Milan, November 27, 2008

TREVI FINANZIARIA INDUSTRIALE

BUY

Between innovation and tradition

INITIATION OF COVERAGE

CURRENT PRICE: EUR 8.93
TARGET PRICE: EUR 10.9

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Basic Figures, November 26, 2008

Reuters / Bloomberg code:	TFI.MI / TFI IM
Market capitalisation (EUR mln):	571
Number of shares (mln):	64
52-week range (EUR):	8.36 – 17.65
Free float (%):	39.0%

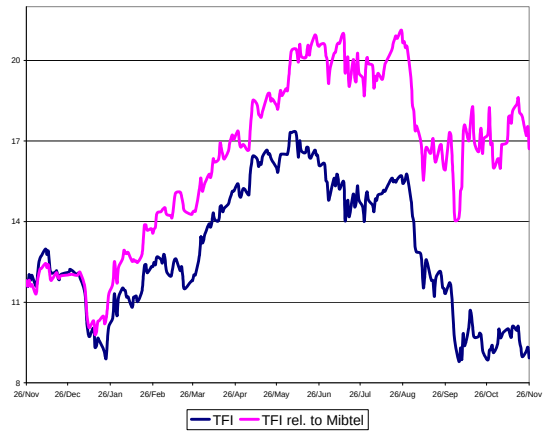
Source: Bloomberg and Santander Private Banking estimates

Estimates and Fundamental Ratios

	2007	2008E	2009E	2010E
Sales (mln EUR)	837	1,048	1,242	1,308
Ebitda (mln EUR)	129	167	198	207
Ebit (mln EUR)	99	131	158	162
Adj. net profit (mln EUR)	56	74	87	90
Adj. EPS (EUR)	0.87	1.15	1.36	1.40
DPS – ord. (EUR):	0.10	0.13	0.16	0.16
EV/Ebitda (x)	7.3	5.1	4.4	4.1
Adj. P/E (x)	14.0	7.7	6.6	6.4
Dividend yield (%)	0.8%	1.5%	1.7%	1.8%

Source: company data and Santander Private Banking estimates

Relative performance vs Mibtel (12M)



Source: Bloomberg

INITIATION OF COVERAGE WITH 10.9 EUR TP; BUY RATING. We start TFI coverage with a TP of 10.9 EUR and an associated Buy recommendation; despite a prudential set of assumptions (revenues and margins falling by around 20% in 3-year time from a forecasted peak in 2010), the current price does not seem to reflect company fundamentals. Given lack of visibility, our valuation does not include any development in renewable energy, where a newco has been created with the aim of carrying out offshore wind parks projects, leveraging on maritime foundations know-how.

INNOVATION VS TRADITION: TWO SIDES OF THE SAME COIN. The number and complexity of realized projects prove TFI is a worldwide leader in its original activity of foundation services and rigs, this entailing a competitive advantage in the industry, with little risk this superior positioning could be jeopardized, at least in the short/medium term. Drilling sector represents instead a quite recent business evolution, thanks to the know-how gained in ground technology. Even though TFI is a minor operator in this field, potentially unable to properly resist in a deteriorated market, the good asset base quality, underlying a period of exponential growth, paves the way for further expansion in the sector, even in light of a still modest penetration ratio.

REVENUES PEAKING IN 2010; A 20% SHORTFALL ASSUMED THEREAFTER. Buoyant markets coupled with a far-seeing growth strategy allowed TFI to more than double revenues over the last 3 years, with soaring margins driven by better contractual conditions and more remunerative prices. Under current macroeconomic outlook, the impressive order intake escalation seen in the last few years seems however unsustainable, this leading, in our estimates, to remarkable fundamentals shrinking beyond 2010, when revenues should peak, thanks to an all-time high backlog at the end of 9M; worsened market conditions should also raise fiercer competition, this likely heading towards tinier unit margins. Despite a 20% shortfall in revenues and profitability assumptions going forward, the stock seems trading at quite large discount (22%) vs its fundamental value.

NO PRESENCE IN OFFSHORE DRILLING AND INCREASED EXPOSURE TO EMERGING COUNTRIES. Undersized drilling operations and no presence in offshore drilling, potentially capping activity level, especially in LatAm, represent the major weaknesses in TFI business model, in our view. On top of this, it should be also noted an increasingly larger exposure to emerging markets; as a matter of fact, most of the growth posted in recent years is related to booming investments in oil and commodities rich countries, which heightened TFI sensitivity to the international economic cycle.

Summary report

Four operating areas, …

Trevi Finanziaria Industriale (TFI) runs the following four businesses, each operated by a specific company:

- special foundation services division (deep foundations, geotechnical works, marine works, tunnel consolidation and automated car parks), operated by Trevi;
- special foundation rigs division (hydraulic rotary rigs, cranes, jet grouting, casing oscillators, extractors, drilling tools), operated by Soilmec;
- onshore oil drilling services division, operated by Petreven;
- oil&gas and water drilling rigs (onshore applications), operated by Drillmec.

