BANCA IMI

Equity Company Note

Trevi

Lower Net Debt and Comforting Backlog in 1H11A

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	147.37	159.04
EBIT	EUR M	84.31	96.86	106.37
Net income	EUR M	46.36	49.94	60.66
Dividend ord.	EUR	0.13	0.13	0.14
Adj. EPS	EUR	0.72	0.78	0.95
EV/EBITDA	x	6.54	6.01	5.38
Adj. P/E	x	10.69	9.92	8.17

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

- **2Q/1H11A results.** The group's 2Q/1H11A results were in line with our forecasts for the top line, operating profitability and pre-tax income. Net income was instead negatively impacted by higher than expected taxes mainly attributable to the unfavourable geographical profit mix. At the end of last June the group reduced its net debt to EUR 334M vs. EUR 406.4M at 31 March 2011, mainly thanks to a lower NWC. The order backlog remained quite strong at EUR 940.2M vs. EUR 986.4M at end-March 2011 and EUR 788.4M at 31 December 2010. The 2Q11A and 1H11A order inflow amounted to EUR 211.5M and EUR 626.4M respectively, compared to EUR 148.1M and EUR 388.9M in 2Q10 and 1H10. Overall, we believe that in 1H11 Trevi continued to leverage 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**. Based on the existing order backlog and on our expectations of a EUR 1Bn backlog by year-end, we believe that the company's guidance for a second half top line and operating profitability above the 1H11 level are well grounded, and that the 2012 earnings visibility should remain quite good. In the last few months the group has continued to leverage on its traditional strong points, expanding its presence in new markets and product segments and maintaining a selective approach for new tenders in the ground engineering business. Therefore, we would expect that from 2H11E the group's operating profitability should gradually recover driven by the growth of the Mechanical divisions and thanks to the stabilisation of the ground engineering business, following the sharp revenue slowdown in important areas such as the Middle East and Africa in the last two years. We believe that in the short term investors should focus their attention on the several ongoing negotiations in both the ground engineering and the drilling machines business, also in light of the group's recent announcement that it has presented the best economic offer for the Mosul dam consolidation works in Iraq.

- **Estimates and valuation**. Based on the 1H11 results we leave our top line forecasts unchanged but revise downwards the group's 2011E-12E profitability estimates by 3.2% and 3.1% respectively for EBITDA, and by 14.3% and 6.6% for net income. Based on our DCF-based and 2011E-12E peers multiples-based SOP valuations, **we reduce our target price to EUR 9.90/share (EUR 12.06/share previously).** However, considering the increased price upside caused by the market conditions, and the several business opportunities under discussion, **we upgrade the stock from Add to BUY.**

- **Key risks**. Among the investment risks we highlight that the company's bottom line appears to be sensitive to the USD exchange rate, to which it is generally positively correlated.

8 September 2011

BUY (from Add)

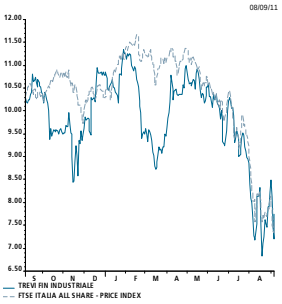
Target Price: EUR 9.90. (from EUR 12.06)

Building & Materials Company Update

Intesa Sanpaolo Research Department

Bruno Permutti
Research Analyst
+39 02 8794 9819

Price performance, -1Y



Source: Thomson Reuters

Data priced on 07.09.2011	
Target price (€)	9.90
Target upside (%)	27.91
Market price (€)	7.74
52-week range (€)	11.3/6.8
Market cap (€ M)	495.36
No. of shares (M)	64.00
Free float (%)	32.85
Major shareholder (%)	D. Trevisani 52.5
Reuters	TFI.MI
Bloomberg	TFI IM
FTSE It All Shares	15531

Performance %			
Absolute		Rel. to FTSE All Sh	
-1M	1.0	-1M	8.2
-3M	-24.1	-3M	3.1
-12M	-24.9	-12M	1.0

Source: Intesa Sanpaolo Research estimates and Thomson Reuters

See page 13 for full disclosures and analyst certification

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2Q/1H11A Results

The group's 2Q/1H11A results were in line with our forecasts for the top line, operating profitability and pre-tax income. Net income was instead negatively impacted by higher than expected taxes mainly attributable to the unfavourable geographical profit mix. At the end of June the group reduced its net debt to EUR 334M vs. EUR 406.4M at 31 March 2011, while the order backlog remained quite strong at EUR 940.2M vs. EUR 986.4M at end-March 2011 and EUR 788.4M at 31 December 2010. The 2Q11A and 1H11A order inflow amounted to EUR 211.5M and EUR 626.4M respectively, compared to EUR 148.1M and EUR 388.9M in 2Q10 and 1H10. Overall, we believe that in 1H11 Trevi continued to leverage 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 - 2Q/1H11A results

