

Indra

Recovery could take longer than expected

Results came in below expectations

Indra released a weak set of Q3 results. Revenues came in at €633m, down 3% y/y, this was 2% below our estimates. EBIT came in at €43m, down by -13% y/y and again below our €47m estimate. EBIT margin at 7% reflected poor underlying margins as well as restructuring expenses. Net income came in at €19m, down by 41% y/y reflecting poor operating trends but also a higher cost of debt than expected.

Spain IT and public IT/defense spending unlikely to recover soon, Latam slows

The Spanish business (40% of sales) is still declining at Indra, down 11% YTD. The rate of decline is slowing but is heavily affected by public budget cuts which in our view are unlikely to recover soon. Pricing pressure from large corporates may recede as macro recovers but can take time due to overcapacity. Latam (30% of sales) continues to grow nicely, though currency impact and macro slowdown in Brazil is having some impact in the short-term. The weak backlog (-3%) and the order intake (-10%) points to a delay recovery, unlikely to be too visible in 2014.

Cash flow should turn the corner but Q3 was a poor quarter

Q3 results continue to reflect continued working capital outflows (€-33m) and other outflows (eg VAT etc at €-51m). As a result FCF was negative and net debt continued to move up (at €707m vs. €661m a year ago). This probably explains the recent convertible launch which is quite dilutive (c7% on EPS). The presence of the government as a new shareholder (20% stake) removed the overhang but in our view also removes some pressure on management to focus on short-term value creation.

Valuation: Stock has been a good performer in 2013. We move to Sell

Following a weak Q3 we reduce our EPS 2013E by 3%, 2014E by 9% and 2015E by 14%. We expect earnings to recover but at a slower pace due to budget cuts in Spain and Latam slowdown. On our new estimate the stock trades on 13x PE 2014E and 12x EV/EBIT which is a premium to peers. Our new €9.5 target is DCF based and is down from €10.3 reflecting lower estimates and the roll-over to 2014E. New rating is Sell.

Equities

Spain
Advanced Industrial Equipment

| | |
|---------------------------------------|-----------------------|
| 12-month rating | Sell |
| | <i>Prior: Neutral</i> |
| 12m price target | €9.50 |
| | <i>Prior: €10.20</i> |
| Price | €11.45 |
| RIC: IDR.MC BBG: IDR SM | |

Trading data and key metrics

| | |
|-----------------------------------|--------------------|
| 52-wk range | €12.64-8.58 |
| Market cap. | €1.91bn/US\$2.57bn |
| Shares o/s | 167m (BEAR) |
| Free float | 75% |
| Avg. daily volume ('000) | 755 |
| Avg. daily value (m) | €8.7 |
| Common s/h equity (12/13E) | €0.94bn |
| P/BV (UBS, 12/13E) | 2.0x |
| Net debt / EBITDA (12/13E) | 2.6x |

EPS (UBS, diluted) (€)

| | From | To | % ch | Cons. |
|---------------|------|------|--------|-------|
| 12/13E | 0.84 | 0.81 | -2.91 | 0.81 |
| 12/14E | 0.95 | 0.87 | -8.92 | 0.91 |
| 12/15E | 1.01 | 0.87 | -14.14 | 1.02 |

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| Highlights (€m) | 12/10 | 12/11 | 12/12 | 12/13E | 12/14E | 12/15E | 12/16E | 12/17E |
|--------------------------|-------|-------|-------|--------|--------|--------|--------|--------|
| Revenues | 2,557 | 2,689 | 2,941 | 2,946 | 3,019 | 3,143 | 3,280 | 3,424 |
| EBIT (UBS) | 252 | 268 | 217 | 209 | 226 | 235 | 246 | 256 |
| Net earnings (UBS) | 189 | 181 | 142 | 136 | 144 | 145 | 151 | 159 |
| EPS (UBS, diluted) (€) | 1.13 | 1.09 | 0.85 | 0.81 | 0.87 | 0.87 | 0.91 | 0.95 |
| DPS (€) | 0.68 | 0.68 | 0.34 | 0.34 | 0.42 | 0.40 | 0.41 | 0.48 |
| Net (debt) / cash | (274) | (512) | (633) | (683) | (667) | (647) | (599) | (549) |
| Profitability/valuation | 12/10 | 12/11 | 12/12 | 12/13E | 12/14E | 12/15E | 12/16E | 12/17E |
| EBIT margin % | 9.9 | 10.0 | 7.4 | 7.1 | 7.5 | 7.5 | 7.5 | 7.5 |
| ROIC (EBIT) % | 18.7 | 17.7 | 12.5 | 11.4 | 11.9 | 12.0 | 12.2 | 12.5 |
| EV/EBITDA (core) x | 8.7 | 8.0 | 7.3 | 9.8 | 9.2 | 8.8 | 8.3 | 7.8 |
| P/E (UBS, diluted) x | 12.5 | 11.8 | 10.0 | 14.1 | 13.2 | 13.1 | 12.6 | 12.0 |
| Equity FCF (UBS) yield % | 2.8 | 1.5 | 3.8 | 1.9 | 3.7 | 4.6 | 5.8 | 6.2 |
| Net dividend yield % | 4.8 | 5.3 | 4.0 | 3.0 | 3.6 | 3.5 | 3.6 | 4.2 |

