CENTROBANCA
Gruppo UBI Banca

TREVI

Company Update | **Hold (from Buy)**

19 May 2011 | *MARKET PRICE: EUR10.8* | *TARGET PRICE: EUR10.9 (From EUR11.0)*

Target price reached, moving to Hold

The Trevi share price has reached our EUR11.0 target price. Given the slowdown in both sales and margins in 1Q11, we see no further room for a re-rating in the shares in the short term and have, therefore, reduced our rating to Hold (from Buy). In addition, the premium to peers that has always characterized Trevi has increased in the past few months (to >20% on 2011 EV/EBITDA vs. 9% last March). We have also revised our estimates, leaving sales and EBITDA largely unchanged but cutting net profit (by 10% on average in 2011-13) to incorporate higher financial charges (and currency losses reported in 1Q11) and taxes. Our EPS now factors in the conversion of the outstanding convertible bonds, which will dilute the current shares in issue by around 10%. Our target price has fallen slightly to EUR10.9 per share (from EUR11.0), reflecting the reduction in our estimates.

- Trevi reported a slowdown of 7.7% in revenues in 1Q11, with a sharp decline for Drillmec (-26%) and a weak performance for Trevi (-8%), while Soilmec and Petreven both showed a significant recovery. The EBITDA margin declined to 14.8% from 16.5% in 1Q10 due to the weak performance of the services division (margin of 15.7%) and the net profit halved, also due to currency losses mostly linked to the activities of Trevi. The order backlog was the highlight of the results: it was EUR986 million (+25.1% vs. Dec-10) and implies an order intake of around EUR415 million with a book to bill of 1.9x.

- Although Trevi's long term prospects remain solid (CAGR in sales to 2013 of 8.6% with an EBITDA margin returning to the pre-crisis level of around 16%) and the company expects 2011 to be a year of growth for all divisions, the weak 1Q11 results make net profit growth more challenging. We have fine tuned 2011-13 revenues and EBITDA estimates but have cut those for net profit on the back of higher financial charges and taxes. Despite higher NWC requirements related to limited advance payments for Drillmec, our net debt estimate has been reduced to factor in the conversion of the outstanding convertible bonds expected in Nov-11; these should dilute EPS by around 10%. Our EPS forecasts have been cut by an average of 18% in 2011-13.

- Our target price has fallen slightly to EUR10.9 per share from EUR11.0. This reduction is much lower than that in our EPS as we expect the operating performance of Trevi to remain broadly unchanged compared to our previous estimates.

- Potential upside could come from possible new large contracts (first of all the Mosul Dam) which would increase Trevi's long term growth prospects.

Data

Shares Outstanding (m):	64.0	
Market Cap. (EURm):	6.93	
Enterprise Value (EURm):	1,176.4	
Free Float (%):	47.1%	
Av. Daily Trad. Vol. (m):	0.2	
Main Shareholder:	Trevisani family 53.1%	
Reuters/Bloomberg:	TFI.MI	TFI IM
52-Week Range	8.4	13.1

Performance

	1m	3m	12m
Absolute	4.6%	2.9%	-7.2%
Rel. to FTSE IT	3.3%	9.7%	-12.6%

Financials

	2010	2011E	2012E
Revenues (EURm)	952.9	1,028.0	1,135.9
EBITDA (EURm)	137.2	154.3	180.2
Net Profit (EURm)	46.3	51.7	72.7
EPS (EUR)	0.7	0.7	1.0
CFPS (EUR)	1.4	1.4	1.8
BVPS (EUR)	5.5	6.5	7.0
DPS (EUR)	0.1	0.2	0.2

Ratios

	2010	2011E	2012E
EBITDA margin	14.4%	15.0%	15.9%
ROI	10.8%	12.3%	14.6%
ROAE	14.1%	12.8%	15.3%
Debt/Equity	1.1	0.8	0.6
Debt/EBITDA	2.9	2.4	1.8

Valuation

	2010	2011E	2012E
P/E (x)	14.7	14.7	10.5
P/CF (x)	7.4	7.2	6.2
P/BV (x)	1.9	1.7	1.5
Dividend Yield	1.2%	1.4%	1.8%
EV/Sales (x)	1.2	1.1	1.0
EV/EBITDA (x)	8.1	7.2	6.0
EV/CE (x)	1.5	1.4	1.4

