

29th July 2016

TMT

Indra Sistemas

Price EUR10.55

Q2 2016 results above consensus, 2016 targets confirmed but caution for H2

Fair Value EUR10 (-5%)

NEUTRAL

Bloomberg	IDR.SM
Reuters	IDR.MC
12-month High / Low (EUR)	10.9 / 7.7
Market Cap (EURm)	1,732
Ev (BG Estimates) (EURm)	2,356
Avg. 6m daily volume (000)	888.9
3y EPS CAGR	

This morning Indra reported Q2 2016 above consensus. Restructuring is advancing according to plan, net debt is flat. The management reiterates 2016 expectations but indicates that for H2 the economic, business and sector environment could cause some delays in certain projects. We expect the share price to react negatively short-term.

ANALYSIS

	1 M	3 M	6 M	31/12/15
Absolute perf.	16.7%	0.5%	18.1%	21.7%
Softw. & Comp.	15.2%	7.2%	9.3%	4.0%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	2,850	2,717	2,768	2,874
% change		-4.7%	1.9%	3.8%
EBITDA	131	221	297	359
EBIT	-642.0	159.0	231.0	289.0
% change		NS	45.3%	25.1%
Net income	-74.0	86.0	146.0	188.0
% change		NS	69.8%	28.8%

	2015	2016e	2017e	2018e
Operating margin	1.6	5.9	8.4	10.1
Net margin	-22.5	3.1	5.2	6.4
ROE	-208.1	21.2	26.9	25.7
ROCE	-21.5	12.4	18.4	22.6
Gearing	227.0	160.0	86.0	34.0

(€)	2015	2016e	2017e	2018e
EPS	-0.41	0.47	0.81	1.04
% change	-	NS	72.3%	28.4%
P/E	NS	22.4x	13.0x	10.1x
FCF yield (%)	NM	1.1%	8.6%	11.1%
Dividends (€)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	0.9x	0.9x	0.8x	0.7x
EV/EBITDA	18.6x	10.7x	7.4x	5.5x
EV/EBIT	54.0x	14.8x	9.5x	6.8x

• **Q2 2016 results above consensus.** For Q2 2016, Indra has reported sales down 0.4% (+3% lfl) to EUR703.6m, or fully in line with our EUR703.4m estimate and 6% above consensus (EUR664.1m). Non-IFRS operating profit was EUR41.3m (5.9% of sales, +9.9ppt) while we expected EUR44.5m or 6.3% of sales (consensus: EUR37.3m or 5.6% of sales). Net profit was EUR18.9m (vs. a net loss of EUR416.1m in Q2 2015) or 22% below our EUR24.3m estimate (consensus: EUR17.9m). The IT business was down 4% lfl but was offset by a 15% lfl increase in the T&D (Transport & Traffic + Defence & Security) business. The sharp improvement in profitability, in line with that of Q1 2016, was the result of higher direct margins on projects, efficiency plans and fewer onerous projects.

• **Net debt stable.** Net debt on 30th June 2016 was EUR659m (net gearing: 198%) or 3.1x EBITDA, in line with the level as of 31st March. Free cash flow in Q2 2016 was EUR2m (vs. a negative EUR85m in Q2 2015). Excluding restructuring cash-outs (EUR9m) and onerous projects (EUR12m), net debt would have reached EUR633m and free cash flow EUR23m. Assuming the same level of factoring (non-recourse) as in Q1 2016, free cash flow would have been a negative EUR23m. Net working capital fell to EUR48m from EUR154m in March 2016, or to 24 days of sales from 20, o/w 0 day on inventory, +7 days for accounts receivables, and -4 days for accounts payables.

• **Details on Q2 2016 lfl growth. By geography,** Spain (45% of sales) was down 2% with strong performance in Defence & Security (+42%), Energy & Industry (+6%) and Financial Services (+3%) but a double-digit fall in Telecom & Media, Government & Healthcare and Transport & Traffic; America (24%) +1% with growth in The Dominican Republic (elections), Chile and Peru and in T&D and but fall in all IT verticals; Europe (18%) +20% thanks to a higher contribution of the Eurofighter project, but also growth in airborne surveillance systems and air defence; AMEA (13%) +8% thanks to the execution of the transport ticketing project in Riyadh. **By vertical,** Transport/Traffic (23%) +6%, Defence/Security (20%) +27%, Energy/Industry (15%) -5%, Financial Services (18%) flat, Government/Healthcare (15%) -7%, and Telecom/Media (8%) -3%.

• **2016 expectations unchanged, but management is cautious vers H2.** Indra reiterates expectations on sales (a decline), margins (significant improvement) and free cash flow (significant improvement as well) for 2016. For H2, the management indicates the same challenges remain, i.e. the economic, business and sector environment, which could cause some delays in certain projects. On costs, 80% of 1,750 layoffs planned within the efficiency plan have been completed in Spain (Brazil completed in Q4 2015 with 1,721 layoffs), Indra is in line with the EUR90m additional cost savings expected for 2016, and restructuring cash-outs in H1 2016 (EUR26m) are on track with the EUR45-55m projected for the year.

VALUATION

- Indra's shares are trading at est. 14.8x 2016 and 9.5x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR659m (net gearing: 198%).

NEXT CATALYSTS

Conference call at 11am CET / 10am BST / 5am EDT (UK: +44 20 31 47 46 00; USA: +1 866 388 19 27).

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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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SELL ratings 10,7%

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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
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