BANCA IMI

Equity Company Note

Trevi

2013 Growth to be Driven by the Oil&Gas Business

Trevi - Key estimates and data				
Y/E December		2012A	2013E	2014E
Revenues	EUR M	1,115.32	1,196.34	1,267.42
EBITDA	EUR M	112.27	126.77	139.11
EBIT	EUR M	47.46	74.17	85.28
Net income	EUR M	10.80	26.31	32.37
Dividend ord.	EUR	0.13	0.13	0.13
Adj. EPS	EUR	0.15	0.37	0.46
EV/EBITDA	x	6.90	6.03	5.47
Adj. P/E	x	33.08	13.58	11.04

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

- **1Q13E results preview**. The group is to release 1Q13 results on 14 May after market closure, with a conference call scheduled for 15 May. We expect the first quarter of the year to show lower sales compared to the corresponding period of last year when Drillmec reached an exceptionally high level of deliveries. Anyway we expect the oil and gas business units to show a normalisation in the level of activity in the drilling equipment as already seen in the last quarter of 2012 while Petreven should fully benefit from the fourteenth rig which started operations in November 2012. As for the construction related business, we expect Trevi, the ground engineering foundation business to continue to deliver a good order backlog and for Soilmec we see a substantial stability. As regards the consolidated EBITDA margin, we would expect it to remain stable yoy as a result of a lower profitability by the services divisions which should be offset by a recovery in the mechanical business units. We also expect a normalised level of risk provisions and write-offs after the balance sheet clean up seen in 4Q12. In terms of net debt we expect a seasonal increase of the NWC in 1Q13 which should take the group's net debt close to EUR 450M, a level which would be consistent with our slight reduction estimated for the whole of 2013E. Should our top line forecast be confirmed we expect a consolidated order backlog of approximately EUR 900M at end-March 2013E.
- **Outlook**. Looking at the overall 2013 outlook we expect the group's top line growth to be driven by the oil and gas business: Drillmec should benefit from the expansion of its presence in the off-shore and from the important soft backlog particularly in Russia, Latin America and the Middle East and Petreven should end the year with two more active rigs (from 14 to 16). We are more cautious on the development of activities for the construction related divisions: Soilmec growth should continue to be limited by the low level of activity in Europe and the slowdown in India; Trevi, the core business, has a quite good order backlog which at present assures earnings visibility but modest growth. We expect the group to be able to recover a normalised profitability level in the mechanical divisions, helped by the top line growth and by the entry into the more profitable offshore market segment; as for the services business we expect a stabilisation of the operating profitability at the 4Q12 level. In terms of net debt we expect management to remain strongly committed to the control of net working capital and capex containment.
- **Estimates and valuation**. Based on recent results and business developments we slightly increased our 2013E-14E group top line forecasts by respectively 3.1% and 6.6% and our 2013E-14E EBITDA estimates by 2.8% and 4.9%. Our company's target price is calculated as the arithmetic average between the DCF-based and the 2013E peers' multiples-based SOP valuations. Based on our current estimates and updated market multiples, we increase our **target price to EUR 6.05/share** (from EUR 4.68/share) and we confirm our **ADD rating.**
- **Key risks**. Amongst the investment risks, we highlight that according to our forecasts the group's end-2013E net debt/EBITDA ratio should be around 3.5x, a quite high level, which could limit the group's financial flexibility. We also expect the group's markets to remain very competitive in 2013 especially for the mechanical divisions.