… with an option to develop in offshore wind power

TFI has recently also founded Trevi Energy, a company with the aim of operating in renewable energy, and in particular, leveraging on maritime foundations know-how, in the engineering and development of offshore wind parks in south Italy. Four projects, all located in southern Adriatic sea, are currently pursued, but given very limited visibility on the development, this initiative is not included in our valuation model.

TFI business structure

Source: TFI

Among world leaders in foundation services and rigs

Given the number and complexity of projects realised and under execution, TFI ranks among worldwide leaders in foundation services and rigs, both in size and technology; this allows the company a high visibility inside the industry, with little risk this superior positioning could be jeopardised by unfavourable market evolution, at least in the short/medium term.

A minor operator in drilling, but with a high quality product portfolio

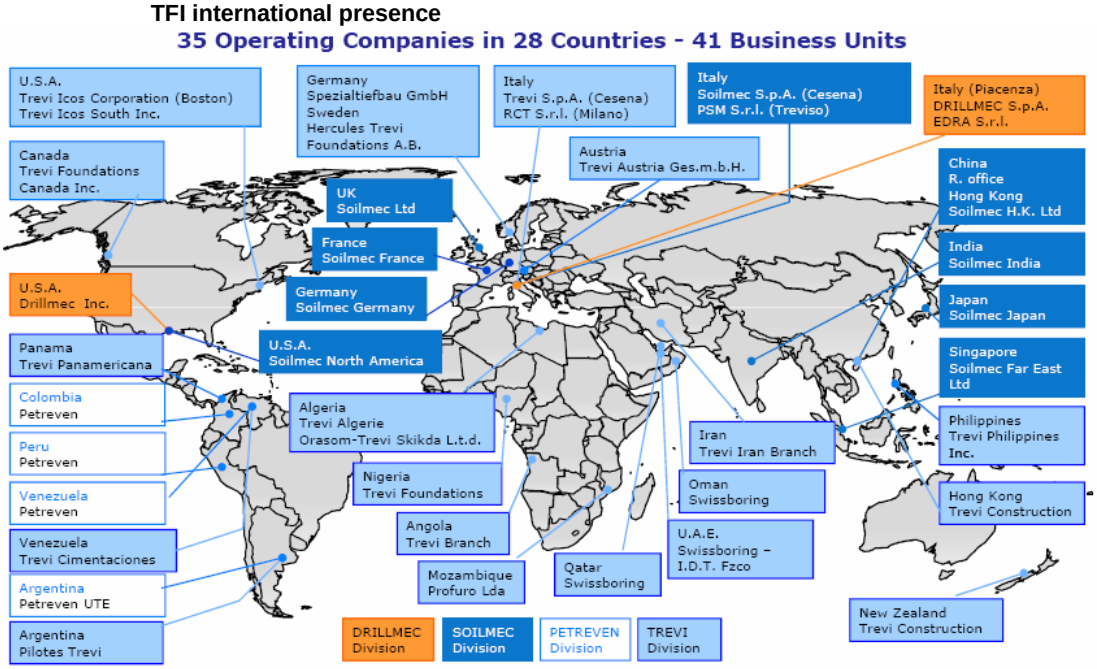
Drilling rigs and services divisions represent instead a quite recent business evolution, thanks to the know-how gained in ground technology. More in particular, drilling rigs include equipments for oil&gas, water and geothermal applications. In these sectors, TFI is a minor operator, this representing one of the most tangible weaknesses, in our view, as a larger mass could better guarantee entry barriers through a more extensive R&D activity, while providing at the same time increased capability to resist in deteriorated market conditions, with pressure on margins generated by possible price wars. TFI is however able to partially offset this weaker competitive profile through a high quality product portfolio (we mean HH drilling machines series, in particular), which, according to the company, can offer a number of advantages vs competitors equipment, such as a better drilling performance, as

well as a reduction of occupied areas and a drastic fall of accidents and breakdowns, which is increasingly becoming a key factor for oil companies. In TFI opinion, such advanced characteristics should lift a currently still low penetration ratio for its products, this way helping to offset a possible shortfall of market activity level. In addition, revenues and margins volatility in drilling rigs division can be partially compensated by more stable aggregates in drilling services, thanks to a much longer average duration of the contracts.

No presence in offshore drilling, the fastest growing area, while an increased exposure to emerging countries amplifies the sensitivity to economic cycle

Another weakness of TFI business model is represented by lack of exposure to offshore drilling, which offers the biggest potential, and, due to more complex technologies and harsher environment, can guarantee better prices and margins, as well as higher sensitivity to the cycle in case of economic restart. Finally, large part of activity growth posted in recent years is related to booming investments in oil and commodities rich countries, which led to an increased exposure of TFI to the international economic cycle.

