INDRA
SPAIN \ TECHNOLOGY

Company Update

NR *(prev. Buy)*

Target: € 14.5 *(prev. 17)*

Risk: High

STOCK DATA

Price €		13.97
Bloomberg Code		IDR SM
Market Cap. (€ mn)		2,269
Free Float		59.31%
Shares Out. (mn)		162
52-week range	Max 16.19	min 12.18
Daily Volumes (k)		926

PERFORMANCE	1M	3M	12M
Absolute	-1.0	11.5	-1.5
Rel. To SXXP index	-0.6	6.9	-18.3

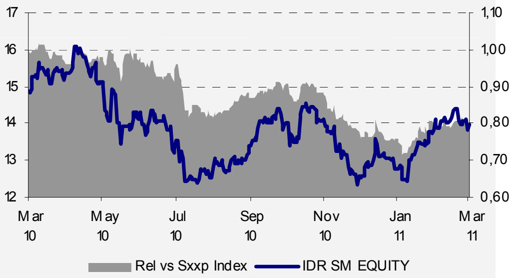
MAIN METRICS	2010	2011E	2012E
Revenues (€ mn)	2,557	2,601	2,731
EBITDA (€ mn)	325	315	359
Net Income (€ mn)	215	187	221
EPS	1.33	1.15	1.36
DPS	0.66	0.66	0.78

MULTIPLES	2010	2011E	2012E
P/E	10.5 x	12.1 x	10.3 x
EV/EBITDA	7.8 x	8.5 x	7.4 x

REMUNERATION			
Dividend Yield	4.7%	4.7%	5.6%
FCF Yield (on EV)	-1.1%	1.1%	4.7%

INDEBTNESS	2010	2011E	2012E
NFP	275	354	336
Debt/EBITDA	0.8 x	1.1 x	0.9 x
Interest coverage	14.9 x	12.9 x	17.6 x

PRICE ORD. LAST 365 DAYS



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EQUITA SIM SpA

DOWNGRADE - EARNINGS QUALITY DETERIORATING

Results came out broadly in line with expectations but Cash Flow generation has been poor (in 12 months net debt doubled). We believe this situation reflects a poor earnings quality. Even if sequentially Indra seems to have a positive run rate, we still believe there are no catalysts for the stock to outperform over the next 12 months. We downgrade our recommendation to NR.

■ Mixed 2010 results.

Indra met its full year guidance with order intake +7%, revenues +2% and adj. Ebit margin at 11.2%. However revenues are growing at a slower pace than order intake and higher capex during the year suggest part of the growth has been inorganic. Furthermore the modest dilution of core Ebit margin is not supported by operating cash flow generation which had halved in 2010 vs previous year. Portfolio mix has been negative so far, as Solutions division revenue growth (which carries higher margins) has been flattish in 2010 whereas Services division increased by 6%.

■ Margin dilution continues.

2011 guidance is 1. revenues >+2% 2. Ebit margin 10.5%. Negative portfolio mix (more Services than Solutions) and adverse geography (more international than domestic) is responsible for the dilution. Indra expects order intake in 2011 on Solutions to reverse, but should be visible only at the end of 2011. On top of that the pricing environment remains challenging.

■ Net Debt doubled in one year

Even if Ebitda was flat in 2010 vs 2009 (on adj basis), cash flow generation has been negative affected by: 1. Net Working Capital deteriorated from 80 days to 93 days (€106 mn drawdown); 2. Capex increased to €137 mn from €99 mn in 2009; 3. One off costs of €33.4 mn 4. Higher personnel cost spending +4% or €41 mn more.

■ OpCF yield better represents valuations

In a "normal" year, we think Indra should trade at premium vs peers on P/E, thanks to higher profitability. However current Ebit/EPS is not representing correctly the deterioration in profitability. Therefore we would rather use OpCF yield on EV. However at 5.5% OpCF/EV on 2011 estimates, we believe Indra's valuation is fair.

■ Upside comes mainly from improving macro conditions in Spain

We do not exclude Indra has potentially some earnings momentum, but mostly in 2012. Furthermore there are no short term catalysts for the stock to outperform. Our target price is based on the average of our models: DCF €15.6 per share, target P/E multiple €15 p.s. and Peers multiples €14.5 p.s. We assumed a LT growth of 2% and a terminal margin of 10.5% (vs past 10 year average of 11.1%).

