

6th September 2016

TMT

Indra Sistemas

Price EUR11.80

Telefónica to sell its stake in Indra?

Fair Value EUR11 (-7%)

NEUTRAL

Bloomberg	IDR SM
Reuters	IDR.MC
12-month High / Low (EUR)	11.8 / 7.7
Market Cap (EURm)	1,937
Avg. 6m daily volume (000)	747.6

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.7%	19.4%	17.1%	36.1%
Softw.& Comp.				
SVS	4.1%	9.4%	13.5%	7.8%
DJ Stoxx 600	2.7%	2.7%	2.6%	-4.2%

	2015	2016e	2017e	2018e
P/E	NS	24.6x	14.4x	11.1x
Div yield (%)	NM	NM	NM	NM

ANALYSIS

- **According to *Hispanidad*, Telefónica intends to sell its remaining 2.9% stake in Indra.** No timing has been specified, but the website explains the stake in Indra is no longer strategic for Telefónica. The latter acquired 3.2% of Indra in January 2015 (for EUR38m or an est. price of EUR7.25 per share) with an option to raise the stake to 6%, while at that time the Spanish government intended to oust Indra's Chairman Javier Monzón while trying to create a large military industrial pole. However, this pole was never created, while Fernando Abril-Martorell replaced Javier Monzón.
- **Possible share price overhang ahead.** The article mentions the fact Telefónica has already started to reduce its stake to 2.9% from 3.2% and will continue to sell it to zero. We understand Telefónica never believed in the project of the Spanish government and that the relationship between Telefónica's Chairman & CEO José María Álvarez-Pallete and Fernando Abril-Martorell was "improvable". As such, we believe some share price overhang may happen in the future pending the completion of such a disposal, while we do not expect any change in SEPI's 20% stake in Indra as long as Spain stays without a non-caretaker central government.

VALUATION

- Indra's shares are trading at est. 16.4x 2016 and 10.4x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR659.4m (net gearing: 199%).

NEXT CATALYSTS

Q3 2016 results in November.

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