Trevi

Italy/ Construction & Materials

Company report

24 April 2007

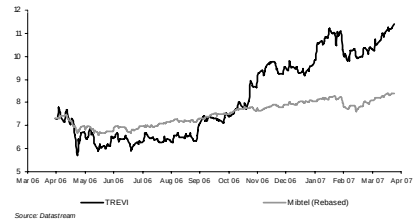
Buy

unchanged

Share price*: EUR	11.41
Target price: EUR	13.20

Reuters/Bloomberg	TFI.MI/TFI IM
Accounting Standard/Since	IFRS/2005
Market capitalisation (EURm)	730.0
No. of shares (m)	64.0
Free float	44.1%
Daily avg. no. trad. sh. 12 mth	347,200
Daily avg. trad. vol. 12 mth (m)	2.86
Price high 12 mth (EUR)	11.41
Price low 12 mth (EUR)	5.70
Abs. perf. 1 mth	10.2%
Abs. perf. 3 mth	21.9%
Abs. perf. 12 mth	57.4%

(EUR)	12/06	12/07e	12/08e
Sales (m)	607	789	939
EBITDA (m)	85.6	119.1	150.0
EBITDA margin	*14.1%*	*15.1%*	*16.0%*
EBIT (m)	59.0	84.0	104.2
EBIT margin	*9.7%*	*10.6%*	*11.1%*
Net Profit (adj.)(m)	26.8	44.6	57.3
ROCE	9.0%	10.7%	12.4%
Net debt/(cash) (m)	176	191	157
Debt Equity	*138.0%*	*112.2%*	*69.2%*
Debt/EBITDA	2.1	1.6	1.0
Int. cover(EBITDA/Fin. int	6.8	8.2	10.0
EV/Sales	1.1	1.3	1.0
EV/EBITDA	8.0	8.5	6.5
EV/EBIT	11.6	12.0	9.4
P/E (adj.)	15.9	16.4	12.7
P/BV	3.5	4.4	3.3
OFCF yield	*-16.1%*	*-1.9%*	*4.3%*
Dividend yield	*0.2%*	*0.2%*	*0.2%*
EPS (adj.)	0.42	0.70	0.90
BVPS	1.91	2.58	3.45
DPS	0.03	0.03	0.03



Shareholders: Trevi Family 56%;

*closing price as of 23/04/2007

When reliability makes great strides for a company

- **A backlog order still growing**: during the last few years, the group's growth has been guaranteed by some important agreements both in the foundation division and in the drilling division and the company continues to show a considerable growth potential also for the coming years, as demonstrated by the foregoing large order backlog. In fact, the Work Portfolio at the beginning of 2007 reached € 636.8 million and showed a further distinct improvement compared to last year (+23.3%).
- **Foundation – relevant and prestigious orders will drive the growth**: the last significant contracts (the repair work on earthquake damage to the Tuttle Creek Dam, the consolidation of the Diavik diamond mines in Canada on the edge of the Arctic Circle and the construction contract for the diaphragm of the new transport hub in the World Trade Center in New York), in our opinion, will allow Trevi to obtain further relevant and prestigious orders in projects characterized by high complexity; in fact, based on Trevi's fame for reliability in the world, the group is now considered a top notch company, a benchmark player in the special foundation sector.
- **Drilling – new hydraulic technologies will be a strong boost to the growth in the oil sector**: we believe that, in the Drilling equipment, a further important driver in the coming years is represented by the master agreements signed with various oil companies in the last few years for the sale of innovative machines; in the Drilling services, the efficiency demonstrated and the important contracts signed with some of the main world oil companies constitute, exactly as for Drillmec, recognition of Trevi Group's reliability in the near future, so new contracts could be signed by the group.
- **DCF Model and SOP Valuation reach the same Fair Value**: Our DCF Model shows a Fair Value of EUR 13.2 per share. Our SOP valuation, based on the Group's four divisions (peers multiple comparison), identifies a Fair Value of EUR 13.5 per share, substantially confirming the Fair Value calculated with the DCF Model.
- **Rating Buy confirmed**: based on our valuation, we confirm our Buy recommendation and we increase our Target Price from EUR 11.45 per share to EUR 13.20 per share.

Company Description

The Group operates in four divisions. Foundation rigs: plants and rigs used for foundation engineering designed and manufactured by SOILMEC; Foundation services: special foundations, soil consolidation for infrastructures such as bridges, railways, dams, industrial systems and tunnels realized by TREVI through the rigs manufactured by Soilmec; Drilling rigs: used for hydrocarbons, designed and manufactured by DRILLMEC; Drilling services: well drilling for the extraction of hydrocarbons and for water research, realized by PETREVEN thanks to the use of drilling rigs manufactured by Drillmec.

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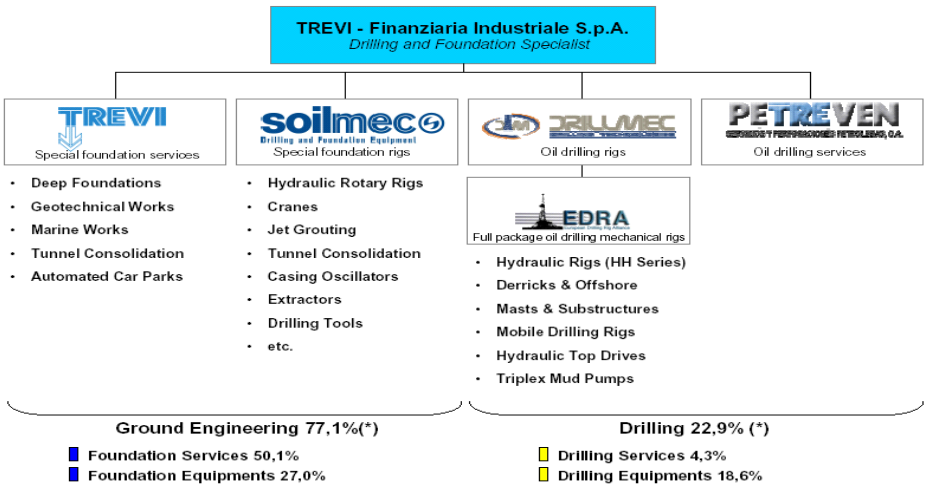
Company profile

Trevi Group was established in 1957 and today has 23 branches in as many countries, and counts on 4,218 employees all around.

The Group operates in four divisions:

- Foundation rigs: plants and rigs that are used for foundation engineering that are designed and manufactured by SOILMEC.
- Foundation services: special foundations, soil consolidation for infrastructures such as bridges, railways, dams, industrial systems and tunnels, all realized by TREVI through the rigs manufactured by Soilmec.
- Drilling rigs (hydraulic and conventional rigs): drilling rigs that are used for hydrocarbons, designed and manufactured by DRILLMEC.
- Drilling services: well drilling for the extraction of hydrocarbons and for water research, realized by PETREVEN thanks to the use of drilling rigs manufactured by Drillmec.