TFI international presence



Source: TFI

An all-time high backlog will support activity level in 2009 and partly in 2010, while a weaker scenario will take its toll thereafter

Buoyant markets and a far-seeing growth strategy, with the expansion in booming drilling sector, allowed TFI to more than double revenues over the last 3 years, with soaring unit margins driven by better contractual conditions and more remunerative prices. Under current macroeconomic outlook, the impressive order intake escalation experienced in the last few years seems however unsustainable, this leading, in our estimates, to remarkable fundamentals shrinking beyond 2010. As a matter of fact, given a roughly 12-month average duration (calculated on the whole order portfolio), the current all-time high backlog guarantees further revenues growth in 2009, and, to a much lesser extent, in 2010, while we project 2-3 years of single digit revenues fall afterwards; generally worsened market conditions should also arise fiercer competition, this likely heading towards tinier margins moving ahead.

Initiation of coverage with 10.9 EUR TP and Buy rating

We start TFI valuation with a TP of 10.9 EUR and an associated Buy recommendation; despite a prudential set of assumptions (revenues and margins falling by around 20% in 3-year time from a forecasted peak in 2010), the current price does not seem to reflect company fundamentals. As above outlined, given lack of visibility our valuation does not include any development in renewable energy.

SWOT analysis

- Strengths & Opportunities	- Weaknesses & Threats
- a worldwide leader in foundation services and rigs, both in size and technology (number and complexity of projects realised and under execution); - good product portfolio available in drilling machines (HH series), offering a number of advantages vs competitors equipment; - countercyclical nature of foundations rigs and services in developed countries, as they are pivotal for public works aimed at re-launching the economy; - large international presence may allow a better operating risk diversification; - possibility to develop wind power sector, leveraging on maritime foundations know-how; - drilling rigs are not only for oil&gas, but also include equipments for water and geothermal purposes, which may help to mitigate operating risks, to some extent.	- very small player in drilling rigs and services, meaning lower capability to resist in deteriorated market conditions; - large part of business growth related to booming investments in oil and commodities rich countries, with increased exposure to international economic cycle; - basically zero presence in offshore drilling, which offers the highest potential.

Source: SPB estimates

Foundation rigs and services

These two divisions are respectively served by Soilmec and Trevi, which operate worldwide, although the USA and the Middle East represent the most important markets, the latter also thanks to recent impetuous oil prices growth, attracting large construction investments in the region.

A strong track record in terms of number and project complexity demonstrates TFI is a worldwide leader in foundation services

TFI is one of the worldwide leaders in these divisions, both in size and technology. In foundation services, in particular, this is demonstrated by the number and complexity of projects realised and under execution. This allows the company a high visibility inside the industry, and we recognise there is little risk this superior positioning could be jeopardized by unfavourable market evolution, at least in the short/medium term. Among competitors we mention Caterpillar, Atlas Copco and Sandvik in foundation rigs, and Bauer, Keller and Vinci (through the subsidiary Soletanche Bachy) in foundation services.

Boosted by emerging markets development and more standardised products, foundation rigs outperformed service division

Over the 2005-08E period, revenues CAGR in foundation services reaches 16% vs 34% in foundation rigs; TFI says this huge difference is explained by the selective approach followed by the company in picking up orders, with the aim of limiting executions risks, in a period when skilled labour force represents one of the main bottlenecks in the industry, maintaining at the same time relatively high profitability margins. This problem was felt much less in foundation machines sector, as the latter offers more standardised than customised products.

As a matter of fact, also in light of a relatively low starting point in 2005 (when it represented 26% of consolidated turnover), with a 34% CAGR the foundation rigs division proved to be one of the fastest growing area inside TFI portfolio, supported by robust demand from reference markets, in particular the Middle East and other emerging countries, thanks to booming crude oil and raw materials prices. An exponential increase in worldwide trade also required advanced harbour infrastructures, hence the need for their modernisation. On the other hand, the USA offered opportunities in dams reconstruction and maintenance, with TFI recently awarded good contracts here, regarding both restructuring and extraordinary maintenance, for an overall amount in excess of 520 mn EUR.