See page 13 for full disclosures and analyst certification

19 April 2013

ADD

Target Price: EUR 6.05 (from EUR 4.68)

Building & Materials Company Update

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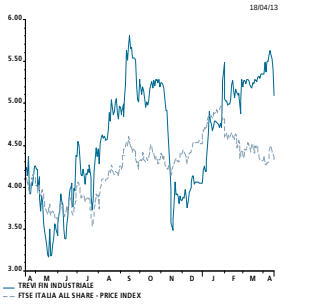
Price performance, -1Y



Source: Thomson Reuters

Data priced on 17.04.2013	
Target price (€)	6.05
Target upside (%)	18.86
Market price (€)	5.09
52-week range (€)	5.8/3.2
Market cap (€ M)	357.29
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	16425

Performance %			
Absolute		Rel. to FTSE All Sh	
-1M	-2.9	-1M	1.1
-3M	7.6	-3M	19.2
-12M	21.2	-12M	18.3

Source: Intesa Sanpaolo Research estimates and Thomson Reuters

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4Q/FY12A Results

2012 top line and EBITDA results higher than expected

The Trevi group's 2012A results were above our estimates, both in terms of the top line and EBITDA result but were in line with expectations at the EBIT level due to a significant amount of credit write-offs (EUR 7.3M in 2012 vs. EUR 2.3M in 2011) and risk provisions (EUR 8.3M vs. EUR 1M) mainly in the services division. No particular surprises emerged below the EBIT line. At the end of December, the group's net debt amounted to EUR 412.8M, and showed a significant decrease compared to end-September (EUR 480M) mainly benefiting from a strong reduction in NWC. Quite good news came from the order backlog, which at 31 December amounted to EUR 1,070.2M vs. EUR 871.5M at end-September 2012. The 2012A order inflow was EUR 1.17Bn, compared with EUR 1.28Bn in the previous year. 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 (90% of revenue in foreign countries), a presence in businesses characterised by diverse growth drivers, and the good quality of its order backlog. 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. We would however highlight the performance shown by the group in the last quarter of the year in terms of net debt reduction and Drillmec's operating profitability, which showed the company's ability to manage the troubles encountered in the third quarter.

Trevi - 4QA-FY12A results

EUR M	4Q12A	4Q12E	vs. est.	4Q11A	% yoy	2012A	2012E	vs. est.	2011A	% yoy
Revenues	296.9	265.7	11.7	337.3	-12.0	1115.3	1084.2	2.9	1061.4	5.1
EBITDA	38.4	26.3	46.0	21.9	75.6	112.3	100.2	12.1	119.0	-5.6
Margin (%)	12.9	9.9		6.5		10.1	9.2		11.2	
EBIT	15.3	15.9	-4.3	7.6	101.9	47.5	48.2	-1.4	69.3	-31.5
Margin (%)	5.1	6.0		2.2		4.3	4.4		6.5	
Pre-tax income	5.2	8.3	-37.9	5.9	-12.3	21.0	24.1	-13.1	51.3	-59.1
Net income	5.8	5.3	9.5	1.7	243.0	10.8	10.3	4.9	25.7	-58.0

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

Divisional results

Looking at the single divisions, we note that all of them showed a revenue improvement yoy, with the exception of Drillmec which in the third quarter of the year had to suspend the delivery of nine drilling plants due to liquidity problems by one of its important clients. Soilmec increased revenue by 6.4% yoy (before eliminations), as a result of higher revenues in the Americas and the Middle East, which more than offset the weakness registered in the domestic market and the rest of Europe, except for Eastern European countries. Drillmec, the drilling equipment division, declined by 7.4% yoy (before eliminations) mainly due to the sharp slowdown registered in the third quarter (-40.9% yoy) related to the suspension in the delivery of 9 drilling plants to an important client with liquidity problems. The company successfully managed to find new clients for the suspended order as shown by the division's revenue normalisation in the last quarter of the year and, thanks to the order inflow of the last few months, which laid the ground for the division to return to a growth path in the current year. We would highlight that in the last part of 2012 and beginning 2013, Drillmec continued to reap the benefits of its strong commercial efforts, enhancing its presence in the offshore business and widening its international presence particularly through the important contracts signed in Russia for Lukoil (entrance of Drillmec in the offshore market), in the Gulf of Mexico with Grupo Mexico and in the Middle East. As for services, Petreven (+10.6% yoy, before eliminations), whose business is less cyclical, started to operate in Brazil for Petra Energia with the supply in November 2012 of the first rig (out of the 3 ordered) and continued to provide its drilling services in Venezuela, Peru, Argentina and Colombia. Important contract renewals were signed during 2012 and at the beginning of 2013 with YPF in Argentina. Until November, the drilling services company operated 13 rigs, while a new one started operations in Brazil for Petra Energia in December 2012. We highlight that in February 2012 Petreven reached an agreement with the Brazilian company Petra Energy, which allowed Petreven to enter the Brazilian market and laid the ground for further growth of the drilling services business (1 or 2 new drilling plants should be supplied and operated for Petra by end-2013/beginning-2014). 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 (+12.1% yoy before eliminations), the ground engineering business, 2012 benefited from the strong order backlog at 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 stable level of activity in North America.