	2Q11A	2Q11E	vs. est. %	2Q10A	yoy %	1H11A	1H11E	vs. est. %	1H10A	yoy %
Revenues	257.6	246.7	4.4	217.7	18.3	474.5	463.7	2.3	452.7	4.8
EBITDA	32.8	33.4	-1.9	30.1	8.8	64.8	65.4	-1.0	68.9	-5.9
Margin (%)	12.7	13.5		13.8		13.7	14.1		15.2	
EBIT	21.0	20.5	2.7	17.6	19.2	41.3	40.8	1.3	43.5	-5.1
Margin (%)	8.2	8.3		8.1		8.7	8.8		9.6	
Pre-tax income	16.0	16.8	-4.9	14.4	10.7	28.4	29.3	-2.8	37.7	-24.6
Net Income	7.7	11.3	-31.4	7.9	-2.1	15.3	18.9	-18.7	23.3	-34.2

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

Trevi - 2Q/1H11A results by business division

EUR M	2Q11A	% on sales	yoy %	2Q10A	% on sales	1H11A	% on sales	yoy %	1H10A	% on sales
Machines for foundations works	58.3	22.6	11.5	52.3	24.0	108.9	22.9	18.9	91.5	20.2
Drilling machinery	91.9	35.7	104.1	45.0	20.7	149.0	31.4	22.3	121.9	26.9
Elisions	-0.5	-0.2	NM	-0.4	-0.2	-2.2	-0.5	NM	-0.7	-0.2
Mechanical Division	**149.8**	**58.1**	**54.5**	**96.9**	**44.5**	**255.7**	**53.9**	**20.2**	**212.7**	**47.0**
Drilling services	22.0	8.5	10.3	20.0	9.2	44.0	9.3	23.8	35.6	7.9
Special foundations works	101.6	39.4	-5.3	107.2	49.3	199.8	42.1	-6.8	214.3	47.3
Elisions	-1.5	-0.6	NM	-1.6	-0.7	-3.5	-0.7	NM	-3.0	-0.7
Services Division	**122.1**	**47.4**	**-2.8**	**125.6**	**57.7**	**240.3**	**50.6**	**-2.6**	**246.9**	**54.5**
Parent Company	3.0	1.2	-10.2	3.4	1.5	6.1	1.3	-12.3	6.9	1.5
Elisions	-17.3	-6.7	NM	-8.2	-3.8	-27.6	-5.8	NM	-13.7	-3.0
Consolidated Sales	**257.6**		**18.3**	**217.7**		**474.5**		**4.8**	**452.7**	

A: actual; Source: Company data

The yoy comparison shows that the strong top line recovery in the April-June period allowed the group to increase consolidated sales in 1H11, while the group's operating profitability, even if benefiting in absolute terms from the 2Q11 revenue increase, remained subdued in terms of marginality. We would also point out that the group's 1H11A value of production increased by 14.8% yoy mostly thanks to a higher volume of work in progress which should confirm the top line acceleration expected in the second half of the year. On this point, management confirmed that its FY11 revenue target is above EUR 1Bn. With regards the individual divisions, we highlight that in 1H11A all the group's business improved in terms of sales yoy with the exception of the ground engineering division, as the lower level of activity in the Middle East and Africa was not completely offset by the positive performance in the domestic market, North America and Latin America. The award of the Cityringen Metro project in Copenhagen, due to start soon, and the new contracts won in West Africa and Algeria in 2Q11 should in any case represent a good premise for the Trevi division's performance in the second half of the year. Petreven (+23.8% yoy), whose business is less cyclical, regularly provided its drilling services in Venezuela, Perù, Argentina, Colombia and Chile, and confirmed a sound growth path driven by a growing number of operating rigs. We highlight that in the first months of the year Petreven started operations on its twelfth rig, compared to the 10 rigs operating at June 2010, adding the promising Chilean market to its geographical diversification and laying the foundation for the yoy growth expected in 2011E. Looking at the Mechanical divisions, Soilmec, the first to be impacted by the crisis since 1Q09, showed a good sales increase driven by demand for medium range equipment as commercial and residential constructions started to recover. For Drillmec,

we would highlight that in 2Q11 the drilling machinery division started to reap the benefits of the relevant order inflow of the first months of the year (approximately USD 400M) and reached quarterly sales before elisions of EUR 91.9M, thus confirming the guidance of growing production volumes from the second quarter of the year.

The group showed a 1H11A decline in the EBITDA margin of 150bps (13.7%) compared to the corresponding period last year, entirely due to the lower profitability of the Services business and in spite of the slight improvement shown by the Mechanical divisions. Note that Soilmec operating profitability, even if gradually improving, continued to suffer from the tough market environment and from the costs for entering new markets (in particular Brazil, India and China) and product segments, while Drillmec showed an EBITDA margin above 13%, supported by the conclusion of the Saipem-Kazakhstan project and by the good quality of the order backlog. The Services business registered a 1H11A EBITDA margin of 16.2% with a decline of 250bps compared to 1H10 which we believe was mainly attributable to Trevi, whose profitability remained outstanding compared to its peers, but suffered from the lower average size and the start-up phase of the processed orders.