Trevi Group's structure



Source: Company data *as of 31/12/2006*

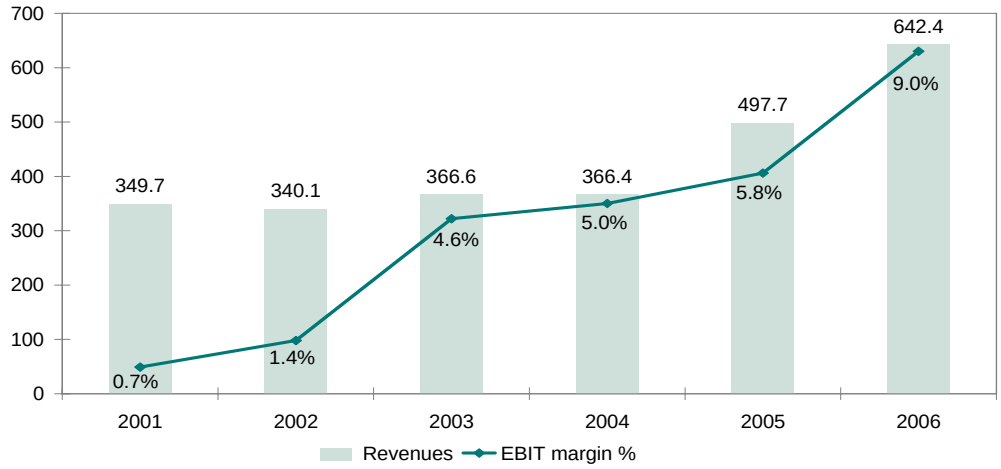
SWOT Analysis

Strengths	Weaknesses
▪ High technological level thanks to constant high investments to develop technologies and innovative products; ▪ High entry barriers: in the foundation division, represented by a solid track record, and in the drilling division, represented by its innovative hydraulic rigs; ▪ Vertical integration among the various business divisions as competitive advantage; ▪ High geographical diversification.	▪ Currency risk: particularly in the drilling division, a strong and sudden euro/dollar exchange could negatively weigh upon the operating profitability. ▪ Country risk: particularly in the drilling and foundation service divisions, the group mainly works in countries that are characterized by growing economies but also by strong instability. ▪ Capital intensive business: because of the high level of production resources, two equipment divisions (Drillmec and Soilmec) are decidedly capital intensive. ▪ Potential problems related to the growing Group's size (management, technicians, etc).
Opportunities	**Threats**
▪ Strong demand still expected for the coming years both in the foundation sector and in the drilling sector.	▪ Cyclical businesses: the Group business areas are closely linked to the trend in the construction and building sector and to the oil sector trend.

FY 06 Results

On 29th March the Company's Board of Director approved the FY 06 results. The data showed good annual performance with double digit growth for both revenues and margins, thus continuing the group's every improving results which began a few years ago.

TREVI GROUP: Revenues and EBIT margin trend



Source: Company Data

More in detail:

Net revenues were up +29.1% Y/Y to EUR 642.4m (vs. company guidance of EUR 635m). This result has been reached thanks to the good performance showed by all the group's business areas. Besides, thanks to the group's continued internationalisation process the overseas revenues have increased from 79.8% to 83% of total revenues.

Operating leverage translated into much higher margins: EBITDA was EUR 85.6m (+54.9% Y/Y), at 13.3% on net sales and EBIT was EUR 58.1m (+102.4% Y/Y).

Net Profit was up +109.4% Y/Y to EUR 26.8m and Net debt was EUR 175.5m, with a 39.3% fall due to the strong level of investments (EUR 55.5m, +178% Y/Y).

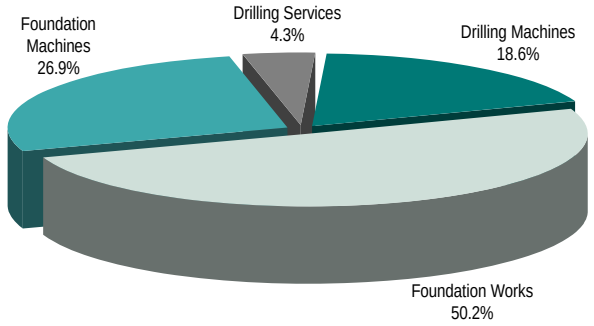
Lastly, the Board of Directors has proposed the distribution of a dividend of EUR 0.050 per share (+100%).

TREVI GROUP: FY 06 Results

	2005a	2006a	*%Chg*
Sales	497.7	642.4	*+29.1%*
EBITDA	55.3	85.6	*+54.9%*
EBIT	28.7	58.1	*+102.4%*
Pre-tax Profit	25.3	42.6	*+68.5%*
Net Profit	12.8	26.8	*+109.4 %*
Shareholders Equity	97.2	121.9	*+25.0%*
Net Debt	(126.0)	(175.5)	*-39.3%*
Debt/Equity	1.23x	1.38x	

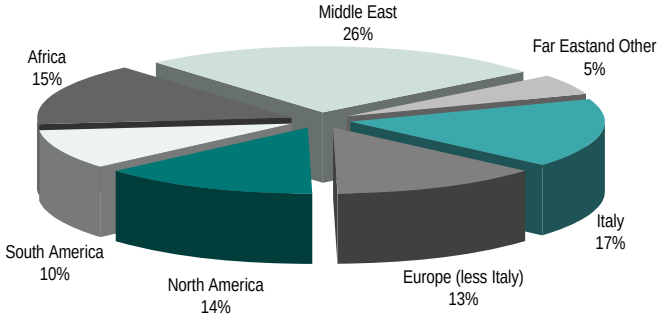
Source: Company Data

FY 06 Sales breakdown by division



Source: Company Data

FY 06 Sales breakdown by geographical area



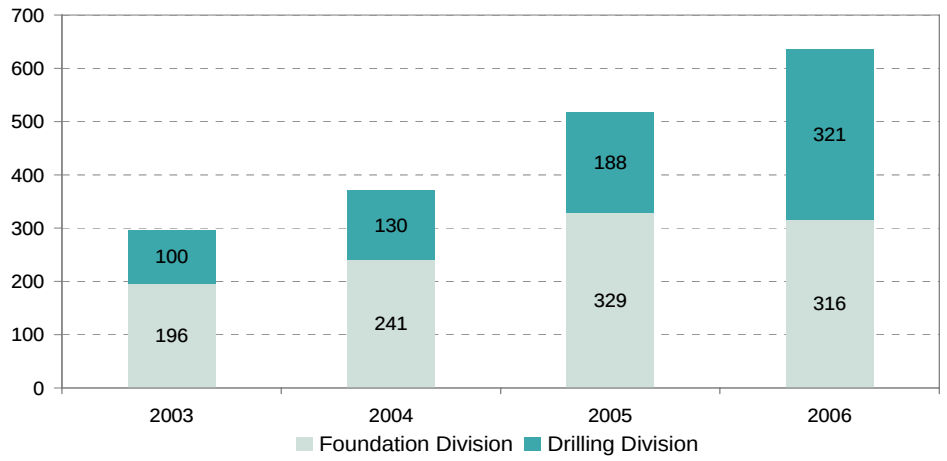
Source: Company Data

Work Portfolio

The Work Portfolio at the beginning of 2007 reached € 636.8 million and showed a further distinct improvement compared to last year (+23.3%).

