

1st March 2019

INDRA SISTEMAS

Technology
Software & IT services

BUY

Fair Value EUR14 (+43%)
Share price EUR9.52
EPS 3Y Cagr 12.9%

FY18 results above consensus and sharp deleveraging

EBIT was slightly above consensus expectations

Yesterday evening, Indra reported 2018 revenues up 3.1% (+5.9% at cc and +0.6% lfl) to EUR3,103.7m, or 2% above our forecast (3,046) and consensus. EBIT was up 1.9% to EUR199.3m (6.4% of sales, -0.1ppt) or in line with our forecast (198 / 6.5% of sales), and 2% above consensus (195 / 6.4%). Non-IFRS operating profit was up 1.8% to EUR221.4m or 7.1% of sales (-0.1ppt), excluding a EUR13.5m provision for the fine for anti-competitive practices in IT services in Spain, a EUR12m provision reversal related to restructurings and EUR13.2m restructuring costs. Company guidance was low single-digit revenue growth at cc, a slight increase in EBIT, and free cash of c. EUR100m before net working capital. Non-IFRS operating margin was up 1.6ppt to 13.2% in Transport & Defence (T&D) and down 1ppt to 2.2% on Minsait (IT). Net profit was down 5.6% to EUR119.8m, way above our estimate (98) and consensus (84) thanks to tax refunds related to 2016 and 2017 in Spain.

Deleveraging went faster than expected

Net debt on 31st December 2018 was EUR483.1m (net gearing: 71%) or 1.6x EBITDA, down from EUR685.7m (111% or 2.5x EBITDA) in September 2018, where we expected €570 (consensus: €569). Free cash flow was down 10.2% to EUR167.5m - but still way above the c. EUR100m guidance - with a EUR27.9m decline in WCR related to a EUR45.4m increase in payables vs. a EUR24.2m increase in inventories and a EUR6.8m decline in receivables, while operating cash flow (i.e. before WCR change) was down 4.3% to EUR252.8m, and non-recourse factoring stayed flat at EUR187m. Net working capital in December 2018 was flat at -10 days of sales.

FY19 guidance is prudent due to Eurofighter and elections

Indra has reiterated its targets for 2016-2020, i.e. a low-single-digit revenue CAGR and more than 10% EBIT CAGR, as well as a cumulative cash flow of EUR550-650m over 2018-2020. For 2019, management expects low-single-digit revenue growth at cc, more than 10% growth in EBIT in reported terms, and free cash above EUR100m before net working capital. This means EBIT has to exceed EUR220m in 2019 and exceed EUR264m in 2020. For 2019, we expected revenues up 4% and an EBIT margin of 7.9% (consensus: revenues up 2.8% and EBIT margin of 8%), which looks too optimistic. In fact, while management expected revenue headwinds on Eurofighter and elections of EUR160m over 2018, these headwinds were actually at c. EUR100m - which explains the consensus beat - and will continue in 2019 in a lesser extent.

We keep our DCF-derived Fair Value unchanged

We cut our adj. EPS ests. by 7% for 2019 and 5% for 2020 as we reduce our EBIT margin assumptions to 7.1% (269) from 7.9% (249) for 2019 and to 8.1% (267) from 8.6% (284) for 2020. However, we keep our DCF-derived Fair Value of EUR14 as this reduction, which has a negative impact of EUR1/share, is fully offset by the positive impact of faster-than-expected deleveraging.

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Market Data

	Bloomberg / Reuters	IDR SM/IDR.MC
Market Cap.		EUR1,681m
E.V.		EUR2,319m
Free Float		70.8
Avg. Daily volume (6m)		563.8
12m high / low		11.9 / 7.9
Ytd Perf.		15.5%

EURM	12/18	12/19e	12/20e	12/21e
Sales	3,104	3,209	3,316	3,431
% Change		3.4%	3.3%	3.5%
EBITDA	309.0	357.0	398.0	434.0
% Change		15.5%	11.5%	9.0%
EBIT	221.0	237.0	275.0	308.0
% Change		7.2%	16.0%	12.0%
Net Income	141.0	148.0	177.0	203.0
% Change		5.0%	19.6%	14.7%
ROE	0.18	0.17	0.18	0.18

	12/18	12/19e	12/20e	12/21e
EV/Sales	0.7x	0.6x	0.6x	0.5x
EV/EBITDA	7.0x	5.6x	4.7x	3.9x
EV/EBIT	9.8x	8.4x	6.8x	5.5x
EPS	0.73	0.76	0.92	1.05
% change		4.1%	21.1%	14.1%
P/E	13.0x	12.5x	10.3x	9.1x
Div Yield	NM	3.2%	4.2%	5.3%

Next Catalyst: Q1 2019 results in May.