Trevi - Quarterly revenue by division 1Q11A-4Q12A

EUR M	1Q11A	2Q11A	3Q11A	4Q11A	FY11A	1Q12A	2Q12A	3Q12A	4Q12A	% yoy	% qoq	FY12A	% yoy
Machines for found. Wks.	50.6	58.3	47.1	66.0	222.0	49.4	72.8	48.9	65.2	-1.1	33.5	236.3	6.4
Drilling machinery	57.1	91.9	94.9	134.9	378.8	125.4	77.8	56.0	89.7	-33.5	60.1	348.9	-7.9
Elisions	-1.7	-0.5	-0.4	-1.5	-4.1	-0.4	-1.9	0.8	-0.5			-2.0	
Mechanical Division	**105.9**	**149.8**	**141.6**	**199.4**	**596.7**	**174.3**	**148.6**	**105.7**	**154.5**	**-22.5**	**46.2**	**583.2**	**-2.3**
Drilling services	22.0	22.0	23.1	31.5	98.6	22.8	22.2	28.9	35.2	11.6	21.6	109.1	10.6
Special foundation works	98.2	101.6	93.3	111.2	404.3	116.9	113.0	101.5	122.0	9.8	20.2	453.4	12.1
Elisions	-2.0	-1.5	-2.0	-2.0	-7.5	-1.2	-0.1	-2.1	-1.0			-4.4	
Services Division	**118.2**	**122.1**	**114.4**	**140.7**	**495.4**	**138.4**	**135.2**	**128.3**	**156.2**	**11.0**	**21.7**	**558.1**	**12.7**
Parent Company	3.1	3.0	3.0	4.0	13.1	3.4	3.5	3.2	3.3	-17.6	2.5	13.5	2.4
Elisions	-10.3	-17.3	-9.4	-6.8	-43.8	-8.4	-10.4	-3.6	-17.2			-39.5	
Consolidated Sales	**216.9**	**257.6**	**249.6**	**337.3**	**1061.4**	**307.8**	**276.9**	**233.7**	**296.9**	**-12.0**	**27.0**	**1115.3**	**5.1**

A: actual; Source: Company data

Decline in 2012 EBITDA margin

In 2012A the group showed a decline in the EBITDA margin of 110bps yoy to 10.1%, mainly due to the Mechanical business (-290bps yoy), while the Service activities (-10bps yoy) benefited from the exceptionally high profitability reached in 1Q12A. According to management, both the Soilmec and Drillmec operating profitability suffered from the tough market environment. In particular, management complained about: 1) the suspension of the delivery of 9 drilling plants to a group client; 2) the economic crisis that put selling prices under pressure, especially in Italy and the rest of Europe and made it difficult to recover cost inflation; 3) the troubles encountered in providing buyer's credit, which delayed some projects. However, we highlight that the last quarter of the year showed a significant recovery in profitability by the mechanical business as management was able to substitute the lost orders with new ones. We would also expect that the entrance of the group into the offshore market, should contribute to normalise Drillmec's operating profitability in the next few quarters. As for the service business, while the high 1Q12 operating profitability was not affected by structural factors, we note that the third and fourth quarters EBITDA margin declined compared to the previous ones, thus signalling a reduction in the core business operating profitability that we would expect to be structural at least for 2013 and 2014.