Furthermore, we highlight that for the first time orders in the drilling division exceeded the foundation division's; this is a signal of the strong growth rates in this sector.

TREVI GROUP: Orders' Portfolio trend



Source: Company Data

When reliability makes great strides for a company

During the last few years, the group's growth has been guaranteed by some important agreements both in the foundation division and in the drilling division (among the most significant we highlight: the contract signed with the US Army Corps of Engineers for the repair and prevention work for the earthquake damage to the Tuttle Creek Dam in September 2005 and the contracts signed in the drilling service division in South America with Petrobras Chevron-Texaco and Repsol in 2006). The Company shows a considerable growth potential also for the coming years, as demonstrated by the foregoing large order backlog. This strong order level will allow the Company to cover more than nine months of operating revenues.

Therefore, in the light of the strong growth expected in both sectors, and thanks to the strategic agreements, we believe that the significant growth targets announced by the management will be met.

In the following paragraphs we analyze the features, the drivers and estimates for each business area in which the Group operates.

Trevi (Foundation services)

Founded in 1957, the Company is the 4th largest Company in the world (behind Solétanche Bachy, Bauer and Keller) in the field of soil engineering; it is present on the five continents with its activities, representative offices and agencies. The group's leadership position is due to its solid track record.

TREVI – business feature
▪ *Cyclical business* closely linked to the trend in the construction and building sector and with the quantity of big infrastructures realized in the various countries;
▪ *Limited country risk*: high geographical diversification;
▪ *High entry barriers*: special foundation work requires high technical competence, which is not easy to develop in the short/medium term for new emerging players;
▪ *Currency risk*: job order revenues are realized in local currency in the various world countries and covered by costs in the same currencies; however, any weaknesses on the local currencies could weigh upon the group results;
▪ *Risk of delay in job order execution*: job order execution requires high structure and labour costs and the net working capital level required is also very high; if significant delays happen in job order execution there is a strong imbalance risk.

- **Strengths: strong technical know how in a niche sector** – during the last few years, Trevi Group has completed numerous dam projects characterized by high geotechnical complexity. This kind of order requires special organizational skills that only few operators in the world can assure; Trevi has demonstrated it is part of this narrow operators' group thanks to the technological solutions proposed to the costumers to solve certain complex geotechnical problems. Among the main big projects acquired by Trevi recently, we mention:

  a) the contract for the repair and prevention work on earthquake damage to the Tuttle Creek Dam was assigned to the group by the US Army Corps of Engineers for a total amount of USD 200m in September 2005;

  b) the job order for the Jet Grouting consolidation work of the Diavik Diamond Mines in Canada on the edge of the Artic Polar Circle for an amount of USD 12m;

  c) the construction contract for the massive diaphragm wall that will act as the retaining wall and foundation for the new transportation hub as well as three of the

new towers that will rise in Ground Zero, acquired for an amount of USD 17m in December 2006.

In our opinion, these contracts will allow Trevi to obtain further relevant and prestigious orders in projects characterized by high complexity; in fact, based on Trevi's fame for reliability in the world, the group is now considered a top notch company, a benchmark player in the special foundation sector.

- **Our estimates** – Based on the important ongoing projects and on the large order backlog, we still estimate double digit sales growth in 2007e and 2008e and a lower growth rate in the following years; however the company will be able to perform fewer projects becoming more selective. At a profitability level, since Trevi will be able to choose projects with higher added value, thanks to the high work standing and to the continued demand in investments expected from the emerging countries, which are today benefiting from large cash flows deriving from oil drilling, we estimate that Trevi will be able to increase the average EBITDA margin.
  The following table is a summary of our new forecasts.

TREVI (Foundation services) – 2007-09 forecasts

	2006	2007e	2008e	2009e
Sales	322.4	363.6	399.5	427.3
Ch%	*19.6%*	*12.8%*	*9.9%*	*7.0%*
EBITDA	43.5	54.5	63.9	59.8
EBITDA%	*13.5%*	*15.0%*	*16.0%*	*14.0%*

Source: BANCA AKROS estimates

- **Further important drivers for future upside** – the above mentioned recent order to repair the Tuttle Creek Dam follows the jobs to waterproof the Arapuni dam (New Zeland), Parbati (India), Missingiri (Mozambique) and Walter F. Gorge (Alabama) again from the US Army Corps of Engineers. So we can say that Trevi has been recognized as a highly reliable partner by the US Government and, in the near future, its excellent reputation could play an important role and stand as the overcoming of an import and entry barrier to obtain new orders. In fact, in the near future the US Government has to repair about 200 dams in the USA and, after the damage caused by the Katrina hurricane, there are about 6,000 miles of embankments to be repaired in the south of the United States.
  Our estimates do not include these potential large agreements. Nevertheless, based on a potential scenario, assuming a new contract for dam repair work will be acquired by the Company (for example an order for USD 100m in 2007), *we estimate a further upside for the stock around 8-10%* compared with our current Fair Value.

  Besides, it is important to point out that Trevi Group is in the running for the project to double the Panama Canal.

Soilmec (Foundation equipment)

Founded in 1969, the company is the second largest player in the world and the world leader in the middle-high segment in equipment building for subsoil engineering with over 280 employees and satellite industries of over 60 companies.

SOILMEC – business feature
▪ *Cyclical business* closely linked to the trend in the construction and building sector and with the quantity of big infrastructures realized in the various countries;
▪ *Highly capital intensive* because of the high level of production resources, this business division is decidedly capital intensive. In the last few years the group has been able to improve production efficiency thanks to the outsourcing of the production phases to smaller value added firms;
▪ *High entry barriers* Soilmec is today a player with high recognized reliability thanks to the foregoing high level of R&D and to the continuous investments in technology; this constitutes a remarkable entry barrier to new competitors;
▪ *Currency risk:* USD exposure (about of 15% of total sales);.

