

Company Update

Hold (maintained)

07 May 2012

MARKET PRICE: **EUR3.98** TARGET PRICE: **EUR3.92 (from EUR5.50)**

Data

Shares Outstanding (m):	70.2
Market Cap. (EURm):	279.7
Enterprise Value (EURm):	699.9
Free Float (%):	53.9%
Av. Daily Trad. Vol. (m):	0.45
Main Shareholder:	Trevisani family 50.2%
Reuters/Bloomberg:	TFI IM
52-Week Range	3.8 – 11.1

Performance

	1m	3m	12m
Absolute	-0.5%	-36.9%	-62.5%
Rel. to Mibtel	8.1%	-26.6%	-43.2%

Financials

(EURm)	2011	2012E	2013E
Revenues	1,061.4	1,137.8	1,171.2
EBITDA	119.0	122.3	146.0
Net Profit	25.7	26.0	40.8
EPS (EUR)	0.37	0.37	0.58
CFPS (EUR)	1.06	1.06	1.28
BVPS (EUR)	6.07	6.20	6.33
DPS (EUR)	0.13	0.13	0.18

Ratios

	2011	2012E	2013E
EBITDA margin	11.2%	10.7%	12.5%
ROI	8.4%	8.1%	11.0%
ROAE	6.6%	6.0%	9.3%
Debt/Equity	0.9	0.9	0.8
Debt/FCFF	-5.8	16.5	9.3

Valuation

	2011	2012E	2013E
P/E (x)	24.0	10.8	6.8
P/CF (x)	8.3	3.8	3.1
P/BV (x)	1.5	0.6	0.6
Dividend Yield	1.5%	3.3%	4.5%
EV/Sales (x)	1.0	0.6	0.6
EV/EBITDA (x)	8.9	5.7	4.6
EV/CE (x)	1.3	0.8	0.8

Source: Centrobanca estimates

Another weak quarter ahead

Although further growth in revenues is expected this year driven mainly by foundation activities which are expected to rise at least by 15% due to new US orders (dam renovation and start-up of the Copenhagen project from August) and Drillmec which benefits from the strong oil price, EBITDA is likely to remain flat, implying lower margins, as Soilmec is suffering from intensifying pressure on prices, particularly in Italy. Clearly, price pressure remains high and recovery is not expected before 2013. Net debt is expected to remain stable at about EUR400 million, despite significant cash inflow (>EUR80 million on rigs already sold in 2011) expected in the next two quarters, and IQ12 is likely to be particularly weak, with significant cash absorption and poor margins, particularly at Soilmec, which experienced a difficult first two months of the year, with slight recovery only in March. We have consequently reduced our EBITDA forecasts by 8% on average ahead of IQ12 results with a negative impact on the bottom line of 27% in 2012 and about 22% in 2013. Our target price has fallen to EUR3.92 from EUR5.50. We keep our Hold recommendation as market consensus is now aligned with Trevi expectations (and therefore we do not expect any further downgrades) while the company now believes it more likely that it will be part of the very substantial Mosul dam contract.

- > We anticipate a further sharp deterioration in the EBITDA margin in IQ12 (results due on 14 May), despite the positive revenues trend (+12% expected). Margins are likely to have been affected by more intense price pressure at Soilmec which is also likely to experience significant payment problems (receivables are now equal to revenues compared with an historical average of 50%) related to continued payment delays by the Italian Government to Trevi's customers. Net profit is therefore expected to be close to breakeven while net debt is forecast to rise to EUR450 million from EUR404 million at Dec-11.
- > A significant share price catalyst could be the Mosul dam project in Iraq: final allocation of the contract is still some way off and the letter of understanding announced by Bauer (the other bidder on the project) last November did not have any follow up. Trevi now believes it has a better chance of being involved in the contract which may be worth about EUR2 billion. Another positive surprise could come from a stronger USD which would lift both revenues and EBITDA as 50% of Trevi's revenues are USD related.
- > Trevi shares are close to their low for the year and now trade at 17% discount to the sector while market consensus has already been lowered. We see no significant downside risk at this point, despite the expected weakness in the first quarter. Hold reiterated.

