BANCA IMI

Equity Company Note

Trevi

Focus on Potential Order Inflow

Trevi - Key estimates and data				
Y/E December		2010A	2011E	2012E
Revenues	EUR M	952.94	1049.87	1096.68
EBITDA	EUR M	137.26	152.20	164.11
EBIT	EUR M	84.31	101.68	111.44
Net income	EUR M	46.36	58.26	64.91
Dividend ord.	EUR	0.13	0.13	0.14
Adj. EPS	EUR	0.72	0.91	1.01
EV/EBITDA	x	7.24	6.39	5.71
Adj. P/E	x	12.73	10.13	9.09

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

- **4Q10A-FY10A results**. The group's FY10A results came out slightly lower than expected for the top line and significantly below our estimates at the EBITDA, EBIT and net profit levels. This was mainly due to the not brilliant performance for the mechanical divisions. At the end of last December the group's net debt amounted to EUR 396M, substantially stable compared to end-September (EUR 395.7M), while the order backlog slightly beat expectations reaching EUR 788.4M vs. EUR 759.4M at 30 September. The 2010A order inflow reached EUR 961M vs. EUR 707M in 2009. Overall we believe that Trevi managed well in a difficult market environment in 2010, leveraging on its well-engineered business model based on a wide geographical diversification, a presence in businesses characterised by diverse growth drivers, and on the good quality of its order backlog.

- **Outlook and estimates**. Based on the announced results and the following conference call, we adopt a more optimistic view on the group's ability to improve its 2011E-12E top line thanks to the faster than estimated growth of Petreven, the slightly higher than expected 2010 order backlog for Trevi, and growing confidence in the fact that the huge Drillmec soft backlog could produce a relevant order inflow for the division in the next few months. At the same time, due to the disappointing 2010A consolidated operating profitability we cut our 2011E-12E EBITDA margin forecasts for Soilmec and Trevi. We believe that the Soilmec profitability recovery will be gradual in 2011E due to the cost for its geographical expansion in the Far East (in particular China and India), whose benefits are expected by 2012E, while we expect that Trevi's profitability is unlikely to grow above the 2010 level due to the smaller average size of the ongoing projects, and to the start-up phase of some works. We also increase our 2011E-12E annual capex forecasts by EUR 12.5M to EUR 65M, and marginally increase the expected 2011E tax rate to 32.9% vs. our previous forecast of 32.5%. Note that the eventual positive conclusion of the important ongoing negotiations in the ground engineering business is not currently considered in our 2011E-12E forecasts, and there are additional growth opportunities which could arise from the Soilmec enhancement in Brazil, India and China.

- **Valuation**. Based on our new group forecasts and on our DCF-based and 2011E peers' multiples-based SOP valuations **we slightly increase our target price to EUR 11.00/share (EUR 10.60/share previously).** We believe that in the short term investors should focus their attention above all on the several ongoing negotiations in both the ground engineering and the drilling machines business. In our opinion these could be the trigger for a further stock appreciation. Based on the potential price upside of 15.7% **we confirm our ADD rating.**

- **Key risks**. Among the investment risks we highlight that: 1) visibility for the group's 2011E earnings is still not complete; 2) the company's bottom line appears to be sensitive to the USD exchange rate, to which it is generally positively correlated.

1 April 2011

ADD

Target Price: EUR 11.00 (from EUR 10.60)

Building & Materials Results Note

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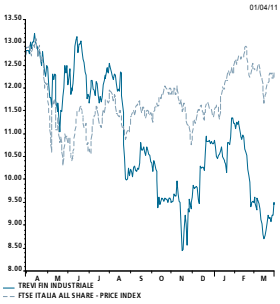
Price performance, -1Y



Source: Thomson Reuters

Data priced on 28.03.2011	
Target price (€)	11.00
Target upside (%)	15.78
Market price (€)	9.50
52-week range (€)	13.2/8.5
Market cap (€ M)	590.08
No. of shares (M)	64.00
Free float (%)	32.9
Major shareholder (%)	Trevisani, 52.5
Reuters	TFI.MI
Bloomberg	TFI IM
FTSE It All Shares	22669

Performance %			
Absolute		Rel. to FTSE All Sh	
-1M	-3.3	-1M	-1.5
-3M	-14.6	-3M	-21.6
-12M	-28.1	-12M	-24.3

