BANCA IMI

Equity Company Note

Trevi

Good Top Line, Backlog and NFP, Pressure on Margins

Trevi - Key estimates and data					
Y/E December		2011A	2012E	2013E	2014E
Revenues	EUR M	1,061.43	1,114.31	1,136.73	1,165.15
EBITDA	EUR M	118.96	118.94	124.26	133.39
EBIT	EUR M	69.29	67.89	71.28	80.70
Net income	EUR M	25.70	23.43	25.23	30.18
Dividend ord.	EUR	0.12	0.12	0.12	0.12
Adj. EPS	EUR	0.37	0.33	0.36	0.43
EV/EBITDA	x	6.37	6.35	6.10	5.68
Adj. P/E	x	13.62	14.94	13.87	11.59

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

- **Results**. The Trevi group's 1H12A results were in line with our estimates at the top line, slightly below forecasts at the operating margins level and above expectations in terms of net profit, which benefited from significant foreign exchange gains. At the end of June, the group's net debt amounted to EUR 426M, well below the peak registered at 31 March 2012 (EUR 495M) and slightly up compared to end-2011 (EUR 404M). Good news continued to come from the order backlog, which at 30 June 2012, amounted to EUR 929.3M vs. EUR 939M at end-March 2012, showing a certain resilience despite the absence of big orders. The 1H12 order inflow was EUR 501.5M, compared with EUR 626M and EUR 659M in 1H11 and 2H11, respectively.

- **Outlook**. Despite the solid top-line growth that reflects the group's strong 2011 order backlog and wide geographical diversification, the uncertain worldwide economic outlook and the growing competition in all of the group's business segments should continue to weigh on the group's profitability in 2012E. We are confident that the new contracts to be awarded in the oil and gas sector and the gradual demand recovery in the construction equipment business should allow a gradual operating profitability recovery as of next year.

- **Valuation**. Following 1H12 results and 2H12 outlook, we cut our 2012E-13E EBITDA forecasts by 8.0% and 8.4%, respectively. In light of the positive stock performance of the last few months and based on our updated 2012E-13E peers' multiples and DCF valuation, we changed our **rating from Buy to HOLD** and we reduced **our target price to EUR 4.95/share** (from our previous EUR 5.24/share).

- **Key risks**. Amongst the investment risks, we highlight that according to our forecasts the group's YE12E net debt/EBITDA ratio could continue to be above 3x, quite a high level potentially limiting the group's financial flexibility. In addition, we expect the group's markets to remain very competitive in 2012.

10 September 2012

HOLD (from Buy)

Target Price: EUR 4.95 (from EUR 5.24)

Building & Materials Company Update

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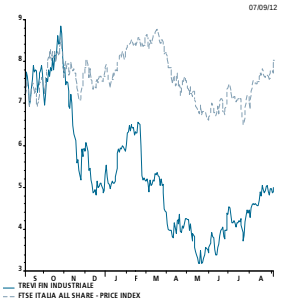
Price performance, -1Y



Source: Thomson Reuters

Data priced on 06.09.2012	
Target price (€)	4.95
Target upside (%)	-0.12
Market price (€)	4.99
52-week range (€)	8.8/3.2
Market cap (€ M)	349.99
No. of shares (M)	70.19
Free float (%)	30.2
Major shareholder (%)	Trevisan D, 50.2
Reuters	TFI.MI
Bloomberg	TFI IM
FTSE It All Shares	16632

Performance %			
Absolute		Rel. to FTSE All Sh	
-1M	8.5	-1M	-0.2
-3M	33.5	-3M	17.8
-12M	-30.8	-12M	-42.3