The high level of backlog reached so far should allow the division to continue revenues growth in 2009, in both foundation machines and services, but, given a quite short average duration of collected orders for these divisions (9 months and 4 months respectively for Trevi and Soilmec), we expect a gradually declining level of

Short contract duration does not allow a robust backlog to protect revenues level beyond 2009, but the countercyclical feature of foundations market in developed countries may help offsetting a slowdown in more speculative activities

activity beyond this year, as emerging countries (so far representing the bulk of the growth), on the back of lower income from commodities sale, should revise their infrastructure spending plans accordingly. This should of course prove true for residential market, while, being anti-cyclical, with the aim of re-launching the economy, public works (especially in developed countries) may help to offset a weaker demand in more speculative sectors. Actually, Soilmec points to offset deteriorated outlook through the expansion in different markets and a wider range of products; as a matter of fact, the company recently opened new branches in Saudi Arabia and Australia, and new factories in China and other emerging markets could be started quite soon. However, given low visibility on these developments, we prefer to assume a more conservative view. The division is quite sensitive to the EUR/USD rate, but less than drilling sector (see below). Soilmec has 100% of its sales denominated in EUR vs 5% of its cost basis expressed in USD, while the parent company reports around 50% of revenues and costs in USD. This means that any 5 cents weakening of the EUR/USD rate lifts the divisional revenues base by around 9 mn EUR, or roughly 1%. Our assumptions point to 1.29 EUR/USD rate from 2009 onwards.

As a matter of fact, an increasing exposure to works awarded by emerging countries and the Middle East, rich in oil and other raw materials, has consistently amplified TFI sensitivity to commodity prices, hence to global economic cycle.

Drilling rigs and services

A more recent business evolution

These two divisions are respectively served by Drillmec and Petreven; they represent a quite recent evolution of the business, thanks to the know-how gained in ground technology. More in particular, drilling rigs include equipments for oil&gas, water and geothermal applications.

Drilling machines are sold worldwide, with a more intense presence in the USA, north Africa and south America, whereas drilling services are currently performed through 9 rigs, all situated in Latin America; following newly announced agreements in Venezuela and Colombia, the total number of operated rigs lifts to 11 units as of the end of this year.

Still a small player in the sector, but a qualified product portfolio allows to extend the penetration ratio

As a consequence of recently started operations, leveraging on the expertise and know-how gained in ground technology, TFI is definitely a small player in this business (US operator National Oilwell Varco is the largest operator), but the company says its products boast a consistent competitive edge and are well appreciated on the market, in particular the HH hydraulic machines series, which can offer a 30% average increase in drilling performance (with an equivalent decrease of drilling costs), a 40% fall in transportation costs, a 75% reduction of occupied areas and a drastic fall of accidents and breakdowns, which is increasingly becoming a key factor for oil companies.

No exposure to offshore segment may cap development perspectives, especially in LatAm market

TFI intends to develop its market niche through a more aggressive commercial policy on its high-performance products (the HH model penetration ratio is actually very low), and possibly expand operations to the offshore segment, which, according to the company, in light of marginal technological change needed, and smaller space required by its HH series rigs, represents a reachable target. We believe a more cautious view on these potential upgrades would fit better, and, as a matter of fact, Latin America, the region where TFI concentrates most of its presence in the sector (100% of Petreven activity), seems offering wider prospects in offshore rather than in onshore drilling (this is confirmed by large Brazilian offshore potential, even though, thanks to its untapped unconventional oil reserves, the huge Venezuelan market is set to remain a primary onshore area), this potentially representing a competitive disadvantage for the group. In addition to oil&gas, we remind TFI drilling technology

is also suitable for water and geothermal purposes, which can help mitigating the operating risks, to some extent.

The small size of the company, both in machines and services, represents one of the major weaknesses, in our view; first of all, a larger mass can better guarantee the possibility to strengthen R&D activity, this potentially crowding out technological efforts made by minor operators and also by TFI. Secondly, larger shoulders mean a better capability to resist in deteriorated market conditions, with pressure on margins generated by possible price wars, as drilling is evidently one of the most sensitive activity along oil&gas chain to changes in crude oil price and economic outlook. The other relevant weakness is represented by lack of exposure to offshore drilling, which, as we said, shows the biggest potential, and, due to more complex technologies and harsher environment, can guarantee better prices and margins, as well as higher sensitivity to the cycle in case of economic restart.

Similarly to foundation division, drilling sector also shows a relevant sensitivity to EUR/USD rate; even though Petreven is only subject to a translation effect, as 100% of its revenues and costs are expressed in USD, Drillmec reports around 40% of its turnover in USD, a growing figure, given the increasing exposure to emerging markets, while its cost base is almost entirely EUR denominated.

The sale price for a drilling unit depends of course on its power and technical features; for the most advanced models, i.e. the HH 300 and HH 600 rigs, the price is around 15 mn EUR and 25 mn EUR, respectively. The average daily fee for a rig operated by Petreven is around 25K USD (20K EUR), with an average pay-back period of about 6 years.

