

10th May 2013

IT Software & Services

Indra Sistemas

Price EUR10.56

Q1 13 results roughly in line, FY13 guidance reiterated, and dividend cut

Fair Value EUR8.8 vs. EUR8.6 (-17%)

SELL

Bloomberg	IDR SM
Reuters	IDR.MC
12-month High / Low (EUR)	10.8 / 6.1
Market Cap (EUR)	1,733
Ev (BG Estimates) (EUR)	2,321
Avg. 6m daily volume (000)	677.5
3y EPS CAGR	9.6%

We reiterate our Sell rating but raise our DCF-derived fair value to EUR8.8 from EUR8.6 following Indra's board decision to cut the dividend by 50% in 2013, which will reduce net gearing by an est. 12ppt and have a 3% positive impact to our fair value. Q1 13 results reported yesterday evening were roughly in line with expectations and management reiterated FY13 guidance. While the decision to cut the dividend is a sensible one in our view, we consider this is not a positive signal to shareholders who were holding Indra shares just for the high dividend yield it used to offer until now (7%).

	1 M	3 M	6 M	31/12/12
Absolute perf.	13.1%	17.5%	22.1%	5.4%
Softw. & Comp.	6.1%	6.4%	14.6%	6.9%
DJ Stoxx 600	5.4%	5.7%	12.4%	8.6%

YEnd Dec. (€m)	2012	2013e	2014e	2015e
Sales	2,941	3,004	3,104	3,247
% change		2.1%	3.3%	4.6%
EBITDA	305	294	323	359
EBIT	217.0	220.0	267.0	301.0
% change		1.4%	21.4%	12.7%
Net income	151.0	147.0	173.0	200.0
% change		-2.6%	17.7%	15.6%

	2012	2013e	2014e	2015e
Operating margin	8.5	8.0	8.6	9.3
Net margin	4.5	4.5	5.6	6.1
ROE	12.0	11.3	13.2	13.8
ROCE	11.7	10.8	11.3	12.5
Gearing	57.0	49.0	37.0	26.0

(€)	2012	2013e	2014e	2015e
EPS	0.92	0.89	1.05	1.21
% change	-	-3.3%	18.0%	15.2%
P/E	11.5x	11.9x	10.1x	8.7x
FCF yield (%)	3.9%	9.7%	11.8%	12.6%
Dividends (€)	0.34	0.34	0.42	0.48
Div yield (%)	3.2%	3.2%	4.0%	4.5%
EV/Sales	0.8x	0.8x	0.7x	0.7x
EV/EBITDA	7.8x	7.9x	6.9x	5.9x
EV/EBIT	9.5x	9.7x	8.3x	7.0x

ANALYSIS

- Q1 13 results roughly in line.** Indra reported sales up 1.9% to EUR727.7m, an adj. EBIT down 4% to EUR57.3m (7.9% of sales, vs. 8.4% in Q1 12) before EUR7.7m restructuring costs, and net profit down 14% to EUR26.8m. Revenues are in line with our forecast (EUR731.9m) and the consensus (EUR729m), while the adj. EBIT margin is above our est. (7.4%) but fully in line with the consensus figure (7.9%), and net profit was 13% below our ests. (EUR30.7m) and 8% behind consensus (EUR29.1m) due to higher-than-expected interest costs. Order intake was down 14% (% lfl) to EUR1,055m - but up 4% excluding a EUR205m order on the high speed train project in Saudi Arabia in Q1 12 - with -23% in Solutions (Consulting, Systems Integration, own products) and flat in Services (IT Outsourcing and BPO), while the book-to-bill ratio represented 1.44x sales (vs. 1.71x in Q1 12). Year-to-date operating cash flow was down 26% to EUR41.9m and the net working capital totalled 103 days (vs. 106 in Q1 12), in line with the full-year guidance (100-110 days).
- Q1 13 details.** By industry: 1). Transport & Traffic (18% of sales) was down 1.3%, with a strong decline in Spain and a surge elsewhere; 2). Financial Services (17%) was up 6.3% with double-digit growth in LatAm and a moderate increase in Spain; 3). Energy & Industry (18%) was up 6.5% with double-digit growth in Energy and a flat performance in Industry; 4). Telecom & Media (14%) was up 1.3% with the perspective of deploying Telecom projects in LatAm; 5). Security & Defence (18%) was down 7.2% due to the weakness of Spain; 6). Public Administration & Healthcare (16%) was up 8.2%, driven by Asia, Middle-East & Africa, while Spain fell double-digit, and such a growth rate is expected to moderate due to tough comps in Q3. At the geographic level, Spain (43% of sales) was down 12% in line with Indra's expectations, Latin America (26%) was up 10.2% and is expected to accelerate throughout the year, Rest of Europe & North America (20%) was up 2%, and Africa/Asia/Australia (11%) was up 80% but is expected to decelerate.
- FY13 guidance reiterated and dividend cut.** Indra reiterated FY12 guidance, i.e. revenue growth slightly positive and an adj. EBIT margin of 8% before EUR20m restructuring costs. Restructuring is on schedule, with 39% of annual costs implemented in Q1. Net debt (EUR633.7m or 2.1x LTM adj. EBITDA) is unchanged compared to late 2012. Finally, on 21st March, Indra proposed a significant cut in the dividend to be paid in 2013 (for 2012) at EUR0.34, down from EUR0.68 in 2012 (while we expected EUR0.68). This implies a 42% pay-out and a 3.5% yield, which are admittedly way below what Indra used to pay in the past, but will help the company not to increase financial leverage in the future. In 2014, Indra intends to maintain or increase the dividend. We estimate that thanks to this decision the company will reach end 2013 with a net gearing ratio of 49% instead of 57%.

VALUATION

- Indra's shares are trading at est. 9.7x 2013 and 8.3x 2014 EV/EBIT multiples.
- Net debt on 31st March 2013 was EUR633.7m (net gearing: 56%).

NEXT CATALYSTS

Q2 13 results on 25th July after markets close.

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