- **Strengths: strong vertical integration** – besides greater production efficiency, the group, in the last few years, has been able to reach highly sustainable operating profitability thanks the overall services and cost structure offered to its clients. In fact, thanks to the high investments in R&D, Soilmec has been able to develop a complete range of equipment for all the subsoil engineering sectors; the R&D Division is constantly dedicated to developing technologies and innovative products; the division is helped by all the information received from clients on how efficient the machinery is; other important aid comes from the integration with Trevi (foundation services sector), which tests the new prototypes in its yard.

SOILMEC: Competitive advantage

Source: Company Data

- **Our estimates** – Based on the large order backlog (the Work Portfolio at the beginning of 2007 was at its all time high and allowed the Company to cover more than nine months operating revenues) and on the company guidance, we estimate consistent sales growth by 2008 and more conservative growth for future years, for which, today, the visibility is still low. In terms of operating profitability, we believe that, thanks to the significant production efficiency obtained in the last few years and to a further cost

efficiency due to higher outsourced manufacturing and to a continue strong demand for foundation equipment, we believe that, compared to an EBITDA margin of 13% indicated as sustainable for this division, this level of profitability can be risen to 14%; however, we estimate that, owing to a longer positive trend in the cycle and a good visibility on orders by 2008, for the current year the EBITDA margin could reach 15% on sales, and then start to slip.

SOILMEC (Foundation equipment) – 2007-09 forecasts

	2006	2007e	2008e	2009e
Sales	173.1	216.4	246.7	259.0
Ch%	*35.7%*	*25.0%*	*14.0%*	*5.0%*
EBITDA	25.9	33.5	35.7	36.3
EBITDA%	*15.0%*	*15.5%*	*14.5%*	*14.0%*

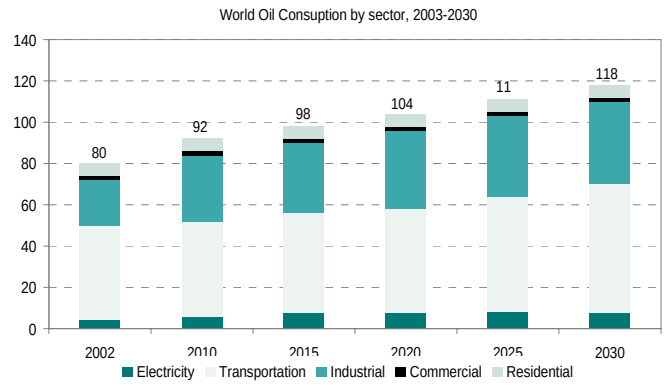
Source: BANCA AKROS estimates

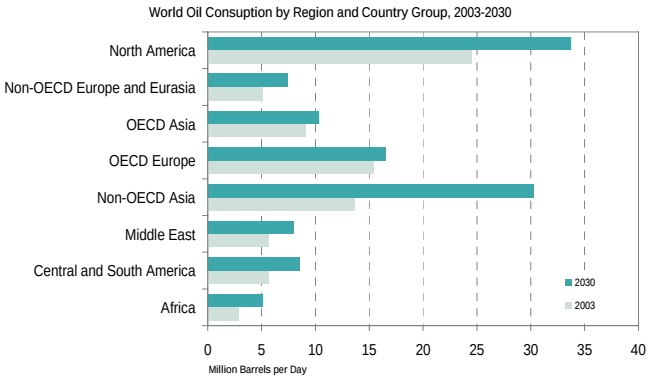
Oil drilling rigs

Drillmec (Oil drilling rigs)

- **OIL SECTOR: scenario and trend (2003-2030)** – Based on the International Energy Outlook 2005 (IEO2005) reference case, world demand for crude oil will continuing to grow from 80 million barrels per day in 2003 to 98 million barrels per day in 2015 and over 118 million barrels per day up to 2030. Much of the growth in oil consumption is projected for the emerging Asian nations, where a robust expansion in gross domestic product (GDP growth estimated is of +5.5% per year) will contribute to a 3.0% annual increase in regional oil use.
  The projected increase in world oil demand by 2030 (118 million barrels per day) will require an increment to a world production capacity of 38 million barrels per day compared to the 2003 crude oil production capacity of 80 million barrels per day. Producers in the Organization of Petroleum Exporting Countries (OPEC) are expected to be the major source of production increases. In addition, non-OPEC supply is expected to remain highly competitive, with major increases to supply especially in the Caspian Basin, Latin America, and West Africa.

Oil demand trend 2003-2030





Source: Intl. Energy Outlook 2006 - EIA (Energy Information Administration) Office of Integrated Analysis and Forecasting U.S. Department of Energy, Washington DC

To date, in fact, the current rise in oil prices is due to a shortage of world production capacity compared with the high oil demand. This increase in the oil price is worsened by the difficult international scenario and in particular in the main producing countries (Iraq, Iran, Nigeria and Venezuela).
However, this imbalance is destined to last for a certain period. In fact, non-OPEC growth has stalled since 1998; what growth there is is mainly due to Russia, which is now tailing off; OPEC is now required to return to record highs, as it did in the 1970s, but many of the key fields are reaching maximum output and are less able to ramp up; investments to increase Saudi production capacity will only start to give the first results as of 2008.
Based on this oil sector scenario, the drilling rig equipment market was estimated to be around USD 6.3bn in 2005. This market has been growing at 16% CAGR since 2002 and is expected to grow at 16% also in the future driven by the following drivers: 1) *new build* – recent surge in jack-up construction to replace old jack-ups and fulfil increasing demand for new rigs; 2) *existing fleet* – increasing requirement for replacement parts due to increased activities and subsequent high utilization of existing rig fleet.

- **Profile and market share -** Drillmec is a Soilmec spin-off. The Company, previously the Oil & Gas Division of Soilmec, started its operations on January 1, 2004. Drillmec manufactures mechanical and innovative systems, hydraulic rigs for oil, geothermal and water drilling, as well as their relevant accessories; it also supplies specialised services, characterised by high added value, in the maintenance of the rigs. The Company, with the strong knowledge developed by the Group in the field, has further improved its technology through the acquisitions of Geoastra (a manufacturer of water well rigs), Massarenti & Ballerini (another well-know drilling rig manufacturer) and "Officine Meccaniche" in Cortemaggiore (Piacenza). Drillmec has developed in the last few years some innovative technologies:

- The HH model: this is Drillmec's most innovative hydraulic rig. These machines can drill to a maximum depth of 4,000-4,500metres and, compared with others sold on the market, they have a high level of automation: 1) automatic drill shaft interchangeability (still manual in traditional systems); 2) low environmental impact and smaller plants; 3) 30% increase in drilling performances; 4) average 30% reduction in performance costs; 5) average 40% reduction in plant relocation and transport costs; 6) great reduction in accidents and damage.