Fastest growing divisions; a multi-year average contract duration in drilling services translates into less volatile revenues and margins, while the execution of valuable contracts in Saudi Arabia should help tackling a market downturn in drilling rigs

The recent set up of drilling division, and the consequent lower starting base generated a rapid revenues evolution in both drilling machines and services, i.e. a CAGR in the region of 45% in the 2005-08E period. In drilling rigs, the all-time peak backlog recorded at the end of September, coupled with an average duration of around one year, should ensure an outstanding growth in 2009, while from 2010 we expect a marked slowdown in order intake, even though we have assumed the 2010-2012 period will be sustained by the execution of the agreement sealed at the end of 2007 with a Saudi Arabian company for the supply of six HH 600 machines, for an overall consideration of 200 mn USD (33 mn USD per rig vs 15 mn EUR required for a less complex HH 300 rig). In drilling services the situation looks different, as this division operates through long term contracts (3 years the average duration of current backlog), and we have assumed fairly stable daily fees, as well as a slight increase over time in the number of operated machines. Instead, we are not including the potential development from the above mentioned agreement in Saudi Arabia, which, in addition to plant sale, also foresees a 7-year drilling service contract with a 49:51 JV made by the same Saudi Arabian company and Petreven. The potentially hidden value creation would be anyway negligible, as, even assuming a complete amortisation of the plants in the 7-year contract duration, an Ebitda margin of 35% on the rental cost (D&A would be zero), and a tax rate of 25%, the cumulated net profit would be 27 mn USD (21 mn EUR) for the 51% stake held by Petreven, or 25 cents EUR/sh value accretion (2% on the current target price).

Similarly, we are not even including another potential development option for Petreven, referring to a previous contract signed with Repsol for the supply of five HH hydraulic plants totalling 79 mn EUR, or approximately 16 mn EUR each. As far as we understand, Petreven may finalise in 2009 a 5-year basis contract to operate said machines, but, again, even assuming a complete amortisation in 5 years of these equipments, a 30% Ebitda margin, and a 30% tax rate, the potentially hidden value would be 6 mn EUR, or 10 cents EUR/sh, once again negligible.

Value creation from Dhahran JV

		2009E	2010E	2011E	2012E	2013E	2014E	2015E
Revenues (mn USD)		29	29	29	29	29	29	29
Ebitda %		35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Ebitda (mn USD)		10	10	10	10	10	10	10
tax rate		25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
net profit (mn USD)		8	8	8	8	8	8	8
% in JV		51.0%	51.0%	51.0%	51.0%	51.0%	51.0%	51.0%
net profit for TFI (mn USD)		4	4	4	4	4	4	4
net profit for TFI (mn EUR)		3	3	3	3	3	3	3
DCFs (mn EUR)		3	3	2	2	2	2	2
Sum of DCFs (mn EUR)	16							
EUR/sh	0.25							

Source: SPB estimates

Value creation from Repsol JV

		2009E	2010E	2011E	2012E	2013E
Revenues (mn USD)		16	16	16	16	16
Ebitda %		30.0%	30.0%	30.0%	30.0%	30.0%
Ebitda (mn USD)		5	5	5	5	5
tax rate		30.0%	30.0%	30.0%	30.0%	30.0%
net profit (mn USD)		3	3	3	3	3
% in JV		60.0%	60.0%	60.0%	60.0%	60.0%
net profit for TFI (mn USD)		2	2	2	2	2
net profit for TFI (mn EUR)		2	2	2	2	2
DCFs (mn EUR)		1	1	1	1	1
Sum of DCFs (mn EUR)	6					
EUR/sh	0.10					

Source: SPB estimates

Among sector competitors we include National Oilwell Varco, Rowan and Cameron for drilling rigs, and Precision Drilling, Technip, Baker Hughes, Halliburton, Saipem and Transocean for drilling services.

Initiation of coverage with 10.9 EUR TP and Buy rating

Drilling sector continues to offer the largest development potential

Here below we summarise our main P&L assumptions. As we already noticed, the all-time high backlog recorded at the end of September (1.23 bn EUR) should allow activity level to further expand in 2009, and partially also in 2010, but afterwards we assume the deteriorated economic outlook to materialise in a 3-year single digit revenues shortfall. The EUR/USD rate has been assumed at 1.29 from 2009 onwards. Moving through a single division analysis, drilling should continue to represent the fastest growing sector, pushed by a likely expansion of currently low TFI plants penetration ratio; as a matter of fact, this division seems still offering a large development potential, which should be only partially undermined by a worsened economic scenario. The situation looks instead quite different in foundations sector, which is definitely more mature, hence the feared activity downturn should take a greater toll.