Source: Intesa Sanpaolo Research estimates and Thomson Reuters

See page 13 for full disclosures and analyst certification

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1H12 Results

The Trevi group's 1H12A results were in line with our estimates at the top line, slightly below forecasts in terms of operating margins and above expectations in terms of net profit, which benefited from significant foreign exchange gains. At the end of June, the group's net debt amounted to EUR 426M well below the peak registered at 31 March 2012 (EUR 495M) and slightly up compared to end-2011 (EUR 404M). Good news continued to come from the order backlog, which at 30 June 2012, amounted to EUR 929.3M vs. EUR 939M at end-March 2012, showing a certain resilience despite the absence of big orders. The 1H12 order inflow was EUR 501.5M, compared with EUR 626M and EUR 659M in 1H11 and 2H11, respectively. Overall, we believe that in the difficult 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 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 affected the group's ability to protect its operating margins.

Trevi - 2Q/1H12A key results

EUR M	2Q12A	2Q12E	vs. E (%)	2Q11A	yoy %	1H12A	1H12E	vs. E (%)	1H11A	yoy %
Revenues	276.9	269.5	2.8	257.6	7.5	584.7	577.3	1.3	474.5	23.2
EBITDA	24.5	23.9	2.5	32.8	-25.3	56.2	55.6	1.1	64.8	-13.3
Margin (%)	8.8	8.9		12.7		9.6	9.6		13.7	
EBIT	9.9	10.6	-6.2	21.0	-52.7	29.0	30.1	-3.8	41.3	-29.8
Margin (%)	3.6	3.9		8.2		5.0	5.2		8.7	
Pre-tax income	9.4	4.7	101.7	16.0	-41.1	22.1	17.8	23.9	28.4	-22.3
Net Income	3.8	2.2	73.2	7.7	-50.5	12.1	10.7	13.0	15.3	-21.3

Source: Company data

Revenues by division

Looking at the single divisions, we note that all of them showed a significant revenues improvement yoy, except for Petreven, which remained stable. Soilmec increased revenue by 12.2% yoy (before elisions), as a result of higher revenues in the Americas and in the Middle East, which more than offset the weakness registered in the domestic market and in the rest of Europe with the exception of Eastern European countries. Drillmec, the drilling equipment division, grew by 36.3% yoy (before elisions), above management's expectations, driven by the North American activities and the Italian parent company, Drillmec Spa. The division's growth was also sustained by the strong commercial efforts made during 2011, when Drillmec 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. We also highlight that in 2Q12 Drillmec successfully delivered to PEMEX three drilling rigs and received the related payment. As for the services, Petreven (+2.2% yoy, before elisions), whose business is less cyclical, provided its drilling services in Venezuela, Peru, Argentina, Colombia and Chile. In the first six months, the drilling services company operated 13 rigs and a new one is planned to start operations by year-end. In addition, we remember that in February 2012 Petreven 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 2013). 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. As for Trevi (+15% yoy before elisions), the ground engineering business, in 1H12 the division started to reap the benefits from the strong order backlog of end-2011 (EUR 577M) and registered a significant growth in Europe (ex-Italy), thanks to the Cityringen Metro Project of Copenhagen, in Africa, in the Middle East and in Latin America, while maintaining a good level of activity in North America.

