

## Indra Sistemas

Price EUR8.44

FY15 results in line with consensus, net debt below expectations, realistic outlook

Fair Value EUR11 vs. EUR10 (+30%)

BUY vs. SELL

Bloomberg	IDR.SM
Reuters	IDR.MC
12-month High / Low (EUR)	11.5 / 7.7
Market Cap (EURm)	1,386
Ev (BG Estimates) (EURm)	2,014
Avg. 6m daily volume (000)	897.7
3y EPS CAGR	

We have upgraded the stock to Buy from Sell and increased our DCF-derived Fair Value to EUR11 from EUR10. Yesterday evening Indra reported FY 2015 results in line with the consensus, while net debt was slashed thanks to an impressive WCR reduction of 51 days of sales - partly driven by one-offs. While revenues in 2016 will be negatively impacted by greater selectivity in IT contracts, restructuring is advancing according to plan. We expect the share price to react positively short-term.

## ANALYSIS

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.7%	-13.2%	-20.2%	-2.6%
Softw. & Comp.	-3.2%	-6.7%	9.7%	-5.5%
DJ Stoxx 600	-2.4%	-13.4%	-8.0%	-8.7%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	2,850	2,733	2,769	2,854
% change		-4.1%	1.3%	3.1%
EBITDA	131	241	306	345
EBIT	-642.0	169.0	240.0	275.0
% change		NS	42.0%	14.6%
Net income	-74.0	102.0	153.0	178.0
% change		NS	50.0%	16.3%

	2015	2016e	2017e	2018e
Operating margin	1.6	6.6	8.7	9.6
Net margin	-22.5	3.3	5.4	6.1
ROE	-208.1	22.8	27.3	24.1
ROCE	-21.5	14.1	18.8	21.3
Gearing	227.0	157.0	83.0	35.0

(€)	2015	2016e	2017e	2018e
EPS	-0.41	0.56	0.84	0.98
% change	-	NS	50.0%	16.7%
P/E	NS	15.1x	10.1x	8.6x
FCF yield (%)	NM	4.4%	15.2%	16.7%
Dividends (€)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	0.7x	0.7x	0.7x	0.6x
EV/EBITDA	15.9x	8.4x	6.0x	4.8x
EV/EBIT	46.3x	11.3x	7.7x	6.0x

• **FY15 results in line with consensus.** For 2015, Indra reported sales down 3% (-2% lfl, or -1% lfl excluding elections) to EUR2,850.4m, while non-IFRS operating profit was down 78% to EUR45.2m (1.6% of sales, -5.3ppt), EBIT was a negative EUR641.5m (vs. a negative EUR246.4m in 2014) after EUR686.6m of non-recurring items (EUR196m on restructuring, EUR371m on provisions, impairments and overruns, EUR104m on goodwill impairment o/w EUR83m for Brazil), and the net loss was EUR641.2m (vs. a net loss of EUR91.9m in 2014). Sales were 1% below our EUR2,883m estimate and consensus (EUR2,882m), while we expected a non-IFRS operating profit of EUR61.1m or 2.1% of sales (consensus: EUR43.7m or 1.5% of sales). For Q4, Indra posted sales down 8.3% to EUR781.1m (-6% lfl) and non-IFRS op. profit down 3.3% to EUR46.6m or 6% of sales (+0.3ppt). As indicated for Q3 15 results, Indra recorded in Q4 an additional non-recurring charge, which amounted to EUR130m, o/w EUR64m on Brazil and EUR66m on a set of specific contracts.

• **Net debt below expectations.** Net debt on 31st December 2015 was EUR699.7m (net gearing: 227%) or 5.4x EBITDA, while we expected EUR861m (consensus: EUR904m). Excluding personnel cash costs (EUR78m), it would have reached EUR622m. Free cash flow was a negative EUR49.8m (vs. a positive EUR47.1m in 2014), or a positive EUR28m ex-restructuring. Net working capital decreased to EUR232m from EUR648m, or to 30 days of sales from 81, o/w -20% days on inventory, -28 days on accounts receivables and -3 days on accounts payables. However, EUR287m of this improvement was related to non-recurring adjustments, better collections, and new measures put in place on suppliers. The underlying improvement in NWC was EUR130m or 16 days of sales. Non-recourse factoring lines in 2015 amounted to EUR187m, i.e. the same as in 2014.

• **Details on FY15 lfl growth. By geography,** Spain (43% of sales) +7% (-2% in Q4), LatAm (26%) -3% (-19%/Q4), EU/USA (19%) -9% (-10%/Q4), and AMEA (12%) -13% (+16%/Q4). **By vertical,** Transport/Traffic (22%) +1% (flat/Q4), Defence/Security (19%) +7% (+11%/Q4), Energy/Industry (15%) -7% (-22%/Q4), Financial Services (17%) +6% (flat/Q4), Government/Healthcare (16%) -10% (-14%/Q4), and Telecom/Media (10%) -13% (-19%/Q4).

• **FY16 outlook: sales set to fall lfl, operating margin to surge, net debt to reduce.** Indra expects FY16 sales down lfl, notwithstanding c. EUR100m fx headwinds, while we expected +1.6% lfl, on the back of: 1) delays in transport/traffic projects in some countries dependent on oil and commodities, 2) more selectivity in IT contracts (financial services, government...), 3) eventual delays in government tenders in Spain, 4) fewer contracts related to elections. On the other hand, the restructuring plan is well advanced, with 60% of layoffs completed in Spain (100% in LatAm), and all cost savings (EUR120m by 2017) and cash flow impacts (EUR150-160m by 2018) on target, which means a surge in operating margin is confirmed - the consensus was at 6.5%. Finally, while it expected net debt could peak some time in 2016 (Q2 or Q3), management now estimates this peak happened in Q3 2015, and free cash flow should be positive both in Q1 and 2016.

## VALUATION

Indra's shares are trading at est. 11.3x 2016 and 7.7x 2017 EV/EBIT multiples.

## NEXT CATALYSTS

Q1 results in late April.

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