EQUITY RESEARCH

Indra

IT

Hold

High Risk

September 2011

Spain

Growing abroad to avert pressure in Spain

(Hold recommendation maintained)

- **Acquisition of Galyleo and Politec:** IDR recently acquired Galyleo (EV of €21mn) and Politec (EV of €110mn), IT players from Italy and Brazil respectively, expectedly adding 2% to the group's EBIT12F. Also, the resulting cross-selling enhanced by IDR's know-how should translate into an accumulated contribution to FY12-13 Revenues and EBIT of €130mn (+2%) and €30mn (+6%), respectively. In the meantime, IDR could be on the verge of signing an important contract in the Middle East, which could represent 10% and 11% of our FY11^F order intake and revenues.

- **Pressure in the domestic market should persist:** Spain's economic situation continues to ballast IDR through an increasing pressure on margins and working capital (WK), mainly from its Defence and PA divisions (23% and 14% of FY11^F Rev.). WK should stand above the 100 days FY11^F guidance and capex is climbing as IDR is also entering new tech niches, which is penalizing short-term cash flow generation. International growth, through acquisitions (Galyleo & Politec) and new contracts, namely in LatAm and Middle East, together with the restructuring plan implemented in FY10, should propel an improvement in operating margins from FY13^F onwards. **We foresee Rec. EBIT to post a 5% CAGR10-14^F, with the margin standing at 10.4% in FY11 (vs. 10.5% guidance).**

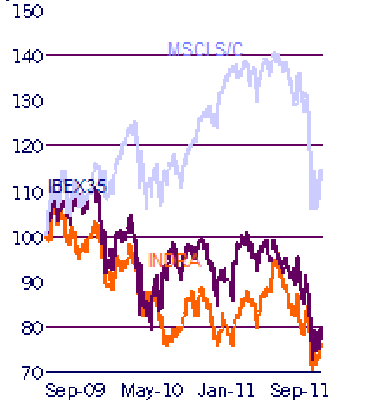
- **Risk reward remains neutral:** Despite IDR's internationalization efforts, potential budgetary cuts from the Spanish Government remain a major risk for the company. IDR has outperformed its main IT players and continues trading at a premium. We have set **IDR's YE12 Price Target at €13.10** (-11% LFL ex-roll forward), which still commands a limited upside. The investment case may be spiced up with: (1) Announcement of contracts in the Middle East and Asia, (2) Upside from restructuring and (3) Stronger than expected acquisitions synergies. **HOLD.**

Stock Data

Price (5th September):	11.73	Price Target:	13.10
No. of shares (mn):	164	Market Cap (€ mn):	1925
Reuters/Bloomberg:	IDR.MC/IDR SM	Free-Float:	62%
NET DEBT/EBITDA'12:	1.1	ROE'12:	19%
EPS Growth ('10-'13):	2%	Avg. Daily Vol. [€'000]:	17,676
Major Shareholders:	C. Madrid (20.0%); C. Alba (10%); Fidelity (11.0%); Del Pino fam. (5.2%) Cajastur (5%)		

Estimates	2009	2010	2011	2012^F	2013^F	2014^F
EPS Adj. (€)	1.19	1.15	1.19	1.20	1.23	1.27
PE Adj.	13.8	11.2	10.0	10.0	9.7	9.5
Dividend yield	4.0%	5.3%	5.6%	5.6%	5.9%	6.1%
FCF yield	6.4%	0.1%	n.s.	5.3%	8.0%	11.1%
EV/EBITDA	7.2	8.0	7.3	7.0	6.7	6.5

Indra vs. IBEX35 vs. MSCI Small Cap Index



Source: Bloomberg.

Valuation Summary (€mn)

Enterprise Value	**2 492**
Financial Investments	62
YE12 Net Debt	-377
Minorities	-21
Equity Value	**2 157**
# shares (mn)	164
YE12 Fair Value (€)	**13.10**

Source: BPI Equity Research

DCF Sensitivity (€/share)

	Growing Perpetuity		
Rf	1.5%	2.5%	3.5%
4.0%	13.90	15.20	16.90
5.0%	12.20	**13.10**	14.40
6.0%	10.80	11.50	12.50

Source: BPI Equity Research.

Historical Recommendation

Date	Recommendation
14-Sep-10	Hold

Source: BPI Equity Research.

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Available on our website: **www.bpi.pt/equity, BPI Online,** and Bloomberg at **BPIR.**

Income Statement

(€ mn)	2009	2010	2011F	2012F	2013F	2014F	CAGR 10-14F
Turnover	**2513**	**2557**	**2612**	**2665**	**2733**	**2803**	**2%**
EBITDA	**327**	**294**	**317**	**330**	**343**	**359**	**5%**
EBITDA margin	13.0%	11.5%	12.1%	12.4%	12.5%	12.8%	
Dep.+ Prov.	42	42	47	51	53	55	0%
EBIT	**285**	**252**	**270**	**280**	**290**	**303**	**5%**
EBIT margin	11.4%	9.9%	10.3%	10.5%	10.6%	10.8%	
Net Financials	-25	-19	-23	-26	-22	-20	0%
Extraordinaries	0	1	0	0	0	0	0%
Income Tax	63	46	52	58	67	77	0%
Minority interest	2	-1	-1	-1	-1	-1	15%
Net Profit	**196**	**189**	**196**	**197**	**202**	**208**	**2%**