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of €11.45 on 04 Nov 2013 18:03 GMT

Investment Thesis

Indra

Investment case

Indra is Spain's leading IT Services provider and has significant exposure to Latin America. While the domestic end markets are challenged, growth in emerging markets and elsewhere is rebalancing the business mix favourably. Its "solutions" bias is a positive for long-term margins by providing differentiation and a higher intellectual property content than with traditional services companies. However, the end markets in Spain are poor with pricing pressure intense and working capital investments high. Improvements will take time to be seen.

Upside scenario

A full macro recovery combined with market share gain may reinforce Indra's margins back to 10% which would lead to an EPS upgrade of 35% by 2015E. This would impact our DCF valuation up to €13 which would offer substantial upside.

Downside scenario

Continued slowdown in Spain and Latam may lead to structurally lower margins and poor top line. Assuming a bearish scenario on margins at 6% this would lead to our DCF valuation to decrease to €7, offering notable downside.

Upcoming catalysts

We expect next quarter the company to release outlook for 2014 which may provide some colour on the capacity to turnaround the tough situation in Spain.

12-month rating

Sell

12m price target

€9.50

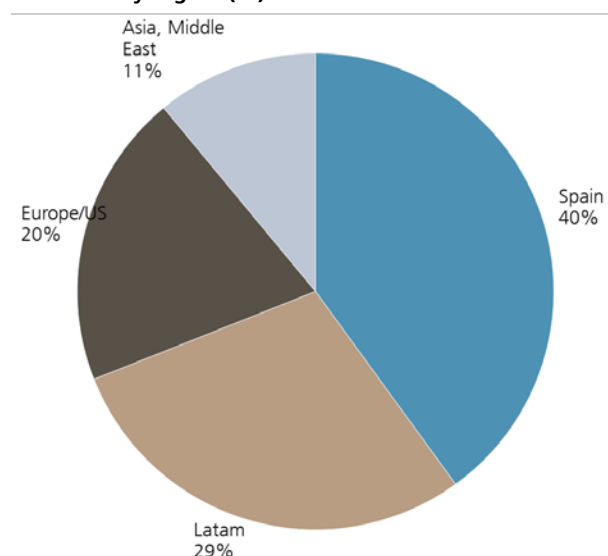
Business description

Indra is Spain's leading IT services provider and has exposure to Latin America. Formerly a government-owned company, it has exposure to defense and public administration contracts. The company is also a leading IT services provider to Spanish multinationals and its foreign subsidiaries. The group serves a number of verticals, including some niche market areas (e.g., air traffic control), and some more 'standard' systems integration work in verticals such as telecom, finance, and the public sector.

Industry outlook

The European IT Services sector is inherently geared to the local economy and capex outlook. Having weathered several lean years conditions seem a little better now, however the environment remains fragile. Increased penetration of offshore pure-plays in Europe poses a rising threat to prices and margins for those without a response. Consolidation is likely to remain a feature of the industry, as will the shift into non-linear revenues (IP-based technology), to ensure differentiation and add scalability to the business.

Revenues by region (%)



Source: Company data

EBIT by product segment

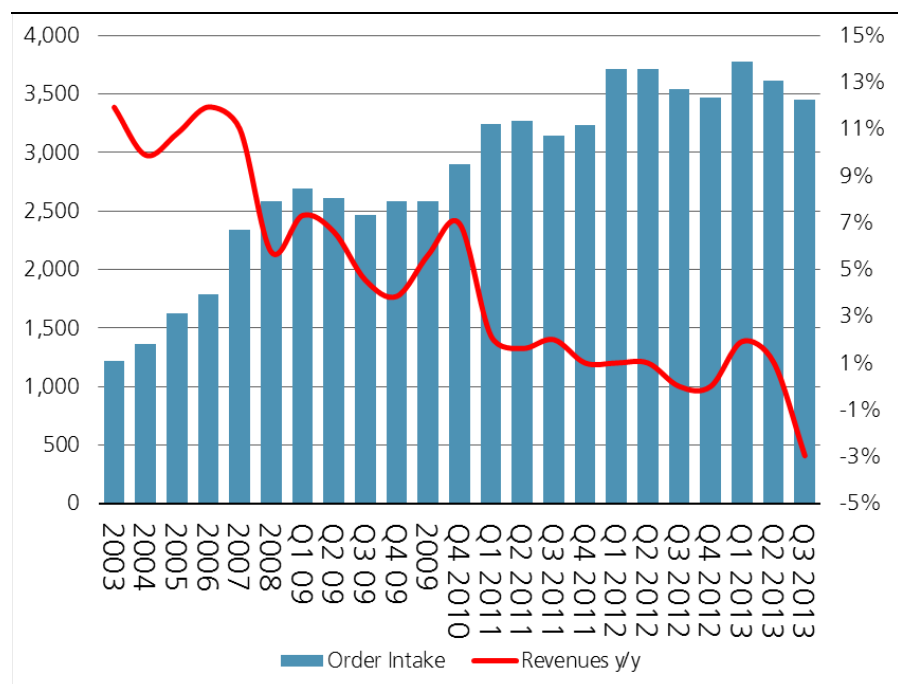
Indra's solutions area represents c70% of EBIT while the services activity is c30% of EBIT.

