

Indra Sistemas

Price EUR9.81

Intention to launch a voluntary tender offer for Tecnomcom

Fair Value EUR12 (+22%)

NEUTRAL

Bloomberg	IDR SM
Reuters	IDR.MC
12-month High / Low (EUR)	12.3 / 7.7
Market Cap (EURm)	1,610
Ev (BG Estimates) (EURm)	2,302
Avg. 6m daily volume (000)	767.7
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	-13.1%	-16.1%	-4.1%	13.2%
Softw. & Comp.	-1.2%	-1.5%	3.7%	3.4%
DJ Stoxx 600	-0.3%	-1.1%	-2.8%	-7.1%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	2,850	2,737	2,802	2,909
% change		-4.0%	2.4%	3.8%
EBITDA	107	223	309	371
EBIT	-641.0	160.0	238.0	296.0
% change		NS	48.8%	24.4%
Net income	-73.0	88.0	152.0	195.0
% change		NS	72.7%	28.3%

	2015	2016e	2017e	2018e
Operating margin	1.6	5.9	8.5	10.2
Net margin	-22.5	3.1	5.3	6.6
ROE	-208.1	21.5	27.5	26.1
ROCE	-11.7	11.7	17.9	22.0
Gearing	227.0	177.0	96.0	40.0

(€)	2015	2016e	2017e	2018e
EPS	-0.40	0.46	0.79	1.01
% change	-	NS	71.7%	27.8%
P/E	NS	21.3x	12.4x	9.7x
FCF yield (%)	NM	0.8%	9.4%	11.8%
Dividends (€)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	0.8x	0.8x	0.8x	0.7x
EV/EBITDA	21.6x	10.3x	6.9x	5.1x
EV/EBIT	50.2x	14.4x	8.9x	6.4x

This morning Indra announced its intention to launch a voluntary tender offer for Tecnomcom. It will pay EUR4.25 per share, with a mix consideration of cash (60%) and shares (40%) valued at EUR9.85. The deal, which is expected to close in Q2 2017 and would reinforce Indra's position in Financial Services, increase its exposure to private customers, increase its operating leverage, and strengthen its proprietary solution portfolio, is expected to deliver EUR40m cost and revenue synergies per annum and double-digit EPS accretion from 2017.

ANALYSIS

- Overview of the deal.** The price offered values each Tecnomcom's share at EUR4.25, representing a 12% premium over Tecnomcom's closing price on 28th November 2016, and a premium of 28% over the 3-months VWAP. Payment will include a consideration of cash (60%) and Indra's shares (40%) valued at EUR9.85 per share, implying EUR2.55 in cash and 0.1727 Indra's shares for each Tecnomcom share. The offer values 100% of Tecnomcom's share capital at EUR305m, excluding the treasury stock. This represents an estimated EV/EBIT pre-synergies for 2017 of 14.3x and an estimated EV/EBIT post-synergies for 2017 of 5.2x, based on Bloomberg consensus figures. The deal is subject to the approval by the relevant anti-trust authorities, a minimum acceptance threshold of 50.01% of Tecnomcom's share capital (excluding irrevocable commitments subscribed by Indra with Tecnomcom's shareholders representing 52.7% of the share capital), a minimum acceptance of 70.01% of Tecnomcom share capital, and the approval of the capital increase related to the transaction by Indra's Shareholders Meeting.
- Who is Tecnomcom?** Founded in 1967 and listed on the Madrid Stock Exchange since 1987, Tecnomcom is an IT Services company which operates in 9 countries, including Spain, Portugal and Latin America with over 6,500 professionals (o/w 80% are based in Spain). Its business is positioned in critical areas like Payment Systems (90% of Spanish financial institutions are customers), and Tecnomcom has a significant presence in local banking in Latin America and outsourcing. For 2015 the company posted revenues up 9.2% to EUR406.5m and an EBIT margin of 2.8% (+1ppt). Its net debt on 30th September 2016 was EUR27.2m. The combination of Indra and Tecnomcom, based on pre-synergies data for the last 12 months ended in September 2016, would create a company of EUR3,147m revenues and €165m recurring EBIT (5.2% margin).
- EUR40m synergies ahead.** The management quantified costs and revenues annual synergies of more than EUR40m. This will be reflected in double-digit EPS accretion at Indra from 2017 (excluding restructuring costs). On the back of this transaction, Indra will increase its operational leverage in IT Services, mainly in Financial Services. The deal is aligned with Indra's strategy of strengthening its proprietary solutions and digital-focused offering which will be reinforced with Tecnomcom's Payment Systems solutions in Spain and Latin America. Moreover, Tecnomcom's and Indra's client bases offer potential for cross-selling and up-selling, as well as consolidating Indra's position in large accounts, and access to new clients both in the Financial Services and other industries, in Spain and Latin America. In addition, the transaction will increase Indra's exposure to the private sector. Indra expects Tecnomcom's management team to become part of Indra.

VALUATION

- Indra's shares are trading at est. 14.4x 2016 and 8.9x 2017 EV/EBIT multiples.
- Net debt on 30th September 2016 was EUR666.4m (net gearing: 187%).

NEXT CATALYSTS

FY16 results in February 2017.

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