Balance Sheet

(€ mn)	2009	2010	2011F	2012F	2013F	2014F	CAGR 10-14F
Net Intangibles	574	676	832	825	816	809	5%
Net Fixed Assets	140	143	155	168	182	188	7%
Net Financials	42	56	62	62	62	62	3%
Inventories	198	239	237	250	270	251	1%
ST Receivables	1438	1683	1699	1761	1805	1823	2%
Other assets	31	50	51	52	54	55	2%
Cash & Equivalents	67	129	57	26	43	75	-13%
Net Assets	**2490**	**2976**	**3094**	**3145**	**3232**	**3264**	**2%**
Equity & Minorities	**977**	**1014**	**1097**	**1183**	**1275**	**1368**	**8%**
MLT Liabilities	**169**	**355**	**470**	**462**	**455**	**352**	**0%**
o.w. Debt	102	248	268	263	257	252	0%
ST Liabilities	**1266**	**1505**	**1424**	**1394**	**1395**	**1434**	**-1%**
o.w. Debt	99	156	160	140	100	102	-10%
o.w. Payables	153	183	199	217	236	256	9%
Equity + Min. + Liab.	**2490**	**2976**	**3094**	**3145**	**3232**	**3264**	**2%**

Cash-flow Statement

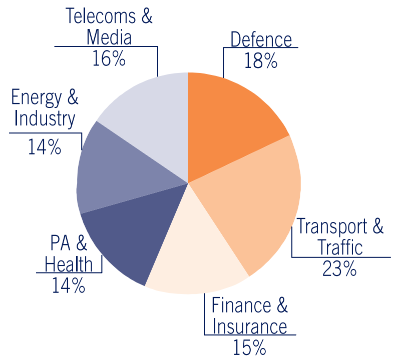
(€ mn)	2009	2010	2011F	2012F	2013F	2014F
+ EBITDA	327	294	317	330	343	359
- Chg in Net W.C.	45	126	103	88	28	-36
= Operating Cash Flow	**283**	**168**	**213**	**243**	**315**	**394**
- Capex	98	147	215	57	58	55
- Chg Net Fin. Inv.	-2	14	6	0	0	0
= Cash Flow after Inv.	**186**	**8**	**-7**	**186**	**258**	**339**
- Net Fin. Exp.	25	19	23	26	22	20
- Income Taxes	75	42	50	56	65	74
- Dividends Paid	100	108	112	110	110	115
+/- Equity	0	0	0	0	0	0
Other	66	21	96	1	1	-95
=Change in Net Debt	**-53**	**140**	**96**	**5**	**-62**	**-35**
Net Debt (+) / Net Cash (-)	**135**	**275**	**371**	**377**	**314**	**279**

Source: Company data (2009, 2010) and BPI Equity Research (F).

Company Description:

With a well diversified business mix, Indra manages a foothold in Defence Electronic Equipment and Simulation & Automatic Test Systems, among others. The firm has acquired two IT companies in the last months: Galyleo, and Politec. IDR provides a full range of services from systems development, integration and implementation, to consulting and outsourcing. The IT offer is directed towards a wide range of vertical markets covering almost all business sectors. Indra´s major market is Spain (61% of 1H11 revenues) although it has been expanding abroad, particularly in Europe, LatAm and Asia

1H11 Revenues Breakdown per Unit (€1354mn)



Source: Indra.

DCF Assumptions

Re	10.9%
Rf [1]	5.0%
Beta Equity	1.0
Market Premium	6.0%
Rd	7.0%
Tax rate	30%
D/EV	10%
WACC	**10.3%**
g	2.5%

Source: BPI Equity Research.
(1) Includes Country Risk Premium

Market Multiples

	P/E 12F	P/E 13F	EV/EBIT 12F	EV/EBIT 13F
Indra	**10.0**	**9.7**	**8.3**	**8.0**
Novabase	9.8	8.7	6.7	6.2
Atos Origin	8.1	7.0	5.1	3.9
Cap Gemini	8.5	7.8	4.1	3.3
LogicaCMG	6.0	5.6	4.9	4.3
Anite	5.8	4.9	5.1	4.7
Alten	8.4	7.7	4.7	3.9
Altran Techno.	8.0	6.8	5.7	4.2
TietoEnator	8.2	7.5	6.3	5.5
Thales	8.8	7.1	5.8	4.5
Ultra Electronics	11.2	11.2	7.2	7.1
Bae Systems	6.2	5.8	4.3	4.0
Average	**8.1**	**7.3**	**5.4**	**4.7**

Source: FactSet, and BPI Equity Research (Indra, and Novabase)

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	Low Risk	Medium Risk	High Risk
Buy	>20%	>30%	>40%
Accumulate	>15% and <20%	>20% and <30%	>30% and <40%
Hold	>5% and <15%	>10% and <20%	>15% and <30%
Reduce	>-10% and <5%	>-10% and <10%	>-10% and <15%
Sell	<-10%	<-10%	<-10%

These investment ratings are not strict and should be taken as a general rule.

Investment Ratings Statistics

As of 31st August BPI Equity Research's investment ratings were distributed as follows:

Buy	38%
Accumulate	23%
Hold	20%
Reduce	14%
Sell/Accept Bid	5%
Under Revision	1%
Total	100%

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