Earnings downgrade

We are revising our estimates on Indra following a weak quarter. Up to now we expected the company to reflect better growth trends in 2014-15, we still expect better figures ahead but recovery is likely to be delayed given continued budget cuts and slowdown in areas such as Brazil and Argentina where Indra is quite exposed (majority of Latam revenues which represent c30% of sales).

As we reflect below both the revenue trends and the backlog data continue to be under pressure, which points to a weaker 2014-15 than we previously expected.

Figure 1: Indra's revenue growth and backlog



Source: Company data

Figure 2: Details on backlog and order intake

| Eur. M. | 2005 | 2006 | 2007 | 2008 | 2009 | Q4 2010 | Q4 2011 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 |
|------------------------------|-------|-------|-------|-------|-------|---------|---------|---------|---------|---------|---------|
| Order Intake | 1,417 | 1,502 | 2,242 | 2,428 | 2,697 | 2,882 | 2,976 | 3,193 | 1054.8 | 1,672 | 2176.8 |
| Order Intake y/y | 18% | 6% | 8% | 8% | 11% | 7% | 3% | 7% | -14% | -14% | -10% |
| Revenues | 1,202 | 346 | 577.6 | 611 | 2,513 | 678 | 759 | 820 | 727.7 | 763 | 632.5 |
| Revenues y/y | 11% | 12% | 11% | 6% | 6% | 7% | 1% | 0% | 2% | 1% | -3% |
| Backlog | 1,623 | 1,788 | 2,334 | 2,579 | 2,579 | 2,899 | 3,231 | 3,470 | 3773.7 | 3,608 | 3447.9 |
| Backlog y/y | 19% | 10% | 8% | 11% | 0% | 12% | 11% | 7% | 2% | -3% | -3% |
| Backlog/12m revenues | 1.5x | 1.3x | 1.1x | 1.1x | 1.0x | 1.1x | 1.2x | 1.2x | 1.3x | 1.2x | 1.2x |
| Order intake/revenues | 118% | 116% | 88% | 83% | 107% | 113% | 106% | 93% | 145% | 81% | 80% |

Source: Company, UBS estimates

On the table below we show our earnings revisions, which reflect a small downgrade to the top line as well as margin pressure and higher financial expenses than expected.

Figure 3: Changes on UBS earnings estimates

| Period | 2013E | 2014E | 2015E | 2016E |
|---|-----------------|-----------------|-----------------|-----------------|
| Item | New (% Change) | New (% Change) | New (% Change) | New (% Change) |
| EPS (UBS adj. - pre-abnormal & goodwill, basic) | 0.81 (-2.9%) | 0.87 (-8.9%) | 0.87 (-14.1%) | 0.91 (-14.8%) |
| Revenues | 2,946.2 (-0.9%) | 3,018.9 (-1.7%) | 3,143.3 (-2.6%) | 3,280.3 (-3.2%) |
| Operating income (EBIT, adjusted) | 208.7 (-12.1%) | 226.0 (-10.1%) | 235.3 (-10.9%) | 245.5 (-11.5%) |
| EBITDA (adjusted) | 259.6 (-10%) | 278.3 (-8.4%) | 289.2 (-9.1%) | 301.1 (-9.7%) |
| Dividend per share (common, incl. tax credit) | 0.3 (-11.6%) | 0.4 (-13.7%) | 0.4 (-35.6%) | 0.4 (-36.1%) |

Source: UBS

Valuation

Following the EPS cuts we expect earnings to recover but at a slower pace due to budget cuts in Spain and Latam slowdown. On our new estimate the stock trades on 13x PE 2014E and 12x EV/EBIT which is a premium to peers. Our new €9.5 target is DCF based and is down from €10.3 reflecting lower estimates and the roll-over to 2014E. New rating is Sell (from Neutral).