Source: Centrobanca estimates

Analyst
Marco Cristofori
marco.cristofori@centrobanca.it
Tel. +39 02 7781 4393

Website: www.centrobanca.it

Recent Developments

- Sales in 1Q11 were down 7.7%, bang in line with our estimates, but with a different mix. While Trevi was below expectations, Soilmec, Petreven and Drillmec beat our estimates. We highlight that the value of production rose 3% in the quarter (vs a decrease in sales) meaning that Drillmec is preparing to carry out new contracts in the coming months, which will translate into revenues in future. The backlog reached EUR986 million (+25.1% vs. Dec-10), implying an order intake of around EUR415 million with a book to bill of 1.9x.
- EBITDA was weak, declining 17%, but was EUR4 million above our expectations; there was a better margin in the mechanical engineering division (13.2% vs. 5.6% expected) but a lower one in the services division (15.7% vs. 19.5% expected), particularly at Trevi, while Petreven reported better margins due to the two new rigs now in operation. We highlight that Trevi's margin was better than those of its main peers in 1Q11: Bauer's was 10% (vs. 10.8% in 1Q10) and Keller gave a profit warning stating that the Group's EBIT for 2011 would be 10% below that of 2010, with the second half broadly in line with last year.
- Net profit halved compared with 1Q10 and was also penalized by EUR4 million of currency losses. Net debt increased to EUR406 million from EUR396 million at Dec-10 due to higher NWC tied to increased inventories and lower advance payments at Drillmec. Gearing was 1.18x despite the much lower capex (EUR12 million compared with EUR22 million in 1Q10).
- Although the company gave no specific guidance, it stated that it expects sales to grow in all its divisions in 2011 with a gradual margin improvement. The order intake should remain positive, with a strong 1H11 in oil & gas and a second half driven by the foundations division.

Figure 1. Trevi– 1Q11 results

While foundations services remain a tough market, there was a sound recovery at Soilmec, which also increased its backlog. Petreven benefited from two new rigs in operation while Drillmec suffered from a delay in supplies. The company expects to start on new contracts in the coming months, which will translate into higher revenues in the future.

(EURm)	1Q10A	1Q11A	% Chg.	1Q11E	delta vs CB
Sales	235.0	216.9	-7.7%	217.0	0.0%
o/w Trevi	107.1	98.2	-8.2%	110.0	-10.7%
o/w Soilmec	39.2	50.6	28.9%	45.0	12.4%
o/w Petreven	15.6	22.0	41.0%	19.0	15.8%
o/w Drillmec	76.8	57.1	-25.7%	45.0	26.9%
EBITDA	**38.7**	**32.0**	**-17.3%**	**28.0**	**14.4%**
Margin (%)	**16.5%**	**14.8%**		**12.9%**	
EBIT	25.9	20.3	-21.6%	15.0	35.3%
Margin (%)	11.0%	9.4%		6.9%	
Net Result attr.	**15.4**	**7.5**	**-51.2%**	**6.5**	**15.5%**

Source: Company data, Centrobanca estimates

Financial Projections

- We confirm our estimate that sales should exceed EUR1 billion this year (+7.9%), with moderate growth continuing in 2012-13 (8.6% CAGR in 2010-13). We expect sound growth at Petreven, on the back of an additional two new rigs every year, and for Soilmec, which should reach pre-crisis revenues in 2013. Drillmec should also benefit from the upturn in the oil industry and the entry in new markets (Mexico, Belarus, and Turkey). We expect limited growth for Trevi (around 4% p.a.) also due to the unfavourable currency impact (around 50% of Trevi's sales are in USD).
- The main changes in estimates are at the net profit level and reflect higher financial charges, linked to higher interest rates, currency losses reported in 1Q11 (EUR4 million), and a 2011 tax rate now expected to be 35% compared with a previous estimate of 32%. We have also increased the estimated 2011-13 tax rate to 33% (from 30%). The overall negative impact on the net result is around 10% in 2011-13.
- Contrary to our previous estimates, we now assume the full conversion of the outstanding convertible bonds (maturing in Nov-11) with a par value of EUR70 million. The strike price is EUR11.3, just 4% above the current market price, and the company could force the conversion through the cash payment of the gap between the strike and the market price (at the time of the conversion). The conversion would create 6.2 million new shares, equivalent to 9.7% of the current shares in issue.
- Our estimate for Net debt has been sliced (by around 13%) to incorporate the conversion of the bonds. We have also increased the estimates for NWC requirements to reflect lower advance payments, in particular for Drillmec (the new contracts in Mexico and Turkey do not include any down payment).

Figure 2. Trevi – Revised estimates

While our new sales and operating estimates are broadly unchanged compared with our previous estimates, we have reduced net profit to factor in higher financial charges and taxes. EPS is also impacted by the conversion of the outstanding convertible bonds which could result in the issue of 6.2 million new shares (9.7% of current shares in issue), with a cash in of EUR70 million which will positively impact the net financial position.