- EDRA joint venture: EDRA (European Drilling Rig Alliance) is a joint venture created in 2002 between Drillmec and two other European players (Wirth and Bentec). This alliance was set up to promote and enhance the value of European technologies in the drilling industry. Thanks to EDRA, Drillmec can offer Oil and Drilling Companies turn-key rig packages incorporating the latest design and technical innovations studied and tested by its partners. The most interesting geographical areas are North Africa, Middle-Eastern countries, China and South America, where US market leaders could be less competitive. The last important Drillmec order acquired through EDRA was an important contract from M.S.P. Kala Naft in Iran for four oil drilling rigs, the supply part awarded to Drillmec amounted to USD 57.7m. We retain that, thanks to this first order, EDRA will be recognized as an alternative reliable partner to the US competitors.

DRILLMEC – business feature
▪ *Cyclical business* closely linked to the oil sector trend; therefore, both the business trend and the stock price are strongly affected by the oil price;
▪ *Currency risk:* USD exposure (about of 70% of total sales);
▪ *High capital intensive* because of the high level of production resources, this business division is decidedly capital intensive. However, the company is realizing the same efficiency improvement obtained in the last two years by Soilmec;
▪ *Vertical integration* just like Soilmec, Drillmec can benefit from the integration with Petreven (the drilling service company), which tests all the technological innovations in its own sites.

- **Our estimates** – Based on the important projects in execution, on the strong evolution expected for the next few years in the oil industry and on the company's guidance, we estimate the sales growth will continue also in the coming years (in the three past years Drillmec's sales increased from EUR 28m in 2003 to EUR 119m in 2006). Consequently we increased sales growth estimate from +35% to 40% in 2007e and forecasted a further growth of around 35% in 2008e; for the years thereafter the growth trend will slow (past growth rates are unsustainable for a division that is becoming ever bigger), but will remain double digit. In terms of operating profitability we believe that, thanks to the improvement in production efficiency, Drillmec will be able to reach the same EBITDA margin as Soilmec in the next two years and we consider this to be stable in the following years. The table below is a summary of our new forecasts.

DRILLMEC (Drilling equipment) – 2007-09 forecasts

	2006	2007e	2008e	2009e
Sales	119.5	167.2	225.8	259.6
Ch%	*51.7%*	*40.0%*	*35.0%*	*15.0%*
EBITDA	13.7	18.4	28.2	34.3
EBITDA%	*11.5%*	*11.5%*	*12.5%*	*13.2%*

Source: BANCA AKROS estimates

- **Further important drivers for future upside** – Today, therefore, the company is starting to benefit from the investments realized in the last few years. The foregoing contracts obtained from primary sector buyers, in fact, constitute a track record of reliability; we can say that Trevi Group has been able to penetrate the strong entry barriers typical of the industry. In addition, we highlight that National Oilwell is the largest player of complete systems in the oil drilling sector today (its world market share is around 60%), and has almost all the market; however, this company operates with traditional equipment. Trevi Group, thus, being the only company with the hydraulic technology for perforation systems, has enormous growth potential.

  In our opinion, a further important driver in the coming years is represented by the master agreements signed with various oil companies in the last few years (we highlight the establishment of a partnership between Drillmec and Al-Jumaa International Group, the main oil company in Kuwait, aiming to provide Kuwait with the automatic hydraulic and drilling rigs manufactured by Trevi Group in the next years). We think, therefore, that these agreements will allow the group to obtain large new orders in the near future.

PETREVEN
Oil drilling services

Petreven (Oil drilling services)

The Company operates in the drilling sector with the execution of the oil perforation service realized thanks to the use of drilling rigs manufactured by Drillmec.

PETREVEN – business feature

- *Cyclical business* closely linked to the oil sector trend; therefore, both the business trend and the stock price are strongly affected by the oil price;
- *Currency risk:* job order revenues are realized in USD. A strong and sudden euro/dollar swing could negatively weigh upon the operating profitability;
- *Country risk*: Petreven mainly works in South America (Venezuela, Peru and Argentina) which is characterized by growing economies but also by strong instability;
- *Risk of delay in job order execution*: job order execution requires high structure and labour costs and the net working capital level required is also very high; if significant delays happen in job order execution there is a strong imbalance risk.

- **Reliability ensures growth** – *2005*: Petreven repeated its 2004 performance by winning the 1st Prize 2005 in Columbia for the best drilling company for work Safety & Quality. Since the very beginning of activities in Colombia, works were performed in more than 1,000 days, without even one hour being wasted as a result of accidents and without experiencing any job stoppage. *December 2005*: Petreven signed a new contract for USD 17m awarded in Peru by Petrobras; this contract follows the successes already achieved by Petreven by making use of innovative hydraulic drilling rigs in Venezuela, Colombia and Argentina. *March 2006*: the Company signed two contracts for a total amount of USD 46.4m awarded in Argentina by CHEVRON-TEXACO and REPSOL. Both contracts could be prolonged up to five years, the global counter-value could amount to USD 77.4m.
- **Our estimates** – Based on the important projects in execution, we estimate strong double digit sales growth in 2007e and 2008e and a lower growth rate in the following years. At the profitability level, we remind investors that the drilling service division shows a 30% EBITDA margin. The following table is a summary of our new forecasts.

PETREVEN (Drilling services) – 2007-09 forecasts

	2006	2007e	2008e	2009e
Sales	27.4	42.3	67.0	83.1
Ch%	*49.5%*	*54.5%*	*58.6%*	*24%*
EBITDA	7.7	12.7	22.1	27.4
EBITDA%	*28.0%*	*30.0%*	*33.0%*	*33.0%*

Source: BANCA AKROS estimates

- **Further important drivers for future upside** – The efficiency demonstrated and the important contracts signed with some of the main world oil companies constitute, exactly as for Drillmec, recognition of Trevi Group's reliability; therefore, the Group can legitimately now consider itself a supplier to the oil industry. Based on these considerations and on our oil sector scenario analysis, we believe that, in the near future, new contracts could be signed by the group in the Drilling services division.

  In particular, we remind investors that, in an interview published on Borsa & Finanza in March, the management said that Trevi could sign new relevant orders both in the drilling service (Petreven) and in drilling equipment (Drillmec) in the coming months.

  Our estimates do not include these potential and significant scenarios. Nevertheless, in a best case scenario, assuming two new contracts will be acquired by the Company (the first one in 2007 and the second one in 2008 – both similar to the latest contract signed with Chevron-Texaco and Repsol for amount and duration), *we estimate a further upside for the stock of above 15-18%% compared with our current Fair Value*.

Valuation

Our valuation of Trevi Group is based on a DCF Model and takes into account the SoP (Sum-of-the-parts) valuation based on the group's four divisions (peer multiple comparison).