High risks provisions and write offs impacted the EBIT margin

The group's EBIT margin declined (-220bps yoy) more than the EBITDA margin mainly reflecting the significant increase in risk provisions and credit write-offs, above all in the Trevi division. According to management, the balance sheet clean up should be finished in 2012 and a more standard provisioning policy is planned for 2013. Below the EBIT line, we highlight that the group posted a significant increase in non-cash net foreign exchange losses (EUR 4.8M vs. EUR 0.3M in 2011), mainly related to the group's exposure to the US dollar. The 2012A consolidated tax rate was 45.2% in line with management's previous guidance of 44%.

Trevi - Quarterly Op. profitability by division 1Q11A-4Q12A

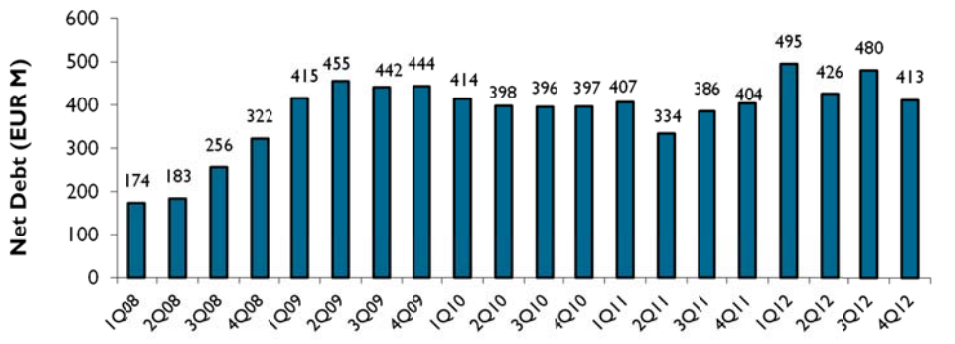
EUR M	1Q11A	2Q11A	3Q11A	4Q11A	FY11E	1Q12A	2Q12A	3Q12A	4Q12A	FY12A
Services										
Added Value	49.5	53.8	48.8	51.6	203.7	62.3	58.1	53.7	62.7	236.8
%	41.9	44.0	42.6	36.7	41.1	45.0	43.0	41.8	40.1	42.4
EBITDA	18.5	20.4	18.3	14.4	71.7	25.6	19.2	15.8	20.0	80.6
%	15.7	16.7	16.0	10.2	14.5	18.5	14.2	12.3	12.8	14.4
EBIT	10.4	11.9	10.2	5.4	37.9	16.6	8.6	4.8	1.2	31.1
%	8.8	9.7	8.9	3.8	7.6	12.0	6.3	3.7	0.8	5.6
Mechanicals										
Added Value	27.0	29.7	27.7	21.6	106.0	20.2	24.3	12.5	36.2	93.2
%	25.5	19.8	19.5	10.8	17.8	11.6	16.4	11.8	23.4	16.0
EBITDA	14.0	14.8	14.0	7.0	49.8	5.9	7.9	-1.3	19.2	31.7
%	13.2	9.9	9.9	3.5	8.3	3.4	5.3	-1.2	12.4	5.4
EBIT	10.7	11.7	10.7	2.0	35.1	2.3	4.1	-4.8	14.9	16.5
%	10.1	7.8	7.6	1.0	5.9	1.3	2.8	-4.5	9.6	2.8

A: actual; Source: Company data

Strong drop in 2012 net debt

At end-December 2012, the group's net debt was EUR 412.8M, significantly lower vs. the EUR 480M at end-September 2012 and slightly up vs. end-2011 (EUR 404M). In the last quarter of the year the company significantly reduced the net working capital thanks to the relocation of the plants whose delivery was suspended in the third quarter and to the closing of some new contracts in the oil and gas sector, which allowed the group to cash in some advance payments.