Trevi - Quarterly revenue by division 2011-1H12												
EUR M	1Q11A	2Q11A	1H11A	% in sales	3Q11A	4Q11A	2H11A	% in sales	1Q12A	2Q12A	1H12A	% in sales
Machines for foundations works	50.6	58.3	108.9	22.9	47.1	66.0	113.1	19.3	49.4	72.8	122.2	20.9
Drilling machinery	57.1	91.9	149.0	31.4	94.9	134.9	229.8	39.2	125.4	77.8	203.2	34.7
Elisions	-1.7	-0.5	-2.2	-0.5	-0.4	-1.5	-1.9	-0.3	-0.4	-1.9	-2.3	-0.4
Mechanical division	**105.9**	**149.8**	**255.7**	**53.9**	**141.6**	**199.4**	**341.0**	**58.1**	**174.3**	**148.6**	**323.0**	**55.2**
Drilling services	22.0	22.0	44.0	9.3	23.1	31.5	54.6	9.3	22.8	22.2	45.0	7.7
Special foundations works	98.2	101.6	199.8	42.1	93.3	111.2	204.5	34.8	116.9	113.0	229.9	39.3
Elisions	-2.0	-1.5	-3.5	-0.7	-2.0	-2.0	-4.0	-0.7	-1.2	-0.1	-1.3	-0.2
Services division	**118.2**	**122.1**	**240.3**	**50.6**	**114.4**	**140.7**	**255.1**	**43.5**	**138.4**	**135.2**	**273.6**	**46.8**
Parent Company	3.1	3.0	6.1	1.3	3.0	4.0	7.1	1.2	3.4	3.5	6.9	1.2
Elisions	-10.3	-17.3	-27.6	-5.8	-9.4	-6.8	-16.3	-2.8	-8.4	-10.4	-18.8	-3.2
Consolidated sales	**216.9**	**257.6**	**474.5**		**249.6**	**337.3**	**586.9**		**307.8**	**276.9**	**584.7**	

Source: Company data

1H12 EBITDA margin down yoy

In 1H12A the group showed a decline in the EBITDA margin of 410bps yoy to 13.7%, mainly due to the Mechanical business (-700bps yoy), while the Services activities (-30bps yoy) remained substantially stable, thanks to the exceptionally high profitability reached in 1Q12. According to management, both Soilmec and Drillmec operating profitability suffered from the tough market environment. In particular, management complained about: 1) the economic crisis that put selling prices under pressure, especially in Italy and in the rest of Europe and made it difficult to recover cost inflation; 2) the stressed financial conditions of some of the group's clients, which created disruptions and inefficiencies in the production process; and 3) the troubles encountered in providing buyer's credit, which delayed some projects. At any rate, the mechanical divisions' EBITDA margin in 2Q12 started to recover compared to the bottom touched in the first three months and management targets that the new contracts expected to be signed by Drillmec in the next few months should further drive the profitability recovery in the last part of 2012. As for the services business, while the 1Q12 high operating profitability was affected by not structural factors, the 2Q12A EBITDA margin showed a significant improvement compared with the last part of 2011.

EBIT margin decline yoy

The group's EBIT margin decline (-370bps yoy) mainly reflected the lower EBITDA and a significant increase in provisions and write-offs (EUR 4.1M vs. EUR 0.7M in 1H11). Below the EBIT line, we highlight that in 1H12 the group posted significant net foreign exchange gains (EUR 2.8M vs. losses of EUR 4.4M in 1H11), mainly related to the group's exposure to the US dollar. The consolidated tax rate reached 45.5%, not far from management's guidance of 44% for 2012.

