BANCA IMI

Equity Company Note

Trevi

Record Backlog but Stronger Competition

Trevi - Key estimates and data				
Y/E December		2011E	2012E	2013E
Revenues	EUR M	1,061.43	1,135.70	1,164.51
EBITDA	EUR M	118.96	129.31	135.65
EBIT	EUR M	69.29	78.27	82.67
Net income	EUR M	25.70	28.86	31.11
Dividend ord.	EUR	0.12	0.12	0.12
Adj. EPS	EUR	0.37	0.41	0.44
EV/EBITDA	x	5.71	5.27	5.05
Adj. P/E	x	10.60	9.44	8.76

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

FY11A results. The group's results came out above our estimates for the top line and significantly below for operating margins and net profit. This was mainly due to the not brilliant performance of the group's ground engineering core business (Trevi) and of Soilmec. At end-December the group's net debt amounted to EUR 403.8M with a slight increase compared to end-2010A (EUR 396M), and to 30 September 2011 (EUR 386M). Good news came from the order backlog, which at 31 December 2011 reached EUR 1.012Bn vs. EUR 788M at end-2010 and EUR 1.021Bn at 30 September. The 2011A order inflow reached EUR 1.285Bn vs. EUR 961M in 2010. Overall we believe that in the difficult 2011 market environment, 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. However, the lower average size of the projects in ground engineering and the tough competitive environment in the mechanical divisions impacted on the group's ability to generate cash, and on its operating margins.

Outlook. Based on the announced results we confirm our cautious stance on the group's 2012 outlook in terms of operating profitability and cash flow generation. In particular, we expect that the recovery in the Soilmec operating profitability, driven by the gradual absorption of the costs for entering new markets (Brazil, India and China), could fail to materialise this year due to growing pricing pressure; in addition, Drillmec is facing growing difficulty in maintaining its strong operating profitability in that clients are trying to squeeze suppliers' margins in a more selective demand environment, and this is true for the Trevi division which is facing very aggressive competitors. We believe that all these factors could prevent the group from significantly improving its operating profitability in 2012E, and could reduce the profitability of the new orders.

Valuation. Our valuation methods suggest that investors probably overreacted to the disappointing 2011 consolidated results and are waiting and see if management will be able to effectively contrast the difficult 2012 market environment. We believe that the first part of 2012E will continue to be quite tough for the group and the current stock price is probably factoring-in such a negative short term scenario; however, considering the quite high volatility shown by the stock in the last few years and the 35% upside on our target price, we believe that it is worth strictly monitoring the company's ability to control its net debt, to recover profitability in the second half of the year, and to maintain a sound order inflow which could increase the 2013E earnings visibility. Should these three factors materialise, we believe that it would be reasonable to expect a shrinking of the stock discount compared to our target price. Based on our updated 2012E-13E earnings forecasts **we reduce our target price to EUR 5.24/share (from EUR 6.43/share).** Exclusively based on a potential price upside of 35%, **we change our rating from Hold to BUY.**

Key risks. Among the investment risks we highlight that according to our forecasts the group's year-end 2012E net debt/EBITDA ratio should remain close to 3x, a quite high level which could limit the group's financial flexibility. In addition, we expect that the group's markets to remain extremely competitive in 2012.

17 April 2012

BUY (from Hold)

Target Price: EUR 5.24 (from EUR 6.43)

Building & Materials Company Update

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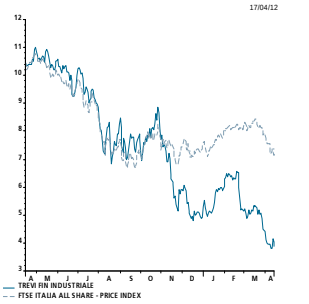
Price performance, -1Y



Source: Thomson Reuters

Data priced on 16.04.2012	
Target price (€)	5.24
Target upside (%)	34.98
Market price (€)	3.88
52-week range (€)	11/3.8
Market cap (€ M)	272.50
No. of shares (M)	70.19
Free float (%)	34.2
Major shareholder (%)	D.Trevisani, 50.2
Reuters	TFI.MI
Bloomberg	TFI IM
FTSE It All Shares	15415

Performance %			
Absolute		Rel. to FTSE All Sh	
-1M	-26.9	-1M	-12.1
-3M	-24.5	-3M	-20.7
-12M	-63.0	-12M	-31.3

Source: Intesa Sanpaolo Research estimates and Thomson Reuters

See page 13 for full disclosures and analyst certification

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2011A Results: Strong Backlog, Low Profitability