Trevi - Quarterly net debt 2008A-12A



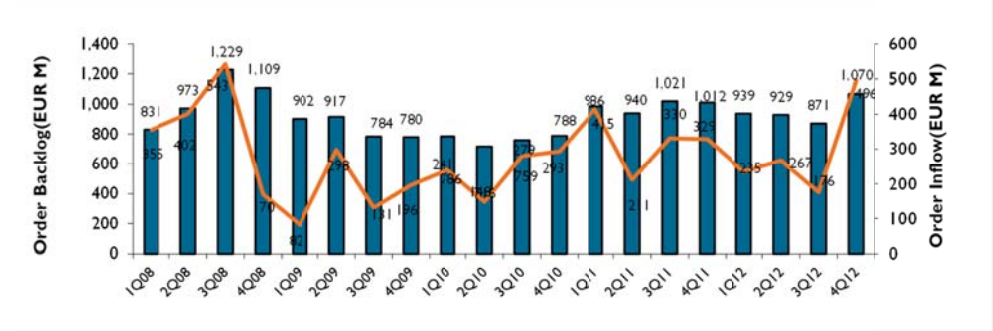
A: actual; Source: Company data

Order backlog

Order backlog increased compared to end-2011

At 31 December 2012, the group's order backlog reached EUR 1.07Bn, with a significant increase compared to end-September 2012 (EUR 871M) and up also vs. December 2011 (EUR 1,01Bn). We highlight that the end-2012 backlog already included orders for a total amount of USD 410M won by Drillmec and Petreven in 2012 but announced and finalised in the first few months of 2013. The 2012A order inflow amounted to EUR 1.17Bn slightly down compared to EUR 1.28Bn in 2011 but confirmed the group's ability to compete in the international arena and the importance to the group of being present in different business segments.

Trevi - Quarterly order backlog and inflow 2008A-12A



A: actual; Source: Company data

Trevi - Order backlog by division

EUR M	Backlog FY10A	Backlog FY11A	Backlog 9M12A	Backlog FY12A	% yoy	vs. Sep. 2012A
Machines for foundations works(Soilmec)	55	61	35	32	-47.2	-7.9
Drilling machinery(Drillmec)	102	223	131	310	39.3	137.4
Mechanical Divisions	**158**	**284**	**166**	**342**	**20.8**	**106.8**
Drilling services(Petreven)	158	152	192	253	66.3	31.7
Special foundations works(Trevi)	473	577	514	475	-17.7	-7.6
Services Divisions	**631**	**729**	**706**	**728**	**-0.2**	**3.1**
Group Total	**788**	**1013**	**871**	**1070**	**5.7**	**22.8**

A: actual; Source: Company data

Earnings Outlook

1Q13 results preview

Trevi - 1Q13E results preview			
EUR M	1Q13E	1Q12A	% yoy
Revenues	291.0	307.8	-5.5
EBITDA	29.8	31.7	-6.0
Margin (%)	10.2	10.3	
EBIT	16.6	19.1	-12.8
Margin (%)	5.7	6.2	
Pre-tax income	10.6	12.7	-16.6
Net income	5.6	8.2	-32.5