Trevi - Half-yearly division sales and operating profitability

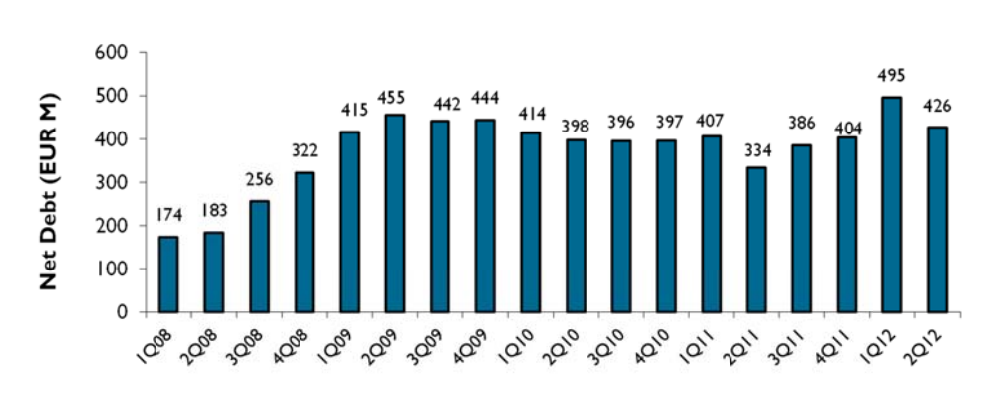
EUR M	1Q11A	2Q11A	1H11A	3Q11A	4Q11A	2H11A	FY11A	1Q12A	2Q12A	1H12A
Machines for foundations works	50.6	58.3	108.9	47.1	66.0	113.1	222.0	49.4	72.8	122.2
Drilling machinery	57.1	91.9	149.0	94.9	134.9	229.8	378.8	125.4	77.8	203.2
Elisions	-1.7	-0.5	-2.2	-0.4	-1.5	-1.9	-4.1	-0.4	-1.9	-2.3
Mechanical Division	**105.9**	**149.8**	**255.7**	**141.6**	**199.4**	**341.0**	**596.7**	**174.3**	**148.6**	**323.0**
Drilling services	22.0	22.0	44.0	23.1	31.5	54.6	98.6	22.8	22.2	45.0
Special foundations works	98.2	101.6	199.8	93.3	111.2	204.5	404.3	116.9	113.0	229.9
Elisions	-2.0	-1.5	-3.5	-2.0	-2.0	-4.0	-7.5	-1.2	-0.1	-1.3
Services Division	**118.2**	**122.1**	**240.3**	**114.4**	**140.7**	**255.1**	**495.4**	**138.4**	**135.2**	**273.6**
Parent Company	3.1	3.0	6.1	3.0	4.0	7.1	13.1	3.4	3.5	6.9
Elisions	-10.3	-17.3	-27.6	-9.4	-6.8	-16.3	-43.8	-8.4	-10.4	-18.8
Consolidated Sales	**216.9**	**257.6**	**474.5**	**249.6**	**337.3**	**586.9**	**1061.4**	**307.8**	**276.9**	**584.7**
Services										
Added Value	49.5	53.8	103.3	48.8	51.6	100.4	203.7	62.3	58.1	120.4
%	41.9	44.0	43.0	42.6	36.7	39.4	41.1	45.0	43.0	44.0
EBITDA	18.5	20.4	39.0	18.3	14.4	32.7	71.7	25.6	19.2	44.8
%	15.7	16.7	16.2	16.0	10.2	12.8	14.5	18.5	14.2	16.4
EBIT	10.4	11.9	22.3	10.2	5.4	15.6	37.9	16.6	8.6	25.2
%	8.8	9.7	9.3	8.9	3.8	6.1	7.6	12.0	6.3	9.2
Mechanicals										
Added Value	27.0	29.7	56.7	27.7	21.6	49.3	106.0	20.2	24.3	44.5
%	25.5	19.8	22.2	19.5	10.8	14.5	17.8	11.6	16.4	13.8
EBITDA	14.0	14.8	28.8	14.0	7.0	21.0	49.8	5.9	7.9	13.8
%	13.2	9.9	11.3	9.9	3.5	6.2	8.3	3.4	5.3	4.3
EBIT	10.7	11.7	22.4	10.7	2.0	12.7	35.1	2.3	4.1	6.4
%	10.1	7.8	8.8	7.6	1.0	3.7	5.9	1.3	2.8	2.0

Source: Company data

Net financial position

At end-June 2012, the group's net debt amounted to EUR 426M, with a significant decrease compared with the peak reached at end-March 2012 (EUR 495M) and slightly up vs. end-2011 (EUR 404M). In 1H12, the group cashed in, as expected a receivable of approximately USD 70M from PEMEX, but the gross cash flow generation was more than offset by investments for EUR 30.5M and a NWC absorption of EUR 20M. Management pointed out that in the remaining part of the year the group's net working capital could be favourably affected by the possible signing of new contracts in the oil and gas sector and that expectations are for a further reduction of the group's net debt by year-end towards the end-2011 levels.