Summary European IT Services sector valuation (€m)

| | Share Price | Mkt Cap. (€m) | EV (€m) | Margin 13E | Margin Goal | PER 12/13E | PER 12/14E | EV/NOPAT** 12/13E | EV/NOPAT** 12/14E | EV/Sales 12/13E | EV/Sales 12/14E | Equity FCF yield 12/13E | Dividend Yield 12/13E |
|---------------|-------------|---------------|---------|------------|-------------|------------|------------|-------------------|-------------------|-----------------|-----------------|-------------------------|-----------------------|
| Amadeus | € 27.1 | 12,034 | 13,130 | 31.7% | 35% | 19.5 | 17.9 | 19.5 | 18.2 | 4.27 | 3.97 | 6.2% | 2.2% |
| Capgemini | € 47.4 | 7,684 | 7,041 | 8.5% | 10% | 14.9 | 13.4 | 12.6 | 11.8 | 0.70 | 0.68 | 3.3% | 2.2% |
| Atos* | € 60.6 | 5,573 | 5,290 | 7.4% | 8% | 12.5 | 11.7 | 11.5 | 10.6 | 0.61 | 0.60 | 4.6% | 1.0% |
| Indra | € 11.5 | 1,920 | 3,013 | 8.0% | 13% | 14.2 | 13.3 | 15.4 | 14.8 | 1.01 | 0.95 | 3.3% | 3.1% |
| Tieto | € 15.9 | 1,158 | 1,199 | 8.7% | 10% | 11.2 | 10.4 | 11.4 | 10.5 | 0.71 | 0.73 | 8.6% | 5.5% |
| Computacenter | 565p | 1,017 | 910 | 2.7% | N/A | 13.1 | 11.9 | 12.0 | 11.3 | 0.26 | 0.25 | 7.1% | 3.2% |
| Average*** | | | | | | 14.3 | 13.0 | 13.9 | 13.0 | 0.76 | 0.75 | | |

Source: UBS estimates (* assumes conversion of Atos' €46 Dec. 15 convertible bonds; ** EV/NOPAT before stock option fair value calculation; ***EV/Sales average excludes Computacenter & Amadeus).

Figure 4: DCF Details

| Indra DCF | 2013E | 2014E | 2015E | 2016E | 2017E | CAGR 2012-15E |
|-----------------------|-------|-------|-------|-------|-------|---------------|
| Revenues | 2,946 | 3,019 | 3,143 | 3,280 | 3,424 | 2.8% |
| EBITDA | 260 | 278 | 289 | 301 | 313 | 2.9% |
| EBITDA Mg | 8.8% | 9.2% | 9.2% | 9.2% | 9.2% | - |
| Capex | -65.0 | -68.3 | -71.7 | -75.2 | -79.0 | 0.3% |
| Capex/sales (%) | 2% | 2% | 2% | 2% | 2% | |
| Working cap | -60.0 | -50.0 | -40.0 | -20.0 | -20.0 | -22.7% |
| Working cap/sales (%) | 2% | 2% | 1% | 1% | 1% | |
| OpFCF | 134.6 | 160.1 | 177.6 | 205.9 | 214.5 | 10.5% |
| OpFCF mg. (%) | 4.6% | 5.3% | 5.6% | 6.3% | 6.3% | |
| Tax rate (%) | 22.4% | 22.4% | 22.4% | 22.4% | 22.4% | |
| Taxes | -30.1 | -35.8 | -39.7 | -46.0 | -47.9 | Residual |
| Taxed OpFCF | 104.5 | 124.3 | 137.9 | 159.8 | 166.5 | 2303.3 |
| Factor | 0.0 | 0.9 | 0.9 | 0.8 | 0.7 | 0.7 |
| NPV cashflows | 0.0 | 115.0 | 118.0 | 126.6 | 122.1 | 1,688.6 |

Source: UBS estimates

Risk to Sell rating

Our Sell rating is based on a moderate recovery in Spanish IT spending; a much faster and healthier recovery could lead to earnings upgrades and possibly a re-rating on the stock which trades at low multiples vs historical averages. It would be hard to see Spanish government expansion but possibly corporates IT spending could recover soon - part of that is in our numbers, as is cash flow improvement, but this is the area which imposes higher risks to our Sell rating.