(EURm)	2010A	2011E		2012E		2013E	
		Old	New	Old	New	Old	New
Total Sales	953	1.030	1.028	1.133	1.136	1.204	1.222
% change			-0.2%		0.2%		1.5%
EBITDA	**137**	**153**	**154**	**179**	**180**	**198**	**201**
% change			**0.9%**		**0.4%**		**1.7%**
Net Profit	46	57	52	78	73	107	92
% change			-9.8%		-7.1%		-14.3%
Net Debt	396	402	365	371	329	298	247
% change			-9.2%		-11.4%		-17.3%
EPS	**0.72**	**0.90**	**0.74**	**1.22**	**1.04**	**1.67**	**1.31**
% change			**-17.8%**		**-15.3%**		**-21.8%**

Source: Company data, Centrobanca estimates

Valuation

- Based on a DCF and sum-of-the-parts valuations, we have slightly reduced our target price to EUR10.9 per share (from EUR11.0). This reduction is limited as, although we downgraded our net profit estimates, we left our sales and EBITDA forecasts mainly unchanged. Our target price is based on the share in circulation before the conversion of the outstanding convertible bonds expected in Nov-11.
- In the past two months, Trevi has significantly increased its premium to its peers; this is now >13% on 2011 EV/EBITDA compared with 9% last March. Also, the premium to Bauer and Keller, the main companies active in foundation services, now exceeds 30%. This is justified by Trevi's superior growth and margins but we believe a further re-rating of the shares is unlikely before a recovery in sales and margin.
- As a result, we believe that Trevi has little room to outperform and have changed our rating from Buy to Hold.

Figure 3. Trevi – Target price

We have given a higher weighting to our DCF valuation as we believe this method better reflects the long term prospects of the oil drilling business which is still in a development phase (Petreven only started operations in 2004 and Drillmec in 2000)

Valuation method	(EUR)	% Weight	(EUR)
SOP	9.06	40.0%	3.62
DCF	12.09	60.0%	7.25
TARGET PRICE			**10.88**
Current market price			10.83
% upside (downside)			+0.5%

Source: Centrobanca estimates

Figure 4. Trevi – Peer comparison

Trevi's only direct peers in the foundation business are Bauer and Keller, while National Oilwell Varco is the leader in the oil drilling sector. However, we have also included oil service companies (Saipem, Technip, Maire Tecnimont), construction companies (Vinci, Astaldi, Impregilo) and construction equipment companies (Caterpillar) in our peer comparison..

	Market Cap.	P/E		EV/EBITDA		EV/sales	
	(EURm)	2011	2012	2011	2012	2011	2012
Bauer AG	600	12.3 x	9.8 x	5.9 x	5.4 x	0.87 x	0.81 x
Keller Group PLC	385	14.7 x	11.2 x	5.5 x	4.8 x	0.39 x	0.36 x
Saipem	16.077	17.8 x	15.0 x	9.2 x	7.6 x	1.57 x	1.36 x
Technip	7.751	17.9 x	14.8 x	7.7 x	6.3 x	0.95 x	0.81 x
National Oilwell Varco	20.111	16.3 x	13.0 x	8.0 x	6.3 x	1.90 x	1.56 x
Caterpillar	47.615	15.3 x	11.6 x	7.9 x	6.1 x	1.32 x	1.08 x
Astaldi	545	7.4 x	6.4 x	4.2 x	3.9 x	0.47 x	0.44 x
Vinci	24.080	12.4 x	11.6 x	6.8 x	6.3 x	1.04 x	0.97 x
Impreglio	938	13.7 x	9.8 x	5.6 x	4.8 x	0.66 x	0.57 x
Maire Tecnimont	552	9.8 x	7.1 x	3.2 x	2.3 x	0.13 x	0.12 x
Median		**14.2 x**	**11.4 x**	**6.3 x**	**5.7 x**	**0.91 x**	**0.81 x**
Trevi	**693**	**14.7 x**	**10.5 x**	**7.2 x**	**6.0 x**	**1.08 x**	**0.95 x**
Premium (discount)		**3.7%**	**-8.2%**	**13.3%**	**4.2%**	**18.2%**	**16.1%**

Source: Factset, Centrobanca estimates

Income Statement

(EURm)	2010	2011E	2012E	2013E
Net Revenues	952.9	1,028.0	1,135.9	1,222.1
EBITDA	137.2	154.3	180.2	221.2
EBITDA margin	14.4%	15.0%	15.9%	18.1%
EBIT	84.3	101.8	126.6	151.0
EBIT margin	8.8%	9.9%	11.1%	12.4%
Net financial income /expense	-14.4	-15.0	-15.0	-13.0
Associates & Others	0.2	-4.0	0.0	0.0
Profit before taxes	70.1	82.8	111.6	138.0
Taxes	-24.5	-29.0	-36.8	-44.1
Minorities & discontinued ops	0.7	-2.1	-2.1	-2.2
Net Income	46.3	51.7	72.7	91.6