Revenues evolution by operating company; mn EUR

	2005A	2006A	2007A	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
foundations rigs	128	173	260	305	330	333	303	276	262	266	270
drilling rigs	79	119	179	262	354	409	384	364	300	305	309
foundations services	273	322	357	426	476	483	440	400	384	390	396
drilling services	18	27	42	54	82	82	90	90	97	106	115
Total revenues	**498**	**642**	**837**	**1,048**	**1,242**	**1,308**	**1,217**	**1,130**	**1,043**	**1,067**	**1,090**
y/y%		**29.1%**	**30.3%**	**25.2%**	**18.5%**	**5.3%**	**-7.0%**	**-7.1%**	**-7.7%**	**2.2%**	**2.2%**

Source: TFI, SPB estimates

Revenues evolution by macro division; mn EUR

	2005A	2006A	2007A	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
service revenues	298	362	397	478	555	563	527	487	479	494	509
mechanic revenues	208	310	465	602	725	787	729	679	596	605	614
elisions	-8	-29	-25	-32	-39	-42	-39	-36	-32	-32	-32
Total revenues	**498**	**642**	**837**	**1,048**	**1,242**	**1,308**	**1,217**	**1,130**	**1,043**	**1,067**	**1,090**
y/y%		**29.1%**	**30.3%**	**25.2%**	**18.5%**	**5.3%**	**-7.0%**	**-7.1%**	**-7.7%**	**2.2%**	**2.2%**

Source: TFI, SPB estimates

Tougher market conditions and increased level of competition likely shrinking margins, moving ahead

TFI expansion phase and bullish market pushed up divisional Ebitda margin so far, thanks to better contractual conditions and more remunerative prices. This interested, with more or less the same dynamics, both service and mechanic divisions. In more detail, Ebitda margin raised from roughly 10% and 11% in 2005, respectively in service and mechanic divisions, to around 15% in 2007. The record high level of backlog, likely supporting further growth over the next couple of years, should help maintaining overall profitability level around 16%, while worsened market conditions, translating into lower activity level and harsher competition moving forward, are expected to lead towards weaker divisional margins in the medium-long term; we overall point to an average 50 bps fall in Ebitda margin moving ahead.

Our estimates do not include any rationalisation effort on corporate structure, even though the company seems having some room for cost cutting here, as in several countries it operates with manifold subsidiaries, this likely generating inefficiencies.

Divisional percentage Ebitda

	2005A	2006A	2007A	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Ebitda services %	9.9%	14.2%	15.3%	18.2%	18.0%	17.5%	17.0%	16.5%	16.0%	16.0%	16.0%
Ebitda mechanic %	11.0%	12.9%	15.5%	14.7%	14.9%	15.1%	15.2%	15.3%	15.4%	15.5%	15.5%
elisions %	-38.1%	19.2%	13.5%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Total Ebitda %	**11.1%**	**13.3%**	**15.5%**	**16.0%**	**16.0%**	**15.8%**	**15.7%**	**15.5%**	**15.4%**	**15.4%**	**15.5%**

Source: TFI, SPB estimates

Divisional Ebitda; mn EUR

	2005A	2006A	2007A	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Ebitda services	29	51	61	87	100	98	90	80	77	79	81
Ebitda mechanic	23	40	72	88	108	119	111	104	92	94	95
elisions	3	-6	-3	-8	-10	-11	-10	-9	-8	-8	-8
Total Ebitda	**55**	**86**	**129**	**167**	**198**	**207**	**191**	**175**	**161**	**165**	**168**

Source: TFI, SPB estimates

D&A by division; mn EUR

	2005A	2006A	2007A	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
D&A services	18	18	20	26	29	32	34	36	38	39	39
D&A mechanic	7	8	8	9	10	12	13	14	14	14	14
elisions	1	1	2	2	2	2	2	2	2	2	2
Total D&A	**27**	**28**	**30**	**36**	**41**	**45**	**48**	**51**	**53**	**54**	**55**

Source: TFI, SPB estimates

Ebit by division; mn EUR

	2005A	2006A	2007A	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Ebit services	11	33	40	61	71	67	56	45	39	40	43
Ebit mechanic	16	32	64	80	98	107	98	90	78	80	81
elisions	2	-7	-5	-10	-11	-12	-12	-11	-10	-10	-10
Total Ebit	**29**	**58**	**99**	**131**	**158**	**162**	**142**	**124**	**107**	**110**	**114**

Source: TFI, SPB estimates

As far as the WACC is concerned, TFI levered beta (calculated on a daily regression over the last 3 years vs the Mibtel) dramatically fell in the recent months, moving from 1.30x at the end of July to the current 0.84x. Even in light of the value characterising other sector operators, we think the current figure is not representative, and therefore this parameter has been set at 1.20x in our valuation model, roughly corresponding to 1.0x in terms of unlevered beta, which we believe could well reflect the level of risk implied in the operated businesses.

