

Profitability in line, but cash is still tight

- Results in the first half of the year have reinforced our view that Indra has not reached the path of recovery and material growth. Business in the core domestic market continues to decline at high single digits and increased competition is putting a lot of pressure on margins in other regions. Cash flow remains an issue and Indra will need to improve its working capital management significantly if it is to reach its target of €100m FCF by the end of the year. Cash flow aside, results were mainly in line with analysts' expectations. It has to be noted that the stock has re-rated significantly over the past quarter and is now trading at multiples closer to those of its peers. At this stage, we believe that the downside potential is limited and retain our Hold recommendation with a revised price target of €12.5. Our price target is based on 12.5x estimated 2015 earnings.
- Results comment:** Reported revenue in H1 2014 declined by 1% yoy, mainly due to negative growth in Spain (-9%) and FX headwinds of c9% in the Latin America region. In local currencies, H1 revenue increased 5% yoy (c2% in Q2), driven by 22% growth in AMEA and 14% in Latin America. Prospects for H2 are weaker as the company faces tougher comparatives and some large contracts ended in H1. Even though Latin American growth was strong, there is continued uncertainty around the pre-election period in Brazil.
- Working capital decreased significantly in Q2 as net working capital days increased from 103 days at Q1 to 112 days at the end of June. Management noted that five days of the decline relate to two specific contracts in Latin America (one in financial services in Brazil and the other in professional services in Mexico). These contributed c€40m of the working capital shortfall and the company expects to recover around 50% of it by the end of the year. We understand that the main reason for delays in collection relates to increased competition from other IT Services companies entering the region, which may provide further pressures on contracting terms in coming quarters.
- Guidance:** The company confirmed its full-year target of €100m FCF. At H1 it stood at -€3m.

Y/E 31.12., EURm	2012	2013	2014E	2015E	2016E
Sales	2,941	2,914	2,940	3,102	3,277
EBITDA	300	278	272	322	368
EBIT	249	226	212	272	318
Net profit	133	116	108	165	203
Y/E net debt (net cash)	639	627	639	571	487
EPS (reported)	0.82	0.70	0.65	0.99	1.21
EPS (adjusted)	0.97	0.89	0.72	0.99	1.21
CPS	0.14	0.30	0.40	0.82	0.97
DPS	0.67	0.34	0.37	0.41	0.45
EBITDA margin	10.2%	9.5%	9.3%	10.4%	11.2%
EBIT margin	8.5%	7.8%	7.2%	8.8%	9.7%
Dividend yield	5.6%	2.9%	3.1%	3.5%	3.8%
EV/sales	0.9	0.9	0.9	0.8	0.8
EV/EBITDA	8.7	9.3	9.5	8.1	7.0
EV/EBIT	10.4	11.5	12.2	9.5	8.1
P/E	12.3	13.5	16.6	12.1	9.9
Free Cash Flow yield (unl.)	3.2%	3.9%	4.4%	7.1%	8.2%

Source: Company data, Berenberg

Hold

Current price EUR 11.92 Price target EUR 12.50

29/07/2014 Madrid Close
Market cap EUR 1,955m
Reuters IDR.MC
Bloomberg IDR SM

Changes made in this note

Rating **Hold** (no change)
Price target **EUR 12.50** (13.10)

Chg	2014E		2015E		2016E	
	old	Δ%	old	Δ%	old	Δ%
Sales	2,922	0.6	3,071	1.0	3,242	1.1
EBIT	216	-1.9	280	-2.9	326	-2.4
EPS	0.71	1.0	1.01	-2.4	1.25	-2.9

Source: Berenberg estimates

Share data

Shares outstanding (m) 164
Enterprise value (EURm) 2,594
Daily trading volume 845,279

Performance data

High 52 weeks (EUR) 14.77
Low 52 weeks (EUR) 10.12
Relative performance to SXXP IBEX 35
1 month -7.5 % -8.5 %
3 months -11.5 % -16.0 %
12 months 2.2 % -11.1 %

Key data

Price/book value 1.0
Net gearing 31.7 %
CAGR sales 2013-2016 4.0 %
CAGR EPS 2013-2016 10.9 %



Business activities:

-

Non-institutional shareholders:

