

Software & Computer Services – Spain

HOLD

INDRA

CURRENT PRICE: €10.82

TARGET PRICE: €13.50

TARGET PRICE REDUCED TO €13.50/SHARE FROM €16.42/SHARE

INVESTMENT CASE

Vicente Martín

(+34) 91 289 3914

vicmartin@gruposantander.com

Patricia López del Río

(+34) 91 289 3003

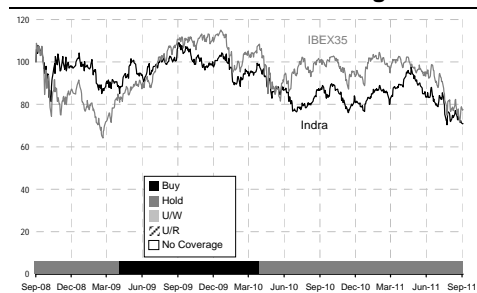
patrlopez@gruposantander.com

Company Data, September 27, 2011

Reuters/B'berg code	IDR.MC / IDR SM		
Market cap (€ mn)	1,796.1		
Outst shares (mn)	166.0		
Website	www.indra.es		
Free float (%)	59.0		
Average daily volume (€ mn)	23.5		
12M range (€)	10.04 -15.80		
Performance (%)	-1M	-3M	-12M
Absolute	-1.4	-15.0	-18.9
Relative to IBEX35	-2.8	2.8	4.3

Source: Reuters and Bloomberg.

3Y Stock Performance vs Rating



Source: FactSet.

- **We are cutting our EPS estimates for 2012-13 by 10%** to reflect higher-than-anticipated margin pressure and higher financial costs as a result of weak cash flow conversion and higher net debt. Our new 2012 estimates are 8% below those of consensus, and we forecast that EPS will fall in both 2011 and 2012.
- **Public budgets will be cut aggressively in 2012** to reach deficit targets (public sector contracts represent around one-third of Indra's sales). We do not see signs of improvement next year in Spain (around 54% of Indra's sales), and this is likely to put pressure on margins and cash flow conversion.
- **Weak cash flow conversion is likely to continue in 2011**, given lower margins, higher capitalised expenses and higher working capital. Despite achieving a good top-line performance, cash flow conversion will remain under pressure.
- **Politec acquisition in Brazil makes strategic sense**, although in the short term it will dilute margins and be cash consuming. Net debt/EBITDA is likely to increase to 1.5x in 2011E.
- **Overhang risk likely to continue.** Given the stretched financial situation of the saving banks in Spain, we anticipate that the overhang risk from Caja Madrid's stake (20%) and Cajastur's holding (5%) will continue in 2012.
- **Valuation is attractive** with the stock currently trading at 8x EV/EBIT and 10x P/E for 2012E, which implies a slight premium (5%) on average vs the sector. We think this should give more support to the stock, considering the company's track record.
- **Given that there is low earnings visibility** and the difficult environment is likely to persist, with no clear catalyst in the short term, we reiterate our Hold rating on Indra. We are reducing our target price to €13.50 on the back of our lower earnings, higher debt and higher risk-free estimate, which increases our WACC.

Last note/report published on May 13, 2011.



INDRA

Indra is Spain's undisputed leader in the IT sector after the recent acquisition of Azertia and Soluziona. Roughly 55% of its 2010 revenues came from the IT business and 45% from defence and transport. The company is organised around six vertical markets: Defence & Security; Transport & Traffic; Energy & Industry; Telecoms & Media; Finance & Insurance and Public Administration & Healthcare. Floated in March 1999 at €4.47/share, Indra has repeatedly beaten its own and market estimates..

Financial Data: P&L, Balance Sheet and CF Statement, 2008-13E

P&L Account (€mn)	2008	2009	2010	2011E	2012E	2013E	CAGR (%) 2010-13E
Total revenues	2,379.6	2,513.3	2,557.2	2,652.9	2,807.2	2,946.6	4.8
YoY change (%)	9.8	5.6	1.7	3.7	5.8	5.0	-
COGS	-1,910.9	-2,037.0	-2,091.8	-2,172.7	-2,296.3	-2,408.8	-
Gross profit	468.7	476.3	465.4	480.2	510.9	537.8	-
As % of revenues	19.7	18.9	18.2	18.1	18.2	18.3	-
Personnel expenses	-	-	-	-	-	-	-
Other op expenses	-160.5	-148.9	-137.0	-160.6	-181.3	-191.6	-
EBITDA	308.1	327.3	328.4	319.6	329.6	346.1	1.8
YoY change (%)	12.7	6.2	0.3	-2.7	3.1	5.0	-
As % of revenues	12.9	13.0	12.8	12.0	11.7	11.7	-
EBIT	270.5	285.4	285.4	271.6	274.0	287.3	0.2
YoY change (%)	21.1	5.5	0.0	-4.8	0.9	4.8	-
As % of revenues	11.4	11.4	11.2	10.2	9.8	9.7	-
Net interest expenses	-22.9	-24.8	-18.6	-31.1	-34.4	-34.9	-
Extraordinary items	0.0	0.0	-33.4	0.0	0.0	0.0	-
Pre-tax profits	251.1	260.7	233.5	240.5	239.6	252.3	2.6
YoY change (%)	18.3	3.8	-10.4	3.0	-0.4	5.3	-
Taxes	-65.3	-62.7	-45.5	-52.9	-52.7	-56.8	-
Tax rate (%)	26.0	24.0	19.5	22.0	22.0	22.5	-
Minority interests	-3.7	-2.4	0.4	-0.4	-0.4	-0.4	-
Net profit	182.1	195.6	188.4	187.2	186.5	195.2	1.2
YoY change (%)	23.2	7.4	-3.7	-0.6	-0.4	4.6	-
Adj net profit	182.1	195.6	188.4	187.2	186.5	195.2	-