Analyst

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Figure 1. Trevi – 1Q12 results preview

New orders in the quarter are expected to be weak (book to bill expected to be 33%) leading to a backlog at Mar-12 of EUR0.85 billion. Net debt is likely to be close to EUR450 million, due to NWC absorption related to lower advance payments and lower collection of receivables.

(EURm)	1Q11A	1Q12E	% Chg.
Sales	216.9	242.0	11.6%
o/w Trevi	98.2	100.0	1.8%
o/w Soilmec	50.6	50.0	-1.1%
o/w Petreven	22.0	25.0	13.6%
o/w Drillmec	57.1	80.0	40.1%
EBITDA	32.0	21.0	-34.4%
Margin (%)	14.8%	8.7%	
EBIT	20.3	10.0	-50.7%
Margin (%)	9.4%	4.1%	
Net Result attributable	7.5	1.7	-77.3%

Source: Centrobanca estimates

Figure 2. Trevi – Revised estimates

(EURm)	2011A	2012E		2013E		2014E
		Old	New	Old	New	New
Total Sales	1.061	1.055	1.138	1.114	1.171	1.222
% change			7.9%		5.2%	
EBITDA	119	135	122	153	142	162
% change			-9.5%		-7.0%	
Net Profit	26	35	26	52	41	53
% change			-26.7%		-21.5%	
Net Debt	404	344	390	327	366	345
% change			13.2%		12.2%	
EPS	0.37	0.50	0.37	0.74	0.58	0.75
% change			-26.7%		-21.5%	

Source: Company data, Centrobanca estimates

Figure 3. Trevi – Target price

We have applied a 20% discount to our SOP valuation to reflect the underperformance of Soilmec and Trevi. Our DCF valuation has a higher weighting 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	3.14	40.0%	1.26
DCF	4.44	60.0%	2.66
TARGET PRICE			3.92
Current market price			3.98
% upside (downside)			-1.6%

Source: Centrobanca estimates

Figure 4. Trevi – Peer comparison

Trevi is now trading at an average discount of 17% to the industry and at an 8% discount to Bauer.

	Market (EURm)	P/E		EV/EBITDA		EV/sales	
		2012E	2013E	2012E	2013E	2012E	2013E
Bauer AG	307	8.5 x	6.7 x	5.1 x	4.8 x	0.72 x	0.69 x
Keller Group PLC	341	13.2 x	10.1 x	4.7 x	4.0 x	0.32 x	0.30 x
Saipem	15.369	14.8 x	12.4 x	7.7 x	6.6 x	1.37 x	1.20 x
Technip	9.108	17.7 x	13.8 x	8.2 x	6.0 x	1.03 x	0.84 x
National Oilwell Varco	23.116	11.9 x	10.2 x	6.2 x	4.9 x	1.49 x	1.20 x
Caterpillar	48.980	10.2 x	8.6 x	5.7 x	4.9 x	0.98 x	0.87 x
Astaldi	561	6.7 x	5.9 x	4.1 x	3.8 x	0.46 x	0.43 x
Vinci	19.417	9.6 x	9.2 x	5.8 x	5.4 x	0.85 x	0.81 x
Impreglio	1.202	15.5 x	12.5 x	5.7 x	5.3 x	0.71 x	0.66 x
Maire Tecnimont	204	5.0 x	5.6 x	2.3 x	2.3 x	0.09 x	0.10 x
Median		11.0 x	9.7 x	5.7 x	4.9 x	0.78 x	0.75 x
Trevi	280	10.8 x	6.8 x	5.7 x	4.6 x	0.62 x	0.58 x
Premium (discount)		-2.4%	-29.2%	0.2%	-5.5%	-21.4%	-22.7%

Source: Factset, Centrobanca estimates

Income Statement

(EURm)	2011	2012E	2013E	2014E
Net Revenues	1,061.4	1,137.8	1,171.2	1,222.5
EBITDA	119.0	122.3	146.0	167.0
EBITDA margin	11.2%	10.7%	12.5%	13.7%
EBIT	69.3	70.7	94.7	113.8
EBIT margin	6.5%	6.2%	8.1%	9.3%
Net financial income /expense	-18.0	-25.0	-24.0	-23.0
Associates & Others	0.0	0.0	0.0	0.0
Profit before taxes	51.3	45.7	70.7	90.8
Taxes	-24.2	-18.3	-28.3	-36.3
Minorities & discontinued ops	-1.4	-1.4	-1.6	-1.7
Net Income	25.7	26.0	40.8	52.7