Trevi - Quarterly net debt 1Q08-2Q12



Source: Company data

Order backlog

Order backlog was resilient despite the lack of big orders

There was good news from the order backlog, which despite the difficult market environment and the significant 1H12 top line growth, at 30 June 2012, remained substantially stable (EUR 929.3M) compared with end-March 2012 (EUR 939.2M) and only slightly down compared to end-2011 (EUR 1,012M). The 1H12A order inflow amounted to EUR 501.5M vs. EUR 659M and EUR 626M in 2H11 and 1H11, respectively. We highlight that despite the absence of big one-shot orders, the group was able to win a significant number of mid-small size projects, above all in the ground engineering business, and showed strong capabilities of competing worldwide in the more dynamic markets. This is a trend that seemed to continue in the current months as Trevi has just announced new orders for a total amount of EUR 37M in the different geographical areas (Thailand, West Africa and Latin America) and in important infrastructures works. Looking at the divisional breakdown, according to management, the modest Drillmec backlog should significantly increase in the next few months as a result of the several negotiations underway.

Trevi - 1Q08A-2Q12A Order Backlog

Source: Company data

Trevi - Order backlog by division

EUR M	Backlog 1H10A	Backlog FY10A	Backlog 1H11A	Backlog FY11A	Backlog 1Q12A	Backlog 1H12A	yoy %	vs. March 2012A
Machines for foundations works(Soilmec)	57	55	75	61	66	56	-25.9	-15.2
Drilling machinery(Drillmec)	158	102	310	223	197	167	-46.1	-15.2
Mechanical Divisions	**215**	**158**	**385**	**284**	**263**	**223**	**-42.1**	**-15.2**
Drilling services(Petreven)	129	158	141	152	141	186	31.8	31.9
Special foundations works(Trevi)	373	473	414	577	535	520	25.8	-2.8
Services Divisions	**501**	**631**	**555**	**729**	**676**	**706**	**27.3**	**4.4**
Group Total	**716**	**788**	**940**	**1013**	**939**	**929**	**-1.2**	**-1.1**

Source: Company data

Earnings Outlook

The main points discussed in the recent 1H12 results conference call were as follows:

- Overall, guidelines for 2012 were for growing consolidated revenue, and stable EBITDA and net debt vs. 2011.

Positive trend for revenue in all the group's divisions

- Management stated that the positive trend for revenue in all of the group's divisions in the first six months is expected to continue in 2H12, even if at a reduced speed. In particular, Trevi, the ground engineering division, is expected to show a low double-digit yoy sales growth for 2012 (+15% yoy in 1H12), as a result of the important order backlog (EUR 520M at 30 June 2012 vs. EUR 414M at 30 June 2011), the acceleration of work for the Cityringen Metro project in Copenhagen, and the successful efforts to grow in more dynamic areas, such as Africa, Latin America and the Far East. In this respect, note that Trevi has just announced new orders for a total amount of EUR 37M spread over the aforementioned areas: it is not a big size compared to the whole backlog, but testifies the division's capability to be present and competitive in any market. Soilmec revenues should be supported by demand coming from North America and the Middle East, which should offset the weakness expected in the domestic market and Europe, except for the Eastern European countries. As for the oil and gas related business, by the end of 2012 and beginning-2013, Petreven should add at least 1 rig to the 13 already in operation, while next year should reap the benefit from the contract signed with Petra at the beginning of 2012. As for Drillmec, management said that the existing backlog should be sufficient to cover the 2H12 budget and that based on the several negotiations, important contracts are expected to be finalised in the next few weeks, thus significantly increasing the division's 2013 sales visibility.

- As for operating profitability, Trevi expects the services divisions (Trevi and Petreven) to show stable margins vs. the 1H12A level; regarding the mechanicals divisions (Drillmec and Soilmec), management attributed the very low profitability level of 1H12A to unplanned outsourcing and to the strong market competition. Drillmec and Soilmec worked hard to enter new markets and this affected the level of profitability. As for the 2H12 mechanical divisions' outlook, management stated that it is very confident that some new contracts in the oil and gas sector are to be awarded in the next few weeks, and should allow a recovery of the Drillmec's operating profitability.