The group's FY11A results came out above our estimates at the top line and significantly below for operating margins and net profit. This was mainly due to the not brilliant performance of the group's ground engineering core business (Trevi), and of Soilmec. At the end of last December, the group's net debt amounted to EUR 403.8M with a slight increase compared to end-2010 (EUR 396M) and to 30 September 2011 (EUR 386M). Good news came from the order backlog, which at 31 December 2011 reached EUR 1.012Bn vs. EUR 788M at end-2010 and EUR 1.021Bn at 30 September. The 2011A order inflow reached EUR 1.268Bn vs. EUR 961M in 2010. Overall, we believe that in the difficult 2011 market environment, 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. However, the lower average size of the projects in ground engineering and the tough competitive environment in the mechanical divisions impacted on the group's ability to generate cash and on the group's operating margins.

Trevi - 4Q/FY11A results

EUR M	4Q11A	4Q11E	% vs. est.	4Q10A	% yoy	FY11A	FY11E	% vs. est.	FY10A	% yoy
Revenues	337.3	284.0	18.8	263.8	27.9	1061.4	1008.2	5.3	952.9	11.4
EBITDA	21.9	27.9	-21.6	31.2	-29.8	119.0	125.0	-4.8	137.3	-13.3
Margin (%)	6.5	9.8		11.8		11.2	12.4		14.4	
EBIT	7.6	15.0	-49.6	18.5	-59.2	69.3	76.7	-9.7	84.3	-17.8
Margin (%)	2.2	5.3		7.0		6.5	7.6		8.8	
Pre-tax income	5.9	10.1	-41.6	15.5	-61.8	51.3	55.5	-7.6	70.2	-26.9
Net Income	1.7	5.8	-71.1	11.6	-85.5	25.7	29.8	-13.9	46.4	-44.6

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

Trevi - Revenue breakdown by division 4Q/FY11A

EUR M	4Q10A	% on cons. sales	FY10A	% on cons. sales	4Q11A	% on cons. sales	% yoy	FY11A	% on cons. sales	% yoy
Machines for foundations works	68.3	25.9	202.3	21.2	66.0	19.6	-3.4	222.0	20.9	9.7
Drilling machinery	77.5	29.4	288.4	30.3	134.9	40.0	74.0	378.8	35.7	31.4
Elisions	-2.8	-1.1	-5.3	-0.6	-1.5	-0.4	NM	-4.1	-0.4	NM
Mechanical Divisions	**143.0**	**54.2**	**485.4**	**50.9**	**199.4**	**59.1**	**39.5**	**596.7**	**56.2**	**22.9**
Drilling services	21.8	8.3	80.0	8.4	31.5	9.3	44.3	98.6	9.3	23.3
Special foundations works	111.0	42.1	419.5	44.0	111.2	33.0	0.2	404.3	38.1	-3.6
Elisions	-1.4	-0.5	-6.1	-0.6	-2.0	-0.6	NM	-7.5	-0.7	NM
Services Divisions	**131.4**	**49.8**	**493.4**	**51.8**	**140.7**	**41.7**	**7.1**	**495.4**	**46.7**	**0.4**
Parent Company	3.9	1.5	14.5	1.5	4.0	1.2	2.2	13.1	1.2	-9.1
Elisions	-14.5	-5.5	-40.3	-4.2	-6.8	-2.0	-53.0	-43.8	-4.1	8.7
Consolidated Sales	**263.8**		**952.9**		**337.3**		**27.9**	**1061.4**		**11.4**

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

Looking at the individual divisions revenue, we note that the Mechanical equipment business showed a significant improvement yoy while the Services divisions remained stable. Within each of the group's division, however, we observed different dynamics. Soilmec, the first to be impacted by the crisis since 1Q09, increased revenue by 9.7% yoy as a result of a strong yoy growth in 1H11 (+18.9%), which was not confirmed in the second half (+2.1% yoy) due to the impact on the industry of the banking system troubles. Soilmec was able to increase revenue in the Americas, in the Middle East and in Eastern Europe but suffered in the rest of Europe, in the Asian countries and in Africa. In addition, we believe that the group's mechanical equipment division encountered higher than expected entry barriers in the Chinese market due to the fierce competition from local players. Petreven (+23.3% yoy), whose business is less cyclical, regularly provided its drilling services in Venezuela, Perù, Argentina, Colombia and Chile, growing more than expected. Since the first months of 2011, Petreven had 13 operating rigs vs. 9 at the beginning of 2010; however, more importantly in our opinion, is that last February the company announced the renewal of some drilling services contracts in Argentina and reached an agreement with the Brazilian Petra Energy, which allowed Petreven to enter the Brazilian market and laid the ground for the further growth of the drilling services business (3 new drilling plants should be supplied and operated for Petra by the first half of 2013 according to management). Note that the agreement with Petra has an important strategic value in terms of the growing