Source: Intesa Sanpaolo Research estimates and Thomson Reuters

See page 13 for full disclosures and analyst certification

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Contents

4Q/FY10A Results

The group's FY10A results came out slightly lower than expected for the top line and significantly below our estimates at the EBITDA, EBIT and net profit levels. This was mainly due to the not brilliant performance for the mechanical divisions. At the end of last December the group's net debt amounted to EUR 396M, substantially stable compared to end-September (EUR 395.7M), while the order backlog slightly beat expectations reaching EUR 788.4M vs. EUR 759.4M at 30 September. The 2010A order inflow reached EUR 961M vs. EUR 707M in 2009. Overall we believe that Trevi managed well in a difficult market environment in 2010, leveraging on its well-engineered business model based on a wide geographical diversification, a presence in businesses characterised by diverse growth drivers, and on the good quality of its order backlog.

Trevi - 4Q10A-FY10A results

EUR M	4Q10A	4Q10E	vs. est.%	4Q09A	yoy%	FY10A	FY10E	vs. est.%	FY09A	yoy%
Revenues	263.8	271.7	-2.9	199.4	32.3	952.9	960.8	-0.8	1035.8	-8.0
EBITDA	31.2	43.8	-28.9	20.5	51.7	137.3	149.9	-8.4	181.8	-24.5
Margin (%)	11.8	16.1		10.3		14.4	15.6		17.6	
EBIT	18.5	31.7	-41.6	7.7	141.4	84.3	97.5	-13.5	117.4	-28.2
Margin (%)	7.0	11.7		3.8		8.8	10.1		11.3	
Pre-tax income	15.5	28.2	-45.3	7.1	117.5	70.2	83.0	-15.4	104.6	-32.9
Net Income	11.6	20.2	-42.5	12.1	-4.1	46.4	54.9	-15.6	82.2	-43.6

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Trevi - Revenue breakdown by division 4Q10A-FY10A

EUR M	4Q09A	% on cons. sales	FY09A	% on cons. sales	4Q10A	% on cons. sales	yoy%	FY10A	% on cons. sales	yoy%
Machines for foundations works	54.1	27.1	187.4	18.1	68.3	25.9	26.3	202.3	21.2	8.0
Drilling machinery	25.2	12.7	310.5	30.0	77.5	29.4	207.4	288.4	30.3	-7.1
Elisions	0.0	0.0	-1.4	-0.1	-2.8	-1.1	NM	-5.3	-0.6	NM
Mechanical Division	**79.3**	**39.8**	**496.4**	**47.9**	**143.0**	**54.2**	**80.2**	**485.4**	**50.9**	**-2.2**
Drilling services	15.1	7.6	65.4	6.3	21.8	8.3	45.1	80.0	8.4	22.4
Special foundations works	112.9	56.6	495.2	47.8	111.0	42.1	-1.7	419.5	44.0	-15.3
Elisions	-1.6	-0.8	-6.3	-0.6	-1.4	-0.5	NM	-6.1	-0.6	NM
Services Division	**126.3**	**63.4**	**554.2**	**53.5**	**131.4**	**49.8**	**4.0**	**493.4**	**51.8**	**-11.0**
Parent Company	4.0	2.0	15.0	1.4	3.9	1.5	-1.3	14.5	1.5	-3.5
Elisions	-10.2	-5.1	-29.8	-2.9	-14.5	-5.5	41.5	-40.3	-4.2	35.2
Consolidated Sales	**199.4**		**1035.8**		**263.8**		**32.3**	**952.9**		**-8.0**

