

Q3 results postview - Mid Caps

Rating	TP	EPS 11e	EPS 12e
	⬇️ (5%)	⬇️ (4%)	⬇️ (3%)

Price (11 November 2011)	EUR11.6
Market cap./Free float (EURbn)	1.9/1.1
EV (EURbn)	2.4
3m avg. volume (EURm)	9.5
Reuters/Bloomberg	IDR.MC/IDR SM

Financial data	12/10	12/11e	12/12e	12/13e
Adjusted EPS (EUR)	1.17	1.03	1.06	1.11
EPS - IBES (EUR)	1.33	1.18	1.20	1.30
Net dividend (EUR)	0.68	0.65	0.65	0.67

Sales (EURm)	2,557	2,686	2,821	2,878
Adjusted EBITA (EURm)	254.7	238.3	256.1	277.0
Adj. net profit (EURm)	190.5	167.4	173.4	180.9
Adj. net debt / EBITDA (x)	0.9	1.9	1.9	1.9

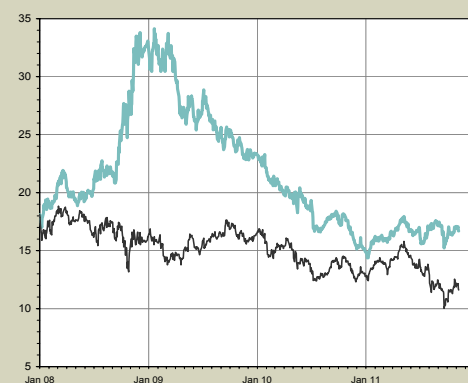
Stockmarket ratios*	12/10	12/11e	12/12e	12/13e
P/E (x)	12.1	11.3	10.9	10.4
P/BV (x)	2.3	1.8	1.7	1.6
Net yield (%)	4.8	5.6	5.6	5.8
FCF yield (%)	0.2	(0.1)	3.1	4.2
EV/Sales (x)	1.0	0.9	0.9	0.9
EV/EBITDA (x)	8.7	8.2	7.8	7.3
EV/EBITA (x)	10.2	9.9	9.5	8.9

* Yearly average price for FY ended 12/10

Performance* (%)	1w	1m	3m	12m
Absolute	(4)	1	(4)	(13)
Rel. IT Services	(5)	(2)	(4)	(1)
Rel. MSCI SMID	(4)	(2)	(7)	(3)

* In listing currency, with dividend reinvested

Price relative to MSCI SMID



— Relative to MSCI SMID — Indra

Underperform

Target price	EUR9.5 (-18%)
Sector rating	Neutral

Q3 2011: growing evidence of a FCF issue

► 2011 guidance roughly in line with consensus

After posting Q3 numbers that were in line at the Revenues and EBIT level (see Revenues trends on the following page), Indra has guided the market for EUR2,675m in 2011 revenues and an EBIT margin of 10% (impacted by the dilution of acquired companies and integration costs). The resulting 2011 EBIT guidance (EUR 267m–268m) was 1% below consensus (EUR270m), a sign that some analysts had not fairly estimated the contribution of Galyleo (Italy) and Politec (Brazil).

► Quicker than expected drift in net working capital/Sales

The net working capital/Sales ratio has risen to 108 days at end-September from 100 days at end-June on the back of continuing delay in the billing process of some Spanish clients. But the more alarming news is that Indra also guided for around 108 days at end-December when the seasonality of previous years showed a clear improvement in Q4. As a result, net debt at end-2011 should now be in the range of EUR500m-550 m when we had expected EUR492m and consensus EUR465m. We had been expecting FCF issues at Indra (see our downgrade on 20 September) but did not expect them to surface so early. We believe these issues are here to stay as they relate to the commercial relationship between Indra and some domestic clients.

► EPS cut for 2011 and 2012 on the back of higher financial charges

There has been a sharp rise in financial charges in the P&L, from EUR10.5m in H1 to EUR11.8m in Q3. This is the underlying reason for our EPS cuts for 2011 and 2012. The rise suggests not only a rise in net debt but also in the cost of debt.