synergies between Petreven and Drillmec according to a business model which could be further extended. In 2011 Drillmec significantly increased revenue (+31.4% yoy before elisions), benefiting from the strong order inflow in the first months of the year; in addition, the group's Drilling equipment division succeeded in widening its international presence particularly through the important contracts signed in Russia and in other Eastern European countries, in Mexico with PEMEX, in Belarus with Seismotekhnica, in Turkey with GUMUS and with Greka Drilling for its Chinese operations. Lastly, we highlight that the above mentioned contract with Petra in Brazil concerns both Petreven and Drillmec, which according to our understanding should supply three drilling plants for a total of approximately USD 55M. As for Trevi (-3.6% yoy before elisions), the ground engineering business, note that in 2011 it mainly suffered from both the not brilliant order inflow during 2010 (at end-2010 the division's backlog amounted to EUR 473M), and a weaker demand in Africa and in the Middle East. However, in spite of the difficult macro-economic environment, Trevi was able to contain the top line decline in the USA and Europe, and leveraged on its geographical diversification to exploit the positive market conditions in South America. We would also highlight that during 2011, the division was able to significantly increase its order backlog (EUR 577M at year-end) laying the ground for a top line recovery in 2012E.

In 2011A the group showed a decline in the EBITDA margin of 320bps (11.2%) compared to the corresponding period last year. The decline in the operating profitability concerned both the Mechanical (-70bps) and the Services divisions (-490bps yoy), but according to management was particularly accentuated in the construction related business (Trevi and Soilmec), with the Drilling related activities substantially confirming the previous year's levels. Note that Soilmec's operating profitability 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 Trevi was negatively impacted by the lower average size and start-up phase of the processed orders. In addition, management complained about other important factors which contributed to reduce the group's operating profitability: the economic crisis which put selling prices under pressure especially in Italy and in the rest of Europe and made it difficult to recover cost inflation; the stressed financial conditions of some of the group's clients which created disruptions and inefficiencies in the production process; and the troubles encountered in providing buyer's credit which delayed some project. Note also that in the last quarter of 2011 the group posted an exceptionally low EBITDA margin (6.5% vs. 11.8% in 4Q10): while we have previously observed a negative 4Q seasonality for the Mechanical divisions, we were very surprised to see the steep operating profitability decline in the Services business. Considering that the Petreven operating profitability is based on long term contracts, we believe that it was mostly attributable to the group's lower pricing power in the ground engineering business.

In spite of a slight increase in depreciation in absolute terms, the group's EBIT margin declined less than EBITDA (-230bps yoy), mainly as a result of a significant reduction of provisions and credit write-offs (EUR 3.3M in 2011A vs. EUR 7.6M in 2010), and of the higher top line. Below the EBIT line we highlight that at end-2011A the group posted net foreign exchange losses of EUR 0.28M, thus almost entirely recovering the EUR 3.97M loss posted at 30 September, which was essentially related to the weak USD. However, a negative surprise came from the further increase in the last quarter of the year of the consolidated tax rate, which reached 47.2% vs. 44.3% at 30 September 2011 and 34.9% in 2010. Management blamed the unfavourable geographical profit mix and stated that significant changes are unlikely in the short term and that for 2012E an appropriate tax burden estimate could be around 44%.