Below the EBIT line, we highlight that the group posted foreign exchange losses of EUR 4.38M, essentially related to the weak USD at 30 June 2011 (1.4478). Management pointed out that most of such losses are unrealised and could therefore vary in the next quarters depending on the USD exchange rate. The group's 1H11A net profit was below our forecast mainly due to the higher than estimated tax rate which reached 42%, compared to our previous forecast of 32.9% for FY11E. Management blamed the unfavourable geographical profit mix and said that the second half of the year should register a lower tax rate. However, according to the company, this is unlikely to decline below the 35-36% range for the whole year.

Trevi - Quarterly division sales and operating profitability

EUR M	1Q10A	2Q10A	1H10A	3Q10A	4Q10A	FY10A	1Q11A	2Q11A	1H11A	yoy %
Machines for foundations works	39.2	52.3	91.5	42.5	68.3	202.3	50.6	58.3	108.9	18.9
Drilling machinery	76.8	45.0	121.9	89.0	77.5	288.4	57.1	91.9	149.0	22.3
Elisions	-0.3	-0.4	-0.7	-1.7	-2.8	-5.3	-1.7	-0.5	-2.2	NM
Mechanical Division	**115.8**	**96.9**	**212.7**	**129.7**	**143.0**	**485.4**	**105.9**	**149.8**	**255.7**	**20.2**
Drilling services	15.6	20.0	35.6	22.5	21.8	80.0	22.0	22.0	44.0	23.8
Special foundations works	107.1	107.2	214.3	94.3	111.0	419.5	98.2	101.6	199.8	-6.8
Elisions	-1.4	-1.6	-3.0	-1.6	-1.4	-6.1	-2.0	-1.5	-3.5	NM
Services Division	**121.3**	**125.6**	**246.9**	**115.2**	**131.4**	**493.4**	**118.2**	**122.1**	**240.3**	**-2.6**
Parent Company	3.6	3.4	6.9	3.6	3.9	14.5	3.1	3.0	6.1	-12.3
Elisions	-5.5	-8.2	-13.7	-12.1	-14.5	-40.3	-10.3	-17.3	-27.6	NM
Consolidated Sales	**235.0**	**217.7**	**452.7**	**236.4**	**263.8**	**952.9**	**216.9**	**257.6**	**474.5**	**4.8**
Services Division										
Added Value	55.8	47.0	102.8	53.8	55.9	212.5	49.5	53.8	103.3	0.4
%	46.0	37.5	41.7	46.7	42.6	43.1	41.9	44.0	43.0	
EBITDA	29.2	17.1	46.3	24.3	24.9	95.6	18.5	20.4	39.0	-15.8
%	24.1	13.6	18.7	21.1	19.0	19.4	15.7	16.0	16.2	
EBIT	19.2	8.4	27.5	13.0	16.9	57.4	10.4	11.9	22.3	-19.0
%	15.8	6.7	11.1	11.3	12.9	11.6	8.8	9.7	9.3	
Mechanical Division										
Added Value	21.7	24.2	46.0	27.0	20.6	93.6	27.0	29.7	56.7	23.4
%	18.8	25.0	21.6	20.8	14.4	19.3	25.5	19.8	22.2	
EBITDA	9.4	14.0	23.4	14.3	6.1	43.8	14.0	14.8	28.8	23.3
%	8.1	14.4	11.0	11.0	4.3	9.0	13.2	9.5	11.3	
EBIT	7.0	10.6	17.5	11.2	1.8	30.5	10.7	11.7	22.4	27.6
%	6.0	10.9	8.3	8.6	1.2	6.3	10.1	7.8	8.8	

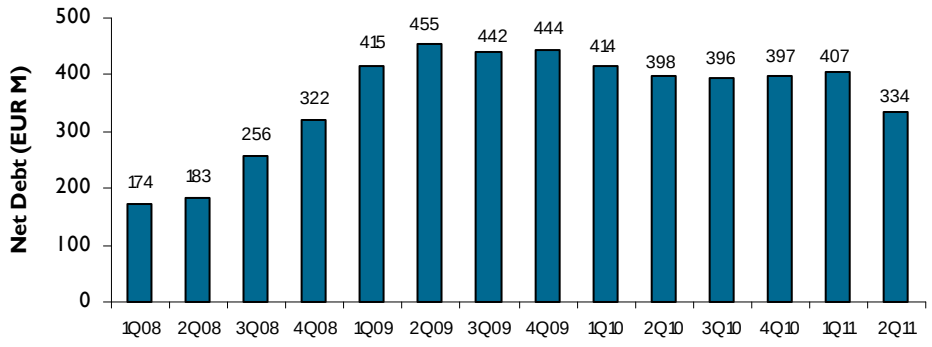
A: actual; Source: Company data

NFP

The group's end-June 2011A net debt amounted to EUR 334M, with a substantial improvement compared to the EUR 406M at end-March 2011 driven by a reduction in 2Q11A NWC of EUR 88.5M. In the April-June period, the group registered an increase in trade payables of EUR 61.1M and a decline in inventories of EUR 21.6M as the lower stock of finished goods more than offset the increase in the purchases of components to feed the growing production levels of Drillmec and Soilmec. The group's 2Q11A net investments amounted to EUR 23.1M with an