► Underperform rating maintained, with TP cut to EUR 9.5 (from EUR 10)

Indra is likely to lose its valuation premium (EV/EBITA 12e of 9.5x) vs the IT Services sector on the back of growing concern about the FCF deterioration and the continued rise in net debt. Despite the high quality of the company's offerings, the exposure to Spain (59% of Sales) and Public Sector (59% of Sales) are likely to keep impairing the debt situation (net debt/EBITDA of 1.9x end of 2012e). Our TP cut to EUR 9.5 is based on EPS cuts for 2011 and 2012 and also an estimated rise in net debt between 2011 and 2013.

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Main expected short term growth trends

By Vertical

- **Transport & Traffic (23% of Sales):** International accounts for more than 50% of Revenues. The growth of that region (especially Latin America) offsets the decline in the domestic market.
- **Security & Defence (17% of Sales):** Indra expects the sales decline (-22% over the 9M) to soften by the end of the year. We believe it is attributable to the more favourable comps on the Eurofighter contract. We would be positively surprised if the expected improvement in Q4 2011 is also due to an improvement in the Spanish market.
- **Telecoms and Media (16% of Sales) :** The +33% growth rate over 9M 2011 is not sustainable from Q4 2011. The growth of the 9M was due to an important outsourcing deal that ramped up during Q4 2010.
- **Energy & Utilities (15% of Sales) :** The 10% growth there has been driven by International operations (Latin America) but Indra guides for a slowdown starting Q4 2011.
- **Financial Services (15% of Sales) :** Indra has started to see some signs of slowdown in the decision making process. Indra capitalises on its presence in the large Spanish banks to benefit from the concentration process that has begun.

By Geographic Market

- **Collapsing growth in Spain (59% of Sales):** After being at 0% in H1, revenue growth in Spain is now -2% over the 9M; **that implies around -5% for Q3 2011.**
- **Sharp acceleration in Latin America (17% of Sales):** This region has witnessed a sharp acceleration in growth from +16% in H1 to +36% in Q3. It is entirely organic as Politec consolidation starts only in Q4. This rate of growth is expected to continue in Q4 2011. Brazil, Argentina, Colombia and Peru continue to grow faster than the average for the region.
- **Rest of Europe (16% of Sales):** This region has declined by 7% over Q3, similar to H1. This is due to the slowdown in the production of the Eurofighter, which will affect the region's performance for the whole year.

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Investment banking	Distributor	Liquidity provider	Corporate links	Analyst's personal interest	Equity stake		Amended after Disclosure to company	Additional material conflicts
					US Law	French Law		
NO	NO	NO	NO	NO	NO	NO	NO	NO

Source: Exane

BNP Paribas

Potential conflicts of interest: None.

Source: BNP Paribas

Price at 11 Nov. 11 / Target Price
EUR11.6 / EUR9.5 -18%

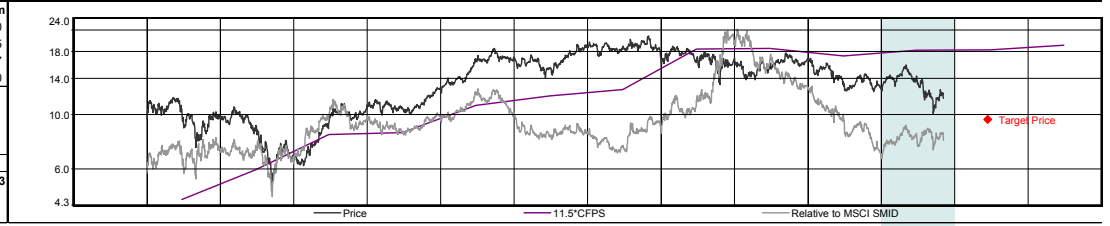
INDRA (Underperform)

Reuters / Bloomberg: IDR.MC / IDR.SM

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IT Services (Neutral) - Spain

Company Highlights			
Enterprise value	2,370		
Market capitalisation	1,885		
Free float	1,107		
3m average volume	10		
Performance (%)			
Absolute	1m	3m	12m
Rel. Sector	(2%)	(4%)	(13%)
Rel. MSCI SMID	(2%)	(7%)	(3%)
12m Hi/Lo (EUR)	: 15.8 -27% / 10.0 +15%		
CAGR			
EPS restated (**)	2002/2011	2011/2013	
CFPS	9%	4%	
CFPS	13%	2%	