Trevi – Half-yearly division sales and operating profitability

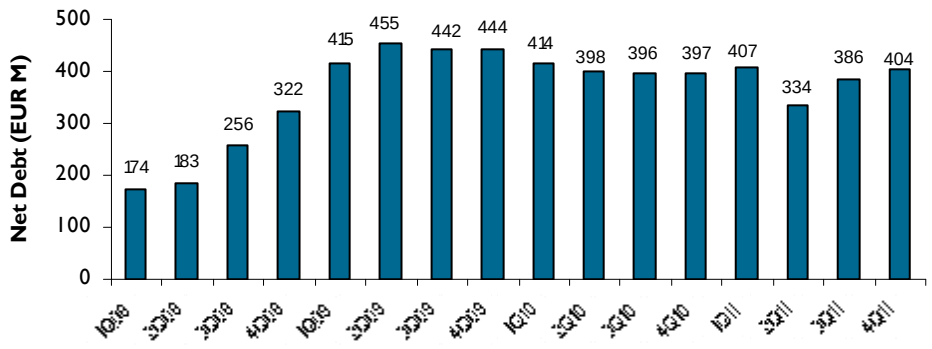
EUR M	1H10A	2H10A	FY10A	1H11A	% yoy	2H11A	% yoy	FY11A	% yoy
Machines for foundations works	91.5	110.8	202.3	108.9	18.9	113.1	2.1	222.0	9.7
Drilling machinery	121.9	166.5	288.4	149.0	22.3	229.8	38.0	378.8	31.4
Elisions	-0.7	-4.6	-5.3	-2.2	NM	-1.9	NM	-4.1	NM
Mechanical Division	**212.7**	**272.7**	**485.4**	**255.7**	**20.2**	**341.0**	**25.0**	**596.7**	**22.9**
Drilling services	35.6	44.4	80.0	44.0	23.8	54.6	23.0	98.6	23.3
Special foundations works	214.3	205.3	419.5	199.8	-6.8	204.5	-0.4	404.3	-3.6
Elisions	-3.0	-3.1	-6.1	-3.5	NM	-4.0	NM	-7.5	NM
Services Division	**246.9**	**246.6**	**493.4**	**240.3**	**-2.6**	**255.1**	**3.5**	**495.4**	**0.4**
Parent Company	6.9	7.5	14.5	6.1	-12.3	7.1	-6.1	13.1	-9.1
Elisions	-13.7	-26.6	-40.3	-27.6	NM	-16.3	-38.9	-43.8	8.7
Consolidated Sales	**452.7**	**500.2**	**952.9**	**474.5**	**4.8**	**586.9**	**17.3**	**1061.4**	**11.4**
Services									
Added Value	102.8	109.7	212.5	103.3	0.4	100.4	-8.5	203.7	-4.2
%	41.7	44.5	43.1	43.0		39.4		41.1	
EBITDA	46.3	49.3	95.6	39.0	-15.8	32.7	-33.6	71.7	-25.0
%	18.7	20.0	19.4	16.2		12.8		14.5	
EBIT	27.5	29.9	57.4	22.3	-19.0	15.6	-47.8	37.9	-34.0
%	11.1	12.1	11.6	9.3		6.1		7.6	
Mechanicals									
Added Value	46.0	47.6	93.6	56.7	23.4	49.3	3.5	106.0	13.3
%	21.6	17.5	19.3	22.2		14.5		17.8	
EBITDA	23.4	20.4	43.8	28.8	23.3	21.0	2.7	49.8	13.7
%	11.0	7.5	9.0	11.3		6.2		8.3	
EBIT	17.5	13.0	30.5	22.4	27.6	12.7	-2.1	35.1	15.0
%	8.3	4.8	6.3	8.8		3.7		5.9	

A: actual; Source: Company data

NFP

At end-December 2011 the group's net debt amounted to EUR 403.8M, with an increase of approximately EUR 18M compared to the EUR 385.7M posted at end-September, and slightly above the December 2010 level (EUR 396M). The net debt increase would have been higher if not for the capital increase, for a net amount of EUR 44.3M, associated to the convertible bond conversion at the end of November 2011. According to our calculation, in 2011 the group's gross cash flow amounted to EUR 73.4M and was not sufficient to finance approximately EUR 64M of net operating investment and an absorption of net working capital of EUR 71.9M. The last was mainly attributable to a strong increase yoy in both the group's receivables and inventory. Management pointed out that the last part of last year was characterised by increasing delays in payments from public administration and stated that the high country risk prevented the group from discounting promissory notes. In addition, we understood that the increase in inventories was mostly related to the purchases of components to feed the growing production levels of Drillmec, and therefore should be at least partially re-absorbed in the second half of 2012, when finished products are planned to be delivered to clients.

