Trevi-Finanziaria Industriale SPA

Earnings Review BUY

Equity | Italy | Engineering & Construction
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Bank of America Merrill Lynch
RESEARCH

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2008 delivers record results

2008 results mark a record year: revs +27%, profits +34%

Trevi's business model, built around four pillars, continues to deliver. Revenues increased by +27% to €1069mn, ahead of our €1054mn estimate. EBITDA was roughly in line at €166.3mn (15.6% of sales), EBIT short by €1mn at €127.6mn (11.9% of sales). EPS (reported) rose +34% to €1.11 (vs BAS-MLe €1.06).

Foundation Equipment: a weak Q4 and weaker ST outlook

As flagged in our previous notes, Foundation Equipment demand fell in Q4. Revs in this unit decreased by c.15%, while orders fell by 40% (revs from machines sold at no margin to internal Service units increased by 50% in 2008, of which almost 40% relate to Q4). The impact on margins was also significant, despite revs in the Drilling Equipment unit growing 33% in Q4. The EBIT of the two Equipment units combined fell 860bp in Q408 vs FY07. In the light of these numbers, we do think that revs in Foundation Equipment could fall 30-40% in Q1/Q2 09, but expect demand to recover towards H209. Anyhow, the Group's consolidated revenues and EBIT is expected to benefit from the Services units' sustained contribution (52% of total 2009 EBIT) and that of the Drilling Equipment division (estimated at c.34%).

ST outlook remains moderately positive: backlog at €1.1bn

The firm order backlog fell by c.9% during Q4 to €1,109mn, not bad in our view given the macro economical context, but remains 56% above that seen a year ago. Plus, we understand there has been no order cancellation. We think the order slowdown in some areas (machinery) may continue for another one or two quarters, but do expect to see a recovery towards the end of the year. Also, we think mgmt has adopted a prudent approach in revs and cost recognition of works in progress, as well as accounting for provisions, which could also positively impact 2009 results in our opinion.

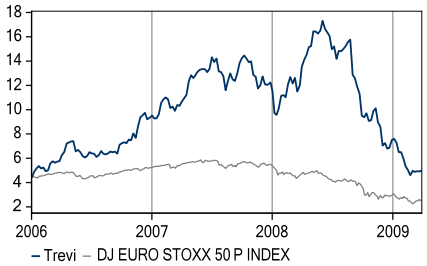
Positive LT view on business model reiterated. Buy, PO €8.0

We think that right now for many investors the focus remains on 2010 and beyond. In our view, Trevi's successful four-pillar-business model, its appealing product portfolio and increasing new client/application penetration remain a winning formula, especially in the light of the recent three strategic acquisitions to gain presence in key areas (Saudi Arabia, Colombia/Peru/Panama, USA) and our oil analysts' confidence that the oil market has now approached a cyclical low and prices should recover in 2010-11 (see Oil & Gas, 18 March 2009).

With no balance sheet issues (net debt/EBITDA closed 2008 at 1.9x) and trading at 5.6-5.8x fwd P/E and 3.6-3.3x fwd EV/EBITDA, we think the market valuation is undemanding. We reiterate our Buy rating and PO of €8.0 /share.

Stock Data

Price	EUR5.14
Price Objective	EUR8.00
Date Established	23-Mar-2009
Investment Opinion	B-1-8
Volatility Risk	MEDIUM
ML Symbol / Exchange	TVFZF / MIL
Bloomberg / Reuters	TFI IM / TFI.MI



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Refer to important disclosures on page 4 to 6. Analyst Certification on Page 2. Price Objective Basis/Risk on page 2.

Summary of results

Table 1: Trevi - summary of 2008 results

	Q4 07	2007	Q3 08	Q4 08	2008	ML 2008E	2009E	2010E
Sales	252.5	842.0		293.4	1069.2	1054.0	1138.4	1180.4
Sales growth		30.2%		16.2%	27.0%	25.9%	8.0%	3.7%
EBITDA	48.7	134.0		39.4	166.3	166.8	163.7	159.4
EBITDA growth		51.2%		-19.1%	24.1%	28.8%	-1.9%	-2.6%
EBITDA margin	19.3%	15.5%		13.4%	15.6%	15.8%	14.4%	13.5%
EBIT	38.8	104.0		25.4	127.6	128.8	118.8	112.5
EBIT growth		71.2%		-34.6%	22.7%	29.6%	-7.8%	-5.3%
EBIT margin	15.4%	11.9%		8.6%	11.9%	12.2%	10.4%	9.5%
PBT		85.9		17.2	109.2	112.7	99.2	96.8
NI		55.8			74.7	71.9	62.6	60.4
EPS reported		0.82			1.11	1.06	0.92	0.89
EPS adjusted		0.82			1.09	1.05	0.91	0.88
EPS change		115.9%			32.9%	28.1%	-12.8%	-3.4%
NWC on sales		15.3%	32.4%		estimated 27-29%	29.0%	22.0%	20.0%
Inventories		171	330		336	295	262	260
Trade receivables		188	308		estimated 290-310	327	285	283
Net debt		143	256		322	305	237	179
Net gearing		0.9	1.2		1.4	1.4	0.9	0.6
Net debt/EBITDA		1.1	1.5		1.9	1.8	1.4	1.1
Order backlog	681	709	1,229		1,109	1,200		