MAIN FIGURES € mn	2007	2008	2009	2010	2011E	2012E
Revenues	**2,168**	**2,380**	**2,513**	**2,557**	**2,601**	**2,731**
Growth	9.4%	9.8%	5.6%	1.7%	1.7%	5.0%
Ebitda	**273**	**309**	**327**	**325**	**315**	**359**
Growth	48.2%	13.1%	5.9%	-0.6%	-3.3%	14.1%
Ebit	**240**	**271**	**285**	**285**	**273**	**314**
Growth	46.7%	13.1%	5.2%	0.0%	-4.5%	15.2%
Profit before tax	**227**	**249**	**261**	**266**	**251**	**296**
Growth	46.7%	9.4%	4.9%	2.1%	-5.5%	17.8%
Net income	**163**	**180**	**196**	**215**	**187**	**221**
Growth	44.5%	10.5%	8.7%	10.1%	-13.2%	18.1%

MARGIN	2007	2008	2009	2010	2011E	2012E
Ebitda margin	12.6%	13.0%	13.0%	12.7%	12.1%	13.1%
Ebit Margin	11.1%	11.4%	11.4%	11.2%	10.5%	11.5%
Profit before tax Margin	10.5%	10.4%	10.4%	10.4%	9.7%	10.8%
Net income Margin	7.5%	7.6%	7.8%	8.4%	7.2%	8.1%

SHARE DATA	2007	2008	2009	2010	2011E	2012E
Eps - €	1.01	1.12	1.21	1.33	1.15	1.36
Growth	n.a.	11%	8%	9%	-13%	18%
Dps ord - €	0.50	0.61	0.66	0.66	0.66	0.78
Bvps - €	4.6	5.3	5.8	6.2	6.7	7.4

VARIOUS - € mn	2007	2008	2009	2010	2011E	2012E
Capital Employed	932	1,037	1,112	1,308	1,466	1,561
Fcf (before dividends)	82	132	111	-28	28	125
Capex	-313	-67	-99	-137	-115	-115
Working Capital	501	579	621	744	813	823

INDEBTNESS - €mn	2007	2008	2009	2010	2011E	2012E
Net Debt	151	149	135	275	354	336
D/E	0.20	0.18	0.14	0.27	0.32	0.28
Net Debt/Ebitda	0.6 x	0.5 x	0.4 x	0.8 x	1.1 x	0.9 x
Interests cov.	18.8 x	11.9 x	11.5 x	14.9 x	12.9 x	17.6 x

MARKET RATIOS	2007	2008	2009	2010	2011E	2012E
P/E	13.9 x	12.5 x	11.5 x	10.5 x	12.1 x	10.3 x
P/Bv	3.1 x	2.7 x	2.4 x	2.2 x	2.1 x	1.9 x
P/Cf	14.7 x	11.4 x	10.8 x	20.8 x	15.8 x	9.4 x

EV FIGURES	2007	2008	2009	2010	2011E	2012E
EV/Sales	1.2 x	1.0 x	1.0 x	1.0 x	1.0 x	1.0 x
EV/Ebitda	9.2 x	8.0 x	7.5 x	7.8 x	8.5 x	7.4 x
EV/Ebit	10.5 x	9.1 x	8.5 x	8.9 x	9.9 x	8.5 x
EV/NOPAT	14.1 x	12.3 x	11.3 x	11.0 x	13.0 x	11.2 x
EV/Ce	2.7 x	2.4 x	2.2 x	1.9 x	1.8 x	1.7 x

REMUNERATION	2007	2008	2009	2010	2011E	2012E
Div. yield	3.6%	4.4%	4.7%	4.7%	4.7%	5.6%
Fcf yield (on EV)	3.2%	5.3%	4.6%	-1.1%	1.1%	4.7%
Roe	29.0%	22.7%	22.0%	22.2%	17.8%	19.3%
Roce	25.6%	20.4%	20.2%	19.0%	14.9%	15.8%