Trevi - Quarterly net debt 2008A-11A



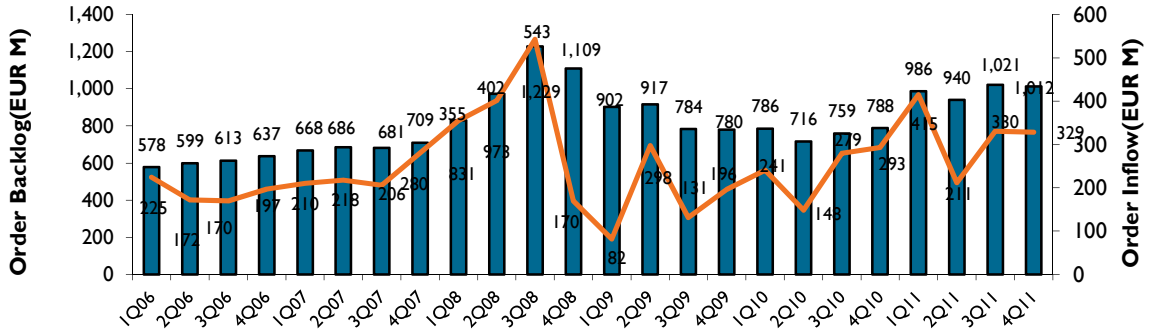
Source: Company data

Order backlog

There was good news from the order backlog, which at 31 December 2011 reached EUR 1012.4M showing a slight decrease compared to end-September 2011 (EUR 1021M), but was significantly up compared to EUR 788.4M at the end of 2010. The 2011A order inflow amounted to EUR 1285.5M vs. EUR 961M in 2010 and to EUR 328M in the last quarter of last year (EUR 293M in 4Q10). We believe that the group's 2011A backlog figures also highlight that in 2011 the group achieved some important strategic targets: Drillmec acquired important clients such as PEMEX in Mexico, Petra Energy in Brazil and entered the Russian and the Chinese markets; Petreven further expanded its presence in South America entering the Brazilian market and secured the renewal of its contracts with Repsol and Chevron in Argentina; while thanks to the several contracts won in different countries, Trevi laid the ground for a return to a top line growth following two years of decline.

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

Trevi - Backlog 2006A-11A



Source: Company data

Trevi - Order backlog: breakdown by division

EUR M	Backlog FY07	Backlog FY08	Backlog FY09	Backlog FY10A	Backlog FY11A	% yoy
Machines for foundations works(Soilmec)	85	67	31	55	61	10.1
Drilling machinery(Drillmec)	163	299	203	102	223	117.3
Mechanical Divisions	**248**	**366**	**234**	**158**	**284**	**79.8**
Drilling services(Petreven)	113	111	94	158	152	-3.7
Special foundations works(Trevi)	347	632	453	473	577	22.0
Services Divisions	**461**	**743**	**546**	**631**	**729**	**15.6**
Group Total	**709**	**1109**	**780**	**788**	**1013**	**28.4**

Source: Company data

Earnings Outlook

The main points discussed in the recent 2011A results conference call were as follows:

The company expects a growth in the 2012 top line compared to the EUR 1061M in 2011A as a result of the existing backlog and of the several negotiations underway especially in the oil drilling related activities. In particular, Trevi, the ground engineering division, is expected to show a low double digit yoy sales growth in 2012 as a result of the acceleration of work for the Cityringen Metro project in Copenhagen, and of the 22% yoy backlog increase shown at the end of 2011A; Petreven should reap the benefits of the contract signed with Petra Energy in Brazil at the beginning of 2012 adding at least 2 rigs to the 13 already in operation at the end of 2011, while Drillmec is expected to continue to benefit from the strong oil pricing and from the growing exploration activity, particularly in the shale gas sector where the company is able to provide the required technologies. More uncertain is the outlook for the Soilmec top line due to the short backlog and the weak demand for construction equipment in Europe.

In terms of operating profitability, management expects 2012 to be characterised by a weak first part of the year followed by a better second half, which should benefit from the deliveries of the drilling plants to PEMEX in Mexico and to Petra Energy in Brazil, from the start-up of some ground engineering works in West Africa, from the going at full steam of the Cityringen project, and from the gradual increase of the drilling services activity. However, according to the company the competitive environment is expected to remain tough as the economic crisis has put selling prices under pressure especially in Italy and in the rest of Europe and made it difficult to recover cost inflation while the stressed financial conditions of some of the group's clients created disruptions and inefficiencies in the production process.

Based on the Driillmec deliveries schedule and to a lesser extent on the purchases necessary to support the Mechanical divisions' production activity, management expects that net working capital will increase in the first part of 2012. However, management is strongly committed to controlling the NWC increase through the lower recourse to buyer's credit and the Soilmec stock reduction which should be implemented in the second half of the year. Management also specified that, in spite of the relevant increase shown during 2011, no particular issues are expected to concern the group's receivables.