DCF valuation

In light of our estimates for each division in the previous paragraphs, and based on our DCF model, we set a target price of EUR 13.2 per share, showing an upside above 15% on the current share price.

We have run our DCF analysis based on the following assumption:

- Sales and profitability forecast: a) for the period 2007/2009e we assume our estimates described in the previous paragraphs; b) for the period 2010/2011e, we estimate a sales CAGR of 4.0%, as growth average of each sector division characterized by various growth rates; c) in terms of long-term forecasts, we assume a EBIT margin stable at 11.0%.
- A WACC calculated by assuming: a) a risk-free rate of 4.5% and a market risk premium of 4.0%; b) a target capital structure with debt covering 25% of net capital employed; c) a beta at 1.1.
- A terminal growth rate at 2.0% looks appropriate to reflect Trevi's potential growth rates in the future.

Our assumptions are showed in the following tables.

TREVI GROUP: WACC calculation

Risk free rate	*4.5%*
Beta	1.1
Mkt risk premium	*4.0%*
Cost of Equity	*8.9%*
% equity	*75.0%*
Cost of Debt (gross)	*6.8%*
Tax rate	*33.0%*
Cost of Debt (net)	*4.6%*
% debt	*25.0%*
WACC	*7.8%*

Source: BANCA AKROS estimates

TREVI GROUP: Free Cash Flow projection (EUR m)

	2007e	2008e	2009e	2010e	2011e
EBITA	84,2	104,3	116,7	125,4	132,4
Taxes	-29,0	-35,9	-40,2	-43,2	-45,6
Tax rate	*34.4%*	*34.4%*	*34.4%*	*34.4%*	*34.4%*
NOPLAT	55,2	68,4	76,5	82,2	86,8
Depreciation & other provisions	35,1	45,8	41,3	46,5	46,3
Operating Cash Flow	90,3	114,3	117,8	128,7	133,1
Capex	-55,0	-40,0	-38,0	-35,0	-30,0
Change in Net Working Capital	-39,9	-29,7	-21,0	-18,4	-14,9
Free Operating Cash Flow (FOCF)	-4,6	44,5	58,8	75,3	88,2

Source: BANCA AKROS estimates

TREVI GROUP: DCF analysis

Perpetual Growth Rate	*2.0%*
WACC	*7.8%*
Terminal Value	1,379.3
Discounting Rate of Terminal Value	0.64
Discounted Terminal Value	878.3
Cumulated DFOCF	145.5
Financial Assets as of 31/12/06	17.5
Enterprise Value (EURm)	1,041.3
Net Financial Debt as of 31/12/06 (EURm)	(175.8)
Minorities market value (EURm)	(21.3)
Equity Value (EURm)	844.2
Value per share (EUR)	13.2

Source: BANCA AKROS estimates

SOP based on a peer multiple comparison for each Group Division

Our SOP valuation, based on a peer multiple comparison for each Group Division, shows an Enterprise Value of EUR 1054.4m (a Fair Value of EUR 13.5 per share), calculated on the average 2007e and 2008e EV/EBITDA. This value substantially confirms our target price of EUR 13.2 per share determined with the DCF model.

In particular, each division (Foundation Services, Foundation Rigs, Drilling Rigs, Drilling Services) is valuated through a specific group of peer multiples.

- **Foundation Services (Trevi)** - We applied the 2007e-2008e EV/EBITDA consensus average multiple of Keller and Bauer, two Trevi's listed players. We did not apply any discount because the company is one of the four world leaders in the field of soil engineering and also the main player in the Italian market.

TREVI GROUP: Foundation services peer multiples

	07e EV/EBITDA	08e EV/EBITDA
BAUER	8.3x	7.6x
KELLER	7.3x	7.2x
AVERAGE	7.8x	7.4x

Source: Bloomberg data

- **Foundation Rigs (Soilmec)** - We applied the 2007e-2008e EV/EBITDA consensus average multiple of the two main machinery producers in the world (Caterpillar and Atlas Copco). We did not apply any discount because the Company is the second largest player in the world and the world leader in the middle-high segment in equipment building for subsoil engineering.

TREVI GROUP: Foundation equipment peer multiples

	07e EV/EBITDA	08e EV/EBITDA
CATERPILLAR	11.0x	10.0x
ATLAS COPCO	11.1x	10.2x
AVERAGE	11.1x	10.1x

Source: Bloomberg data

- **Drilling Rigs (Drillmec)** - We applied the 2007e-2008e EV/EBITDA consensus average multiple of the main US and European drilling equipment producers. We applied a 15% discount for the large size of these players compared with Drillmec and because these drilling equipment producers operate only in the oil industry, while Drillmec is only a part of Trevi Group's activity.

TREVI GROUP: Drilling rigs peer multiples

	07e EV/EBITDA	08e EV/EBITDA
TRANSOCEAN	8.5x	6.0x
ROWAN	4.8x	4.0x
NATIONAL OILWELL	8.3x	7.2x
COOPER CAMERON CORPORATION	9.2x	7.7x
TENARIS	8.2x	8.2x
SOCOTHERM	8.3x	7.5x
AVERAGE	7.9x	6.8x
Average DISCOUNTED (15%)	6.7x	5.8x

Source: Bloomberg data

- **Drilling services (Petreven)** - We applied the 2007e-2008e EV/EBITDA consensus average multiple of the main US and European drilling services operators. We applied a 15% discount for the large size of these players compared with Petreven and because these drilling services operators operate only in the oil industry, while the oil division is only one of Trevi Group's two core business areas.

TREVI GROUP: Drilling services peer multiples

	07e EV/EBITDA	08e EV/EBITDA
GLOBAL SANTA FE'	6.6x	5.4x
SAIPEM	9.4x	9.4x
PRECISION DRILLING	6.3x	6.3x
PRIDE INTERNATIONAL	5.6x	4.2x
AVERAGE	7.0x	6.3x
Average DISCOUNTED (15%)	5.9x	5.4x

Source: Bloomberg data

TREVI GROUP: SOP on 2007 EV/EBITDA multiples (EUR m)

Brand	EV 07	EV/ EBITDA	07e EBITDA Division	*% on Group EBITDA*	*07e EBITDA margin*
Foundation works	426.4	7.8x	54.5	*46%*	*15%*
Drilling services	75.1	5.9x	12.7	*11%*	*30%*
Drilling Equipement	123.2	6.7x	18.4	*15%*	*11%*
Foundation equipment	370.8	11.1x	33.5	*28%*	*16%*
Total	995.5		119.1	*100%*	
Net debt	(176)				
Minorities	(5.4)				
Equity Value (SOP)	814.2				
Sh. Outs.	64,000				
FAIR VALUE	12.72				