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

Lower 1Q13 sales expected vs. 1Q12

The group is to release 1Q13 results on 14 May after market closure, with a conference call scheduled for 15 May. We expect the first quarter of the year to show lower sales compared to the corresponding period of last year when Drillmec reached an exceptionally high level of deliveries. Anyway we expect the oil and gas business units to show a normalisation of the level of activity in the drilling equipment as already seen in the last quarter of 2012 while Petreven should fully benefit from the fourteenth rig which started operations in November 2012. As for the construction related business, we expect Trevi, the ground engineering foundation business to continue to deliver the good order backlog and we see Soilmec as being substantially stable. As regards the consolidated EBITDA margin, we would expect it to remain stable yoy as a result of a lower profitability by the service divisions, which should be offset by a recovery in the mechanical business units. We also expect a normalised level of risk provisions and write-offs after the balance sheet clean up seen in 4Q12. In terms of net debt we expect a seasonal increase of the NWC in 1Q13 which should take the group's net debt close to EUR 450M, a level which should be consistent with our slight reduction estimated for the whole of 2013E. Should our top line forecast be confirmed we expect a consolidated order backlog of approximately EUR 900M at end-March 2013E.

2013 outlook

2013 top line to be driven by the oil and gas business

Looking at the overall 2013 outlook we expect the group's top line growth to be driven by the oil and gas business: Drillmec should benefit from the important orders announced at the beginning of 2013, from the positive effect of the "relocation" of the plants whose delivery was suspended in 2012, from the expansion of its presence in the offshore segment and the important soft backlog, particularly in Russia, Latin America and Middle East. Petreven should end the year with one or two more active rigs, one of which related to the contract signed with Petra Energia in Brazil. We are more cautious on the development of activities for the construction related divisions: Soilmec should continue to benefit from the recovery in the US and a gradual increase of activity in the Middle East, but should suffer from the slowdown of activities in India and Europe; Trevi, the core business, has quite a good order backlog which at present assures earnings visibility but a modest growth. We expect the group to be able to return to a normalised profitability level in the mechanical divisions helped by the top line growth and by entrance into the more profitable offshore segment, which should offset the margin compression experimented in the onshore. As for the service business, we expect a stabilisation of the operating profitability at the same level as that of 4Q12.

We expect management to maintain strict NWC and capex control

In terms of net debt we expect management to remain strongly committed to the control of net working capital through the negotiation with clients of more favourable payment conditions and the discount of non-recourse invoices. The company should also pay greater attention to capex containment.

Based on the abovementioned points and the recent business developments we changed our 2013E-14E group forecasts as shown in the following table:

Trevi - 2013E-14E estimates revision

	FY13E			FY14E		
EUR M	New	Old	% chg.	New	Old	% chg.
Revenues	1,196.3	1,159.9	3.1	1,267.4	1,188.9	6.6
EBITDA	126.8	123.3	2.8	139.1	132.6	4.9
Margin (%)	10.6	10.6		11.0	11.2	
EBIT	74.2	71.9	3.1	85.3	80.5	5.9
Margin (%)	6.2	6.2		6.7	6.8	
Pre-tax income	50.0	47.9	4.5	61.5	56.8	8.3
Net income	26.3	25.4	3.5	32.4	30.2	7.2

A: actual; Source: Company data

Trevi – 2012E-14E divisional sales and profitability

EUR M	2012E/A	% yoy	% on sales	2013E	% yoy	% on sales	2014E	% yoy	% on sales
Special foundations works	461.7	13.0	41	470.9	2.0	39	492.1	4.5	41
Drilling services	109.1	10.7	10	120.7	10.6	10	136.4	13.0	11
Machines for foundations works	210.0	3.9	19	210.0	0.0	18	220.5	5.0	17
Drilling machinery	334.5	-5.0	30	394.7	18.0	33	418.4	6.0	33
Group revenue	1115.3	5.1		1196.3	7.3		1267.4	5.9	
EBITDA per B.U.									
EUR M	2012E/A	% yoy	on EBITDA	2013E	% yoy	on EBITDA	2014E	% yoy	on EBITDA
Special foundations works	60.9	20.7	54	59.8	-1.9	47	62.5	4.5	49
% margin	13.2			12.7			12.7		
Drilling services	19.6	-7.4	17	21.7	10.6	17	24.5	13.0	19
% margin	18.0			18.0			18.0		
Machines for foundations works	9.7	3.9	9	9.7	0.0	8	12.3	27.8	10
% margin	4.6			4.6			5.6		
Drilling machinery	22.0	-45.6	20	35.5	61.2	28	39.7	11.9	31
% margin	6.6			9.0			9.5		
Group EBITDA	112.3	-7.6		126.7	12.9		139.1	9.8	
% margin	10.1			10.6			11.0		

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

We left our 2013E-14E net debt forecasts substantially unchanged at respectively EUR 405.7M (EUR 403M previous estimate) and EUR 398.6M (EUR 399M) as we believe that management will continue to focus on NWC control and capex containment.