acceleration compared to the EUR 13.4M of the first quarter and EUR 23M in 1H10. This is consistent with the previous guidance for an increase in the 2011 capex level compared to 2010 (EUR 43M) and with our 2011E capex forecast of EUR 65M.

Trevi - Quarterly net debt 2008A-1H11A



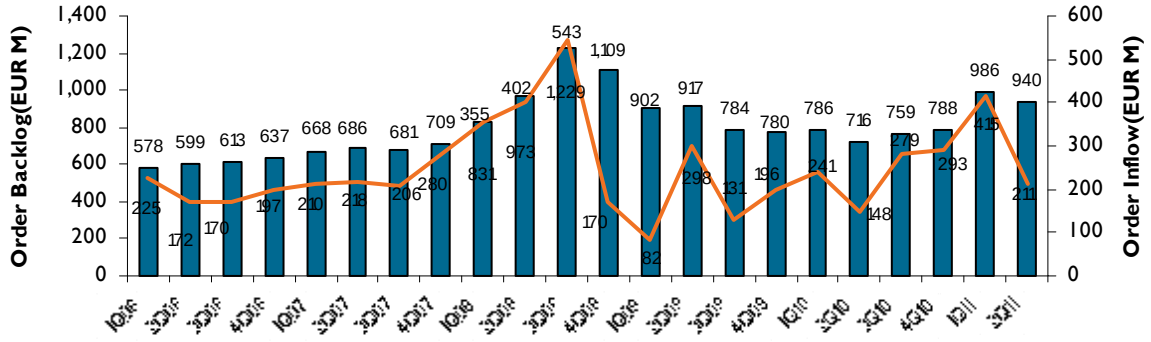
A: actual; Source: Company data

Order backlog

Strong order inflow in the first half

There was good news from the order backlog which at 30 June 2011 reached EUR 940.2M, showing a slight decrease compared to end-March 2011 (EUR 986M) but a significant increase vs. the corresponding period of last year (EUR 716.4M at 30 June 2010). According to the company, approximately 50% of the 1H11 backlog will be processed in the second half of the year. The 1H11A order inflow amounted to EUR 626M, in our opinion quite a good level compared to EUR 389M in 1H10 and EUR 572M in 2H10. Management confirmed that the soft backlog is high, particularly for Drillmec and Trevi, and this gave encouragement to our expectation of an order backlog of around EUR 1Bn by year-end. We would also highlight that in the month of August the ground engineering division (Trevi) was awarded a contract worth approximately EUR 90M for the Cityringen Metro in Copenhagen while Drillmec introduced its HH series hydraulic equipment in Eastern Europe winning a tender to supply a leading Russian client. According to management, there are several negotiations underway, above all in the ground engineering services and in the drilling machines divisions. In this regard we would highlight that the contracts signed by Drillmec in 1Q11, for a total of approx. USD 400M (including USD 105M with PeMex (Mexico), USD 212M with GUMUS (Turkey), USD 39M with GREKA Drilling (China), and EUR 10M with Seismotekhnika (Belarus)) included options for the purchase of additional drilling plants for a total of USD 350M, and significantly enhanced the drilling equipment company's geographical and client diversification.

Trevi - Quarterly order backlog 2006A-2Q11A



A: actual; Source: Company data

Trevi - Order backlog in 2008A-1H11A

EUR M	Backlog 1H08A	Backlog FY08A	Backlog 1H09A	Backlog FY09A	Backlog 1H10A	Backlog FY10A	Backlog 1Q11A	Backlog 1H11A	% vs. March 2011A
Machines for foundations works(Soilmec)	127	67	28	31	57	55	69	75	8.9
Drilling machinery(Drillmec)	263	299	266	203	158	102	326	310	-4.7
Mechanical Divisions	**389**	**366**	**293**	**234**	**215**	**158**	**395**	**385**	**-2.3**
Drilling services(Petreven)	78	111	92	94	129	158	158	141	-10.6
Special foundations works(Trevi)	506	632	532	453	373	473	434	414	-4.7
Services Divisions	**584**	**743**	**624**	**546**	**501**	**631**	**592**	**555**	**-6.3**
Group Total	**973**	**1109**	**917**	**780**	**716**	**788**	**986**	**940**	**-4.7**