Source: Bloomberg data and BANCA AKROS estimates

TREVI GROUP: SOP on 2008 EV/EBITDA multiples (EUR m)

Brand	EV 08	EV/ EBITDA	08e EBITDA Division	*% on Group EBITDA*	*08e EBITDA margin*
Foundation works	471.4	7.4x	63.9	*43%*	*16%*
Drilling services	118.4	5.4x	22.1	*15%*	*33%*
Drilling Equipement	162.3	4.5x	35.8	*24%*	*15%*
Foundation equipment	361.3	12.8x	28.2	*19%*	*13%*
Total	1,113.4		150.0	*100%*	
Net debt	(191)				
Minorities	(5.5)				
Equity Value (SOP)	916.6				
Sh. Outs.	64,000				
FAIR VALUE	14.32				

Source: Bloomberg data and BANCA AKROS estimates

Conclusion

Based on the large order backlog and the significant contracts described above, the Trevi Group shows considerable sales potential and profitability growth in the coming years, not yet factored into the current stock price, despite the strong stock rally realized over the last few year.

Besides, the group has, for both potential businesses (foundation and drilling), important drivers which, if they partly fulfil themselves, would mean a potential upside for the stock:

- The foundation business is showing interesting growth for the future, not only owing in the heavy investments expected from the emerging countries, which are today benefiting from large cash flows deriving from the oil drilling, but also from the investments from industrialized countries, in particular from the USA where, thanks to the group's track record in the dam repair niche and based on the important projects in execution, we can expect agreements for the reorganization of one of these structures in the coming months (U.S. Army launched a project to reorganize about 200 dams in the country). Furthermore, owing to the damage caused by hurricane Katrina the US

Government has to repair about 6,000 miles of embankments in southern United States.

- In the drilling sector, we think that the latest contracts signed with the primary oil companies (Petrobras, Chevron-Texaco and Repsol) will constitute a significant track record in the future, and thus allow the group to sign new agreements. Besides, we remind investors that, in an interview published on Borsa & Finanza in March, the management said that Trevi could sign new relevant orders both in the drilling service (Petreven) and in the drilling equipment (Drillmec) in the coming months. Today, therefore, we can say that Trevi is "starting to mutate": in the future, in fact, the group will no longer be identifiable as a pure building and construction sector operator, because the contribution from the drilling sector is due to increase materially thus balancing the other core business.
- Lastly, we are not ruling out that in the coming years, based on the large size and on the important weight on total sales reached by the Drilling Division (Drillmec and Petreven), the main shareholders will decide to go ahead with the spin-off of this business area. This operation, in fact, would allow the company to distinguish the value of each division (foundation and drilling) thus completely revealing the real value that is present in the Trevi Group.

Trevi: Summary tables

PROFIT & LOSS (EURm)	2003	2004	2005	2006	2007e	2008e	CAGR 08/03
Sales	**366.6**	**366.4**	**496.7**	**606.9**	**789.5**	**939.0**	***20.7%***
Cost of Sales & Operating Costs (excl. Pers. Expenses)	-239.5	-249.3	-357.4	-452.2	-715.4	-829.3	
Personnel Expenses	-85.8	-81.5	-94.0	-104.7	-113.0	-120.9	
Non Recurrent Expenses/Income	0.0	0.0	0.0	0.0	0.0	0.0	
EBITDA	**41.7**	**41.7**	**55.3**	**85.6**	**119.1**	**150.0**	***29.2%***
Depreciation, Amortisation & Write Downs	-24.6	-23.2	-26.6	-27.6	-35.1	-45.8	
EBIT (reported)	**17.1**	**18.4**	**28.7**	**59.0**	**84.0**	**104.2**	***43.6%***
Net Financial Interest	-10.1	-7.4	-9.0	-12.6	-14.5	-15.0	
Other Financials	-0.1	-1.4	5.6	-5.1	0.0	0.0	
Associates	0.0	0.0	0.0	0.0	0.0	0.0	
Other Non Recurrent Items	-2.2	0.0	0.0	0.0	0.0	0.0	
Earnings Before Tax (EBT)	**4.7**	**9.6**	**25.3**	**41.4**	**69.6**	**89.2**	***80.1%***
Tax	-3.2	-6.4	-11.6	-14.7	-24.0	-30.8	
Tax rate	*67.3%*	*66.9%*	*45.8%*	*34.4%*	*34.4%*	*34.4%*	
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0	
Minorities	0.0	-0.6	-0.9	-1.2	-1.1	-1.3	
Net Profit (reported)	**1.4**	**2.6**	**12.8**	**25.5**	**44.5**	**57.1**	***nm***
Net Profit (adj.)	2.3	2.6	12.8	26.8	44.6	57.3	
CASH FLOW (EURm)							
Net profit (reported) + Minorities	1.5	3.2	13.7	26.7	45.6	58.4	
Non cash items	24.7	24.7	21.1	32.6	35.1	45.8	
Cash Flow	**26.1**	**27.8**	**34.8**	**59.3**	**80.7**	**104.3**	***31.9%***
Change in Net Working Capital	4.8	-9.2	14.2	-72.8	-39.9	-32.7	
Capex	-22.0	-25.8	-28.0	-55.0	-55.0	-40.0	
Operating Free Cash Flow (OpFCF)	**9.0**	**-7.1**	**20.9**	**-68.5**	**-14.2**	**31.6**	***28.7%***
Net Financial Investments	0.0	0.0	0.0	0.0	0.0	0.0	
Dividends	0.0	0.9	1.0	1.6	1.6	1.6	
Other (incl. Capital Increase & share buy backs)	-17.1	0.1	2.3	-0.8	0.0	0.0	
Free Cash Flow	**-8.2**	**-6.1**	**24.2**	**-67.7**	**-12.6**	**33.2**	
NOPLAT	9.2	10.0	15.6	32.0	45.5	56.5	
BALANCE SHEET & OTHER ITEMS (EURm)							
Net Tangible Assets	126.7	154.4	167.8	192.4	222.4	220.2	
Net Intangible Assets (incl.Goodwill)	3.1	3.8	4.6	4.9	4.9	4.9	
Net Financial Assets & Other	4.1	2.0	2.7	17.5	17.5	17.5	
Total Fixed Assets	**134.0**	**160.2**	**175.2**	**214.8**	**244.8**	**242.6**	***12.6%***
Net Working Capital	70.0	81.3	67.1	139.9	179.8	212.5	
Total capital invested/employed	199.9	239.5	239.5	337.2	407.1	437.6	
Shareholders Equity	**66.8**	**77.2**	**97.2**	**122.0**	**165.0**	**220.7**	***27.0%***
Minorities Equity	3.5	3.7	4.8	5.4	5.5	5.5	
Net Debt	**113.4**	**148.0**	**126.0**	**175.8**	**191.3**	**156.6**	***6.7%***
Provisions	10.7	0.0	0.0	35.4	45.5	53.8	
Other Liabilities	9.6	12.6	14.2	16.1	17.4	18.6	
Total Market Cap	**52.5**	**67.1**	**167.1**	**424.7**	**730.2**	**730.2**	
Enterprise Value (EV adj.)	183.5	220.3	309.0	685.9	1,008.8	976.3	
MARGINS AND RATIOS							
Sales growth	*11.6%*	*-0.1%*	*35.6%*	*22.2%*	*30.1%*	*18.9%*	
EBITDA growth	*50.8%*	*0.0%*	*32.8%*	*54.7%*	*39.2%*	*25.9%*	
EBIT growth	*242.9%*	*8.0%*	*55.8%*	*105.6%*	*42.4%*	*24.0%*	
EBITDA margin	***11.4%***	***11.4%***	***11.1%***	***14.1%***	***15.1%***	***16.0%***	
EBIT margin	*4.7%*	*5.0%*	*5.8%*	*9.7%*	*10.6%*	*11.1%*	
Debt/Equity (gearing)	***161.5%***	***183.0%***	***123.5%***	***138.0%***	***112.2%***	***69.2%***	
Debt/EBITDA	2.7	3.6	2.3	2.1	1.6	1.0	
Interest cover (EBITDA/Fin.interest)	4.1	5.6	6.2	6.8	8.2	10.0	
ROCE	*4.5%*	*4.1%*	*6.4%*	*9.0%*	*10.7%*	*12.4%*	
WACC	*7.8%*	*7.8%*	*7.8%*	*7.8%*	*7.8%*	*7.8%*	
ROCE/WACC	**0.6**	**0.5**	**0.8**	**1.2**	**1.4**	**1.6**	
EV/CE	0.90	0.91	1.28	1.93	2.38	2.15	
OpFCF/CE	*4.4%*	*-2.9%*	*8.6%*	*-19.3%*	*-3.3%*	*6.9%*	
EV/Sales	0.50	0.60	0.62	1.13	1.28	1.04	
EV/EBITDA	**4.4**	**5.3**	**5.6**	**8.0**	**8.5**	**6.5**	
EV/EBIT	10.8	12.0	10.8	11.6	12.0	9.4	
P/E (adj.)	**23.1**	**26.3**	**13.0**	**15.9**	**16.4**	**12.7**	
P/CF	2.0	2.6	4.2	7.8	9.2	7.1	
P/BV	0.8	0.9	1.7	3.5	4.4	3.3	
OpFCF yield	***17.1%***	***-10.6%***	***12.5%***	***-16.1%***	***-1.9%***	***4.3%***	
Payout ratio	*61.4%*	*37.6%*	*12.5%*	*6.0%*	*3.6%*	*2.8%*	
Dividend yield (gross)	***1.8%***	***1.4%***	***1.0%***	***0.2%***	***0.2%***	***0.2%***	
PER SHARE DATA (EUR)							
EPS (reported)	0.02	0.04	0.20	0.42	0.70	0.90	***nm***
EPS (adj.)	**0.04**	**0.04**	**0.20**	**0.42**	**0.70**	**0.90**	***90.7%***
CFPS	0.41	0.40	0.62	0.85	1.25	1.61	***31.6%***
BVPS	1.04	1.21	1.52	1.91	2.58	3.45	***27.0%***
DPS	**0.02**	**0.02**	**0.03**	**0.03**	**0.03**	**0.03**	***10.8%***