Valuation

DCF based sum-of-the-parts valuation

DCF-based SOP valuation of EUR 6.05/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 6.05/share**, up vs. our previous EUR 4.57/share. The fair value increase is essentially related to the slight increase in our 2013E-14E group forecasts and to the roll-over of our 5-year explicit forecast period.

Trevi - SOP valuation based on DCF		
Company division	Valuation method	EUR M
EV Construction related business	DCF model	517
EV Drilling related business	DCF model	320
Total EV		837
Net Debt as at 31 December 2012		413
SOP Value		425
n° of shares (M)		70
Fair value/share (EUR)		6.05
Current share price (EUR)		5.11
Upside(+)/Downside(-) potential %		18.4

Source: Intesa Sanpaolo Research estimates

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

Peers comparison-based SOP valuation of EUR 6.05/share on 2013E

We also value the 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	
	2013E	2014E
Skanska	7.4	7.1
Hochtief AG	2.9	2.8
Bilfinger & Berger AG	6.1	5.5
Fomento Const y Contr(Fcc	6.9	7.0
Vinci	5.9	5.6
Keller	5.7	5.1
Bauer	5.3	4.8
Median	5.9	5.5

Source: FactSet

Drilling equipment peers' multiples		
x	EV/EBITDA	
	2013E	2014E
National Oilwell Varco	5.9	4.7
Cooper Cameron Corp	8.8	6.6
Fmc Technologies Inc	12.7	9.7
Dril Quip	12.1	9.1
Saipem	8.7	6.3
Technip	7.1	5.5
Median	8.7	6.5

Source: FactSet

Drilling services peers' multiples		
x	EV/EBITDA	
	2013E	2014E
Transocean Ltd.	6.8	5.7
Noble Corp.	7.3	5.4
Diamond Offshore Drilling Inc.	8.2	5.5
ENSCO PLC ADS	6.6	5.5
Hercules Offshore Inc.	5.0	3.7
Median	6.8	5.5

Source: FactSet

Trevi - SOP valuation based on 2013E peers' multiples		
Company Division	Valuation method	
EV Special Foundation Works	Peers Comparison	319
EV Drilling Equipment	Peers Comparison	310
EV Drilling Services	Peers Comparison	147
EV Special Foundation Machines	Peers Comparison	52
Total EV		827
Net debt December 2013E		403
SOP Value		424
n° of shares (M)		70
Fair value/share (EUR)		6.05
Current share price (EUR)		5.11
Upside(+)/downside(-) potential %		18.3

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 6.05/share** (EUR 4.79/share previously).

Conclusion

DCF and SOP-based valuations points to EUR 6.05/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 increase our **target price to EUR 6.05/share** (EUR 4.68/share previously) and confirm our **ADD rating.**

Key risks

Amongst the investment risks, we highlight that according to our forecasts the group's end-2013E net debt/EBITDA ratio should be around 3.5x, quite a high level that could limit the group's financial flexibility. In addition, we expect the group's markets to remain very competitive in 2013 especially for the mechanical divisions.