Indra (IDR.MC)

| Income statement (€m) | 12/10 | 12/11 | 12/12 | 12/13E | % ch | 12/14E | % ch | 12/15E | 12/16E | 12/17E |
|--|--------------|--------------|--------------|---------------|--------------|---------------|-------------|---------------|---------------|---------------|
| Revenues | 2,557 | 2,689 | 2,941 | 2,946 | 0.2 | 3,019 | 2.5 | 3,143 | 3,280 | 3,424 |
| Gross profit | 1,807 | 1,906 | 2,124 | 2,094 | -1.4 | 2,130 | 1.7 | 2,215 | 2,312 | 2,413 |
| EBITDA (UBS) | 294 | 313 | 268 | 260 | -3.2 | 278 | 7.2 | 289 | 301 | 313 |
| Depreciation & amortisation | (42) | (46) | (51) | (51) | -0.5 | (52) | 3.0 | (54) | (56) | (57) |
| EBIT (UBS) | 252 | 268 | 217 | 209 | -3.9 | 226 | 8.3 | 235 | 246 | 256 |
| Associates & investment income | 0 | 0 | 0 | 0 | - | 0 | - | 0 | 0 | 0 |
| Other non-operating income | 0 | 0 | 0 | 0 | - | 0 | - | 0 | 0 | 0 |
| Net interest | (18) | (34) | (54) | (63) | -17.5 | (46) | 27.6 | (40) | (42) | (42) |
| Exceptionals (incl goodwill) | 0 | 0 | 0 | 0 | - | 0 | - | 0 | 0 | 0 |
| Profit before tax | 234 | 233 | 163 | 146 | -10.9 | 180 | 23.8 | 195 | 203 | 214 |
| Tax | (46) | (52) | (36) | (34) | 5.5 | (42) | -25.6 | (49) | (51) | (53) |
| Profit after tax | 188 | 181 | 128 | 112 | -12.4 | 138 | 23.3 | 146 | 152 | 160 |
| Preference dividends | 0 | 0 | 0 | 0 | - | 0 | - | 0 | 0 | 0 |
| Minorities | 1 | 0 | 5 | (1) | - | (1) | -10.00 | (1) | (1) | (1) |
| Extraordinary items | 0 | 0 | 0 | 25 | - | 8 | -69.7 | 0 | 0 | 0 |
| Net earnings (local GAAP) | 189 | 181 | 133 | 136 | 2.1 | 144 | 6.4 | 145 | 151 | 159 |
| Net earnings (UBS) | 189 | 181 | 142 | 136 | -4.7 | 144 | 6.4 | 145 | 151 | 159 |
| Tax rate (%) | 19.6 | 22.4 | 21.8 | 23.2 | 6.1 | 23.5 | 1.4 | 25.0 | 25.0 | 25.0 |
| Per share (€) | 12/10 | 12/11 | 12/12 | 12/13E | % ch | 12/14E | % ch | 12/15E | 12/16E | 12/17E |
| EPS (UBS, diluted) | 1.13 | 1.09 | 0.85 | 0.81 | -4.7 | 0.87 | 6.4 | 0.87 | 0.91 | 0.95 |
| EPS (local GAAP, diluted) | 1.13 | 1.09 | 0.80 | 0.81 | 2.1 | 0.87 | 6.4 | 0.87 | 0.91 | 0.95 |
| EPS (UBS, basic) | 1.13 | 1.09 | 0.85 | 0.81 | -4.7 | 0.87 | 6.4 | 0.87 | 0.91 | 0.95 |
| Net DPS (€) | 0.68 | 0.68 | 0.34 | 0.34 | -0.6 | 0.42 | 23.2 | 0.40 | 0.41 | 0.48 |
| Cash EPS (UBS, diluted) ¹ | 1.39 | 1.36 | 1.16 | 1.12 | -3.6 | 1.18 | 5.5 | 1.20 | 1.24 | 1.30 |
| Book value per share | 5.95 | 5.45 | 5.50 | 5.64 | 2.5 | 6.13 | 8.7 | 6.59 | 7.10 | 7.65 |
| Average shares (diluted) | 166.55 | 166.55 | 166.55 | 166.55 | 0.0 | 166.55 | 0.0 | 166.55 | 166.55 | 166.55 |
| Balance sheet (€m) | 12/10 | 12/11 | 12/12 | 12/13E | % ch | 12/14E | % ch | 12/15E | 12/16E | 12/17E |
| Tangible fixed assets | 148 | 172 | 166 | 181 | 8.5 | 196 | 8.8 | 214 | 234 | 256 |
| Intangible fixed assets | 727 | 868 | 926 | 926 | 0.0 | 926 | 0.0 | 926 | 926 | 926 |
| Investments | 51 | 77 | 69 | 69 | 0.0 | 69 | 0.0 | 69 | 69 | 69 |