Management confirmed that the 2012 capex level should be around EUR 65M, in line with 2011.

Based on the above, we confirm our cautious view of the group's 2012 outlook in terms of operating profitability and cash flow generation. In particular, we fear that the recovery in the Soilmec operating profitability, driven by the gradual absorption of the costs for entering new markets (Brazil, India and China), could fail to materialise this year due to growing pricing pressure; in addition, Drillmec is facing growing difficulty in maintaining its strong operating profitability as its presence in big international tenders grows and clients are trying to squeeze suppliers' margins, in a more selective demand environment. The same is also true for the Trevi division, which is facing very aggressive competitors. We believe that all these factors could prevent the group from significantly improving its operating profitability in 2012 and could reduce the profitability of the new orders. Therefore we further reduced our 2012E group forecasts as illustrated in the table below:

Trevi – 2012E-13E estimate changes

EUR M	FY12E New	Old	% chg.	FY13E New
Revenues	1,135.7	1,063.5	6.8	1,164.5
EBITDA	129.3	131.9	-1.9	135.7
Margin (%)	11.4	12.4		11.6
EBIT	78.3	80.9	-3.2	82.7
Margin (%)	6.9	7.6		7.1
Pre-tax income	54.4	56.3	-3.4	58.6
Net Income	28.9	30.3	-4.6	31.1

E: estimates; Source: Intesa Sanpaolo Research estimates

Trevi - 2011E-13E divisional sales and profitability

REVENUE per B.U. EUR M	2011A/E	% yoy	% on sales	2012E	% yoy	% on sales	2013E	% yoy	% on sales
Special foundations works	409	1	38	449.5	10.0	40	458.4	2.0	39
Drilling services	99	24	9	114.4	16.0	10	130.2	13.8	11
Machines for foundations works	202	10	19	202.1	0.0	18	206.2	2.0	18
Drilling machinery	352	24	33	369.7	5.0	33	369.7	0.0	32
Group Revenue	1061	11		1135.7	7.0		1164.5	2.5	

EBITDA per B.U. EUR M	2011A/E	% yoy	% on EBITDA	2012E	% yoy	% on EBITDA	2013E	% yoy	% on EBITDA
Special foundations works	50	-33	42	55.1	10.0	42	57.8	4.9	42
Margin	12.3			12.3			12.6		
Drilling services	23	21	19	26.9	16.0	21	30.6	13.8	22
Margin	23.5			23.5			23.5		
Machines for foundations works	7	-48	6	7.1	0.0	5	7.2	2.0	5
Margin	3.5			3.5			3.5		
Drilling machinery	39	30	33	40.7	5.0	31	40.7	0.0	30
Margin	11.0			11.0			11.0		
Group EBITDA	119	-13		129.3	9.0		135.7	5.1	
Margin	11.2			11.4			11.6		

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

We also increased our 2012E net debt forecasts to EUR 405.6M (+EUR 28M vs. previous estimate) as a result of the lower estimated gross cashflow and the higher net working capital absorption. 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.

Valuation

DCF based sum-of-the-parts valuation

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 4.73/share, down vs. our previous EUR 4.86/share valuation. This is mainly due to the reduction in our 2012E-13E EBITDA forecasts.

DCF-based SOP valuation of EUR 4.73/share

Trevi - SOP valuation based on DCF		
Company Division	Valuation Method	EUR M
EV Construction related business	DCF model	160
EV Drilling related business	DCF model	576
Total EV		736
Net Debt as at Dec.31,2011		404
SOP Value		332
n° of shares (M)		70
Fair Value/sh. (EUR)		4.73
Current Share Price EUR		4.03
Upside(+)/Downside(-) potential		17.4

Source: FactSet and Intesa Sanpaolo Research estimates

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

We also value Trevi Group with a SOP valuation based on a 2012E-13E 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 2012E-13E EV/EBITDA multiples of Bauer, which we consider the most similar peer based on its size and perimeter of activity.