TFI WACC @ fair value

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
unlevered beta	0.944	0.944	0.944	0.944	0.944	0.944	0.944	0.944
levered beta	1.200	1.207	1.193	1.133	1.072	1.009	0.968	0.944
risk-free rate	4.38%	4.38%	4.38%	4.38%	4.38%	4.38%	4.38%	4.38%
MRP	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Ke	9.18%	9.21%	9.15%	8.91%	8.67%	8.42%	8.25%	8.16%
Kd	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
t	27.50%	27.50%	27.50%	27.50%	27.50%	27.50%	27.50%	27.50%
Kd*(1-t)	4.71%	4.71%	4.71%	4.71%	4.71%	4.71%	4.71%	4.71%
D/EV	0.272	0.278	0.266	0.216	0.157	0.086	0.034	0.000
E/EV	0.728	0.722	0.734	0.784	0.843	0.914	0.966	1.000
WACC	7.96%	7.96%	7.97%	8.00%	8.05%	8.10%	8.13%	8.16%
g								1.50%
WACC-g								6.66%

Source: SPB estimates

FCF; mn EUR

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2015E adj.
Ebit	131	158	162	142	124	107	110	114	108
Taxes	-43	-52	-53	-47	-41	-35	-36	-38	-36
Ebit after taxes	88	106	108	95	83	72	74	76	73
D&A	36	41	45	48	51	53	54	55	60
chg NWC	-131	-56	-42	11	12	13	-17	-18	0
chg funds	2	1	0	-1	-1	-1	0	0	0
capex	-95	-75	-72	-70	-65	-60	-60	-60	-60
FCF	-99	17	40	84	81	78	51	53	73
DCF	-103	16	36	69	62	55	33	32	

Source: SPB estimates

The outstanding NWC growth in 2008 follows large inventories build of intermediate products in the mechanic division; as a matter of fact, due to sustained demand in the industry, with consequent fear that component suppliers were not able to deliver in right time, TFI, in order to avoid unplanned production stoppages, has been forced to store in excess of the ordinary level. However, the weaker phase now characterising the sector should ease procurement concerns, this possibly translating into lower inventory need and falling NWC, therefore.

TFI valuation

	mn EUR	EUR ps
TV	1,108	17.3
DTV	669	10.5
Sum of DCFs	200	3.1
EV	870	13.6
net debt 07A adj. for dividends	-149	-2.3
Equity	721	11.3
minorities	-31	-0.5
financial shareholdings	5	0.1
Equity after min. and fin. shareholdings	**695**	**10.9**
Up (down)		22%

Source: SPB estimates

We start TFI valuation with a TP of 10.9 EUR and an associated Buy recommendation; despite the above discussed set of assumptions (revenues and margins falling by around 20% in 3-year time from a forecasted peak in 2010), the current price does not seem to reflect company fundamentals. Given lack of visibility, our valuation does not include any development in renewable energy, where a newco has been created with the aim of carrying out offshore wind parks projects, leveraging on maritime foundations know-how.

No dilution effect, as stock valuation falls behind exchangeable bond strike price

At the end of 2006 TFI issued an exchangeable bond for a nominal amount of 70 mn EUR, with a 11.3 EUR strike price; the conversion into ordinary shares can be asked within November 30, 2011. As our TP falls below the strike price, we do not assume any conversion of shares.

Multiples and ratios for some competitors

Adj. P/E	2008E	2009E	2010E
Trevi Finanziaria Industriale	7.7	6.6	6.4
Caterpillar*	6.5	7.9	7.3
Sandvik*	6.5	7.7	8.7
Bauer*	3.2	3.9	4.3
Vinci*	9.2	9.0	8.7
National Oilwell Varco*	5.7	5.5	5.3
Rowan*	4.3	3.8	3.9
Transocean*	4.7	4.2	3.8
Baker Hughes*	6.3	6.6	6.4
Median	**6.3**	**6.6**	**6.4**

** Bloomberg consensus*

EV/Ebitda	2008E	2009E	2010E
Trevi Finanziaria Industriale	5.1	4.4	4.1
Caterpillar*	7.9	9.4	8.3
Sandvik*	5.2	5.7	6.2
Bauer*	2.9	3.4	3.4
Vinci*	6.6	6.6	6.5
National Oilwell Varco*	3.4	3.1	3.0
Rowan*	2.7	2.4	2.3
Transocean*	4.7	4.3	3.9
Baker Hughes*	3.5	3.4	3.3
Median	**4.7**	**4.3**	**3.9**

** Bloomberg consensus*

Dividend yield	2008E	2009E	2010E
Trevi Finanziaria Industriale	1.5%	1.7%	1.8%
Caterpillar*	4.1%	4.5%	4.2%
Sandvik*	8.7%	8.7%	8.7%
Bauer*	7.2%	6.9%	6.2%
Vinci*	5.4%	5.6%	5.9%
National Oilwell Varco*	0.0%	0.0%	0.0%
Rowan*	2.4%	2.4%	2.4%
Transocean*	0.0%	0.0%	0.0%
Baker Hughes*	1.6%	1.7%	1.6%
Median	**2.4%**	**2.4%**	**2.4%**

** Bloomberg consensus*

Source: SPB estimates and Bloomberg consensus (*)