| Other assets | 0 | 0 | 0 | 0 | - | 0 | - | 0 | 0 | 0 |
| Total fixed assets | 925 | 1,116 | 1,161 | 1,175 | 1.2 | 1,191 | 1.4 | 1,208 | 1,228 | 1,250 |
| Net working capital | 492 | 639 | 712 | 772 | 8.4 | 822 | 6.5 | 862 | 882 | 902 |
| Cash | 130 | 83 | 70 | 70 | 0.2 | 72 | 2.5 | 75 | 78 | 81 |
| Short term debt | (156) | (281) | (305) | (305) | 0.0 | (305) | 0.0 | (305) | (305) | (305) |
| Long term debt | (248) | (314) | (398) | (448) | -12.6 | (433) | 3.3 | (416) | (372) | (325) |
| Preferred shares | 0 | 0 | 0 | 0 | - | 0 | - | 0 | 0 | 0 |
| Net (debt) / cash | (274) | (512) | (633) | (683) | -7.9 | (667) | 2.4 | (647) | (599) | (549) |
| Other debt-deemed liabilities | (110) | (306) | (296) | (296) | 0.0 | (296) | 0.0 | (296) | (296) | (296) |
| Provisions & non-debt deemed liabs | (20) | (8) | (6) | (6) | 0.0 | (6) | 0.0 | (6) | (6) | (6) |
| Total equity | 1,014 | 929 | 936 | 961 | 2.6 | 1,043 | 8.6 | 1,121 | 1,208 | 1,300 |
| Minority interests | (23) | (21) | (21) | (22) | -4.8 | (23) | -5.1 | (24) | (25) | (26) |
| Common s/h equity | 991 | 908 | 916 | 939 | 2.5 | 1,020 | 8.7 | 1,097 | 1,183 | 1,274 |
| Operating invested capital | 1,347 | 1,671 | 1,797 | 1,871 | 4.1 | 1,937 | 3.5 | 1,995 | 2,035 | 2,077 |
| Total capital employed | 1,397 | 1,747 | 1,866 | 1,940 | 4.0 | 2,006 | 3.4 | 2,064 | 2,103 | 2,145 |
| Cash flow (€m) | 12/10 | 12/11 | 12/12 | 12/13E | % ch | 12/14E | % ch | 12/15E | 12/16E | 12/17E |
| EBIT (UBS) | 252 | 268 | 217 | 209 | -3.9 | 226 | 8.3 | 235 | 246 | 256 |
| Depreciation & amortisation | 42 | 46 | 51 | 51 | -0.5 | 52 | 3.0 | 54 | 56 | 57 |
| Net change in working capital | (145) | (152) | (56) | (60) | -7.3 | (50) | 16.7 | (40) | (20) | (20) |
| Net interest | (18) | (34) | (54) | (63) | -17.5 | (46) | 27.6 | (40) | (42) | (42) |
| Tax paid | (46) | (52) | (36) | (34) | 5.5 | (42) | -25.6 | (49) | (51) | (53) |
| Other operating | 1 | 0 | 5 | (1) | - | (1) | -10.0 | (1) | (1) | (1) |
| Operating cash flow | 86 | 75 | 128 | 102 | -6.0 | 139 | 14.4 | 159 | 187 | 196 |
| Tangible capital expenditure | (20) | (42) | (74) | (65) | 12.6 | (68) | -5.0 | (72) | (75) | (79) |
| Equity free cash flow | 66 | 33 | 54 | 37 | -31.6 | 71 | 93.4 | 87 | 111 | 117 |
| Intangible capital expenditure | (69) | (84) | 0 | 0 | - | 0 | - | 0 | 0 | 0 |
| Net (acquisitions) & disposals | (5) | (5) | (53) | 0 | - | 0 | - | 0 | 0 | 0 |
| Equity dividends paid | (108) | (112) | (109) | (56) | 48.9 | (55) | 0.6 | (68) | (65) | (68) |
| Share issues / (buybacks) | 0 | 0 | 0 | 0 | - | 0 | - | 0 | 0 | 0 |
| Net other cash flows | 0 | 0 | 0 | 0 | - | 0 | - | 0 | 0 | 0 |
| Cash flow (inc)/dec in net debt | (116) | (168) | (109) | (19) | 82.3 | 15 | - | 19 | 46 | 49 |
| FX / non cash items | (24) | (71) | (12) | (31) | -151.7 | 1 | - | 1 | 1 | 1 |
| Balance sheet (inc)/dec in net debt | (140) | (239) | (121) | (50) | 58.7 | 16 | - | 20 | 47 | 51 |