Balance Sheet (€mn)	2008	2009	2010	2011E	2012E	2013E	CAGR (%) 2010-13E
Fixed assets	701.2	755.6	875.1	1,072.1	1,100.5	1,129.7	-
Goodwill	432	440	456	456	456	456	-
Inventories	0.0	0.0	0.0	0.0	0.0	0.0	-
Trade receivables	1,631.8	1,561.4	1,829.9	1,962.4	2,088.1	2,199.8	-
Cash & equivalents	21.9	66.6	129.0	129.0	129.0	129.0	-
Total assets	2,461.6	2,489.2	2,976.8	3,306.3	3,460.4	3,601.3	-
Shareholders' equity	781.4	931.8	991.0	1,066.7	1,143.7	1,230.7	-
Net debt	149.9	134.5	274.8	484.6	490.7	480.5	-
o/w ST financial debt	0.0	0.0	0.0	0.0	0.0	0.0	-
Working capital	306.3	419.0	493.2	581.7	636.4	684.1	-

CF Statement (€mn)	2008	2009	2010	2011E	2012E	2013E	CAGR (%) 2010-13E
Op cash flow	90.4	62.0	36.4	-11.8	74.1	78.0	-
Chg in working capital	-65.4	-51.1	-105.8	-88.5	-54.7	-47.7	-
Capex	64.7	99.8	89.0	152.0	84.0	88.0	-
Dividends	-79.8	-98.9	-106.6	-111.5	-109.5	-108.2	-
Free cash flow	89.7	110.7	19.6	51.8	103.3	118.4	-

Source: Company data and Santander Investment Bolsa estimates.

Per Share Data, 2010-13E

(€)	2010	2011E	2012E	2013E
EPS	1.15	1.14	1.14	1.19
% chg	-3.7	-0.6	-0.4	4.7
Adj EPS	1.15	1.14	1.14	1.19
% chg	-3.7	-0.6	-0.4	4.7
DPS	0.68	0.67	0.66	0.70
% chg	4.6	-1.8	-1.2	6.4
CFPS	0.22	-0.07	0.45	0.47
% chg	-41.2	NM	NM	5.3
FCFPS	0.12	0.31	0.62	0.71
% chg	-82.3	164.0	99.7	14.6
Div payout (%)	59.2	58.5	58.0	59.0
% chg	8.6	-1.2	-0.9	1.7

Source: Company data and Santander Investment Bolsa estimates.

Market Ratios, 2010-13E

(x)	2010	2011E	2012E	2013E
P/E	9.4	9.5	9.5	9.1
Adj P/E	9.4	9.5	9.5	9.1
EV/sales	0.8	0.8	0.8	0.8
EV/EBITDA	6.2	7.0	6.9	6.5
EV/EBIT	7.2	8.3	8.2	7.8
P/CF	49.3	NM	24.2	23.0
P/BV	1.8	1.6	1.5	1.4
FCF yield (%)	1.1	2.9	5.8	6.6
GDY (%)	6.3	6.2	6.1	6.5

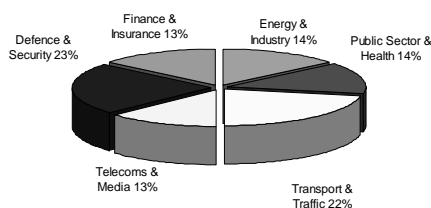
Source: Company data and Santander Investment Bolsa estimates.

Financial Ratios, 2010-13E

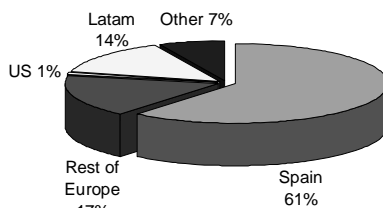
(%)	2010	2011E	2012E	2013E
ROE	19.6	18.2	16.9	16.4
ROCE	23.2	18.6	16.7	16.7
D/E	0.3	0.4	0.4	0.4
D/EBITDA (x)	0.8	1.5	1.5	1.4
Int cover	17.6	10.3	9.6	9.9

Source: Company data and Santander Investment Bolsa estimates.

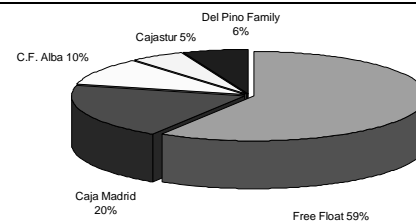
2010: Sales by Segment



Sales by Region



Shareholder Structure



Source: Company data and Santander Investment Bolsa.