Source: Centrobanca estimates

Balance Sheet

(EURm)	2011	2012E	2013E	2014E
Net working capital	468.3	462.0	454.1	462.1
Net Fixed assets	398.2	407.2	404.2	404.9
M/L term funds	-24.8	-25.2	-27.4	-28.8
Capital employed	841.8	844.1	830.9	838.2
Shareholders' equity	425.8	434.9	444.6	471.8
Minorities	12.1	19.5	20.0	21.2
Shareholders' funds	437.9	454.5	464.6	493.0
Net financial position/(cash)	403.9	389.6	366.3	345.2

Source: Centrobanca estimates

Cash Flow Statement

(EURm)	2011	2012E	2013E	2014E
NFP Beginning of Period	-396.3	-403.9	-389.6	-366.3
Group Net Profit	25.7	26.0	40.8	52.7
Minorities	1.4	1.4	1.6	1.7
D&A	46.3	46.6	47.3	48.2
Change in Funds & TFR	1.0	0.2	0.2	0.2
Gross Cash Flow	74.5	74.2	89.9	102.8
Change In Working Capital	-65.7	6.3	8.0	-8.0
Other	0.0	0.0	0.0	0.0
Operating Cash Flow	8.7	80.5	97.9	94.8
Capex	-53.1	-56.9	-58.6	-61.1
Other Investments	-25.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0
Free Cash Flow	-69.3	23.6	39.3	33.7
Dividends Paid	-8.3	-9.1	-15.9	-12.4
Other & Chg in Consolid. Area	0.1	-0.2	-0.2	-0.2
Chg in Net Worth & Capital Incr.	70.0	0.0	0.0	0.0
Change in NFP	-7.6	14.3	23.3	21.2
NFP End of Period	-403.9	-389.6	-366.3	-345.2

Source: Centrobanca estimates

Financial Ratios

	2011	2012E	2013E	2014E
Net Margin	2.4%	2.3%	3.5%	4.3%
ROE	6.6%	6.0%	9.3%	11.5%
ROIC - after tax	5.0%	4.9%	6.6%	7.9%
Net Fin. Debt/Equity	0.9	0.9	0.8	0.7
Net Fin. Debt/EBITDA	3.4	3.2	2.5	2.1
NOPAT	41.6	42.4	56.8	68.3
ROACE	5.2%	5.0%	6.8%	8.2%

Source: Centrobanca estimates

Per Share Data

(EUR)	2011	2012E	2013E	2014E
EPS	0.37	0.37	0.58	0.75
DPS	0.13	0.13	0.18	0.20
Op. CFPS	0.12	1.15	1.39	1.35
Free CFPS	-0.99	0.34	0.56	0.48
BVPS	6.07	6.20	6.33	6.72

Source: Centrobanca estimates

Stock Market Ratios

	2011	2012E	2013E	2014E
P/E	24.0	10.8	6.8	5.3
P/OpCFPS	70.8	3.5	2.9	2.9
P/Free CFPS	-8.9	11.8	7.1	8.3
P/BVPS	1.5	0.6	0.6	0.6
Div. Yield	1.5%	3.3%	4.5%	5.0%
Free Cash Flow Yield	-11.2%	8.4%	14.1%	12.1%
EV	1,057.8	699.9	676.8	655.8
EV/Sales	1.0	0.6	0.6	0.5
EV/EBITDA	8.9	5.7	4.6	3.9
EV/EBIT	15.3	9.9	7.1	5.8
EV/Capital Employed	1.3	0.8	0.8	0.8

Source: Centrobanca estimates

Growth Rates

	2011	2012E	2013E	2014E
Growth Group Net Sales	11.4%	7.2%	2.9%	4.4%
Growth EBITDA	-13.3%	2.8%	19.4%	14.3%
Growth EBIT	-17.7%	2.0%	34.0%	20.2%
Growth Net Profit	-44.5%	0.9%	57.3%	29.1%

Source: Centrobanca estimates

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Date	Rating	TP (EUR)	MKT Price (EUR)
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29/03/2011	Buy	11.00	9.22
19/05/2011	Hold	10.90	10.80
22/09/2011	Buy	9.30	7.80
28/02/12	Hold	5.50	5.17