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.¹Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Indra (IDR.MC)

| Valuation (x) | 12/10 | 12/11 | 12/12 | 12/13E | 12/14E | 12/15E | 12/16E | 12/17E |
|---|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|
| P/E (local GAAP, diluted) | 12.5 | 11.8 | 10.7 | 14.1 | 13.2 | 13.1 | 12.6 | 12.0 |
| P/E (UBS, diluted) | 12.5 | 11.8 | 10.0 | 14.1 | 13.2 | 13.1 | 12.6 | 12.0 |
| P/CEPS | 10.2 | 9.4 | 7.4 | 10.2 | 9.7 | 9.6 | 9.2 | 8.8 |
| Equity FCF (UBS) yield % | 2.8 | 1.5 | 3.8 | 1.9 | 3.7 | 4.6 | 5.8 | 6.2 |
| Net dividend yield (%) | 4.8 | 5.3 | 4.0 | 3.0 | 3.6 | 3.5 | 3.6 | 4.2 |
| P/BV x | 2.4 | 2.4 | 1.6 | 2.0 | 1.9 | 1.7 | 1.6 | 1.5 |
| EV/revenues (core) | 1.0 | 0.9 | 0.7 | 0.9 | 0.8 | 0.8 | 0.8 | 0.7 |
| EV/EBITDA (core) | 8.7 | 8.0 | 7.3 | 9.8 | 9.2 | 8.8 | 8.3 | 7.8 |
| EV/EBIT (core) | 10.1 | 9.3 | 9.1 | 12.2 | 11.3 | 10.8 | 10.2 | 9.6 |
| EV/OpFCF (core) | 16.7 | 15.1 | 18.5 | 26.0 | 22.7 | 21.8 | 20.7 | 19.6 |
| EV/op. invested capital | 1.9 | 1.7 | 1.1 | 1.4 | 1.3 | 1.3 | 1.2 | 1.2 |
| Enterprise value (€m) | 12/10 | 12/11 | 12/12 | 12/13E | 12/14E | 12/15E | 12/16E | 12/17E |
| Market cap. | 2,360 | 2,135 | 1,423 | 1,906 | 1,906 | 1,906 | 1,906 | 1,906 |
| Net debt (cash) | 203 | 393 | 573 | 658 | 675 | 657 | 623 | 574 |
| Buy out of minorities | 42 | 42 | 42 | 42 | 42 | 42 | 42 | 42 |
| Pension provisions/other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total enterprise value | 2,605 | 2,570 | 2,038 | 2,607 | 2,623 | 2,605 | 2,571 | 2,522 |
| Non core assets | (50) | (76) | (68) | (68) | (68) | (68) | (68) | (68) |
| Core enterprise value | 2,555 | 2,493 | 1,969 | 2,538 | 2,555 | 2,536 | 2,503 | 2,454 |
| Growth (%) | 12/10 | 12/11 | 12/12 | 12/13E | 12/14E | 12/15E | 12/16E | 12/17E |
| Revenue | 1.7 | 5.1 | 9.4 | 0.2 | 2.5 | 4.1 | 4.4 | 4.4 |
| EBITDA (UBS) | -10.2 | 6.6 | -14.4 | -3.2 | 7.2 | 3.9 | 4.1 | 4.1 |
| EBIT (UBS) | -11.7 | 6.3 | -18.9 | -3.9 | 8.3 | 4.1 | 4.4 | 4.4 |
| EPS (UBS, diluted) | -3.5 | -3.9 | -21.5 | -4.7 | 6.4 | 0.6 | 4.1 | 5.3 |
| Net DPS | 3.0 | 0.7 | -50.3 | -0.6 | 23.2 | -4.5 | 4.1 | 17.0 |
| Margins & Profitability (%) | 12/10 | 12/11 | 12/12 | 12/13E | 12/14E | 12/15E | 12/16E | 12/17E |
| Gross profit margin | 70.7 | 70.9 | 72.2 | 71.1 | 70.5 | 70.5 | 70.5 | 70.5 |
| EBITDA margin | 11.5 | 11.7 | 9.1 | 8.8 | 9.2 | 9.2 | 9.2 | 9.2 |
| EBIT margin | 9.9 | 10.0 | 7.4 | 7.1 | 7.5 | 7.5 | 7.5 | 7.5 |
| Net earnings (UBS) margin | 7.4 | 6.7 | 4.8 | 4.6 | 4.8 | 4.6 | 4.6 | 4.6 |
| ROIC (EBIT) | 18.7 | 17.7 | 12.5 | 11.4 | 11.9 | 12.0 | 12.2 | 12.5 |
| ROIC post tax | 15.0 | 13.8 | 9.8 | 8.1 | 8.9 | 9.0 | 9.1 | 9.3 |
| ROE (UBS) | 19.6 | 19.1 | 15.6 | 14.6 | 14.7 | 13.7 | 13.3 | 12.9 |
| Capital structure & Coverage (x) | 12/10 | 12/11 | 12/12 | 12/13E | 12/14E | 12/15E | 12/16E | 12/17E |
| Net debt / EBITDA | 0.9 | 1.6 | 2.4 | 2.6 | 2.4 | 2.2 | 2.0 | 1.8 |
| Net debt / total equity | 27.0 | 55.2 | 67.6 | 71.1 | 63.9 | 57.7 | 49.6 | 42.2 |
| Net debt / (net debt + total equity) | 21.2 | 35.5 | 40.3 | 41.6 | 39.0 | 36.6 | 33.2 | 29.7 |
| Net debt/EV | 10.7 | 20.6 | 32.2 | 26.9 | 26.1 | 25.5 | 23.9 | 22.4 |
| Capex / depreciation % | 48.5 | 92.3 | 145.6 | 127.8 | 130.3 | 132.9 | 135.4 | 138.1 |
| Capex / revenue % | 0.8 | 1.6 | 2.5 | 2.2 | 2.3 | 2.3 | 2.3 | 2.3 |
| EBIT / net interest | 13.8 | 7.8 | 4.0 | 3.3 | 4.9 | 5.8 | 5.8 | 6.0 |
| Dividend cover (UBS) | 1.7 | 1.6 | 2.5 | 2.4 | 2.1 | 2.2 | 2.2 | 2.0 |
| Div. payout ratio (UBS) % | 60.1 | 62.9 | 39.8 | 41.5 | 48.1 | 45.6 | 45.6 | 50.7 |
| Revenues by division (€m) | 12/10 | 12/11 | 12/12 | 12/13E | 12/14E | 12/15E | 12/16E | 12/17E |
| Others | 2,557 | 2,689 | 2,941 | 2,946 | 3,019 | 3,143 | 3,280 | 3,424 |
| Total | 2,557 | 2,689 | 2,941 | 2,946 | 3,019 | 3,143 | 3,280 | 3,424 |
| EBIT (UBS) by division (€m) | 12/10 | 12/11 | 12/12 | 12/13E | 12/14E | 12/15E | 12/16E | 12/17E |
| Others | 252 | 268 | 217 | 209 | 226 | 235 | 246 | 256 |
| Total | 252 | 268 | 217 | 209 | 226 | 235 | 246 | 256 |

