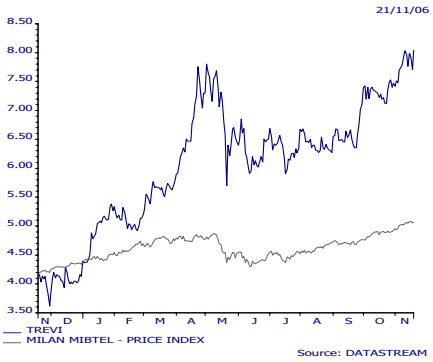
MEDIOBANCA SECURITIES

Trevi Finanziaria

21 November 2006 | **Industrials** | **Change in Estimates**

Price: € 8.02 **Target price: € 10.85**

Outperform



	2003	2004	2005	2006E	2007E
EPS Adj. (€)	0.04	0.04	0.20	0.38	0.65
DPS (€)	0.02	0.02	0.07	0.12	0.15
BVPS (€)	1.04	1.22	1.52	1.83	2.36
EV/Ebitda(x)	4.0	5.2	5.3	7.7	5.6
P/E adj (x)	23.0	26.0	13.0	21.4	12.4
Div.Yield(%)	1.8	1.4	2.5	1.5	1.9
FCF Yield(%)	21.3	<0	7.9	<0	3.6

Source: Mediobanca Securities

Waiting for the big order

A material order close to be announced?

According to Bloomberg, Drillmec, the Trevi's subsidiary involved in the production of drilling equipments, is expected to sign a material contract in Kuwait next year after reaching a partnership agreement with the Kuwaiti al-Juma International Group. Although no detailed information has been provided, we expect the order to be between USD 250-350m, equally split over three years.

Estimates upgrade. 2007e EPS increased by 34%

Our new estimates do not factor in the potential order mentioned above since no details have been provided by the company and the size expected is exclusively based on our assumptions.

We are increasing our 2007e EBITDA from €106m to €120m and our 2007e net profit from €31.0m to €41.6m in the light of:

- the current order backlog (€613.4m as of 30 September), which guarantees almost one year visibility of the top line;
- the growth opportunities of the drilling divisions (both equipment and services) characterised by higher profitability than foundation divisions.

Capex plan is over. €18m free operating cash flow in 2007e

With some €60m capex for the full-year 2006, the investments to sustain the strong top line growth expected in the following two/three years should be over. Based on our assumption, the company should generate some €18m free operating cash flow in 2007e (3.6% yield on equity), peaking to €40/50m in 2008e and 2009.

Outperform rating confirmed. Target price increased to €10.85

Based on a sum-of-the-parts, we increase our target price from €7.7 to €10.85. The company is currently trading at 5.6x 2007e EV/EBITDA and 12.4x P/E, showing a 13%/15% discount compared to Italian companies involved in the oil industry services and equipments (Socotherm and Tenaris, 6.5x and 6.6x 2007e EV/EBITDA respectively).

Market Data

Market Cap (€ m)	514
Shares Out. (m)	64
Main Shareholder (%)	Trevisani Fam. 55.9
Free Float (%)	44.1%
52 week range (€)	8.04-3.62
Rel Perf vs Mibtel (%)	
-1m	7.5%
-3m	17.8%
-12m	71.3%
21dd Avg. Vol. ('000)	321
Reuters/Bloomberg	TFI.MI / TFI IM

Key Financial Data - 2005 (€m)

Turnover	507
EBITDA	55
EBIT	29
Net Profit	13
Shareholders' Funds	97
Net Debt (-) Cash (+)	-126
Gearing %	123.5%

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2007e EPS increased by 34%

We are increasing our 2007e EBITDA estimate from €106m to €120m and our 2007e net profit from €31.0m to €41.6m in the light of:

- the current order backlog (€613.4m as of 30 September), which guarantees almost one year visibility of the top line;
- the growth opportunities of the drilling divisions (both equipment and services) characterised by higher profitability than foundation divisions.

We confirm our 2006e full-year forecast in the light of the very positive results recorded in the third quarter. Below, we summarise our 2007e new estimates and a breakdown by business line.