A: actual; Source: Company data

Earnings Outlook

Trevi presented the best economic offer for the Mosul dam works

- **Backlog.** We expect the group's order backlog to reach EUR 1Bn by year-end. According to our 2H11E revenue forecasts this would imply an order inflow of approximately EUR 460M in 2H11E which compares to an average quarterly order inflow of EUR 239M in the last 2 years. In addition, management signalled that the soft backlog for Trevi and Drillmec and Soilmec continued to be quite strong and this should strengthen expectations that our 2011E backlog estimate will not be missed. Management also said that in 1H11 Trevi presented the best economic offer for the Mosul dam consolidation works in Iraq (a contract whose worth is estimated at approximately USD 2Bn) and that the outcome of the technical assessment is expected in the next few months. An eventual awarding of the project is not currently factored-in our estimates and would completely change the group's top line and profitability growth profile in the coming years;

- **Top line.** Management pointed out that in 1H11, the group's value of production (+14.8% yoy) increased significantly more than consolidated sales (+4.8% yoy), as a result of the important preparatory activity carried out during the period. In addition, the company expects 2H11 revenue to be much higher than 1H11 and confirmed its target of 2011 revenue above EUR 1Bn. Based on the order backlog at 30 June 2011, we believe that management's expectations are feasible and we therefore confirm our 2011E-12E revenue forecasts for the group;

- **Operating profitability.** The company stated that the group second half operating profitability should be higher than the first six months thanks to a better sales mix, improved performance from the Mechanical divisions, and to a lesser extent to the selective acquisition policy in the ground engineering business. We believe that both Drillmec and Petreven should contribute to improving the group's sales mix and operating profitability in the July-December period as the former should start to deliver the relevant orders won in the first quarter of the year, while for Petreven, 2 additional drilling rigs are planned to be up and running by the year-end. We also believe that Soilmec's profitability should gradually recover as a result of an improving top line and management's efforts to address new markets and product segments. As for Trevi, based on the 1H11A results, we no longer believe that the division will be able to reach a FY11E operating profitability close to last year outstanding level. However, we would expect that the second half of the year could see the benefits from the new orders won in West Africa, Algeria and Denmark (the Cityringen Metro project in Copenhagen), which should grant a quite high profitability. Overall, in our model we slightly improved our 2011E-12E operating profitability forecasts in the Mechanical divisions and reduced our Trevi division EBITDA margin estimates. At the consolidated level this resulted in a reduction of our group 2011E-12E EBITDA forecasts by 3.2% and 3.1% respectively.

- **Net income.** The group posted 1H11A foreign exchange losses of EUR 4.38M, essentially related to the weak USD at 30 June 2011 (1.4478). Management pointed out that most of such losses are unrealised and could therefore vary in the next few quarters depending on the USD exchange rate. In addition, in the first half of the year the group tax rate reached 42%, well above the 32.9% we were forecasting for the whole year. Management blamed the unfavourable geographical profit mix and stated that the second half of the year should register a lower tax rate. However, according to the company, it should not decline below the 35%-36% range in 2011 and 33%-34% next year. Therefore, we cut our 2011E-12E net income forecasts by 14.3% and 6.6% respectively, to factor-in the slightly lower operating profitability, the assumed 2011E forex losses based on the 1H11A indications, and the higher tax burden compared to 32.9% as previously estimated.

- **Net debt.** In spite of the positive performance in the first six months of the year, conservatively we slightly increased our 2011E-12E group net debt forecasts to reflect the lower net income forecasts. In fact, the 1H11 improvement was entirely related to the lower net working capital, an effect that we estimate to be reversed by the year-end along with the increasing activity estimated for Drillmec. We would highlight that our current net debt forecasts do not include the potential bond conversion by November 2011.

Our updated group forecasts are illustrated in the tables below:

Trevi - 2011E-12E estimates revision						
EUR M	FY11E			FY12E		
	New	Old	% chg.	New	Old	% chg.
Revenues	1,049.9	1,049.9	0.0	1,096.7	1,096.7	0.0
EBITDA	147.4	152.2	-3.2	159.0	164.1	-3.1
Margin (%)	14.0	14.5		14.5	15.0	
EBIT	96.9	101.7	-4.7	106.4	111.4	-4.5
Margin (%)	9.2	9.7		9.7	10.2	
Pre-tax income	77.4	86.8	-10.8	91.2	96.8	-5.7
Net Income	49.9	58.3	-14.3	60.7	64.9	-6.6

E: estimates; Source: Intesa Sanpaolo Research

Trevi - 2010A/E-2012E revenue and EBITDA by business unit									
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.	2010A/E	yoy %	% on EBITDA	2011E	yoy %	% on EBITDA	2012E	yoy %	% on EBITDA
Special foundations works	75	-39	54	69	-8	47	72	5	45
% margin	18.5			16.0			16.5		
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	11	-22	7	14	31	9
% margin	7.4			5.5			7.0		
Drilling machinery	30	-1	22	44	48	30	46	5	29
% margin	10.5			13.5			13.5		
Group EBITDA	137	-24		147	7		160	9	
% margin	14.4			14.0			14.6		