Price (yearly avg from Dec. 01 to Dec. 10)	9.9	8.3	8.7	10.9	15.4	16.5	18.7	16.9	15.8	14.2	11.6	11.6	11.6
PER SHARE DATA (EUR)	Dec. 01	Dec. 02	Dec. 03	Dec. 04	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Dec. 09	Dec. 10	Dec. 11e	Dec. 12e	Dec. 13e
No of shares year end, basic, (m)	147,902	147,902	147,902	154,289	146,188	146,188	164,133	164,133	164,133	164,133	164,133	164,133	164,133
Average no of shares, diluted, excl. treasury stocks (m)	147,902	151,534	154,397	154,289	147,242	143,575	161,437	160,101	161,053	162,445	163,033	163,033	163,033
EPS reported	0.32	0.38	0.46	0.52	0.70	0.78	0.91	1.12	1.18	1.15	1.16	1.15	1.18
EPS restated	0.35	0.49	0.61	0.56	0.70	0.77	0.94	1.05	1.11	1.17	1.03	1.06	1.11
% change	NS	40.0%	23.6%	(7.2%)	24.5%	10.5%	22.2%	11.2%	5.3%	6.0%	(12.4%)	3.5%	4.4%
CFPS	0.39	0.51	0.72	0.73	0.94	1.03	1.09	1.59	1.60	1.49	1.57	1.58	1.65
Book value (BVPS) (a)	1.5	1.7	2.3	2.6	1.9	2.4	4.2	4.8	5.7	6.0	6.3	6.9	7.4
Net dividend	0.08	0.11	0.16	0.52	0.39	0.43	0.50	0.61	0.67	0.68	0.65	0.65	0.67

STOCKMARKET RATIOS													
YEARLY AVERAGE PRICES for end Dec. 01 to Dec. 10													
	Dec. 01	Dec. 02	Dec. 03	Dec. 04	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Dec. 09	Dec. 10	Dec. 11e	Dec. 12e	Dec. 13e
P / E (P/ EPS restated)	28.4x	17.0x	14.4x	19.5x	22.1x	21.3x	19.8x	16.1x	14.3x	12.1x	11.3x	10.9x	10.4x
P / E relative to MSCI Small Cap		83%	93%	106%	122%	110%	110%	87%	67%	70%	83%	100%	111%
P / CF	25.5x	16.2x	12.2x	15.0x	16.4x	16.1x	17.2x	10.6x	9.9x	9.5x	7.3x	7.3x	7.0x
FCF yield	1.1%	6.1%	6.7%	5.3%	2.2%	4.0%	2.1%	4.0%	4.3%	0.2%	(0.1%)	3.1%	4.2%
P / BVPS	6.70x	4.81x	3.84x	4.21x	7.97x	6.97x	4.41x	3.56x	2.78x	2.35x	1.83x	1.69x	1.56x
Net yield	0.9%	1.3%	1.9%	4.8%	2.5%	2.6%	2.7%	3.6%	4.2%	4.8%	5.6%	5.6%	5.8%
Payout	24.2%	22.3%	26.9%	92.8%	55.8%	55.7%	53.0%	58.1%	60.4%	58.0%	63.0%	61.0%	60.4%
EV / Sales	2.23x	1.47x	1.23x	1.49x	1.95x	1.85x	1.54x	1.25x	1.12x	1.02x	0.88x	0.86x	0.86x
EV / Restated EBITDA	17.9x	11.5x	9.5x	12.0x	14.7x	14.1x	12.5x	10.1x	9.0x	8.7x	8.2x	7.8x	7.3x
EV / Restated EBITA	20.6x	13.3x	11.1x	14.0x	16.6x	16.2x	14.5x	11.8x	10.6x	10.2x	9.9x	9.5x	8.9x
EV / OpFCF	43.2x	12.9x	10.6x	14.2x	30.0x	17.7x	24.5x	17.7x	14.2x	35.7x	34.0x	17.6x	14.4x
EV / Capital employed (incl. gross goodwill)	10.7x	6.5x	7.1x	10.7x	9.1x	5.9x	3.7x	3.2x	2.6x	2.1x	1.6x	1.5x	1.4x