Trevi Group: 2006e and 2007 old and new estimates

	2005	2006e	% ch.	2007 Old est.	2007 New est.	% ch.	Est. Ch.
Turnover	**506.8**	**649.3**	**+28.1%**	**765.9**	**838.6**	**+29.2%**	**+9.5%**
EBITDA	**55.3**	**87.7**	**+58.5%**	**105.9**	**120.3**	**+37.2%**	**+13.6%**
EBITDA margin	10.9%	13.5%		13.8%	14.3%		
EBIT	**28.7**	**59.3**	**+106.7%**	**72.1**	**89.1**	**+50.3%**	**+23.6%**
EBIT margin	5.7%	9.1%		9.4%	10.6%		
Charges from Forex	5.6	(3.5)	n.m.	(3.5)	0.0	n.m.	
Net financial charges	(8.9)	(10.0)	+12.7%	(10.0)	(10.5)	+5.0%	
Pre-tax profit	**25.3**	**45.8**	**+81.3%**	**58.6**	**78.6**	**+71.6%**	**+34.1%**
Taxes	(11.6)	(20.6)	+78.1%	(26.4)	(35.4)	+71.6%	
Tax rate	45.8%	45.0%		45.0%	45.0%		
Minorities	(0.9)	(1.2)	+37.1%	(1.2)	(1.7)	+40.0%	
Net profit	**12.8**	**24.0**	**+87.2%**	**31.0**	**41.6**	**+73.2%**	**+34.2%**

Source: Mediobanca Securities

Trevi Group: Revenues and Profitability breakdown by business line

Division	2005.0	2006e	% ch.	2007e	% ch.
Foundation works (Trevi)	269.7	307.0	13.8%	379.1	23.5%
EBITDA	36.4	45.4	24.8%	56.9	25.2%
EBITDA margin	13.5%	14.8%		15.0%	
Drilling services (Petreven)	18.3	35.2	92.3%	56.3	60.0%
EBITDA	5.5	11.6	111.5%	18.6	60.0%
EBITDA margin	30.0%	33.0%		33.0%	
Trevipark	2.3	2.8	20.9%	3.1	10.0%
EBITDA	0.2	0.3	45.1%	0.4	10.0%
EBITDA margin	10.0%	12.0%		12.0%	
Foundation equipment (Soilmec)	127.6	172.2	34.9%	215.2	25.0%
EBITDA	9.6	17.6	83.6%	25.8	47.0%
EBITDA margin	7.5%	10.2%		12.0%	
Drilling equipment (Drillmec)	78.7	117.2	48.8%	169.9	45.0%
EBITDA	3.5	12.8	261.6%	18.7	465.3%
EBITDA margin	4.5%	10.9%		11.0%	
Total sales	**496.7**	**634.3**	**27.7%**	**823.6**	**29.8%**
Turnover	**496.7**	**649.3**		**838.6**	
Group's EBITDA	**55.2**	**87.8**	**58.9%**	**120.3**	**37.1%**
EBITDA margin	**11.1%**	**13.5%**		**14.3%**	

Source: Mediobanca Securities

As for cash flow, strong top line growth in the first nine months led to a sound increase in net working capital as a percentage of sales (from 12.8% at the end of 2005 to 16.3% as of 30 September). Taking into account the historical seasonality of the working capital and assuming some €20m capex in the last quarter, in Q4 the group should generate some €9m free operating cash flow, or some €-29.7m in the full-year 2006e, leading to a net financial position of €162.6.

Assuming a stable 13.8% net working capital as percentage of sales and €30m capex in 2007e, Trevi Group should generate some €18m free operating cash flow in 2007e, or a 3.6% yield on equity, and €44m in 2008e.