Last rating Change:
2017-9-22, H2 2017 far more dynamic

Last FV Change:
[2017-11-8, Q3 2017 back to growth, FY17 guidance confirmed, sales headwinds in 2018](#)

Last Reports:
2018-11-8 Decent Q3 2018 results, FY18 guidance

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BUY

Fair Value	EUR14 (+43%)
Share price	EUR9.52
Market Cap.	EUR1,681m
EPS 3Y CAGR	12.9%

Simplified Profit & Loss Account (EURm)	2017	2018	2019e	2020e	2021e
Revenues	3,011	3,104	3,209	3,316	3,431
Change (%)	11,1%	3,1%	3,4%	3,3%	3,5%
lfl change (%)	1,8%	0,6%	2,4%	3,3%	3,5%
Adjusted EBITDA	283	309	357	398	434
Depreciation & amortisation	-66	-88	-120	-123	-126
Adjusted EBIT	218	221	237	275	308
EBIT	196	199	229	267	300
Change (%)	21,1%	1,9%	15,1%	16,4%	12,3%
Financial results	-32	-35	-30	-25	-20
Pre-Tax profits	164	164	199	242	280
Exceptionals	0	0	0	0	0
Tax	-34	-42	-60	-73	-84
Profits from associates	0	-1	1	1	1
Minority interests	2	3	3	3	4
Net profit	127	120	138	167	193
Restated net profit	149	141	148	177	203
Change (%)	98,7%	-5,4%	5,0%	19,6%	14,7%
Cash Flow Statement (EURm)					
Operating cash flows	212	218	251	279	302
Change in working capital	36	28	4	3	3
Capex, net	-52	-79	-109	-109	-109
Financial investments, net	19	-6	0	0	0
Acquisitions, net	-192	-40	0	0	0
Dividends	0	0	0	-53	-71
Other	14	-12	17	22	28
Net debt	588	483	321	179	25
Free Cash flow	196	167	146	173	196
Balance Sheet (EURm)					
Tangible fixed assets	106	110	104	96	87
Intangibles assets & goodwill	1,155	1,185	1,172	1,158	1,142
Investments	337	263	264	265	266
Deferred tax assets	166	160	160	160	160
Current assets	1,404	1,404	1,463	1,524	1,589
Cash & equivalents	699	918	1,080	1,222	1,376
Total assets	3,867	4,041	4,244	4,426	4,620
Shareholders' equity	649	678	818	935	1,061
Provisions	70	66	66	66	66
Deferred tax liabilities	21	3	3	3	3
L & ST Debt	1,287	1,401	1,401	1,401	1,401
Current liabilities	1,839	1,894	1,957	2,021	2,090
Total Liabilities	3,867	4,041	4,244	4,426	4,620
Capital employed	1,237	1,161	1,139	1,114	1,086
Ratios					
Operating margin	7,2%	7,1%	7,4%	8,3%	9,0%
Tax rate	20,7%	25,6%	30,2%	30,2%	30,0%
Net margin	4,2%	3,9%	4,3%	5,0%	5,6%
ROE (after tax)	19,6%	17,7%	16,9%	17,9%	18,2%
ROCE (after tax)	14,4%	14,7%	14,8%	17,5%	20,1%
Gearing	91%	71%	39%	19%	2%
Pay out ratio	0,0%	0,0%	38,5%	42,1%	45,9%
Number of shares, diluted	204	193	193	193	193
Data per Share (EUR)					
EPS	0,72	0,68	0,78	0,95	1,09
Restated EPS	0,73	0,73	0,76	0,92	1,05
% change	87,2%	0,0%	4,1%	21,1%	14,1%
EPS bef. GDW	0,73	0,73	0,76	0,92	1,05
BVPS	3,18	3,51	4,23	4,83	5,49
Operating cash flows	1,04	1,13	1,30	1,44	1,56
FCF	0,96	0,86	0,75	0,89	1,01
Net dividend	0,00	0,00	0,30	0,40	0,50

Source: Company Data; Bryan, Garnier & Co ests.

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