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

| | |
|-----------------------------|--------|
| Forecast price appreciation | -17.0% |
| Forecast dividend yield | 3.0% |
| Forecast stock return | -14.0% |
| Market return assumption | 6.1% |
| Forecast excess return | -20.1% |

Statement of Risk

In our view, main risks in Indra include large exposure to single contracts with large administration, risks of potential competitors cannibalising margins or global IT trends affecting off-shore activities with lower margins. In addition, Indra has high emerging market exposure.

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| UBS 12-Month Rating | Definition | Coverage ¹ | IB Services ² |
|-----------------------|---|-----------------------|--------------------------|
| Buy | FSR is > 6% above the MRA. | 44% | 32% |
| Neutral | FSR is between -6% and 6% of the MRA. | 46% | 32% |
| Sell | FSR is > 6% below the MRA. | 10% | 19% |
| UBS Short-Term Rating | Definition | Coverage ³ | IB Services ⁴ |
| Buy | Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event. | less than 1% | less than 1% |
| Sell | Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event. | less than 1% | less than 1% |

Source: UBS. Rating allocations are as of 30 September 2013.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Securities España SV, SA: Bosco Ojeda. **UBS Limited:** Michael Briest.

Company Disclosures

| Company Name | Reuters | 12-month rating | Short-term rating | Price | Price date |
|--------------------|---------|-----------------|-------------------|--------|-------------|
| Indra ⁵ | IDR.MC | Suspended | N/A | €11.31 | 01 Nov 2013 |

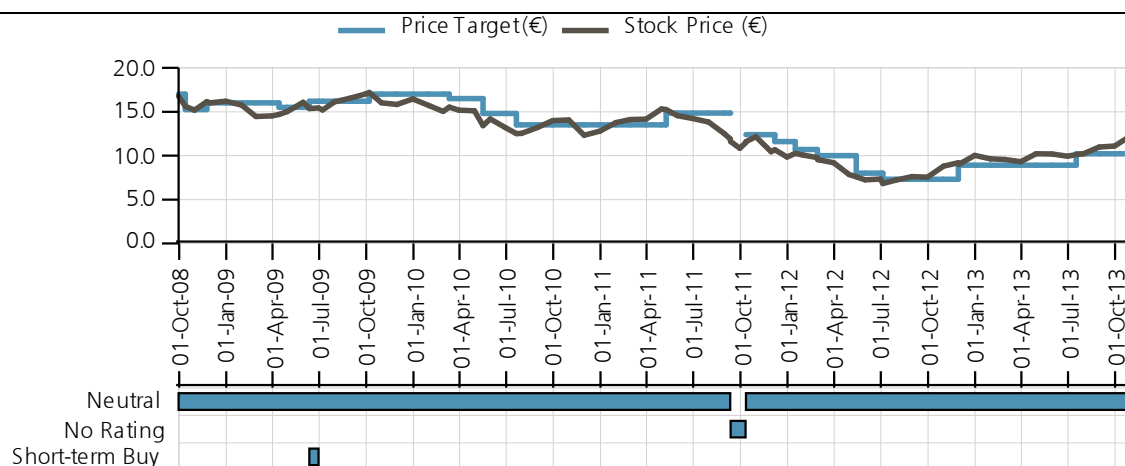
Source: UBS. All prices as of local market close.

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Indra (€)



Source: UBS; as of 01 Nov 2013

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