ENTERPRISE VALUE (EURm)													
Market cap	1,469	1,227	1,293	1,689	2,272	2,368	3,025	2,710	2,539	2,302	1,885	1,885	1,885
+ Adjusted net debt	(75)	(37)	(137)	(205)	(54)	59	150	149	135	275	541	599	635
+ Other liabilities and commitments	15	5	4	5	3	21	9	3	50	20	33	33	34
+ Revalued minority interests	395	164	137	151	158	180	183	146	124	53	37	37	37
- Revalued investments	80	79	89	30	34	30	37	43	41	50	126	127	127

P & L HIGHLIGHTS (EURm)													
Switch to IFRS data from FY ended 12/05													
	Dec. 01	Dec. 02	Dec. 03	Dec. 04	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Dec. 09	Dec. 10	Dec. 11e	Dec. 12e	Dec. 13e
Sales	774.3	873.6	981.4	1,079.2	1,202.2	1,406.8	2,167.6	2,379.6	2,513.2	2,557.0	2,685.6	2,821.5	2,877.9
Restated EBITDA (b)	96.3	111.5	127.2	134.3	159.1	183.6	265.4	293.4	311.5	298.1	289.9	312.1	336.1
Depreciation	(12.7)	(15.4)	(18.1)	(19.5)	(18.1)	(23.4)	(35.2)	(41.2)	(47.5)	(43.4)	(51.6)	(56.1)	(58.1)
Restated EBITA (b) (**)	83.7	96.0	108.1	114.8	141.0	160.2	230.2	252.2	264.0	254.7	238.3	256.1	277.0
Reported operating profit (loss)	83.7	96.0	109.1	114.8	141.8	161.0	222.2	266.9	279.9	250.5	265.7	274.1	291.6
Net financial income (charges)	0.8	0.3	4.6	4.4	4.5	(1.4)	(12.7)	(22.9)	(24.5)	(19.0)	(29.0)	(33.9)	(35.7)
Affiliates	(1.8)	(0.6)	0.6	(6.3)	(0.8)	0.5	1.7	3.5	(0.1)	0.7	2.4	0.4	0.4
Other	(1.9)	(12.2)	(17.6)	(1.9)	(0.7)	(0.5)	(0.2)	0.1	0.0	0.0	0.0	0.0	0.0
Tax	(19.6)	(14.4)	(18.8)	(22.8)	(37.9)	(44.2)	(57.4)	(65.0)	(62.7)	(45.7)	(51.3)	(54.6)	(65.8)
Minorities	(11.7)	(8.1)	(2.1)	(4.5)	(3.4)	(3.8)	(7.0)	(3.7)	(2.4)	0.6	1.2	1.3	1.3
Goodwill amortisation	(1.4)	(3.6)	(4.2)	(3.7)	-	-	-	-	-	-	-	-	-
Net attributable profit reported	48.0	57.4	71.7	80.0	103.5	111.5	146.6	179.0	190.1	187.1	189.0	187.3	191.8
Net attributable profit restated (c)	50.4	70.4	89.0	82.9	102.9	110.9	152.4	168.1	178.1	190.5	167.4	173.4	180.9