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Looking at the individual divisions we note that both the services and the mechanical equipment divisions showed a yoy revenue decline, but with very different features. Soilmec, the first to be impacted by the crisis since 1Q09A, stopped the decline stabilising its top line at the lower level of activity shown in 2009 (most of the aggregate sales increase should be infra-group); Petreven, (+22.4% yoy), whose business is less cyclical, regularly provided its drilling services in Venezuela, Perù, Argentina, Colombia and Chile, growing more than expected. Since May Petreven has started operations on tenth rig and in the second half of the year reached its target of 12 operating rigs (1 in Chile and 1 in Colombia), adding the promising Chilean market to it geographical diversification and laying the foundation for the yoy growth to continue in 2011E. Drillmec (-7.1% yoy before elisions) and Trevi (-15.3% yoy before elisions), which in 2009 registered their best ever performances, suffered from the lower 2009 order backlog (EUR 780M at end-2009), and in the case of Drillmec also from the execution of internal works for Petreven. However, we highlight that last year Drillmec entered the full packages market and increasingly focused on the supply of complete projects in addition to single machines, a strategy which has made the division's sales more dependent on the generally conservative management accounting policy for work in progress, and on the timing of the deliveries. This is well reflected by the different sales level that we note in Drillmec on a half-yearly basis (see table below) and by the 4Q10 vs. 4Q09 comparison. As for Trevi, the core business division, the increased level of activity in Italy, North America and the Far East was not sufficient to offset the phase-out of some contracts in the Middle East and Africa. At the EBITDA level in 4Q10A Soilmec and Drillmec did not confirm the rebound shown in the first nine months of the year. We highlight

that the ongoing project for Saipem is due to be completed by the first quarter of 2011, when it should also release part of the operating profitability that we did not see in 4Q10. Note also that Soilmec probably suffered from the costs for reducing stocks and for the company's expansion in the Chinese market. Overall in 2010 the EBITDA margin for the group's mechanical division slightly decreased compared to 2009 (9% vs. 9.2%) mainly as a result of a weak fourth. As for the service division, we note that in 2010A it showed an EBITDA margin of 19.4%, the highest level of the last five years if we exclude 2009 (EBITDA margin of 24.7%) which was impacted by exceptionally favourable factors and also benefited from the better sales mix deriving from the significant growth in the drilling services business.

In spite of a slight increase in depreciation, the group's EBIT result declined less than EBITDA in absolute terms as a result of a significant reduction of provisions and write-offs (EUR 7.6M in 2010 vs. EUR 22.3M in 2009) in the service division. Below the EBIT line the year-end results did not show any significant surprise.

Trevi – Half-yearly division sales and operating profitability

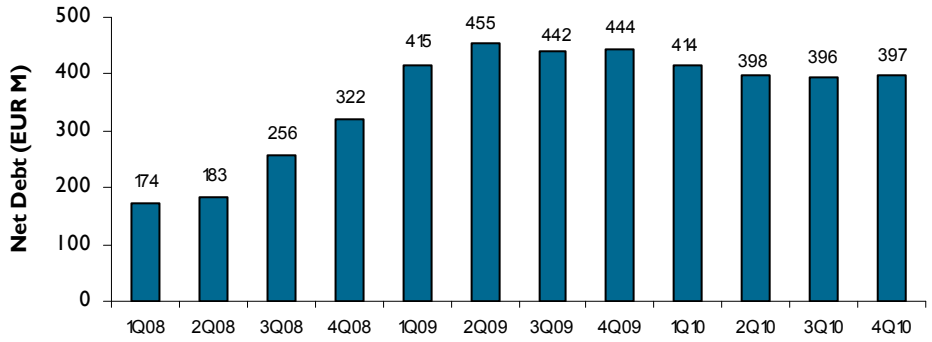
EUR M	1H09A	2H09A	FY09A	1H10A	yoy%	2H10A	yoy%	FY10A	yoy%
Machines for foundations works	92.7	94.6	187.4	91.5	-1.3	110.8	17.1	202.3	8.0
Drilling machinery	180.9	129.6	310.5	121.9	-32.6	166.5	28.5	288.4	-7.1
Elisions	-0.9	-0.5	-1.4	-0.7	NM	-4.6	NM	-5.3	NM
Mechanical Division	**272.7**	**223.7**	**496.4**	**212.7**	**-22.0**	**272.7**	**21.9**	**485.4**	**-2.2**
Drilling services	37.1	28.3	65.4	35.6	-4.1	44.4	57.0	80.0	22.4
Special foundations works	274.2	221.0	495.2	214.3	-21.9	205.3	-7.1	419.5	-15.3
Elisions	-2.6	-3.7	-6.3	-3.0	NM	-3.1	NM	-6.1	NM
Services Division	**308.7**	**245.5**	**554.2**	**246.9**	**-20.0**	**246.6**	**0.4**	**493.4**	**-11.0**
Parent Company	7.4	7.6	15.0	6.9	-6.2	7.5	-0.7	14.5	-3.5
Elisions	-17.3	-12.6	-29.8	-13.7	-20.7	-26.6	112.1	-40.3	35.2
Consolidated Sales	**571.6**	**464.3**	**1035.8**	**452.7**	**-20.8**	**500.2**	**7.7**	**952.9**	**-8.0**
Services									
Added Value	142.6	106.5	249.1	102.8	-27.9	109.7	3.0	212.5	-14.7
%	46.2	43.4	44.9	41.7		44.5		43.1	
EBITDA	85.4	51.4	136.8	46.3	-45.8	49.3	-4.1	95.6	-30.1
%	27.7	20.9	24.7	18.7		20.0		19.4	
EBIT	52.6	30.8	83.4	27.5	-47.7	29.9	-2.9	57.4	-31.2
%	17.0	12.5	15.0	11.1		12.1		11.6	
Mechanicals									
Added Value	55.3	37.5	92.8	46.0	-16.9	47.6	27.2	93.6	0.9
%	20.3	16.7	18.7	21.6		17.5		19.3	
EBITDA	31.2	14.4	45.7	23.4	-25.2	20.4	41.6	43.8	-4.1
%	11.5	6.4	9.2	11.0		7.5		9.0	
EBIT	26.8	9.2	36.1	17.5	-34.6	13.0	40.3	30.5	-15.4
%	9.8	4.1	7.3	8.3		4.8		6.3	