Peers comparison-based SOP valuation of EUR 6.50/share on 2012E and EUR 4.99/share on 2013E

Construction works and equipment peers' multiples		
	EV/EBITDA	
x	2012E	2013E
Skanska	7.7	7.1
Hochtief AG	3.1	2.8
Bilfinger & Berger AG	4.9	4.8
Fomento Const y Contr(Fcc	6.7	6.5
Vinci	6.0	5.7
Keller	4.8	4.1
Bauer	5.5	4.9
Median	5.5	4.9

E: estimates; Source: FactSet and Intesa Sanpaolo Research estimates

Drilling equipment peers' multiples		
	EV/EBITDA	
x	2012E	2013E
National Oilwell Varco	6.8	5.6
Cooper Cameron Corp	9.4	7.1
Fmc Technologies Inc	13.4	10.5
Dril Quip	12.2	9.0
Saipem	8.2	7.0
Technip	8.5	6.5
Median	8.9	7.1

E: estimates; Source FactSet and Intesa Sanpaolo Research estimates

Drilling services peers' multiples		
	EV/EBITDA	
x	2012E	2013E
Transocean Ltd.	7.2	5.5
Noble Corp.	7.5	5.8
Diamond Offshore Drilling Inc.	7.7	7.0
ENSCO PLC ADS	7.9	6.4
Hercules Offshore Inc.	7.6	4.7
Median	7.6	5.8

E: estimates; Source: FactSet and Intesa Sanpaolo Research estimates

Trevi - SOP valuation based on 2012E peers' multiples		
Company Division	Valuation Method	EUR M
EV Special Foundation Works	Peers Comparison	303
EV Drilling Equipment	Peers Comparison	346
EV Drilling Services	Peers Comparison	177
EV Special Foundation Machines	Peers Comparison	39
Total EV		864
Net Debt December 2012E		406
SOP Value		459
n° of shares (M)		70
Fair Value/share.(EUR)		6.53
Current Share Price (EUR)		4.03
Upside(+)/Downside(-) potential		62.1

Source: FactSet and Intesa Sanpaolo Research estimates

Trevi - SOP valuation based on 2013E peers' multiples		
	Valuation Method	EUR M
Company Division	Valuation Method	
EV Special Foundation Works	Peers Comparison	282
EV Drilling Equipment	Peers Comparison	287
EV Drilling Services	Peers Comparison	156
EV Special Foundation Machines	Peers Comparison	35
Total EV		760
Net Debt December 2013E		410
SOP Value		350
n° of shares (M)		70
Fair Value/sh. (EUR)		4.99
Current Share Price (EUR)		4.03
Upside(+)/Downside(-) potential		23.8

Source: FactSet and Intesa Sanpaolo Research estimates

Our sum-of-the-parts model, based on 2012E and 2013E peers' multiples, points to a Trevi group valuation of EUR 6.50/share and EUR 4.99/share respectively.

Conclusion

DCF and SOP-based valuations points to EUR 5.24/share.

We think the group valuation should be the average of both the DCF-based (50) and the 2012E-13E peers' multiples-based (50) 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 reduce our target price to EUR 5.24/share (EUR 6.43/share previously)**. Note that our target price is calculated as the weighted average of the DCF-based SOP valuation of EUR 4.73/share (0.5), of the 2012E multiples comparison-based SOP valuation of EUR 6.5/share (0.25) and of the 2013E multiples comparison-based SOP valuation of EUR 4.99/share (0.25). Our valuation methods suggest that investors probably overreacted to the bad news released with the 2011 consolidated results and are waiting and see if management will be able to effectively contrast the difficult 2012E market environment. We believe that the first part of 2012 will continue to be quite tough for the group and the current stock price is

probably factoring-in such a negative short term scenario; However, considering the quite high volatility shown by the stock in the last few years and the 35% upside on our target price we believe that it is worth strictly monitoring the company's ability to control its net debt, to recover profitability in the second half of the year, and to maintain a sound order inflow which could increase the 2013E earnings visibility. Should these three factors materialise we believe that it would be reasonable to see a shrinking of the stock discount compared to our target price. Exclusively based on a potential price upside of 35%, **we change our rating from Hold to BUY.**

Key risks

Among the investment risks we highlight that according to our forecasts the group's end-2012E net debt/EBITDA ratio should remain close to 3x, a quite high level which could limit the group's financial flexibility. In addition, we expect that the group's markets to remain extremely competitive in 2012.