Source: Company data, Centrobanca estimates

Balance Sheet

(EURm)	2010	2011E	2012E	2013E
Net working capital	402.6	482.8	502.9	492.5
Net Fixed assets	384.0	381.6	367.5	359.0
M/L term funds	-23.8	-25.0	-25.7	-27.5
Capital employed	762.8	839.4	844.7	824.0
Shareholders' equity	354.2	454.1	493.5	552.6
Minorities	12.4	20.4	22.2	24.8
Shareholders' funds	366.5	474.5	515.7	577.4
Net financial debt/(cash)	396.3	364.9	329.0	246.6

Source: Company data, Centrobanca estimates

Cash Flow Statement

(EURm)	2010	2011E	2012E	2013E
NFP Beginning of Period	-443.8	-396.3	-364.9	-329.0
Group Net Profit	46.3	51.7	72.7	91.6
Minorities	-0.7	2.1	2.1	2.2
D&A	45.3	47.4	48.6	50.3
Change in Funds & TFR	0.1	0.2	0.2	0.2
Gross Cash Flow	91.1	101.4	123.5	144.3
Change In Working Capital	10.0	-80.2	-20.1	10.4
Other	0.0	0.0	0.0	0.0
Operating Cash Flow	101.1	21.2	103.5	154.6
Capex	-41.2	-51.4	-56.8	-61.1
Other Investments	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0
Free Cash Flow	59.9	-30.2	46.7	93.5
Dividends Paid	-7.7	-8.3	-10.5	-11.0
Other & Chg in Consolid. Area	-4.8	-0.2	-0.2	-0.2
Chg in Net Worth & Capital Incr.	0.0	70.0	0.0	0.0
Change in NFP	47.5	31.4	36.0	82.4
NFP End of Period	-396.3	-364.9	-329.0	-246.6

Source: Company data, Centrobanca estimates

Financial Ratios

(%)	2010	2011E	2012E	2013E
Net Margin	4.9%	5.0%	6.4%	7.5%
ROE	14.1%	12.8%	15.3%	17.5%
ROIC - after tax	7.3%	8.4%	9.9%	11.9%
Net Fin. Debt/Equity (x)	1.1	0.8	0.6	0.4
Net Fin. Debt/EBITDA (x)	2.9	2.4	1.8	1.1
NOPAT(EURm)	57.3	69.2	86.1	102.7
ROACE	7.5%	8.6%	10.2%	12.3%

Source: Company data, Centrobanca estimates

Per Share Data

(EUR)	2010	2011E	2012E	2013E
EPS	0.7	0.7	1.0	1.3
DPS	0.1	0.2	0.2	0.2
Op. CFPS	1.6	0.3	1.5	2.2
Free CFPS	0.9	-0.4	0.7	1.3
BVPS	5.5	6.5	7.0	7.9

Source: Company data, Centrobanca estimates

Stock Market Ratios

(x)	2010	2011E	2012E	2013E
P/E	14.7	14.7	10.5	8.3
P/OpCFPS	6.7	35.8	7.3	4.9
P/Free CFPS	11.3	nm	16.3	8.1
P/BVPS	1.9	1.7	1.5	1.4
Div. Yield (%)	1.2%	1.4%	1.8%	2.3%
Free Cash Flow Yield (%)	8.8%	nm	6.1%	12.3%
EV (EURm)	1,115.3	1,176.4	1,140.6	1,058.4
EV/Sales	1.2	1.1	1.0	0.8
EV/EBITDA	8.1	7.2	6.0	4.5
EV/EBIT	13.2	10.9	8.5	6.6
EV/Capital Employed	1.5	1.4	1.4	1.3

Source: Company data, Centrobanca estimates

Growth Rates

(%)	2010	2011E	2012E	2013E
Growth Group Net Sales	-8.0%	7.9%	10.5%	7.6%
Growth EBITDA	-24.5%	12.4%	16.8%	22.8%
Growth EBIT	-28.2%	20.9%	24.4%	19.2%
Growth Net Profit	-43.6%	11.8%	40.4%	26.1%

Source: Company data, Centrobanca estimates

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On the basis of the checks carried out no other conflict of interest arose.

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Date	Rating	TP (EUR)	MKT Price (EUR)
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29/03/2011	Buy	11.0	9.22