A: actual; E: estimates NM: not meaningful; Source: Company data and Intesa Sanpaolo Research

NFP

At end-December 2010 the group stabilised its debt level at EUR 396M, the same level as end-September, showing a 2010A net free cashflow generation of EUR 47.8M benefiting from a slight reduction in NWC and from a strict control on capital expenditure (EUR 41.1M vs. EUR 76.2M in 2009) .

Trevi - Quarterly net debt 2008A-2010A



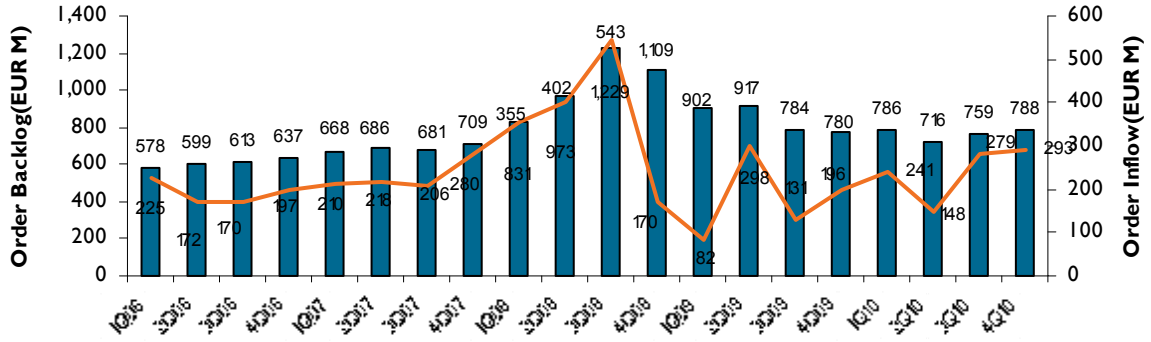
A: actual; Source: Company data

Order backlog

Order backlog was resilient in spite of the lack of big orders

There was good news from the order backlog which at 31 December 2010 reached EUR 788.4M showing a slight increase compared to end-September 2010 (EUR 759.4M), and up by 1% compared to EUR 780M at the end of 2009. The 2010A order inflow amounted to EUR 961M (EUR 707M of the whole 2009) and to EUR 293M in the last quarter of last year (EUR 196M in 4Q09). It is interesting to note that following a certain weakness in the order inflow in July 2009-June 2010, the second half of 2010 showed an acceleration with quarterly orders for approximately EUR 300M. According to management, there are several negotiations underway, above all in the ground engineering services and the drilling machines divisions. These should allow a relevant order inflow to continue in the next 3-6 months. In addition we highlight that in the first months of 2011 Drillmec has already announced an important USD105M contract with Petroleos Mexicanos to be executed within March 2012 and a EUR 10M contract in Belarus. A few months ago Drillmec signed a partnership agreement in Belarus with the company JSC Seismotekhnika, which the management expects will feed the order inflow in Belarus and Russia. In a recent conference call, management also confirmed that negotiations for the Mosul dam consolidation works in Iraq are still in progress although the timing remains uncertain, that in the oil and gas sector several negotiations are in their finalisation phase, and that the Americas should significantly contribute to enhancing the core business (Trevi) backlog during 2011.

