

Thales – QuickView

8 February 2012

Event FY11 revenue and order intake

Investment summary: A tricky year navigated

Thales' full year revenues and order intake aptly demonstrate the dichotomy of defence spending pressures and a buoyant civil aerospace market. With its balance of businesses, the flat organic revenues and book to bill ratio of over 1x show that where others with defence exposure are struggling, Thales is holding up, reflecting its combination of niche electronics exposure and diversified geographic spread. While uncertainty continues in Europe and the US, Thales' Probasis restructuring plan is generating efficiencies that should allow the 2011 target EBIT margin of 5% to be met.

Full year revenues stable

Revenues for the group remained stable at €13.0bn, slightly behind consensus. Security & defence remained robust, down only 3% in the face of cuts in Europe and the US, while buoyant demand for avionics in civil aerospace offset the dip in transport with aerospace & transport revenues up 3%. The geographic picture reveals it was the home market that helped maintain the stable revenue figures, with France accounting for a 3% increase, offsetting falls in countries such as the US, the Netherlands, Switzerland and Saudi Arabia, which occurred due to the predominant business exposure (defence and transport) in those regions.

Orders show further pressures, but balanced strategy helps

Order intake rose 1% to €13.2bn, matching the group's 2011 target, which can be seen as a good achievement in a difficult environment. The main drivers include the increase in civil aerospace and the substantial (>€1bn) Mirage 2000 upgrade contract in India. These helped offset a lower intake in space, which had seen an exceptional level of order intake in 2010 (81 satellites for the Iridium NEXT constellation). We believe this shows the benefit of the group's business balance.

Valuation: Restructuring and redirecting

While the environment remains uncertain, the Probasis restructuring plan is delivering margin improvement and creating a more competitive platform. The rating of 9.5x CY12 EPS reflects this transitional nature. Results are due 6 March 2012.

Consensus estimates

Year End	Revenue (€m)	PBT (€m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
12/09	12,881	83.7	1.32	0.50	20.6	1.8
12/10	13,124	147.2	(0.23)	0.50	N/A	1.8
12/11e	13,200	532.7	2.52	0.68	10.8	2.5
12/12e	13,447	657.2	2.88	0.80	9.5	2.9

Price €27.25

Market Cap €5.4bn

Share price graph



Share details

Code HO
Listing Euronext Paris
Sector Aerospace & Defence
Shares in issue 202.29m

Business

Thales is a global defence and civil contractor operating in 50 countries, with 68,000 employees. It is structured in two divisions, aerospace & transport and security & defence, sharing advanced technology and drawing on complementary capabilities to provide often dual-use products.

Bull

- Stable revenue despite pressures.
- Balanced civil/defence exposure.
- Probasis restructuring plan improving margins.

Bear

- Defence budget pressures.
- Uncertainty surrounding transport spend.
- Relative underperformance to peers.

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