Source: EQUITA SIM estimates

QUARTERLY RESULTS

QUARTERLY BREAKDOWN	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
Sales	**624.2**	**709.2**	**545.5**	**634.3**	**643.1**	**685.4**	**550.0**	**678.5**
Sales growth	*7.3%*	*6.6%*	*4.5%*	*3.9%*	*3.0%*	*-3.4%*	*0.8%*	*7.0%*
EBITDA	**75.7**	**98.1**	**73.1**	**80.6**	**78.5**	**86.9**	**69.9**	**92.1**
EBIT before extraordinary costs	**67.3**	**84.3**	**63.2**	**70.7**	**69.5**	**76.2**	**60.4**	**79.2**
EBIT margin before extraordinary costs	*10.8%*	*11.9%*	*11.6%*	*11.1%*	*10.8%*	*11.1%*	*11.0%*	*11.7%*
Extraordinary costs	0.0	0.0	0.0	0.0	-5.4	-6.4	-3.5	-18.1
EBIT post extraordinary costs	**67.3**	**84.3**	**63.2**	**70.7**	**64.1**	**69.8**	**56.9**	**61.1**
EBIT Margin post extraordinary costs	*10.8%*	*11.9%*	*11.6%*	*11.1%*	*10.0%*	*10.2%*	*10.3%*	*9.0%*
Net income reported	**46.5**	**61.2**	**43.9**	**44.0**	**46.6**	**54.5**	**42.3**	**45.1**
Net income adjusted	**46.5**	**61.2**	**43.9**	**44.0**	**50.8**	**59.7**	**45.1**	**59.8**
1. Revenues by Business Areas								
Transport & Traffic	117	141	122	117	129	155	131	140
Telecom & Media	70	74	63	63	74	83	72	92
P.A. & Healthcare	88	93	75	92	89	101	73	94
Financial Services	85	101	77	72	93	105	89	81
Energy & Industry	96	104	91	91	89	91	79	104
Security & Defence	169	196	117	199	170	151	105	168
TOTAL INDRA	**624**	**709**	**546**	**634**	**643**	**685**	**550**	**678**
growth								
Transport & Traffic	8%	15%	27%	10%	10%	10%	7%	19%
Telecom & Media	10%	10%	13%	11%	5%	12%	15%	46%
P.A. & Healthcare	8%	7%	2%	3%	2%	8%	-2%	2%
Financial Services	10%	10%	7%	-1%	9%	3%	16%	14%
Energy & Industry	6%	1%	-1%	2%	-7%	-12%	-13%	14%
Security & Defence	5%	1%	-11%	2%	0%	-23%	-10%	-16%
TOTAL INDRA	**7.3%**	**6.6%**	**4.6%**	**3.8%**	**3.0%**	**-3.3%**	**0.8%**	**7.0%**
2. Revenues by Geographical Markets								
Total revenues	**624**	**709**	**546**	**634**	**643**	**685**	**550**	**678**
Domestic	409	460	342	402	391	434	331	410
International	215	249	204	233	252	251	219	269
* Europe	117	120	94	118	131	106	94	95
* Latam	58	71	69	67	77	94	88	113
* Others	31	49	32	44	44	52	38	61
* USA & Canada	9	9	10	4	7	7	5	9
* Africa/Asia/Australia	23	39	22	40	38	45	32	51
growth								
Total revenues	**7.3%**	**6.6%**	**4.6%**	**3.8%**	**3.0%**	**-3.3%**	**0.8%**	**7.0%**
Domestic	5%	4%	1%	2%	-4%	-6%	-3%	2%
International	13%	13%	11%	7%	17%	1%	7%	16%
* Europe	25%	0%	15%	29%	11%	-12%	0%	-19%
* Latam	7%	23%	30%	3%	34%	32%	28%	69%
* Others	9%	46%	-19%	7%	41%	6%	17%	37%
* USA & Canada	-41%	-7%	4%	-81%	-24%	-26%	-45%	154%
* Africa/Asia/Australia	61%	70%	-27%	82%	66%	14%	45%	26%

Source: EQUITA SIM estimates

VALUATION

We do not exclude Indra has potentially some earnings momentum, but mostly in 2012. Our target price is based on the average of our models: DCF €14 per share, target P/E multiple €15.4 p.s. and Peers multiples €14.5 p.s. We assumed a LT growth of 2% and a terminal margin of 10.5% (vs past 10 year average of 11.1%).

TARGET PRICE CALCULATION

DCF target	34%	EUR 14.0
Peers target	33%	EUR 14.5
Target multiple	33%	EUR 15.4
Average target		**EUR 14.6**

Source: EQUITA SIM estimates

DCF ASSUMPTIONS

Enterprise value	**2571**	Risk Free	5.0%
Net cash (debt) - 2010	-275	Risk Premium	4.5%
Minorities (maket value) and Pension deficit	-23	Levered Beta	1.1
		spread over risk free	1.5%
		Cost of Debt after tax	4.2%
Equity	**2,273**	Cost of Equity	9.0%
Shareout	162	**WACC**	**9.0%**
per share	**14.0**	**LTg**	**2.0%**

Source: EQUITA SIM estimates

SENSITIVITY - WACC

		WACC		
		8.5%	9.0%	9.5%
GROWTH RATE	1.0%	13.2	12.2	11.2
	2.0%	15.3	**14.0**	12.8
	3.0%	18.3	16.4	14.9

Source: EQUITA SIM estimates

SENSITIVITY – EBIT MARGIN

		TERMINAL EBIT MARGIN		
		9.5%	10.5%	11.5%
GROWTH RATE	1.0%	10.9	12.2	13.4
	2.0%	12.5	**14.0**	15.4
	3.0%	14.7	16.4	18.1

Source: EQUITA SIM estimates

SENSITIVITY – RISK FREE RATE AND BETA

		SPANISH RISK FREE RATE		
		4.0%	5.0%	6.0%
BETA	0.8	21.2	17.2	14.3
	1.1	**16.8**	14.0	11.9
	1.4	13.7	11.6	10.1

Source: EQUITA SIM estimates

In a normalized year, we think Indra should trade at premium vs peers, thanks to higher profitability. However current Ebit/EPS is not representing correctly the deterioration in profitability. We would than rather use OpCF yield on EV. However at 5.5% OpCF/EV on our 2011 estimates, we believe Indra's valuation is fair.