Trevi - Quarterly order backlog and Inflow 2006-10



A: actual; Source: Company data

Trevi - Order backlog: breakdown by division

EUR M	Backlog FY06	Backlog FY07	Backlog FY08	Backlog FY09	Backlog FY10A	vs. Dec. 09 %
Machines for foundations works(Soilmec)	57	85	67	31	55	76.8
Drilling machinery(Drillmec)	159	163	299	203	102	-49.5
Mechanical Divisions	217	248	366	234	158	-32.6
Drilling services(Petreven)	159	113	111	94	158	68.4
Special foundations works(Trevi)	261	347	632	453	473	4.5
Services Divisions	420	461	743	546	631	15.5
Group Total	637	709	1109	780	788	1.0

A: actual; Source: Company data

Earnings Outlook

The main points discussed in the recent company call were as follows:

- The company expects a growth in the 2011 top line compared to the EUR 953M of 2010A as a result of the existing backlog and of the several negotiations underway. In particular, in the next few weeks management expects the finalisation of negotiations in the oil and gas sector and Trevi is expected to close important orders in the next 3-6 months. Management also specified that Trevi is the nominated subcontractor for the Copenhagen Metro which is not in the current backlog and should be included in 1H11. According to our understanding the value of the contract should be in the EUR 80-90M range. Petreven is also expected to increase revenue as two additional rigs should be up and running by the year-end, while the Soilmec recovery should be gradual, being strongly related to the European markets. As for the Mosul dam project, management said it is difficult to foresee the timing of a possible order while negotiations are still in progress;
- in terms of profitability, management specified that the 4Q10A exceptionally low profitability for Drillmec was attributable to the delivery timing of the order for Saipem. Such a profitability level is therefore not meaningful for the future. The profitability lost in 4Q10 should be recovered in the first part of this year;
- management said that the 2011 group investments could almost double compared to the compressed level of 2010 (EUR 41M). It should be specified that the amount of investment necessary in 2011 to support the group's organic growth should be around EUR 65M, while eventual additional investments would probably imply some acquisitions;
- finally, management specified that the company has no exposure to Japan.

Based on the points discussed during the conference and on the announced results, we adopt a more optimistic view on the group's ability to improve its 2011E-12E top line thanks to the faster than estimated growth of Petreven, the slightly higher than expected 2010 order backlog for Trevi, and the growing confidence in the fact that the huge Drillmec soft backlog could produce a relevant order inflow for the division in the next few months. At the same time, following the 2010A disappointing consolidated operating profitability we cut our 2011E-12E EBITDA margin forecasts for Soilmec and Trevi. We believe that Soilmec profitability recovery will be gradual in 2011E due to the cost for its geographical expansion in the Far East (in particular China and India), whose benefits are expected by 2012E, while we expect that Trevi's profitability is unlikely to grow above the 2010 level due to the smaller average size of the ongoing projects and to the start-up phase of some works. We increase our 2011E-12E annual capex forecasts by EUR 12.5M to EUR 65M and marginally increase the expected 2011E tax rate to 32.9% vs. our previous forecast of 32.5%. Note that the eventual positive conclusion of the important ongoing negotiations in the ground engineering business is not currently considered in our 2011E-12E forecasts, and there are additional growth opportunities which could arise form the Soilmec enhancement in Brazil, India and China.