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 10.79/share diluted for bond conversion (EUR 13.44/share previously)

Our updated DCF based sum-of-the-parts valuation is calculated on DCF models of the drilling and construction businesses, which point to a fair value of EUR 10.79/share, down vs. our previous EUR 13.44/share valuation as a result of the increased risk-free rate (from 4% to 4.75%) and the estimates revision detailed above. We highlight that we assumed the exercise of the conversion option, currently out of the money, attached to the convertible bond issued at the end of November 2006 with a maturity date in November 2011, and a strike price of EUR 11.30/Trevi share. In fact, the company expressed its intention to convert the bond, paying the difference between the strike and market price in cash which we assumed at EUR 3.56/share (EUR 0.85/share in our previous valuation) based on the current stock price (EUR 7.74/share).

Trevi - SOP valuation based on DCF

Company Division	Valuation Method	EUR M
EV Construction related business	DCF model	421
EV Drilling related business	DCF model	684
Total EV		1106
Net Debt as at Dec. 31, 2010		396
Estimated proceed from bond conversion		48
SOP Value		758
Post-conversion n° of shares (M)		70
Fully Diluted Fair Value/sh. (EUR)		10.79
Current Share Price (EUR)		7.7
Upside(+)/Downside(-) potential %		39.4

Source: Intesa Sanpaolo Research estimates

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

Peers comparison-based SOP valuation diluted for bond conversion of EUR 8.94/share (previous EUR 10.68/share)

We also value Trevi Group with a SOP valuation based on a 2011E and 2012E 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-12E 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	3.2	5.1
Hochtief AG	3.7	2.3
Bilfinger & Berger AG	5.8	5.5
Fomento Const y Contr(Fcc	7.2	7.0
Vinci	5.8	5.5
Keller	4.1	3.6
Bauer	5.0	4.6
Median	5.0	5.1

Source: FactSet

Drilling services peers multiples	EV/EBITDA	
	2011E	2012E
Transocean Ltd.	6.9	5.1
Noble Corp.	9.7	5.9
Diamond Offshore Drilling Inc.	5.6	6.2
ENSCO PLC ADS	8.3	4.5
Hercules Offshore Inc.	8.7	7.4
Median	8.3	5.9

Source: FactSet

Drilling equipment peers multiples	EV/EBITDA	
	2011E	2012E
National Oilwell Varco	7.0	5.3
Cooper Cameron Corp	10.1	7.3
Fmc Technologies Inc	14.2	10.7
Dril Quip	14.9	10.0
Saipem	7.4	6.1
Technip	6.6	5.3
Median	8.8	6.7

Source: FactSet

Trevi - SOP valuation based on 2011E peers multiples		
Company Division	Valuation Method	EUR M
EV Special Foundation Works	Peers Comparison	343
EV Drilling Equipment	Peers Comparison	403
EV Drilling Services	Peers Comparison	206
EV Special Foundation Machines	Peers Comparison	53
Total EV		1005
Net Debt December 2011E		384
Estimated proceed from bond conversion		48
SOP Value post bond conversion		669
Post-conversion n° of shares (M)		70
Fully Diluted Fair Value/share (EUR)		9.53
Current Share Price (EUR)		7.74
Upside(+)/Downside(-) potential %		23.0

Source: Intesa Sanpaolo Research estimates

Trevi - SOP valuation based on 2012E peers multiples		
Company Division	Valuation Method	
EV Special Foundation Works	Peers Comparison	334
EV Drilling Equipment	Peers Comparison	322
EV Drilling Services	Peers Comparison	173
EV Special Foundation Machines	Peers Comparison	64
Total EV		893
Net Debt December 2012E		355
Estimated proceed from bond conversion		48
SOP Value post bond conversion		586
Post-conversion n° of shares (M)		70
Fully Diluted Fair Value/share (M)		8.35
Current Share Price (M)		7.74
Upside(+)/Downside(-) potential %		7.9

Source: Intesa Sanpaolo Research estimates

Our sum-of-the-parts model, based on 2011E-12E peers multiples, points to a Trevi group valuation of EUR 8.94/share (previous EUR 10.68/share).