-

31 July 2014

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Results comments

	Q2 2013	H1 13	Q2 2014	H1 14	Comments
1 - Transport & Traffic	148.4	280.0	160.0	292.0	H1 was challenging in Spain as the revenues declined by double digits, but Q2 was flat yoy as the company signed new railway projects. Europe and LatAm remain strong drivers in the vertical.
% Growth	-20.5%	-12.5%	7.8%	4.3%	
2 - Telecom & Media	107.6	210.0	76.0	160.0	Pricing pressure continues due to lower budgets within key accounts. Organic decline was c13% as the vertical experienced heavy FX headwinds.
% Growth	-5.6%	-2.3%	-29.4%	-23.8%	
3 - Financial Services	135.9	258.1	130.0	255.0	Reported revenue is down however LC growth was 6% on the back of the strong growth in LatAm (double digits) and Spain (+3%)
% Growth	10.5%	8.4%	-4.3%	-1.2%	
4 - Public Admin. & Healthcare	124.3	240.5	146.0	291.0	Remains the strongest vertical, but the customers traditionally slow to pay, therefore increased pressure on working capital. Expecting slow-down in H2 due to the fact that a large contract in AMEA (Iraq voting systems) ended in Q2.
% Growth	14.3%	11.3%	17.5%	21.0%	
5 - Energy & Industry	123.7	251.5	114.0	229.0	As mentioned in Q1, results in Spain are still weak in Energy sector. The management remains more positive on the outlook for H2.
% Growth	8.5%	7.5%	-7.8%	-8.9%	
6 - Security & Defence	122.6	250.1	120.0	248.0	AMEA and Europe strong, offsetting double-digit decline in Spain. No significant changes expected in H2.
% Growth	13.5%	1.9%	-2.1%	-0.8%	
Revenue	762.6	1,490.3	747.5	1,475.9	
			-2.0%	-1.0%	

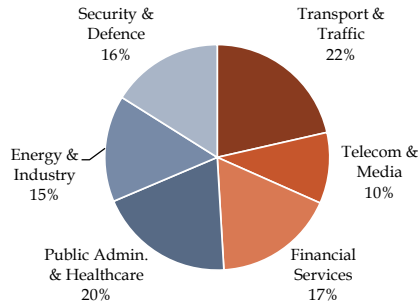
Source: Company press release

	Q2 2013	H1 13	Q2 2014	H1 14	Comments
1 - Domestic	319.9	632.7	293.0	575.0	Spain is slightly improving, but comparatives are becoming very favourable, therefore expecting more positive results in H2. Order intake has increased in H1 by 3% yoy.
% Growth	-11.1%	-11.6%	-8.4%	-9.1%	
2 - International	442.7	857.6	455.0	901.0	
% Growth	12.2%	13.9%	2.8%	5.1%	
(A) Europe & N America	131.3	280.0	158.0	308.0	H1 growth in LC was 10% (almost 20% in Q2), but expecting growth to slow down materially in H2 due to much higher comparatives.
% Growth	8.2%	5.1%	20.3%	10.0%	
(B) LatAm	215.1	401.4	190.0	384.0	Macroeconomic environment in LatAm is challenging, but the LC growth (+14%) remains strong. However, the FX headwinds continue to be a drag on the top line growth. LC growth in H1 is deemed to be sustainable for the FY.
% Growth	16.6%	13.5%	-11.7%	-4.3%	
(C) AMEA	96.3	176.2	107.0	209.0	Project in Iraq drove the growth in the region - this finished in Q2, so expected reduction in growth in H2. Security and Defence performing well.
% Growth	8.6%	32.4%	11.1%	18.6%	

Source: Company press release

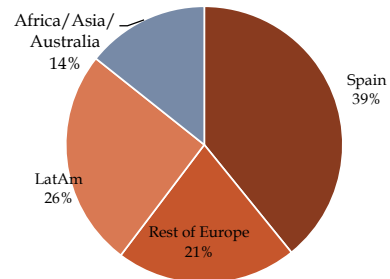
Results dashboard

Sales split by vertical (Q2 2014)



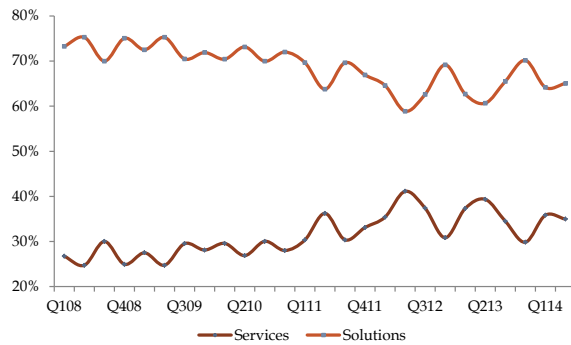
Source: Company reports, Berenberg

Sales by geography (Q2 2014)