CASH FLOW HIGHLIGHTS (EURm)													
	Dec. 01	Dec. 02	Dec. 03	Dec. 04	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Dec. 09	Dec. 10	Dec. 11e	Dec. 12e	Dec. 13e
EBITDA (reported)	96.3	111.5	127.2	134.3	160.5	187.0	259.2	312.6	334.3	295.2	320.3	335.1	357.7
EBITDA adjustment (b)	0.0	0.0	0.0	0.0	(1.4)	(3.4)	6.2	(19.2)	(22.8)	2.9	(30.4)	(23.0)	(21.6)
Other items	(6.2)	(11.0)	4.4	(0.4)	7.2	12.8	(12.9)	19.0	31.8	11.2	38.3	24.4	23.1
Change in WCR	(25.0)	27.1	1.1	(5.4)	(70.1)	(11.4)	(45.6)	(77.5)	(66.4)	(144.6)	(139.3)	(72.1)	(57.7)
Operating cash flow	65.1	127.6	132.6	128.5	96.2	185.0	206.9	234.8	276.9	164.6	188.8	264.5	301.5
Capex	(25.2)	(28.1)	(18.4)	(15.1)	(17.9)	(38.0)	(71.2)	(67.2)	(79.8)	(91.9)	(119.1)	(126.4)	(130.5)
Operating free cash flow (OpFCF)	39.9	99.5	114.2	113.4	78.3	147.0	135.8	167.6	197.2	72.8	69.7	138.1	171.0
Net financial items + tax paid	(19.6)	(14.4)	(18.8)	(15.7)	(23.6)	(44.1)	(68.9)	(52.4)	(82.6)	(67.1)	(71.7)	(79.2)	(90.5)
Free cash flow	20.3	85.1	95.4	97.6	54.7	102.9	66.9	115.2	114.6	5.7	(2.0)	58.9	80.5
Net financial investments & acquisitions	(66.6)	(73.3)	(7.6)	(9.3)	(24.2)	(148.8)	(39.3)	(15.1)	(20.2)	(46.5)	(154.1)	(10.0)	(10.0)
Other	0.0	(31.8)	9.4	6.1	(0.7)	(10.8)	8.6	5.0	8.3	13.7	18.9	0.0	0.0
Capital increase (decrease)	(1.1)	(4.0)	19.7	0.0	(102.9)	0.0	1.0	(21.5)	12.9	(6.4)	(18.5)	0.0	0.0
Dividends paid	(11.9)	(13.5)	(16.6)	(26.6)	(77.9)	(56.2)	(128.8)	(82.4)	(101.0)	(106.8)	(110.9)	(106.2)	(106.5)
Increase (decrease) in net financial debt	59.3	37.5	(100.3)	(67.8)	151.1	113.0	91.6	(1.3)	(14.6)	140.3	266.6	57.3	36.0
Cash flow, group share	58	78	110	112	138	147	176	254	257	242	256	257	269

BALANCE SHEET HIGHLIGHTS (EURm)													
	Dec. 01	Dec. 02	Dec. 03	Dec. 04	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Dec. 09	Dec. 10	Dec. 11e	Dec. 12e	Dec. 13e
Fixed operating assets, incl. gross goodwill	149	184	172	146	194	312	622	662	716	825	994	1,079	1,167
WCR	13	19	19	8	67	132	297	305	420	493	633	705	762
Capital employed, incl. gross goodwill	162	204	191	154	262	443	920	967	1,135	1,318	1,626	1,784	1,930
Shareholders' funds, group share	219	255	337	402	283	346	697	781	932	991	1,039	1,126	1,219
Minorities	59	34	36	36	20	26	42	42	45	23	20	19	18
Provisions/ Other liabilities	43	28	23	32	68	75	98	66	94	130	208	222	240
Net financial debt (cash)	(75)	(37)	(137)	(205)	(54)	59	150	149	135	275	541	599	635

FINANCIAL RATIOS (%)													
	Dec. 01	Dec. 02	Dec. 03	Dec. 04	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Dec. 09	Dec. 10	Dec. 11e	Dec. 12e	Dec. 13e
Sales (% change)	NS	12.8%	12.3%	10.0%	11.4%	17.0%	54.1%	9.8%	5.6%	1.7%	5.0%	5.1%	2.0%
Organic sales growth	11.0%	13.7%	12.6%	10.6%	9.4%	9.7%	10.9%	10.2%	6.3%	0.3%	3.1%	(0.2%)	2.0%
Restated EBITA (% change) (**)	NS	14.8%	13.6%	5.2%	22.9%	13.6%	43.7%	9.5%	4.7%	(3.5%)	(6.5%)	7.5%	8.2%
Restated attributable net profit (% change) (**)	NS	43.1%	25.9%	(7.1%)	18.8%	7.8%	37.4%	10.3%	6.0%	7.0%	(12.1%)	3.5%	4.4%
Personnel costs / Sales	33.3%	31.4%	29.7%	29.3%	29.3%	32.6%	38.8%	41.1%	40.1%	41.0%	43.6%	44.5%	44.5%
Restated EBITDA margin	12.4%	12.8%	13.0%	12.4%	13.2%	13.1%	12.2%	12.3%	12.4%	11.7%	10.8%	11.1%	11.7%
Restated EBITA margin	10.8%	11.0%	11.1%	10.6%	11.7%	11.4%	10.6%</						

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