P&L (mln EUR), Dec 31	2006	2007	2008E	2009E	2010E
Sales	642	837	1,048	1,242	1,308
EBITDA	86	129	167	198	207
Depreciation & amortization	-28	-30	-36	-41	-45
EBIT	58	99	131	158	162
Net financial income (charges)	-10	-14	-16	-23	-22
Pretax profit	43	86	115	135	139
Taxes	-15	-28	-38	-45	-46
Tax rate (%)	34.4%	32.7%	33.0%	33.0%	33.0%
Minorities	-1	-2	-3	-4	-4
Net profit (reported)	27	56	74	87	90
Adjusted Net profit	27	56	74	87	90
Adjusted EBITDA	86	129	167	198	207
Adjusted EBIT	58	99	131	158	162
Balance sheet (mln EUR)	**2006**	**2007**	**2008E**	**2009E**	**2010E**
Net Working Capital	120	105	236	292	333
Net Fixed Assets	199	216	275	309	336
Funds	16	15	17	18	19
Net Invested Capital	303	306	493	582	650
Net Debt (cash)	176	143	260	267	252
Shareholders' equity	122	156	224	302	382
Minorities	5	7	10	13	16
Financial Liabilities & Equity	303	306	493	582	650
Cash Flow statement (mln EUR)	**2006**	**2007**	**2008E**	**2009E**	**2010E**
Net profit	27	56	74	87	90
Minorities	1	2	3	4	4
Depreciation & amortization	28	30	36	41	45
Change in Net Working Capital	-53	15	-131	-56	-42
Change in Funds and other items	2	-1	2	1	0
Operating Cash Flow	5	101	-15	76	97
Capex	-56	-50	-95	-75	-72
Operating Free Cash Flow	-51	51	-110	1	25
Other net investments	0	0	0	0	0
Free Cash Flow	-51	51	-110	1	25
Dividends	-2	-3	-6	-8	-10
Equity issues	0	0	0	0	0
Other changes	3	-15	0	0	0
Net Cash Flow	-50	33	-117	-8	15
Financial ratios	**2006**	**2007**	**2008E**	**2009E**	**2010E**
EBITDA margin	13.3%	15.5%	16.0%	16.0%	15.8%
EBIT margin	9.0%	11.9%	12.5%	12.7%	12.4%
Interest coverage (x)	5.6	7.3	8.0	7.0	7.2
Net profit margin	4.2%	6.7%	7.0%	7.0%	6.8%
ROCE	19.2%	32.5%	26.6%	27.1%	24.8%
ROE	21.9%	35.6%	33.0%	28.7%	23.5%
Net Debt/Equity (x)	1.38	0.87	1.11	0.85	0.63
Payout ratio	12.0%	11.5%	11.5%	11.5%	11.5%
Growth rates	**2006**	**2007**	**2008E**	**2009E**	**2010E**
Sales	29.1%	30.3%	25.2%	18.5%	5.3%
EBITDA	54.9%	51.1%	29.3%	18.5%	4.2%
EBIT	102.4%	71.1%	32.0%	20.2%	2.4%
Net profit	108.7%	108.3%	32.4%	17.7%	3.1%
Adjusted Net profit	108.7%	108.3%	32.4%	17.7%	3.1%
Per share figures (EUR)	**2006**	**2007**	**2008E**	**2009E**	**2010E**
Year-end nr of shares (mln)	64	64	64	64	64
EPS reported	0.42	0.87	1.15	1.36	1.40
EPS adjusted	0.42	0.87	1.15	1.36	1.40
CFPS	0.85	1.34	1.72	1.99	2.11
BVPS	1.91	2.44	3.50	4.72	5.97
Dividend - common shares	0.05	0.10	0.13	0.16	0.16
Dividend - pref. shares	0.00	0.00	0.00	0.00	0.00
Dividend - savings shares	0.00	0.00	0.00	0.00	0.00
Valuation & ratios	**2006**	**2007**	**2008E**	**2009E**	**2010E**
Last price - common share (current, average)	9.38	12.23	8.93	8.93	8.93
Market Cap (mln EUR)	600	782	571	571	571
Enterprise Value (mln EUR)	776	951	857	864	849
P/E reported	22.4	14.0	7.7	6.6	6.4
P/E adjusted	22.4	14.0	7.7	6.6	6.4
P/CF	11.0	9.1	5.2	4.5	4.2
P/BV	4.9	5.0	2.6	1.9	1.5
Adj. EV/EBITDA	9.1	7.3	5.1	4.4	4.1
Adj. EV/EBIT	13.4	9.6	6.5	5.5	5.3
Net debt/Adj. EBITDA	2.1	1.1	1.6	1.3	1.2
Dividend yield - common shares	0.5%	0.8%	1.5%	1.7%	1.8%
Dividend yield - savings shares	n.m.	n.m.	n.m.	n.m.	n.m.
Free Cash Flow Yield	-8.9%	5.8%	-21.0%	-1.9%	2.0%

NOTES

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