Source: Company, Banca Akros estimates
2005 restated as IFRS proforma

Recommendation system

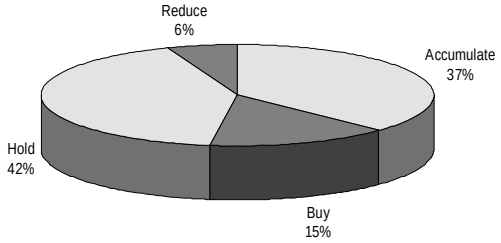
The ESN Recommendation System is **Absolute**. It means that each stock is rated on the basis of a total return, measured by the upside potential (including dividends and capital reimbursement) over a 6 month time horizon.

The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: **Buy, Accumulate (or Add), Hold, Reduce, Sell, (in short: B, A, H, R, S)**. In specific cases and for a limited period of time, the analysts do have to rate the stocks as **Rating Suspended (RS)** or **Not Rated (NR**), as explained below**.**

Meaning of each rating or recommendation:

- **Buy**: the stock is expected to generate a total return of **over 15%** during the next 6 months time horizon.
- **Accumulate:** the stock is expected to generate a total return of **5% to 15%** during the next 6 months time horizon.
- **Hold**: the stock is expected to generate a total return of **0% to 5%** during the next 6 months time horizon
- **Reduce**: the stock is expected to generate a total return of **0 to -15%** during the next 6 months time horizon
- **Sell**: the stock is expected to generate a total return **below -15%** during the next 6 months time horizon
- **Rating Suspended**: the rating is suspended due to a capital operation (take-over bid, SPO, …) where the issuer or a related party of the issuer is or could be involved or to a change of analyst covering the stock
- **Not Rated**: there is no rating for a company being floated (IPO) by the issuer or a related party of the issuer

Banca Akros Ratings Breakdown



Il presente documento è stato redatto da Paola Saglietti (socio AIAF) e Jacopo Majocchi che svolgono funzioni di analista presso Banca Akros SpA ("Banca Akros"), soggetto responsabile della produzione del documento stesso.

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Banca Akros, nell'ultimo anno, ha pubblicato sulla società oggetto di analisi tre studi in data 12, 29 marzo e 2 aprile 2007.

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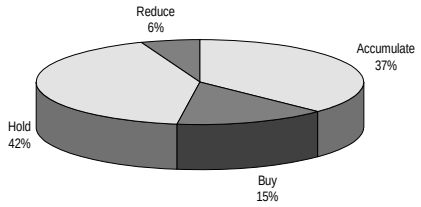
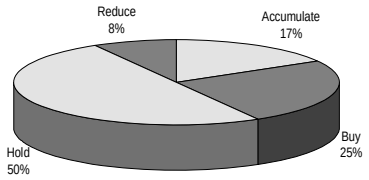
Percentuale delle Raccomandazioni al 31 marzo 2007

Tutte le raccomandazioni



Raccomandazioni su titoli in conflitto di interessi (*)



(*) Si informa che la percentuale degli emittenti a cui Banca Akros ha fornito servizi di investimento negli ultimi dodici mesi è pari al 14% del totale degli emittenti oggetto di copertura

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