The main drivers for our 2011E-12E forecast changes are as follows:

- We revise upwards the group top line estimates for 2011E-12E by 4.6% and 5.9% respectively, mainly to factor-in a stronger than previously estimated growth for Drillmec and Petreven;
- We reduce our group 2011E-12E EBITDA margin forecasts by 160bps and 120bps respectively, mainly as a result of the disappointing 2010 results and of a slower than previously estimated recovery of the Soilmec profitability ;

- We increase our 2011E-12E net debt forecasts to EUR 374M (+EUR 42M vs. previous estimate) and EUR 340M (+EUR 52M) respectively, as a result of the lower estimated gross cashflow and the higher capex level. We highlight that the expected change in the Drillmec business model towards the supply of complete projects, generally contemplating payment on delivery, could generate a sew tooth dynamic on the group's NWC, in spite of its ability to generate free cashflow. Note that our net debt forecasts do not include the possible conversion of the convertible bond with a maturity date at November 2011 and a strike price of EUR 11.30/Trevi share, for which the company could ask the conversion, paying in cash only the difference between the strike price and the market stock price. Should this be the case, gross proceeds from the conversion would amount to EUR 70M less the eventual difference paid in cash, and the newly issued shares would number 6.19M.

Below we illustrate our new consolidated and divisional estimates:

Trevi – 2011E-12E estimate changes

	FY11E			FY12E		
EUR M	New	Old	% chg.	New	Old	% chg.
Revenues	1,049.9	1,004.1	4.6	1,096.7	1,035.9	5.9
EBITDA	152.2	161.6	-5.8	164.1	167.4	-2.0
Margin (%)	14.5	16.1		15.0	16.2	
EBIT	101.7	111.9	-9.1	111.4	117.2	-4.9
Margin (%)	9.7	11.1		10.2	11.3	
Pre-tax income	86.8	97.4	-10.9	96.8	104.5	-7.4
Net Income	58.3	65.8	-11.4	64.9	70.6	-8.0

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Trevi - 2011E-12E divisional sales and profitability

EUR M	2010A/E	yoy%	% on sales	2011E	yoy%	% on sales	2012E	yoy%	% on sales
Special foundations works	405	-18	42	429	6	41	437	2	40
Drilling services	80	39	8	100	26	10	116	16	11
Machines for foundations works	184	-1	19	193	5	18	199	3	18
Drilling machinery	285	-5	30	328	15	31	344	5	31
Group Revenue	953	-8		1050	10		1097	4	

EBITDA per B.U.

EUR M	2010A/E	yoy%	% on EBITDA	2011E	yoy%	% on EBITDA	2012E	yoy%	% on EBITDA
Special foundations works	75	-39	54	79	6	52	81	2	49
% margin	18.5			18.5			18.5		
Drilling services	19	45	14	24	26	16	28	16	17
% margin	24.0			24.0			24.0		
Machines for foundations works	14	-14	10	14	6	10	17	17	10
% margin	7.4			7.5			8.5		
Drilling machinery	30	-1	22	34	15	23	38	11	23
% margin	10.5			10.5			11.0		
Group EBITDA	137	-24		152	11		164	8	
% margin	14.4			14.5			14.9		

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Valuation

DCF based sum-of-the-parts valuation

DCF-based SOP valuation of EUR 11.10/share

Our updated sum-of-the-parts valuation is based on a DCF model of the drilling and construction businesses, which points to a fair value of EUR 11.10/share, down vs. our previous EUR 11.50/share valuation. This is mainly due to the reduction in our 2011E-12E EBITDA forecasts, and to the increase in the expected group investments. In addition, compared to our previous calculation we increase the equity risk premium to 5.75% (5.5%) while the risk-free rate remains at 4%. We highlight that our SOP value-per-share calculation does not assume the exercise of the conversion option, currently out of the money, attached to the convertible bond issued at the end of November 2006, and with a maturity date at November 2011 and a strike price of EUR 11.30/Trevi share.

Trevi - SOP valuation based on DCF

Company Division	Valuation Method	EUR M
EV Construction related business	DCF model	605
EV Drilling related business	DCF model	500
Total EV		1105
Net Debt as at Dec.31,2010		396
Other assets/liabilities		0
SOP Value		709
n° of shares (M)		64
Fair Value/sh. (EUR)		11.1
Current Share Price (EUR)		9.5
Upside(+)/Downside(-) potential		17.4

Source: Intesa Sanpaolo Research estimates

Peers comparison-based sum-of-the-parts valuation

Peers comparison-based SOP valuation of EUR 10.90/share

We also value Trevi Group with a SOP valuation based on a 2011E EV/EBITDA peers comparison. We split the drilling division into drilling services (Petreven) and oil services equipment (Drillmec), and the foundation division into special foundation works (Trevi), and machines for foundation works (Soilmec). We highlight that in the Trevi and Soilmec enterprise value calculation included in our group sum-of-the-parts model we use the 2011E EV/EBITDA multiples of Bauer, which we consider the most similar peer based on its size and perimeter of activity.