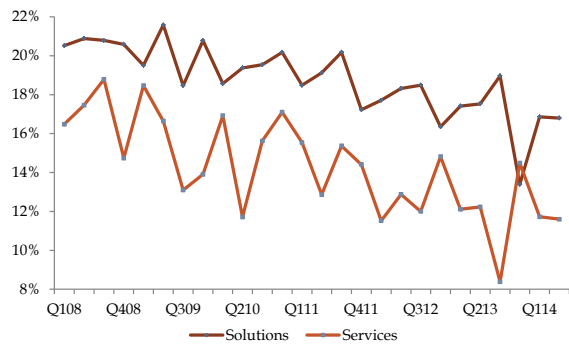
Source: Company reports, Berenberg

Revenues split: Services & Solutions



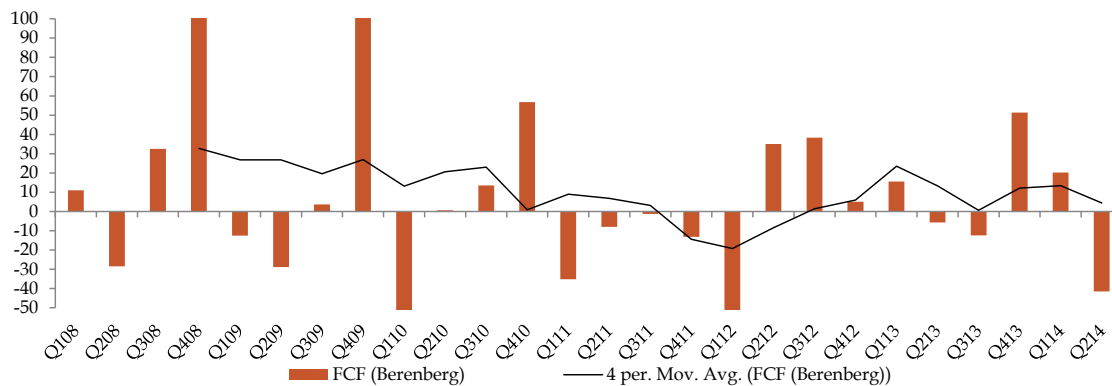
Source: Company reports, Berenberg

Contribution margin split: Services & Solutions



Source: Company reports, Berenberg

FCF (Berenberg adjusted) again turned negative in the last quarter



Source: Company data, Berenberg

Financials

Profit and loss account

Year-end December (EUR m)	2012	2013	2014E	2015E	2016E
Sales	2,941	2,914	2,940	3,102	3,277
Cost of sales	-	-	-	-	-
Gross profit	-	-	-	-	-
EBITDA	300	278	272	322	368
Depreciation and amortisation	-51	-52	-60	-50	-50
EBIT	249	226	212	272	318
Financial result	-54	-64	-63	-60	-55
Income on ordinary activities before taxes	-	-	-	-	-
Extraordinary income/loss	-32	-28	-16	0	0
EBT	195	175	158	212	263
Taxes	-36	-30	-33	-47	-61
Net income	128	117	109	165	203
Minority interest	5	-1	-1	0	0
Net income (net of minority interest)	133	116	108	165	203

Source: Company data, Berenberg estimates

Balance sheet

Year-end December (EUR m)	2012	2013	2014E	2015E	2016E
Liquid assets	70	363	0	0	0
Short-term debt	-	-	-	-	-
Long-term debt	-709	-990	0	0	0
Net debt	639	627	639	571	487
Property, plant and equipment	-	-	-	-	-
Financial assets	-	-	-	-	-
Other non-current assets	-	-	-	-	-
Fixed assets	1,325	1,290	1,352	1,380	1,412
Working capital before deferred income	-	-	-	-	-
Deferred income	-	-	-	-	-
Total working capital	432	868	855	860	874
Other assets/ (liabilities)	602	152	2,118	2,118	2,118
Net assets	1,110	1,135	2,012	2,112	2,243

Source: Company data, Berenberg estimates

Cash flow statement

EUR m	2012	2013	2014E	2015E	2016E
Cash flow from operations before changes in w/c	231	187	113	217	255
Change in working capital	-78	-35	13	-5	-14
Cash flow from operating activities	153	152	126	212	241
Net cashflow from operations	153	152	126	212	241
CapEx	-86	-56	-60	-78	-82
Free Cash flow (Equity)	24	49	66	135	159
Payments for acquisitions	-	-	-	-	-
Financial investments	-53	-14	0	0	0
Net share issuance	6	-3	0	0	0
Dividends paid	-109	-56	-61	-67	-74
Others	4	2	0	0	0
Effects of exchange rate changes on cash	-1	-4	0	0	0
Increase/decrease in liquid assets	-12	293	5	67	85

Source: Company data, Berenberg estimates

Growth rates yoy

(%)	2012	2013	2014E	2015E	2016E
Sales	9.4 %	-0.9 %	0.9 %	5.5 %	5.7 %
EBITDA	-4.3 %	-7.2 %	-2.1 %	18.2 %	14.5 %
EBIT	-7.1 %	-9.0 %	-6.3 %	28.2 %	17.2 %
Net income	-29.6 %	-8.4 %	-6.7 %	51.4 %	22.8 %
EPS reported	-	-	-	-	-
EPS recurring	-12.7 %	-8.4 %	-18.8 %	37.0 %	22.8 %

Source: Company data, Berenberg estimates



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Date	Price target - EUR	Rating	Initiation of coverage
<u>10 March 14</u>	<u>13.10</u>	<u>Hold</u>	<u>17 June 13</u>
<u>31 July 14</u>	<u>12.50</u>	<u>Hold</u>	

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Buy	43.08 %	71.43 %
Sell	15.4 %	3.57 %
Hold	41.52 %	25.00 %

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