- In terms of net debt, management confirmed its view that by year-end the consolidated net debt should be close to the EUR 404M of end-2011 vs. EUR 426M at 30 June 2012 and EUR 495M at 31 March 2012, even if the payment conditions to be negotiated on the expected contracts could impact on the year-end net debt.

- On the Mosul dam project, management stated that the Iraqi government has to still appoint an independent consultant to assess the Trevi and Bauer offers. Overall, guidelines for 2012 were for growing consolidated revenue and stable EBITDA and net debt vs. 2011.

Based on the points mentioned above, we reduced our 2012E-13E group forecasts as shown in the table below:

Trevi – 2012E-13E estimate changes

	FY12E			FY13E		
EUR M	New	Old	% chg.	New	Old	% chg.
Revenues	1,114.3	1,135.7	-1.9	1,136.7	1,164.5	-2.4
EBITDA	118.9	129.3	-8.0	124.3	135.7	-8.4
Margin (%)	10.7	11.2		10.9	11.4	
EBIT	67.9	78.3	-13.3	71.3	82.7	-13.8
Margin (%)	6.1	6.8		6.3	7.0	
Pre-tax income	44.1	54.4	-18.8	47.5	58.6	-18.9
Net Income	23.4	28.9	-18.8	25.2	31.1	-18.9

E: estimates; Source: Intesa Sanpaolo Research

Trevi – 2011E-13E divisional sales and profitability

EUR M	2011A/E	yoy %	% in sales	2012E	yoy %	% in sales	2013E	yoy %	% in sales
Special foundations works	409	1	38	449.5	10.0	40	471.9	5.0	42
Drilling services	99	24	9	103.0	4.5	9	116.7	13.2	10
Machines for foundations works	202	10	19	206.2	2.0	19	210.3	2.0	19
Drilling machinery	352	24	33	355.6	1.0	32	337.9	-5.0	30
Group Revenue	1,061	11		1,114.3	5.0		1,136.7	2.0	

EBITDA by BU

EUR M	2011A/E	yoy %	% in EBITDA	2012E	yoy %	% in EBITDA	2013E	yoy %	% in EBITDA
Special foundations works	50	-33	42	59.6	19.0	50	62.5	5.0	50
% margin	12.3			13.3			13.3		
Drilling services	23	21	19	24.2	4.5	20	27.4	13.2	22
% margin	23.5			23.5			23.5		
Machines for foundations works	7	-48	6	3.1	-56.3	3	4.2	36.0	3
% margin	3.5			1.5			2.0		
Drilling machinery	39	30	33	32.0	-17.4	27	30.4	-5.0	24
% margin	11.0			9.0			9.0		
Group EBITDA	119	-13		118.9	-0.1		124.3	4.5	
% margin	11.2			10.7			10.9		

E: estimates; Source: Intesa Sanpaolo Research

We left substantially unchanged our 2012E net debt forecasts to EUR 401M (EUR 405.6M previous estimate) as we assumed that, despite of the top line growth, the group will be able to show a very little absorption of NWC.

Valuation

DCF based sum-of-the-parts valuation

DCF-based SOP valuation of EUR 5.25/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 5.25/share, up vs. our previous EUR 4.73/share. The fair value increase is entirely related to the introduction in our DCF model of a more optimistic assumption on the long-term profitability recovery in the construction related business, which more than offset the negative impact of the reduction in our 2012E-13E group forecasts.