Trevi - Key figures

			Ordinary		Rating
Sector	Building & Materials	Mkt price EUR/Share	5.09		**ADD**
REUTERS CODE	TFI.MI	Target price EUR/Share	6.05		
Values per share (EUR)		2011A	2012A	2013E	2014E
No. ordinary shares (M)		70.19	70.19	70.19	70.19
No. NC saving/preferred shares (M)		-	-	-	-
Total no. of shares (M)		70.19	70.19	70.19	70.19
Adj. EPS		0.37	0.15	0.37	0.46
CFPS		1.03	0.85	1.08	1.19
BVPS		6.07	5.97	6.22	6.55
Dividend Ord		0.13	0.13	0.13	0.13
Dividend SAV Nc		-	-	-	-
Income statement (EUR M)		2011A	2012A	2013E	2014E
Sales		1,061.4	1,115.3	1,196.3	1,267.4
EBITDA		119.0	112.3	126.8	139.1
EBIT		69.3	47.5	74.2	85.3
Pre-tax income		51.3	21.0	50.0	61.5
Net income		25.7	10.8	26.3	32.4
Adj. net income		25.7	10.8	26.3	32.4
Cash flow (EUR M)		2011A	2012A	2013E	2014E
Net income before minorities		27.1	11.5	28.0	34.5
Depreciation and provisions		46.3	49.2	49.6	50.8
Change in working capital		-71.9	5.0	1.3	-12.2
Operating cash flow		1.5	65.7	78.9	73.0
Capital expenditure		-72.4	-73.2	-60.0	-60.0
Other (uses of Funds)		27.1	7.9	0.0	0.0
Free cash flow		-43.8	0.4	18.9	13.0
Dividends and equity changes		-8.3	-9.5	-9.1	-9.1
Net cash flow		-52.1	-9.0	9.7	3.9
Balance sheet (EUR M)		2011A	2012A	2013E	2014E
Net capital employed		841.7	844.7	853.9	875.3
of which associates		-	-	-	-
Net debt/-cash		403.8	412.8	403.1	399.2
Minorities		12.1	12.5	14.2	16.3
Net equity		425.8	419.3	436.5	459.8
Market cap		357.3	357.3	357.3	357.3
Minorities value		4.1	4.1	4.0	3.8
Enterprise value (*)		765.2	774.3	764.4	760.3
Stock market ratios (x)		2011A	2012A	2013E	2014E
Adj. P/E		13.9	33.1	13.6	11.0
P/CEPS		5.0	6.0	4.7	4.3
P/BVPS		0.8	0.9	0.8	0.8
Dividend yield (% ord)		2.6	2.6	2.6	2.6
Dividend yield (% sav)		-	-	-	-
EV/sales		0.7	0.7	0.64	0.60
EV/EBITDA		6.4	6.9	6.03	5.47
EV/EBIT		11.0	16.3	10.31	8.91
EV/CE		0.9	0.9	0.90	0.87
D/EBITDA		3.4	3.7	3.18	2.87
D/EBIT		5.8	8.7	5.43	4.68
Profitability & financial ratios (%)		2011A	2012A	2013E	2014E
EBITDA margin		11.2	10.1	10.6	11.0
EBIT margin		6.5	4.3	6.2	6.7
Tax rate		47.2	45.2	44.0	44.0
Net income margin		2.4	1.0	2.2	2.6
ROE		6.0	2.6	6.0	7.0
Debt/equity ratio		0.9	1.0	0.9	0.8
Growth (%)			2012A	2013E	2014E
Sales			5.1	7.3	5.9
EBITDA			-5.6	12.9	9.7
EBIT			-31.5	56.3	15.0
Pre-tax income			-59.1	138.3	23.0
Net income			-58.0	143.6	23.0
Adj. net income			-58.0	143.6	23.0

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

Notes

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ADD	If the target price is 10%-20% higher than the market price
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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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MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

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
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
10-Sep-12	HOLD	4.95	4.99
13-Nov-12	HOLD	4.95	4.91
15-Nov-12	HOLD	U/R	4.23
23-Nov-12	ADD	4.68	4.06
5-Mar-13	ADD	U/R	5.27
22-Mar-13	ADD	4.68	5.28

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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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