Conclusions

DCF and Peers' Multiples SOP-based valuations to EUR 9.90/share (EUR 12.06/share previously). Rating from Add to BUY

We think the group valuation should be the average of both the DCF-based and 2011E-12E peers multiples-based SOP valuations. In our opinion, the former method provides a medium-term view and a more objective indication of the group's possible value, while the latter shows our valuation in the current troubled market context. Based on our present estimates, updated market multiples and DCF valuations **we reduce our target price to EUR 9.90/share (EUR 12.06/share previously).** Note that our target price is calculated as the weighted average of the DCF-based SOP valuation (50%) of EUR 10.79/share and the 2011E-12E multiples comparison-based SOP valuation (25% each), and assumes the bond conversion based on a stock price of EUR 7.74/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 27.9%, due also to market conditions, **we upgrade the stock from Add to BUY.**

Key risks

Among the investment risks, we highlight that 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	7.74		**BUY**
REUTERS CODE	TFI.MI	Target price EUR/Share	9.90		
Values per share (EUR)		2009A	2010A	2011E	2012E
No. ordinary shares (M)		64.00	64.00	64.00	64.00
No. NC saving/preferred shares (M)		-	-	-	-
Total no. of shares (M)		64.00	64.00	64.00	64.00
Adj. EPS		1.28	0.72	0.78	0.95
CFPS		1.28	1.43	1.51	1.71
BVPS		4.72	5.53	6.18	7.00
Dividend Ord		0.12	0.13	0.13	0.14
Dividend SAV Nc		-	-	-	-
Income statement (EUR M)		2009A	2010A	2011E	2012E
Sales		1,035.82	952.94	1,049.87	1,096.68
EBITDA		181.81	137.26	147.37	159.04
EBIT		117.36	84.31	96.86	106.37
Pre-tax income		104.63	70.18	77.43	91.21
Net income		82.16	46.36	49.94	60.66
Adj. net income		82.16	46.36	49.94	60.66
Cash flow (EUR M)		2009A	2010A	2011E	2012E
Net income before minorities		-	45.68	49.94	60.66
Depreciation and provisions		-	45.33	46.82	48.97
Change in working capital		-	5.38	-11.92	-6.75
Operating cash flow		-	96.39	84.84	102.87
Capital expenditure		-	-51.89	-65.00	-65.00
Other (uses of Funds)		-	10.99	-	-
Free cash flow		-	55.48	19.84	37.87
Dividends and equity changes		-	-7.68	-8.32	-8.32
Net cash flow		-	47.80	11.52	29.55
Balance sheet (EUR M)		2009A	2010A	2011E	2012E
Net capital employed		759.69	762.51	792.61	815.40
of which associates		-	-	-	-
Net debt/-cash		443.80	396.00	384.48	354.93
Minorities		13.67	12.35	12.35	12.35
Net equity		302.22	354.16	395.78	448.12
Market cap		495.36	495.36	495.36	495.36
Minorities value		7.94	6.78	6.06	5.35
Enterprise value (*)		947.10	898.14	885.90	855.64
Stock market ratios (x)		2009A	2010A	2011E	2012E
Adj. P/E		6.03	10.69	9.92	8.17
P/CEPS		6.03	5.40	5.12	4.52
P/BVPS		1.64	1.40	1.25	1.11
Dividend yield (% ord)		1.55	1.68	1.68	1.74
Dividend yield (% sav)					
EV/sales		0.91	0.94	0.84	0.78
EV/EBITDA		5.21	6.54	6.01	5.38
EV/EBIT		8.07	10.65	9.15	8.04
EV/CE		1.25	1.18	1.12	1.05
D/EBITDA		2.44	2.89	2.61	2.23
D/EBIT		3.78	4.70	3.97	3.34
Profitability & financial ratios (%)		2009A	2010A	2011E	2012E
EBITDA margin		17.55	14.40	14.04	14.50
EBIT margin		11.33	8.85	9.23	9.70
Tax rate		100.00	34.92	35.50	33.50
Net income margin		7.93	4.86	4.76	5.53
ROE		27.18	13.09	12.62	13.54
Debt/equity ratio		1.40	1.08	0.94	0.77
Growth (%)			2010A	2011E	2012E
Sales			-8.00	10.17	4.46
EBITDA			-24.50	7.37	7.91
EBIT			-28.16	14.88	9.82
Pre-tax income			-32.92	10.33	17.80
Net income			-43.57	7.73	21.45
Adj. net income			-43.57	7.73	21.45

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

Notes

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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
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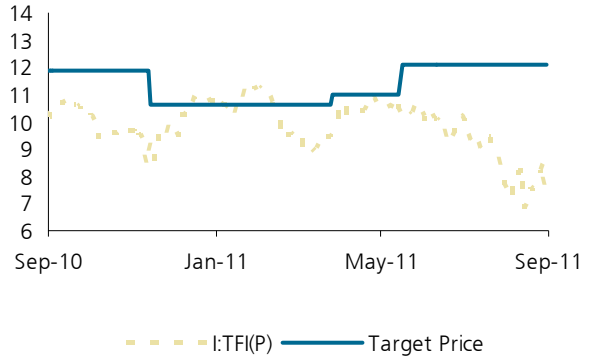
Historical recommendations and target price trends (long-term horizon: 12M)

Target price and market price trend (-1Y)



Historical recommendations and target price trend (-1Y)

Date	Rating	TP	Mkt Price
6-Sep-10	ADD	11.90	10.05
19-Nov-10	ADD	10.60	8.88
1-Apr-11	ADD	11.00	9.50
12-May-11	ADD	11.00	10.61
23-May-11	ADD	12.06	10.45
12-Aug-11	ADD	12.06	7.53