Source: Company data, Banc of America Securities-Merrill Lynch estimates

Price objective basis & risk

Trevi-Finanziaria Industriale SPA (TVFZF)

Our 12M price objective of EUR8.0 is based on a weighted, three-stage DCF model for 2008E and 2009E, which assumes: 1) two years with a +16% sales CAGR, 2) four years of +2.8% CAGR of sales, gradually converging to the final stage, 3) stable 1.5% EBIT growth. We use a WACC of 10% and a tax rate of 35%. We have also subtracted the estimated advanced cash payments for WIP (c.EUR50mn in 2008) and the debt portion of the convertible, EUR64mn, from the net debt, while taking full account of the dilution (an additional 6.2m shares). Our PO implies a 2010E PE of 9.1x and EV/EBITDA of 4.2x, or a 40% discount vs our EMEA Construction & Engineering coverage universe (excluding two outlyers) and a 16% discount vs our EMEA Oil & Gas Equipment & Services coverage universe (based on 2010E EV/EBITDA).

The risks to our price objective would be: 1) risks related to the political stability and funding/budgeting in the countries of operation, 2) currency fluctuations, 3) a long-lasting, global recession, and other potential problems due to the credit crunch, such as project delays, cash flow and NWC risks, or higher competition due to decreasing demand, 4) execution risk in sizeable project commissions and potential liquidity or funding difficulties faced by clients, 5) the scarcity of skilled labour, should demand remain strong, and 6) the slashing of capex by oil companies due to downward oil price prospects.

Analyst Certification

I, Unai Franco, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or

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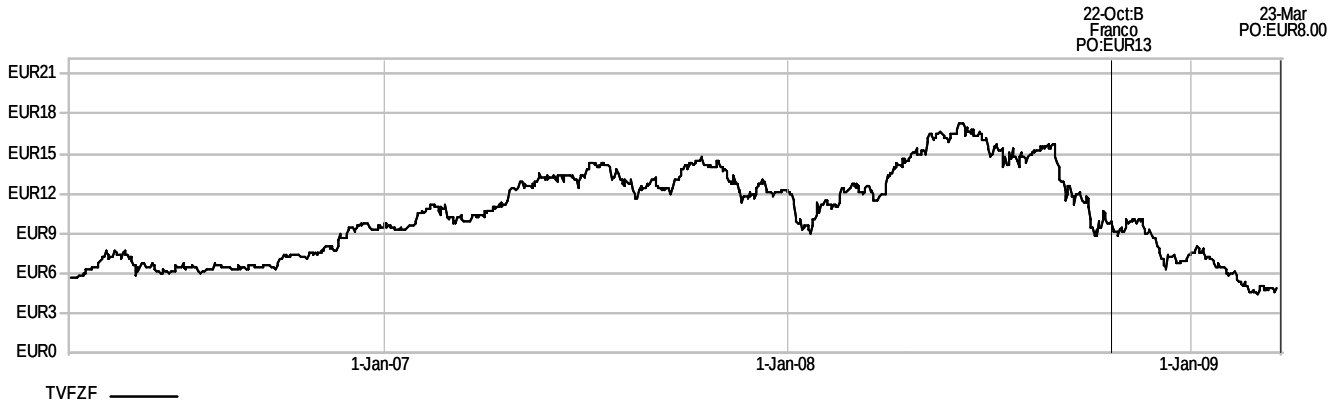
TVFZF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

"Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of February 28, 2009 or such later date as indicated.

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	21	60.00%	Buy	4	23.53%
Neutral	7	20.00%	Neutral	1	16.67%
Sell	7	20.00%	Sell	2	28.57%

Investment Rating Distribution: Global Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1297	38.46%	Buy	314	26.81%
Neutral	859	25.47%	Neutral	210	28.23%
Sell	1216	36.06%	Sell	229	20.71%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
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