Construction works and equipment peers' multiples

	EV/EBITDA	
	2011E	2012E
Skanska	5.0	7.5
Hochtief AG	4.3	4.0
Bilfinger & Berger AG	7.4	6.4
Fomento Const y Contr(Fcc	7.8	7.4
Vinci	6.8	6.3
Keller	5.3	4.5
Bauer	5.6	5.4
Median	5.6	6.3

Source: Facset

Drilling equipment peers' multiples		
	EV/EBITDA	
	2011E	2012E
National Oilwell Varco	9.9	8.0
Cooper Cameron Corp	11.4	9.1
Fmc Technologies Inc	15.8	12.8
Dril Quip	15.2	12.1
Saipem	9.2	7.6
Technip	8.2	6.6
Median	10.7	8.5

Drilling services peers' multiples Drilling services peers' multiples		
	EV/EBITDA	
	2011E	2012E
Transocean Inc	7.1	6.3
Noble Corp	10.8	7.1
Diamond Offshore Drilling	6.8	7.1
Ensco International	8.6	6.1
Pride International	11.2	8.4
Hercules	8.5	8.7
Median	8.6	7.1

Trevi - SOP valuation based on 2010E-11E peers' multiples		
Company Division	Valuation Method	EUR M
EV Special Foundation Works	Peers Comparison	443
EV Drilling Equipment	Peers Comparison	365
EV Drilling Services	Peers Comparison	206
EV Special Foundation Machines	Peers Comparison	81
Total EV		1095
Net Debt December 2010E		396
Other assets/liabilities		0
SOP Value		699
n° of shares (M)		64
Fair Value/sh. (EUR)		10.9
Current Share Price (EUR)		9.2
Upside(+)/Downside(-) potential		18.4%

Our sum-of-the-parts model, based on 2011E peers' multiples, points to a Trevi group valuation of 10.90 EUR/share.

Conclusions

DCF and SOP-based valuations to EUR 11.00/share. ADD rating confirmed

We think the group valuation should be the average of both the DCF-based and 2011E peers' multiples-based SOP valuations. In our opinion, the first method provides a medium-term view and a more objective indication of the group's possible value, while the latter puts our valuation into the current market context. Based on our current estimates and updated market multiples **we increase our target price to EUR 11.00/share (EUR 10.60/share previously)** as a results of a lower DCF valuation which is more than counterbalanced by the positive effect of the higher market multiples in the oil related sectors. Note that our target price is calculated as the arithmetic average of the DCF-based SOP valuation of EUR 11.10/share and the 2011E multiples comparison-based SOP valuation of EUR 10.90/share. We believe that in the short term investors should focus their attention above all on the several ongoing negotiations in both the ground engineering and the drilling machines business. In our opinion these could be the trigger for a further stock appreciation. Based on the potential price upside of 15.7% **we confirm our ADD rating.**

Key risks

Among the investment risks we highlight that: 1) visibility for the group's 2011E earnings is still not complete; 2) the company's bottom line appears to be sensitive to the USD exchange rate, to which it is generally positively correlated.

