

Indra Sistemas

Price EUR10.30

Q1 16 results slightly below consensus, restructuring advancing according to plan

Fair Value EUR10 (-3%)

NEUTRAL

Bloomberg	I DR SM
Reuters	I DR.MC
12-month High / Low (EUR)	11.4 / 7.7
Market Cap (EUR)	1,691
Ev (BG Estimates) (EUR)	2,316
Avg. 6m daily volume (000)	996.8
3y EPS CAGR	

Yesterday evening Indra reported Q1 16 results slightly below consensus. Restructuring is advancing according to plan, net debt is decreasing, and revenues in 2016 will be negatively impacted by greater selectivity in IT contracts. We do not expect the share price to react significantly short-term.

ANALYSIS

- Q1 16 results slightly below consensus.** For Q1 2016, Indra has reported sales down 10.5% (-6.3% lfl) to EUR628.5m, or 1% below our EUR637m estimate and 3% below consensus (EUR647.5m). Non-IFRS operating profit was up 773% to EUR28.8m (4.6% of sales, +4.1ppt) while we expected EUR29m or 4.6% of sales (consensus: EUR31.5m or 4.9% of sales). Net profit was EUR11.8m (vs. a net loss of EUR19.6m in Q1 2015), in line with our EUR12.4m estimate (consensus: EUR10.8m). Revenues were negatively impacted by LatAm (mainly Brazil) and the IT business (projects delayed in oil exporting countries), while the surge in the margin stemmed from opex down 15% (-10% on personnel costs since headcount was down 6%, and -21% in materials consumed and other opex, subcontractors, etc.) with a better direct margin on current projects, some improvement in problematic projects, and efficiency plans. Brazil started to turn around, with a positive EBIT (EUR5m or 2.5% of sales vs. a loss of EUR52m in Q1 15) despite revenues down 16%.
- Net debt below expectations.** Net debt on 31st March 2016 was EUR659.4m (net gearing: 204%) or 4.7x EBITDA, while the consensus was EUR676m. Free cash flow was EUR46.6m (vs. a negative EUR79.3m in Q1 15). Excluding restructuring cash-outs (EUR17m) and assuming the same level of non-recourse factoring as for December 2015 (EUR25m impact: EUR162m vs. EUR187m), net debt would have reached EUR617m and free cash flow EUR89m (EUR110m if we also exclude cash-outs related to problematic projects). Net working capital fell to EUR154m from EUR232m in December 2015, or to 20 days of sales from 30, o/w +1 day on inventory, -9 days for accounts receivables following declining revenues and progress on cash collection, and -2 days for accounts payables.
- Details on Q1 16 lfl growth. By geography,** Spain (46% of sales) was down 4% with +1% in the government segment (growth in defence & Security) and -7% in the commercial sector (but Energy & Industry up), LatAm (22%) down 15% with Brazil down 16%, EU/USA (18%) down 25% due to a lower contribution from the Eurofighter programme, and AMEA (14%) up 56% driven by Transport & Traffic in Africa. **By vertical,** Transport/Traffic (23%) fell 1%, Defence/Security (18%) -7%, Energy/Industry (16%) -8%, Financial Services (18%) -7%, Government/Healthcare (15%) -7%, and Telecom/Media (9%) -12%.
- Management feels on track with FY18 targets.** Indra still expects a decline in FY16 lfl sales and a significant improvement in the op. margin. That said, we now consider a scenario at -3% lfl more realistic than the -1.5% we had so far, due to the absence of central government in Spain and more selectivity on contracts. For 2017 and 2018, we now expect sales to rise 1.4% lfl (vs. +1.3%) and 3.8% lfl (vs. +3.1%). On costs, 70% of layoffs planned within the efficiency plan have been completed in Spain (Brazil completed in Q4), and cost savings and restructuring cash-outs in Q1 (EUR25m and EUR17m) are on track with FY16 targets (EUR90m and EUR45-55m). Finally, although there is a long way to go before returning to positive lfl revenue growth and then stepping it up, management remains confident in its FY18 operating margin target (10-11%). As such, we revise our adj. EPS ests. as follows: -16% for 2016e, -6% for 2017e, and +4% for 2018e.

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.2%	28.4%	2.4%	18.8%
Softw. & Comp.	0.7%	7.3%	-2.6%	-4.9%
DJ Stoxx 600	0.4%	7.7%	-11.3%	-8.9%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	2,850	2,705	2,747	2,851
% change		-5.1%	1.6%	3.8%
EBITDA	131	220	295	356
EBIT	-642.0	158.0	229.0	286.0
% change		NS	44.9%	24.9%
Net income	-74.0	85.0	145.0	186.0
% change		NS	70.6%	28.3%

	2015	2016e	2017e	2018e
Operating margin	1.6	5.8	8.3	10.0
Net margin	-22.5	3.0	5.2	6.5
ROE	-208.1	21.0	26.7	25.7
ROCE	-21.5	12.2	18.2	22.4
Gearing	227.0	160.0	87.0	35.0

(€)	2015	2016e	2017e	2018e
EPS	-0.41	0.47	0.80	1.03
% change	-	NS	70.2%	28.8%
P/E	NS	21.9x	12.9x	10.0x
FCF yield (%)	NM	1.2%	8.7%	11.2%
Dividends (€)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	0.8x	0.9x	0.8x	0.7x
EV/EBITDA	18.2x	10.5x	7.3x	5.5x
EV/EBIT	53.1x	14.7x	9.4x	6.8x



VALUATION

- Indra's shares are trading at est. 14.7x 2016 and 9.4x 2017 EV/EBIT multiples.
- Net debt on 31st March 2016 was EUR659.4m (net gearing: 204%).

NEXT CATALYSTS

AGM on 26th May. Q2 16 results at the end of July.

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Analyst :
 Gregory Ramirez
 33(0) 1 56 68 75 91
gramirez@bryangarnier.com

Sector Team :
 Richard-Maxime Beaudoux
 Thomas Coudry
 Dorian Terral

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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