Trevi - Key figures

Sector	Building & Materials	Mkt price EUR/Share	Ordinary 3.88		Rating BUY
REUTERS CODE	TFI.MI	Target price EUR/Share	5.24		
Values per share (EUR)		2010A	2011E	2012E	2013E
No. ordinary shares (M)		64.00	70.19	70.19	70.19
No. NC saving/preferred shares (M)		-	-	-	-
Total no. of shares (M)		64.00	70.19	70.19	70.19
Adj. EPS		0.72	0.37	0.41	0.44
CFPS		1.43	1.03	1.11	1.17
BVPS		5.53	6.07	6.36	6.68
Dividend Ord		0.13	0.12	0.12	0.12
Dividend SAV Nc		-	-	-	-
Income statement (EUR M)		2010A	2011E	2012E	2013E
Sales		952.94	1,061.43	1,135.70	1,164.51
EBITDA		137.26	118.96	129.31	135.65
EBIT		84.31	69.29	78.27	82.67
Pre-tax income		70.18	51.29	54.36	58.59
Net income		46.36	25.70	28.86	31.11
Adj. net income		46.36	25.70	28.86	31.11
Cash flow (EUR M)		2010A	2011E	2012E	2013E
Net income before minorities		45.68	27.11	30.44	32.81
Depreciation and provisions		45.33	46.33	49.04	50.98
Change in working capital		5.38	-71.93	-7.88	-14.62
Operating cash flow		96.39	1.51	71.60	69.17
Capital expenditure		-51.89	-72.37	-65.00	-65.00
Other (uses of Funds)		10.99	27.07	-	-
Free cash flow		55.48	-43.79	6.60	4.17
Dividends and equity changes		-7.68	-8.32	-8.42	-8.42
Net cash flow		47.80	-52.11	-1.82	-4.25
Balance sheet (EUR M)		2010A	2011E	2012E	2013E
Net capital employed		762.51	841.69	865.53	894.17
of which associates		-	-	-	-
Net debt/-cash		396.00	403.80	405.62	409.88
Minorities		12.35	12.08	13.65	15.35
Net equity		354.16	425.81	446.25	468.94
Market cap		248.45	272.50	272.50	272.50
Minorities value		3.53	3.22	3.07	2.92
Enterprise value (*)		647.98	679.51	681.19	685.29
Stock market ratios (x)		2010A	2011E	2012E	2013E
Adj. P/E		5.36	10.60	9.44	8.76
P/CEPS		2.71	3.78	3.50	3.32
P/BVPS		0.70	0.64	0.61	0.58
Dividend yield (% ord)		3.35	3.09	3.09	3.09
Dividend yield (% sav)		-	-	-	-
EV/sales		0.68	0.64	0.60	0.59
EV/EBITDA		4.72	5.71	5.27	5.05
EV/EBIT		7.69	9.81	8.70	8.29
EV/CE		0.85	0.81	0.79	0.77
D/EBITDA		2.89	3.39	3.14	3.02
D/EBIT		4.70	5.83	5.18	4.96
Profitability & financial ratios (%)		2010A	2011E	2012E	2013E
EBITDA margin		14.40	11.21	11.39	11.65
EBIT margin		8.85	6.53	6.89	7.10
Tax rate		34.92	47.15	44.00	44.00
Net income margin		4.86	2.42	2.54	2.67
ROE		13.09	6.04	6.47	6.63
Debt/equity ratio		1.08	0.92	0.88	0.85
Growth (%)			2011E	2012E	2013E
Sales			11.38	7.00	2.54
EBITDA			-13.33	8.70	4.91
EBIT			-17.82	12.96	5.63
Pre-tax income			-26.92	5.99	7.77
Net income			-44.56	12.31	7.77
Adj. net income			-44.56	12.31	7.77

(*) 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
SELL	If the target price is 20 lower than the market price
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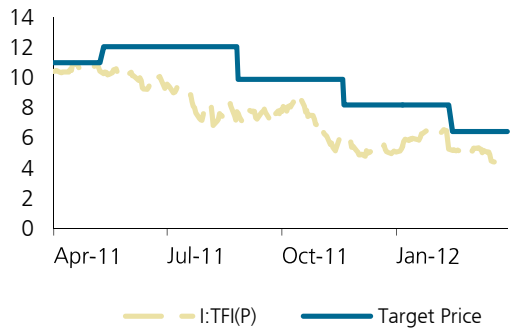
Historical recommendations and target price trends (long-term horizon: 12M)

Target price and market price trend (-1Y)



Historical recommendations and target price trend (-1Y)

Date	Rating	TP	Mkt Price
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
8-Sep-11	BUY	9.90	7.74
1-Dec-11	U/R	U/R	5.92
2-Dec-11	BUY	8.19	5.92
24-Feb-12	U/R	U/R	5.99
24-Feb-12	HOLD	6.43	5.99
26-Mar-12	U/R	U/R	5.19

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of which Intesa Sanpaolo's Clients (*)	77	46	46	100	-

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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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