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Total Equity Research Coverage %	38	33	27	1	1
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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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Intesa Sanpaolo Research Department – Head of Research Gregorio De Felice

Head of Equity & Credit Research

Giampaolo Trasi	+39 02 8794 9803	giampaolo.trasi@intesasanpaolo.com

Equity Research

Monica Bosio	+39 02 8794 9809	monica.bosio@intesasanpaolo.com
Luca Bacoccoli	+39 02 8794 9810	luca.bacoccoli@intesasanpaolo.com
Laura Carmignani	+39 02 8794 9813	laura.carmignani@intesasanpaolo.com
Sergio Ciaramella	+39 02 8794 9814	sergio.ciaramella@intesasanpaolo.com
Manuela Meroni	+39 02 8794 9817	manuela.meroni@intesasanpaolo.com
Gian Luca Pacini	+39 02 8794 9818	gianluca.pacini@intesasanpaolo.com
Bruno Permutti	+39 02 8794 9819	bruno.permutti@intesasanpaolo.com
Fabio M. Picardi	+39 02 8794 9820	fabio.picardi@intesasanpaolo.com
Roberto Ranieri	+39 02 8794 9822	roberto.ranieri@intesasanpaolo.com

Corporate Broking Research

Alberto Francese	+39 02 8794 9815	alberto.francese@intesasanpaolo.com
Marta Caprini	+39 02 8794 9812	marta.caprini@intesasanpaolo.com
Serena Polini	+39 02 8794 9821	serena.polini@intesasanpaolo.com

Research Production

Anna Whatley	+39 02 8794 9824	anna.whatley@intesasanpaolo.com
Bruce Marshall	+39 02 8794 9816	robert.marshall@intesasanpaolo.com
Annita Ricci	+39 02 8794 9823	annita.ricci@intesasanpaolo.com
Wendy Ruggeri	+39 02 8794 9811	wendy.ruggeri@intesasanpaolo.com

Banca IMI

Institutional Sales

Nicola Maccario	+39 02 7261 5517	nicola.maccario@bancaimi.com
Carlo Cavalieri	+39 02 7261 2722	carlo.cavalieri@bancaimi.com
Francesca Guadagni	+39 02 7261 5817	francesca.guadagni@bancaimi.com
Robert Meier	+39 02 7261 2158	robert.meier@bancaimi.com
Alberto Sartori	+39 02 7261 5880	alberto.sartori@bancaimi.com
Daniela Stucchi	+39 02 7261 5708	daniela.stucchi@bancaimi.com
Mark Wilson	+39 02 7261 2758	mark.wilson@bancaimi.com

Corporate Broking

Carlo Castellari	+39 02 7261 2122	carlo.castellari@bancaimi.com
Virginia Mortari	+39 02 7261 5853	virginia.mortari@bancaimi.com
Laura Spinella	+39 02 7261 5782	laura.spinella@bancaimi.com

US Institutional Sales

Stephane Ventilato	+1 212 326 1233	stephane.ventilato@bancaimi.com
Jack Del Duca	+1 212 326 1234	jack.delduca@bancaimi.com
Barbara Leonardi	+1 212 326 1232	barbara.leonardi@bancaimi.com
Gregory Halvorsen	+1 212 326 1237	gregory.halvorsen@bancaimi.com

Sales Trading

Roberto Gussoni	+39 02 7261 5929	roberto.gussoni@bancaimi.com
Claudio Manes	+39 02 7261 5542	claudio.manes@bancaimi.com
Lorenzo Pennati	+39 02 7261 5647	lorenzo.pennati@bancaimi.com

Equity Derivatives Institutional Sales

Andrea Martini	+39 02 7261 5977	andrea.martini@bancaimi.com
Emanuele Manini	+39 02 7261 5936	emanuele.manini@bancaimi.com
Massimiliano Murgino	+39 02 7261 2247	massimiliano.murgino@bancaimi.com

Market Hub – Brokerage & Execution

Italian Equities - Sergio Francolini	+39 02 7261 5859	sergio.francolini@bancaimi.com
Foreign Equities - Francesco Riccardi	+39 02 7261 2901	francesco.riccardi@bancaimi.com

Market Hub – Exchange Traded Derivatives

Biagio Merola - Milan	+39 02 7261 2420	biagio.merola@bancaimi.com

Market Hub – @ sales

Giovanni Spotti	+39 02 7261 2339	giovanni.spotti@bancaimi.com

Banca IMI SpA

Largo Mattioli, 3
20121 Milan, Italy
Tel: +39 02 7261 1

Banca IMI Securities Corp.

1 William Street
10004 New York, NY, USA
Tel: (1) 212 326 1230

Banca IMI London Branch

90 Queen Street
London EC4N 1SA, UK
Tel +44 207 894 2600