Trevi - Key figures

			Ordinary		Rating
Sector	Construction	Mkt price EUR/Share	9.50		**ADD**
REUTERS CODE	TFI.MI	Target price EUR/Share	11.00		
Values per share (EUR)		2009A	2010A	2011E	2012E
No. ordinary shares (M)		64.0	64.0	64.0	64.0
No. NC saving/preferred shares (M)		-	-	-	-
Total no. of shares (M)		64.0	64.0	64.0	64.0
Adj. EPS		1.3	0.7	0.9	1.0
CFPS		1.3	1.4	1.6	1.8
BVPS		4.7	5.5	6.3	7.2
Dividend Ord		0.1	0.130	0.130	0.135
Dividend SAV Nc		-	-	-	-
Income statement (EUR M)		2009A	2010A	2011E	2012E
Sales		1,035.8	952.9	1,049.9	1,096.7
EBITDA		181.8	137.3	152.2	164.1
EBIT		117.4	84.3	101.7	111.4
Pre-tax income		104.6	70.2	86.8	96.8
Net income		82.2	46.4	58.3	64.9
Adj. net income		82.2	46.4	58.3	64.9
Cash flow (EUR M)		2009A	2010A	2011E	2012E
Net income before minorities		-	45.7	58.3	64.9
Depreciation and provisions		-	45.3	46.8	49.0
Change in working capital		-	5.4	-10.7	-6.6
Operating cash flow		-	96.4	94.4	107.3
Capital expenditure		-	-51.9	-65.0	-65.0
Other (uses of Funds)		-	11.0	-	-
Free cash flow		-	55.5	29.4	42.3
Dividends and equity changes		-	-7.7	-8.3	-8.3
Net cash flow		-	47.8	21.1	34.0
Balance sheet (EUR M)		2009A	2010A	2011E	2012E
Net capital employed		759.7	762.5	791.3	814.0
of which associates		-	-	-	-
Net debt/-cash		443.8	396.0	374.9	340.9
Minorities		13.7	12.4	12.4	12.4
Net equity		302.2	354.2	404.1	460.7
Market cap		590.1	590.1	590.1	590.1
Minorities value		9.5	8.1	7.1	6.2
Enterprise value (*)		1,043.3	994.2	972.1	937.2
Stock market ratios (x)		2009A	2010A	2011E	2012E
Adj. P/E		7.18	12.73	10.13	9.09
P/CEPS		7.18	6.44	5.62	5.18
P/BVPS		1.95	1.67	1.46	1.28
Dividend yield (% ord)		1.30	1.41	1.41	1.46
Dividend yield (% sav)					
EV/sales		1.01	1.04	0.93	0.85
EV/EBITDA		5.74	7.24	6.39	5.71
EV/EBIT		8.89	11.79	9.56	8.41
EV/CE		1.37	1.30	1.23	1.15
D/EBITDA		2.44	2.89	2.46	2.08
D/EBIT		3.78	4.70	3.69	3.06
Profitability & financial ratios (%)		2009A	2010A	2011E	2012E
EBITDA margin		17.55	14.40	14.50	14.96
EBIT margin		11.33	8.85	9.69	10.16
Tax rate		100.00	34.92	32.92	32.92
Net income margin		7.93	4.86	5.55	5.92
ROE		27.18	13.09	14.42	14.09
Debt/equity ratio		1.40	1.08	0.90	0.72
Growth (%)			2010A	2011E	2012E
Sales			-8.00	10.17	4.46
EBITDA			-24.50	10.89	7.82
EBIT			-28.16	20.60	9.60
Pre-tax income			-32.92	23.74	11.43
Net income			-43.57	25.66	11.43
Adj. net income			-43.57	25.66	11.43

(*) EV = Mkt cap+ Net Debt + Minorities Value - Associates A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Notes

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ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
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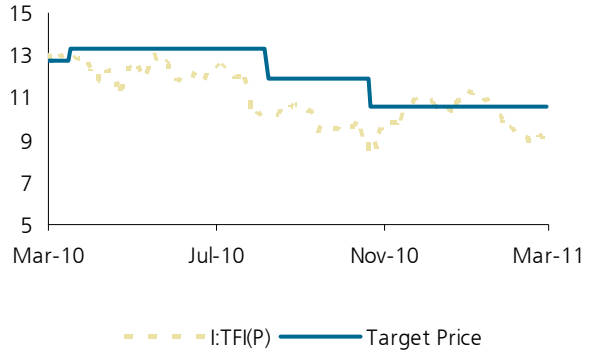
Historical recommendations and target price trends (long-term horizon: 12M)

Target price and market price trend (-1Y)



Historical recommendations and target price trend (-1Y)

Date	Rating	TP	Mkt Price
14-Apr-10	HOLD	13.30	13.20
6-Sep-10	ADD	11.90	10.05
19-Nov-10	ADD	10.60	8.88

Equity rating allocations (long-term horizon: 12M)

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Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
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