TARGET P/E MULTIPLE

CAP GEMINI 2012 ADJ P/E	PREMIUM
13.8	10%
2012 EPS ESTIMATE	2012 GEARING DIFFERENTIAL
1.36	28%
TARGET P/E MULTIPLE	**TARGET PRICE 12M FORWARD**
11.4	**15.4**

Source: EQUITA SIM estimates

P/E MULTIPLE DERATING

Source: Bloomberg

PEERS MULTIPLE

	EV/SALES		EV/EBITDA		P/E		P/B
COMPANY	2011	2012	2011	2012	2011	2012	2011
INDRA	**1.03**	**0.98**	**8.5**	**7.4**	**12.1**	**10.3**	**2.1**
Premium/(discount) to peers	-7%	-3%	20%	17%	-8%	-10%	-28%
CAP GEMINI	0.5	0.5	5.9	5.3	16.2	14.0	1.43
ATOS ORIGIN	0.5	0.4	4.9	3.9	12.6	10.2	1.46
LOGICA	0.6	0.6	6.5	6.1	10.0	9.0	1.04
ORDINA	0.5	0.4	7.7	6.2	14.0	10.3	1.04
TIETO	0.6	0.6	5.4	5.0	11.2	10.0	1.69
IT SERVICES (40% Weight)	**0.5**	**0.5**	**6.1**	**5.3**	**12.8**	**10.7**	**1.3**
IBM	2.0	1.9	8.0	7.6	12.3	11.1	6.17
HP	0.8	0.8	5.1	4.9	8.2	7.6	1.98
Accenture	1.3	1.2	8.4	7.8	16.4	14.6	10.64
Telvent GIT SA	1.7	1.6	10.9	9.8	20.5	18.1	4.24
Alten Ltd	0.8	0.7	6.9	6.1	13.2	11.6	2.16
Infosys Technologies Ltd	4.6	3.8	14.0	11.8	20.6	17.0	6.58
Sopra Group SA	0.7	0.7	6.2	5.6	11.2	10.2	2.19
Groupe Steria SCA	0.4	0.4	4.9	4.5	9.9	8.4	0.92
Tata Consultancy Services Ltd	4.8	4.0	16.2	13.7	21.6	18.2	8.80
COMPUTER SERVICES (30% Weight)	**1.9**	**1.7**	**9.0**	**8.0**	**14.9**	**13.0**	**4.9**
CAE Inc	1.9	1.7	8.6	7.7	16.8	14.4	2.52
Cobham PLC	1.4	1.4	6.7	6.5	10.4	9.9	2.31
Elbit Systems Ltd	0.8	0.8	5.8	5.4	10.8	10.0	2.31
Lockheed Martin Corp	0.6	0.6	6.5	5.6	11.4	9.2	6.55
Raytheon Co	0.7	0.7	5.8	5.5	10.1	9.1	1.91
Thales SA	0.4	0.4	4.9	4.2	11.2	8.6	1.32
Ultra Electronics Holdings	1.5	1.4	8.6	8.2	14.2	13.5	4.52
DEFENSE AVERAGE (30% Weight)	**1.1**	**1.0**	**6.7**	**6.2**	**12.1**	**10.7**	**3.1**
PEERS BLENDED AVERAGE	**1.10**	**1.01**	**7.1**	**6.4**	**13.2**	**11.4**	**2.9**

Source: EQUITA SIM estimates

STATEMENT OF RISK

Factors that could impact the stock performance include:

1. Material decline in public spending of Spanish Minister of defence
2. Decline in infrastructure spending
3. M&A which affects the credit worthiness of the company

INFORMATION PURSUANT TO ARTICLE 69 ET SEQ. OF CONSOB (Italian securities & exchange commission) REGULATION no. 11971/1999

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EXPECTED TOTAL RETURN FOR THE VARIOUS CATEGORIES OF RECOMMENDATION AND RISK PROFILE

Recommendation/Rating	
BUY	ETR >= 20%
SELL	ETR <= 20%
LOW RISK	Beta <1 (weight 60%); market cap above 3bn euro (weight 20%); daily volumes > 30 mln euro (weight 20%)
HIGH RISK	Beta >1 (weight 60%); market cap below 3bn euro (weight 20%); daily volumes < 30 mln euro (weight 20%)

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Date	Rec.	Target Price (€)	Risk	Comment
25 January 2010	BUY	20	H	Initiation of Coverage
17 May 2010	BUY	17	H	Change in estimates

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	COMPANIES COVERED	COMPANIES COVERED WITH BANKING RELATIONSHIP
BUY	20	0
SELL	3	0