fixed assets	63.1	87.3	133.6	219.9	288.6	360.2	435.8
Tangible fixed assets	131.2	139.1	140.4	148.2	133.5	122.9	112.3
Fixed assets and goodwill	618.6	658.0	714.2	824.4	1,098.7	1,159.7	1,224.7
Investments	37.4	43.2	41.6	50.7	50.9	53.9	57.4
Deferred tax assets	34.1	32.4	31.3	50.3	50.3	50.3	50.3
Inventories	128.5	199.8	197.5	238.6	250.3	266.8	274.9
Accounts receivables	1,462.3	1,451.3	1,383.9	1,610.5	1,740.4	1,873.9	1,930.6
Other short term assets	47.7	53.7	54.5	72.4	75.9	80.9	83.3
Current assets	1,638.5	1,704.8	1,635.9	1,921.5	2,066.6	2,221.6	2,288.8
Cash & cash equivalents	32.2	23.2	66.5	129.0	129.0	129.0	152.0
TOTAL ASSETS	2,360.8	2,461.6	2,489.5	2,975.9	3,395.5	3,614.5	3,773.2
Shareholders' equity	696.6	781.4	931.8	991.0	1,077.0	1,163.2	1,269.2
Minority interests	42.1	42.2	45.3	23.0	24.8	27.0	29.4
Consolidated equity	738.7	823.6	977.1	1,014.0	1,101.8	1,190.2	1,298.6
Long-term provisions	8.9	2.6	16.9	19.8	19.8	19.8	19.8
Deferred tax liabilities	29.9	31.1	38.2	50.7	50.7	50.7	50.7
Convertible bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term debt	46.2	46.8	101.9	248.2	423.2	423.2	423.2
Short-term debt	136.4	125.4	99.2	155.6	239.4	266.9	266.9
Debt	182.6	172.2	201.1	403.8	662.6	690.1	690.1
Accounts payable and accrued	515.0	504.5	514.7	655.5	687.7	733.1	755.3
Deferred revenues	622.6	621.6	498.6	510.7	535.8	571.2	588.5
Salary and income tax payable	137.9	188.3	127.6	155.4	163.0	173.8	179.0
Other liabilities	125.2	117.7	115.3	166.0	174.1	185.6	191.2
Current liabilities	1,400.7	1,432.1	1,256.2	1,487.6	1,560.6	1,663.7	1,714.0
TOTAL LIABILITIES	2,360.8	2,461.6	2,489.5	2,975.9	3,395.5	3,614.5	3,773.2

Source: Company Data; Bryan, Garnier & Co ests.

2.3. Cash Flow Statement

€m (FYE 31/12)	2007	2008	2009	2010	2011e	2012e	2013e
Operating cash flow	193.9	276.8	276.1	253.7	242.0	240.1	265.4
Change in WCR	-45.7	-77.5	-66.4	-144.6	-72.1	-51.9	-16.9
Capital expenditure	-71.2	-67.2	-79.8	-91.9	-100.0	-109.0	-113.0
Disposals in fixed assets	0.1	2.6	0.6	2.8	0.0	0.0	0.0
Net capex	-71.1	-64.7	-79.2	-89.1	-100.0	-109.0	-113.0
Free cash flow	77.2	134.6	130.5	20.0	69.9	79.2	135.5
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals in investments	1.6	3.5	1.9	1.1	2.3	0.0	0.0
Acquisitions (goodwill)	-368.1	-17.9	-20.7	-49.3	-45.3	0.0	0.0
Cash flow after investing activity	-289.4	120.1	111.7	-28.2	26.9	79.2	135.5
Dividends paid	-128.8	-82.4	-101.0	-106.8	-111.6	-113.3	-114.9
Issuance of shares	329.8	-21.5	12.9	-6.4	-1.4	0.0	0.0
Cap. Incr. for minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Incr. cash bef. loan repayments	-88.4	16.3	23.6	-141.4	-86.2	-34.0	20.6
Repayment of loans	46.4	-25.4	19.8	203.9	2.4	6.5	2.4
Net increase in cash	-42.0	-9.1	43.4	62.5	-83.8	-27.5	23.0

Source: Company Data; Bryan, Garnier & Co ests.

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements including a SWOT analysis, positive momentum, technical aspects and the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements including a SWOT analysis, positive momentum, technical aspects and the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

In the last quarter, Bryan Garnier research ratings comprised:

BUY ratings 56%

NEUTRAL ratings 18%

SELL ratings 26%

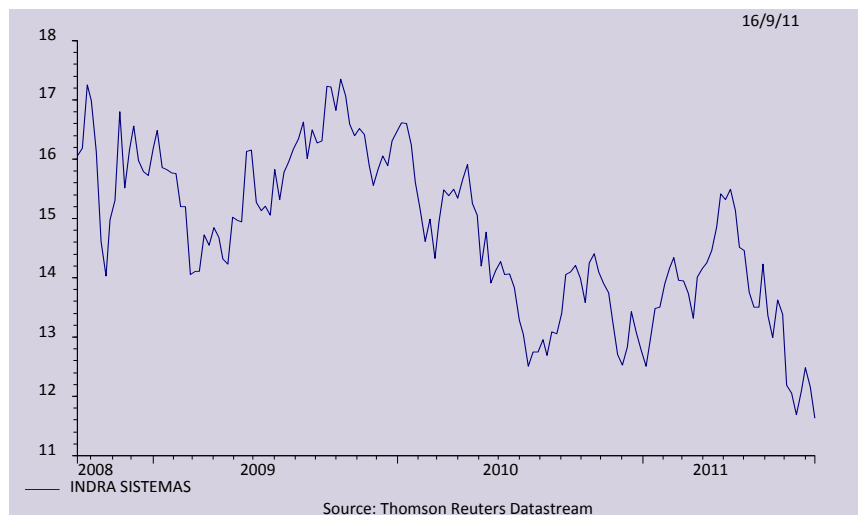
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2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
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8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
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Price Chart and Rating History

Indra Sistemas



Ratings

Date	Ratings	Price
03/02/2009	Sell	15.65

Target Price

Date	Target price
25/01/2011	€ 12
08/07/2010	€ 13
12/11/2009	€ 15
03/07/2009	€ 14
03/02/2009	€ 13



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