Trevi Group: Cash Flow highlights

	2005a	2006e	2007e	2008e
Net Profit (reported) and Minorities	13.7	25.2	43.3	53.0
Non-cash items	26.6	28.4	31.2	34.3
Cash Flow	**40.3**	**53.6**	**74.4**	**87.3**
Change in Net Working Capital	18.3	(24.5)	(26.1)	(13.7)
Capex	(40.0)	(58.8)	(30.0)	(30.0)
Operating Free Cash Flow	**18.6**	**(29.7)**	**18.3**	**43.7**
Net Financial Investments	0.0	0.0	0.0	0.0
Dividends	(1.0)	(4.2)	(7.7)	(9.6)
Others	4.3	(2.7)	(3.3)	(5.3)
Free Cash Flow	**22.0**	**(36.6)**	**7.3**	**28.7**
Net Debt	**126.0**	**162.6**	**155.2**	**126.5**
Debt / Equity	**1.2x**	**1.3x**	**1.0**	**0.6**

Source: Mediobanca Securities

Valuation

We updated our sum-of-the-parts (SOP) analysis based on the group's four divisions (Foundation works, Foundation equipment, Drilling service and Drilling equipment), increasing our valuation from €7.70 to €10.85.

The company is currently trading at 5.6x 2007e EV/EBITDA and 12.4x P/E, showing a 13%/15% discount compared to Italian companies involved in the oil industry equipments (Socotherm and Tenaris, 6.5x and 6.6x 2007e EV/EBITDA respectively).

We used the following specific peer multiples for each business line:

- **Foundation works** (Trevi, also including the parking unit Trevipark): we applied to the group's core business (46.4% of 2007e group sales), the 2007e 7.3x EV/EBITDA consensus multiple of Keller, the closest peers in this business division. We excluded the German Bauer in the light of the much lower profitability compared to Trevi.

Trevi Group: Foundation works peer multiples

	EV/Sales 07e	EV/EBITDA 07e
Keller	0.6x	7.3x

Source: Mediobanca Securities

- Foundation equipment (Soilmec – 26.1% of 2007e group sales): we applied the 2007e EV/EBITDA consensus average of the US machinery producers Caterpillar, the British group FKI and Swedish companies Atlas Copco and Sandvik.

Trevi Group: Foundation equipment peer multiples

	EV/Sales 07e	EV/EBITDA 07e
Caterpillar (USD m)	1.2x	7.4x
Atlas Copco (SK m)	1.2x	5.6x
FKI (GBP m)	0.6x	6.1x
Sandvik (SK m)	1.6x	7.7x
Average	**1.2x**	**6.7x**

Source: Mediobanca Securities

- Drilling services (Petreven – 6.8% of 2007e total group sales): we applied to the division, the 2007e 8.7x EV/EBITDA consensus multiple of Precision drilling, the closest peers in this business division.

Trevi Group: Drilling service peer multiples

	EV/Sales 07e	EV/EBITDA 07e
Precision drilling	1.6x	8.7x

Source: Mediobanca Securities

- Drilling equipment (Drillmec – 20.6% of 2007e total group sales): we applied the 2007e 6.6x EV/EBITDA consensus average of the main US drilling equipment player National

Oilwell, with no discount. Such an approach might be considered too optimistic, but we did not apply any discount because:

1. Drillmec is the only Italian manufacturer of drilling equipment;
2. the significant difference in profitability is mainly justified by the fact that the company is still in its start-up phase;
3. the superior technological level of the subsidiary's equipment compared to the competitors' average, allowing better performances (in the range of 30%-40%) of the group's products;
4. the excellent feedback from the major US drilling operators on Drillmec equipments after the start-up period. This explains the recent orders gained by the subsidiary.

Trevi Group: Drilling equipment peer multiples

	EV/Sales 07e	EV/EBITDA 07e
National Oilwell	1.3x	6.6x

Source: Mediobanca Securities

Our 2007e assumptions by business division (see the table at page 2) point to an enterprise value of €420.5m for the Foundation works division, €173.7m for the Foundation equipment division, €161.7m for Petreven (Drilling service) and €124.0m for Drillmec (Drilling Equipment).