Trevi - SOP valuation based on DCF		
Company Division	Valuation Method	EUR M
EV Construction related business	DCF model	335
EV Drilling related business	DCF model	437
Total EV		772
Net debt as at 2011A		404
SOP value		369
No. of shares (M)		70
Fair value EUR/sh		5.25
Current share price EUR		4.97
Upside(+)/Downside(-) potential (%)		5.7

Source: Intesa Sanpaolo Research estimates

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

Peers comparison-based SOP valuation of EUR 4.67/share on 2013E

We also value Trevi Group with a SOP valuation based on a 2013E EV/EBITDA peers comparison analysis. 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 calculations included in our group sum-of-the-parts model, we use the 2013E EV/EBITDA multiples of Bauer, which we consider as the most similar peer based on its size and perimeter of activity.

Construction works and equipment peers' multiples		
x	EV/EBITDA 2012E	2013E
Skanska	8.2	7.2
Hochtief AG	3.0	2.6
Bilfinger & Berger AG	4.5	4.6
Fomento Const y Contr(Fcc	6.6	6.5
Vinci	6.1	5.8
Keller	5.1	4.4
Bauer	5.9	5.3
Median	5.9	5.3

Source: FactSet

Drilling equipment peers' multiples		
x	EV/EBITDA 2012E	2013E
National Oilwell Varco	7.4	6.0
Cooper Cameron Corp	10.3	7.8
Fmc Technologies Inc	14.0	11.0
Dril Quip	13.6	10.4
Saipem	8.5	7.2
Technip	9.0	6.6
Median	9.7	7.5

Source: FactSet

Drilling services peers' multiples		
x	EV/EBITDA	
	2012E	2013E
Transocean Ltd.	7.1	5.4
Noble Corp.	8.2	5.8
Diamond Offshore Drilling Inc.	7.9	7.1
ENSCO PLC ADS	8.7	6.7
Hercules Offshore Inc.	8.2	4.1
Median	8.2	5.8

Source: FactSet

Trevi - SOP valuation based on 2013E peers' multiples		
Company Division	Valuation Method	EUR M
EV Special Foundation Works	Peers Comparison	330
EV Drilling Equipment	Peers Comparison	239
EV Drilling Services	Peers Comparison	140
EV Special Foundation Machines	Peers Comparison	22
Total EV		731
Net debt at 31 December 2013E		404
SOP value		327
No. of shares (M)		70
Fair value EUR/sh		4.67
Current Share Price (EUR)		4.97
Upside(+)/Downside(-) potential (%)		-6.1

Source: FactSet and Intesa Sanpaolo Research estimates

Our sum-of-the-parts model, based on 2013E peers' multiples, points to a Trevi group valuation of EUR 4.67/share (EUR 4.99/share previously).

Conclusion

DCF and SOP-based valuations points to EUR 4.95/share

We think the group valuation should be the arithmetic average between the DCF-based and the 2013E 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 reduce our **target price to EUR 4.95/share** (EUR 5.24/share previously). We change our **rating from Buy to HOLD.**

Key risks

Amongst the investment risks, we highlight that according to our forecasts the group's end-2012E net debt/EBITDA ratio should remain above 3x, quite a high level that could limit the group's financial flexibility. In addition, we expect that the group's markets to remain very competitive in 2012-13.

