

24th February 2012

IT Software & Services

Indra Sistemas

Price EUR10.80

FY11 results globally in line, disappointing FY12 margin guidance

Fair Value €10 (-7%)

SELL

Bloomberg	IDR SM
Reuters	IDR.MC
12-month High / Low (EUR)	15.8 / 9.7
Market Cap (EURm)	1,773
Ev (BG Estimates) (EURm)	2,319
Avg. 6m daily volume (000)	853.2
3y EPS CAGR	5.1%

Yesterday evening Indra reported FY11 results in line with expectations. FY12 op. margin guidance (8-9%) is disappointing, due to a deterioration in the environment in Spain and Politec's low margin. We consider the only positives to be Indra's firm intention to reduce capex, restore profitability to 10% by 2014, and the hope for a high dividend yield. We expect the shares to react negatively short-term.

ANALYSIS

	1 M	3 M	6 M	31/12/11
Absolute perf.	0.6%	10.2%	-9.7%	9.8%
Softw. & Comp.	9.1%	19.5%	28.1%	17.1%
DJ Stoxx 600	2.7%	19.9%	16.5%	8.0%

YEnd Dec. (€m)	2011	2012e	2013e	2014e
Sales	2,689	2,878	2,987	3,129
% change		7.0%	3.8%	4.8%
EBITDA	322	297	328	365
EBIT	268.0	219.0	264.0	316.0
% change		-18.3%	20.5%	19.7%
Net income	185.0	158.0	182.0	215.0
% change		-14.6%	15.2%	18.1%

	2011	2012e	2013e	2014e
Operating margin	10.3	8.7	9.4	10.1
Net margin	6.7	4.9	5.8	6.9
ROE	17.0	12.8	15.0	16.8
ROCE	13.6	12.0	12.3	13.2
Gearing	49.0	50.0	46.0	37.0

(€)	2011	2012e	2013e	2014e
EPS	1.12	0.96	1.10	1.30
% change		-14.3%	14.6%	18.2%
P/E	9.6x	11.3x	9.8x	8.3x
FCF yield (%)	1.2%	4.2%	6.7%	8.9%
Dividends (€)	0.7	0.7	0.6	0.7
Div yield (%)	6.3%	6.5%	5.4%	6.7%
EV/Sales	0.9x	0.8x	0.8x	0.7x
EV/EBITDA	7.1x	7.8x	7.0x	6.1x
EV/EBIT	8.3x	9.3x	8.2x	7.1x

- FY11 results globally in line.** For FY11, Indra reported sales up 5.1% (+2.7% excl. Politec and Galyleo) to EUR2,688.5m, an EBIT up 6.4% to EUR267.9m (10% of sales) incl. EUR7m acquisition & integration costs, and a net profit down 3.9% to EUR181.1m. Revenues are almost 1% above our forecast (EUR2,674m) and the consensus (EUR2,671m), but excluding acquisition and integration costs, the op. margin would have been at EUR275m or in line with our estimate (EUR274.3m) and the consensus (EUR268m incl. one-off costs). Order intake rose 3.3% (+1.6% lfl) to EUR2,976m with +0% lfl in Solutions (Consulting, Systems Integration, own products) and +4% lfl in Services (IT Outsourcing and BPO), while the backlog grew 11.4% (+7.5% lfl) to EUR3,231m (1.2x sales). Net debt on 31st December 2011 was EUR514m (1.6x EBITDA, net gearing 49%), with an operating cash flow up 16.3% to EUR324.4m and a net working capital of 98 days (vs. 93 in 2010), which is below the 108 days guided three months ago, due to some unexpected revenue collection by year end.

- Q4 11 details.** Q4 11 sales rose 11.9% at EUR758.8m. Excl. Politec and Galyleo, growth was 4.1% lfl, which marks an improvement versus previous quarters (+2.1% in Q1, +1.6% in Q2, +2.9% excl. Galyleo in Q3). By industry: 1. Security & Defence (24% of sales) was up 6.4% apparently due to an unexpected order; 2. Transport & Traffic (21%) was up 16% sustained by Air Traffic Management; 3. Energy & Industry (16%) grew 17.2% helped by acquisitions, Spain, and contracts in Peru (oil, water) and Colombia (oil); 4. Public Administration & Healthcare (15%) rose 20.7% helped by acquisitions, balloting projects (Spain, Colombia, Argentina) and a Healthcare project in Bahrain; 5. Financial Services (12%) grew 13.1% only thanks to acquisitions; 6. Telecom & Media (12%) was down 0.8% due to tough comps vs. Q4 10 (Prisa contract). At the geographic level, Spain (51% of sales) was down 5.3%, Europe ex-Spain was up an est. +31% lfl, Latin America (22% of sales) grew an est. +11.5% lfl, North America grew 34.7%, and Africa/Asia/Australia was up 7.8%.

- FY12 guidance: prudent on margins.** On the back of a still difficult market environment (particularly in Spain, while international markets will remain the growth engine), Indra anticipates for FY12: 1. sales up 6.5-7.5% (to an est. EUR2,860-2,890m), or 1-2% above our former forecast (EUR2,843m), while we estimate growth excl. Polytec and Galyleo could be at c.+1%; 2. A "clean" op. margin of 8-9% (far below our former 10.4% est., vs. consensus at 9.5%), which is expected to recover at c.10% in 2014; 3. Restructuring costs of 1% of sales (c.EUR30m) in 2012 and 0.5% (c.EUR15m) in 2013. This denotes a profitability deterioration in Spain and Politec's low op. margin (slightly loss making in 2011, est. 4% in 2012). In addition, the group intends to decrease the level of tangible and intangible capex to EUR65-75m per year (vs. EUR111m in 2011), while net working capital is projected to be in the range of 100-110 days of sales in 2012.

- Adjusting our forecasts.** We up our sales ests. by 1-2%, while we cut our op. margin ests. to 8.7% from 10.4% in 2012 and to 9.4% from 10.5% in 2013. This negative effect is offset at the valuation level by the significant reduction in capex in the years ahead.

VALUATION

Indra's shares are trading at est. 9.3x 2012 and 8.2x 2013 EV/EBIT multiples.

NEXT CATALYSTS

Q1 12 results in May.



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