Trevi Group: Sum-of-the-Parts valuation

	% owned	EV '07e	EV/Sales '07e	EV/EBITDA '07e
Foundation works	100%	420.5	1.1x	7.3x
Foundation equip. (Soilmec)	100%	173.7	0.8x	6.7x
Drilling services (Petreven)	100%	161.7	2.8x	8.7x
Drilling equipment (Drillmec)	100%	124.0	0.7x	6.6x
Total		**879.9**		
NFP (2006e)		(162.6)		
Minorities (2006e)		(22.9)		
Equity Value		**694.4**		
Shares Outstanding (m)		64.0		
FAIR VALUE		**10.85**		

Source: Mediobanca Securities

Trevi Finanziaria

Profit & Loss account (€ m)	2004	2005	2006E	2007E
Turnover	372	507	649	839
Turnover growth %	1.6	36.1	28.1	29.2
EBITDA	42	55	88	120
EBITDA margin (%)	11.2	10.9	13.5	14.3
EBITDA growth (%)	0.0	32.8	58.5	37.2
Depreciation & Amortization	-23	-27	-28	-31
EBIT	18	29	59	89
EBIT margin (%)	4.9	5.7	9.1	10.6
EBIT growth (%)	8.0	55.8	nm	50.3
Net Fin.Income (charges)	-7	-9	-10	-11
Non-Operating Items	-1	6	-4	0
Extraordinary Items	0	0	0	0
Pre-tax Profit	10	25	46	79
Tax	-6	-12	-21	-35
Tax rate (%)	66.9	45.8	45.0	45.0
Minorities	-1	-1	-1	-2
Net Profit	3	13	24	42
Net Profit growth (%)	63.5	n.m	87.2	73.2
Adjusted Net Profit	3	13	24	42
Adjusted Net Profit growth (%)	13.6	n.m	86.3	73.2

Balance Sheet (€ m)	2004	2005	2006E	2007E
Working Capital	83	65	90	116
Net Fixed Assets	166	186	223	228
Total Capital Employed	249	251	312	344
Shareholders' Funds	78	97	117	151
Minorities	4	5	5	6
Provisions	20	23	28	32
Net Debt (-) Cash (+)	-148	-126	-163	-155

Cash Flow Model (€ m)	2004	2005	2006E	2007E
Cash Earnings	26	40	54	74
Working Capital Needs	-13	18	-24	-26
Capex (-)	-29	-40	-59	-30
Financial Investments (-)	0	0	0	0
Dividends (-)	-1	-1	-4	-8
Other Sources / Uses	-18	4	-3	-3
Ch. in Net Debt (-) Cash (+)	-35	22	-37	7

Multiples	2004	2005	2006E	2007E
P/E Adj.	26.0	13.0	21.4	12.4
P/CEPS	2.5	4.1	9.6	6.9
P/BV	0.9	1.7	4.4	3.4
EV/ Sales	0.6	0.6	1.0	0.8
EV/EBITDA	5.2	5.3	7.7	5.6
EV/EBIT	11.7	10.2	11.4	7.5
EV/Cap. Employed	0.9	1.2	2.2	1.9
Yield (%)	1.4	2.5	1.5	1.9
FCF Yield (%)	<0	7.9	<0	3.6

Per Share Data (€)	2004	2005	2006E	2007E
EPS	0.04	0.20	0.38	0.65
EPS growth (%)	63.5	n.m	87.2	73.2
EPS Adj.	0.04	0.20	0.38	0.65
EPS Adj. growth (%)	13.6	n.m	86.3	73.2
CEPS	0.41	0.63	0.84	1.16
BVPS	1.2	1.5	1.8	2.4
DPS Ord	0.02	0.07	0.12	0.15

Key Figures & Ratios	2004	2005	2006E	2007E
Avg. N° of Shares (m)	64	64	64	64
EoP N° of Shares (m)	64	64	64	64
Avg. Market Cap. (€ m)	67	167	514	514
Enterprise Value (€ m)	215	293	676	669
Labour Costs/Turnover (%)	19%	16%	14%	13%
Depr.&Amort./Turnover (%)	6%	5%	4%	4%
Prod. Ratio (Turn./Op.Costs)	1.1	1.1	1.1	1.1
Gearing (Debt / Equity) (%)	181%	123%	133%	99%
EBITDA / Fin. Charges	5.7	6.2	8.8	>10
Cap.Employed/Turnover (%)	67%	50%	48%	41%
Capex / Turnover (%)	8%	8%	9%	4%
Pay out (%)	38%	32%	32%	23%
ROE (%)	3%	13%	21%	28%
ROCE (%) (pre tax)	7%	11%	19%	26%
ROCE (%) (after tax)	2%	6%	10%	14%

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