Trevi - Key figures

			Ordinary		Rating
Sector	Building & Materials	Mkt price EUR/Share	4.99		HOLD
REUTERS CODE	TFI.MI	Target price EUR/Share	4.95		
Values per share (EUR)	**2010A**	**2011A**	**2012E**	**2013E**	**2014E**
No. ordinary shares (M)	64.00	70.19	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	70.19
Adj. EPS	0.72	0.37	0.33	0.36	0.43
CFPS	1.43	1.03	1.03	1.09	1.18
BVPS	5.53	6.07	6.28	6.52	6.83
Dividend Ord	0.13	0.12	0.12	0.12	0.12
Dividend SAV Nc	-	-	-	-	-
Income statement (EUR M)	**2010A**	**2011A**	**2012E**	**2013E**	**2014E**
Sales	952.9	1,061.4	1,114.3	1,136.7	1,165.2
EBITDA	137.3	119.0	118.9	124.3	133.4
EBIT	84.3	69.3	67.9	71.3	80.7
Pre-tax income	70.2	51.3	44.1	47.5	56.8
Net income	46.4	25.7	23.4	25.2	30.2
Adj. net income	46.4	25.7	23.4	25.2	30.2
Cash flow (EUR M)	**2010A**	**2011A**	**2012E**	**2013E**	**2014E**
Net income before minorities	45.7	27.1	24.7	26.6	31.8
Depreciation and provisions	45.3	46.3	49.0	51.0	52.7
Change in working capital	5.4	-71.9	2.4	-6.9	-11.0
Operating cash flow	96.4	1.5	76.2	70.7	73.5
Capital expenditure	-51.9	-72.4	-65.0	-65.0	-65.0
Other (uses of Funds)	11.0	27.1	-	-	-
Free cash flow	55.5	-43.8	11.2	5.7	8.5
Dividends and equity changes	-7.7	-8.3	-8.4	-8.4	-8.4
Net cash flow	47.8	-52.1	2.8	-2.7	0.1
Balance sheet (EUR M)	**2010A**	**2011A**	**2012E**	**2013E**	**2014E**
Net capital employed	762.5	841.7	855.2	876.1	899.5
of which associates	-	-	-	-	-
Net debt/-cash	396.0	403.8	401.0	403.8	403.7
Minorities	12.4	12.1	13.4	14.7	16.4
Net equity	354.2	425.8	440.8	457.6	479.4
Market cap	319.1	350.0	350.0	350.0	350.0
Minorities value	4.4	4.0	3.8	3.7	3.5
Enterprise value (*)	719.5	757.8	754.9	757.5	757.2
Stock market ratios (x)	**2010A**	**2011A**	**2012E**	**2013E**	**2014E**
Adj. P/E	6.9	13.6	14.9	13.9	11.6
P/CEPS	3.5	4.9	4.8	4.6	4.2
P/BVPS	0.9	0.8	0.8	0.8	0.7
Dividend yield (% ord)	2.6	2.4	2.4	2.4	2.4
Dividend yield (% sav)	-	-	-	-	-
EV/sales	0.8	0.7	0.7	0.7	0.6
EV/EBITDA	5.2	6.4	6.3	6.1	5.7
EV/EBIT	8.5	10.9	11.1	10.6	9.4
EV/CE	0.9	0.9	0.9	0.9	0.8
D/EBITDA	2.9	3.4	3.4	3.2	3.0
D/EBIT	4.7	5.8	5.9	5.7	5.0
Profitability & financial ratios (%)	**2010A**	**2011A**	**2012E**	**2013E**	**2014E**
EBITDA margin	14.4	11.2	10.7	10.9	11.4
EBIT margin	8.8	6.5	6.1	6.3	6.9
Tax rate	34.9	47.2	44.0	44.0	44.0
Net income margin	4.9	2.4	2.1	2.2	2.6
ROE	13.1	6.0	5.3	5.5	6.3
Debt/equity ratio	1.1	0.9	0.9	0.9	0.8
Growth (%)		**2011A**	**2012E**	**2013E**	**2014E**
Sales		11.4	5.0	2.0	2.5
EBITDA		-13.3	-0.0	4.5	7.3
EBIT		-17.8	-2.0	5.0	13.2
Pre-tax income		-26.9	-14.0	7.7	19.6
Net income		-44.6	-8.8	7.7	19.6
Adj. net income		-44.6	-8.8	7.7	19.6

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

Notes

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Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
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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TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
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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
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
17-Apr-12	BUY	5.24	3.88
10-May-12	BUY	5.24	3.72
6-Jun-12	BUY	5.24	3.42
21-Aug-12	BUY	5.24	4.89
30-Aug-12	BUY	U/R	4.88
31-Aug-12	U/R	U/R	4.81

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(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and Investment banking services in the last 12 months; percentage of clients in each rating category

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

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
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