Trevi Finanziaria

ITALY / Construction

New Coverage

HOLD *(New coverage)*

Target: € 13.2 *(New coverage)*

Risk: High

Price €	13.0
Bloomberg code	TFI IM
Market Cap. (€ mn)	835
Free Float	45%
Shares Out. (mn)	64.0
52-week range	7.55 - 13.38
Daily Volumes (mn)	0.21

PERFORMANCE	1M	3M	12M
Absolute	11.4%	7.8%	49.0%
Rel. to FTSE all shares	9.5%	17.0%	47.5%

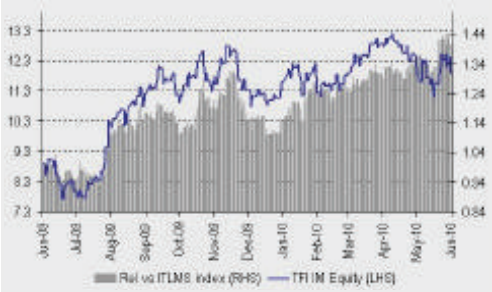
MAIN METRICS	2009	2010E	2011E
Revenues	1,036	981	1,062
EBITDA	182	158	171
Net income	82	65	77
Adj. EPS (€ cents)	128.4	101.3	109.5
DPS (€ cents)	12.0	14.0	14.0

MULTIPLES	2009	2010E	2011E
FD Adj. PE	9.3 x	13.9 x	11.9 x
EV/EBITDA	6.3 x	7.7 x	6.7 x

REMUNERATION	2009	2010E	2011E
Div. Yield	1.1%	1.1%	1.1%
FCF yield	-16.2%	9.0%	9.8%

INDEBTEDNESS	2009	2010E	2011E
NFP	-444	-377	-226
Debt/EBITDA	2.4 x	2.4 x	1.3 x
Interests cov	14.3 x	9.2 x	12.6 x

PRICE ORD LAST 365 DAYS



ANALYSTS

Giuseppe Mapelli- +39 026204845 – g.mapelli@equitasim.it

June 15, 2010 # 205

EQUITA SIM SpA

A GREAT COMPANY FAIRLY VALUED

We start the coverage with an HOLD recommendation. The quality of the company is an unquestionable issue but current multiples already discount group's future growth prospects.

A unique mix of businesses

The Trevi Group (TFI) – originally founded in 1957 and listed on the Milan Bourse since July 1999 – consists of **4 divisions active in different but related business segments**, i.e. Trevi, Soilmec, Drillmec, and Petreven:

- **Trevi** executes special works in the **underground engineering** segment
- **Soilmec** produces **plant and machinery** used for **underground engineering**
- **Drillmec** produces **mechanical systems**, innovative **hydraulic systems** and accessories for **oil, geothermal and water drilling**
- **Petreven** is active in **onshore drilling, operating the drilling systems made by Drillmec** (solely hydraulic systems, i.e. the **HH Series**).

Main growth driver

TFI's growth is closely linked to:

- The **infrastructures sector** (bridges, city rail systems, railways, and ports)
- **Development of modern cities** which are increasingly opting for verticalisation with the construction both of skyscrapers and of underground car parks
- Plans for **restoration and revamping of dams built during the 20th century** (the US market, to which Trevi is very exposed, shows great potential in this specific area of activity)
- **Oil E&P sector as far as onshore drilling is concerned**

Investment case

TFI features:

- A **unique business model** based on co-existence of four different divisions able to fuel **continuous innovation** as regards both **processes** and **products**
- Know-how that is very hard to emulate, coming from over 50 years of experience in the field
- Excellent **geographical diversification** and major exposure to **emerging countries** (70% of revenues are generated outside Europe and the USA)
- **Winning technology** in the onshore drilling segment
- A **dominant position** in the segment concerning consolidation of dams.

At the same time, however:

- The **Foundations division** hit an **all-time top-line record** in 2009
- **Soilmec's market of reference does not show clear signs of inversion** of the sales negative trend experienced in 2008/2009
- During 2008 and 2009 there was a **significant increase in working capital** due to delays in client payments (we nevertheless point out that 1Q10 showed faint signs of inversion of this trend).

At **14x 2010E earnings and 12x 2011E earnings, we think the stock fairly reflects the group's future growth prospects.** We would once again become buyers of the stock in the region of € 10-11 per share.

Award of works for the Mosul dam could be a significant catalyst and would cause us to revise our present target priced upwards by about € 1.2.

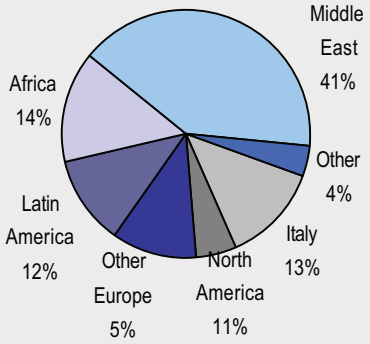
BUSINESS DESCRIPTION

The Trevi Group- originally founded in 1957 - consists of 4 divisions active in different but related business segments:

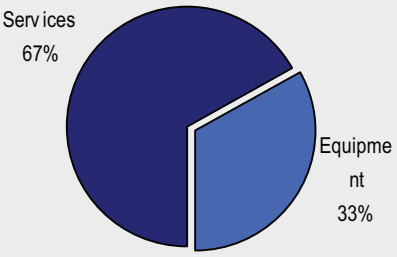
- Trevi executes special works in the underground engineering segment
- Soilmec produces plant and machinery used for underground engineering
- Drillmec produces mechanical systems, innovative hydraulic systems and accessories for oil, geothermal and water drilling
- Petreven is active in onshore drilling, operating the drilling systems made by Drillmec (solely hydraulic systems, i.e. the HH Series).

TFI is active in over 32 countries via some 45 operating companies and thus features good geographical diversification of revenues (70% are outside Europe and USA).

REVENUES - 2010



EBIT - 2010



MAIN FIGURES € mn	2007	2008	2009	2010E	2011E	2012E
Revenues	**842**	**1,069**	**1,036**	**981**	**1,062**	**1,143**
Growth	31%	27%	-3%	-5%	8%	8%
EBITDA	**134**	**166**	**182**	**158**	**171**	**186**
Growth	56%	24%	9%	-13%	9%	9%
Adj. EBITDA	**134**	**166**	**182**	**158**	**171**	**186**
Growth	56%	24%	9%	-13%	9%	9%
EBIT	**104**	**128**	**117**	**113**	**126**	**141**
Growth	79%	23%	-8%	-4%	12%	12%
Profit before tax	**86**	**109**	**105**	**95**	**113**	**130**
Growth	102%	27%	-4%	-9%	18%	16%
Net income	**56**	**75**	**82**	**65**	**77**	**89**
Growth	108%	34%	10%	-21%	19%	16%
Adj. net income	**56**	**75**	**82**	**65**	**77**	**89**
Growth	108%	34%	10%	-21%	19%	16%

MARGIN	2007	2008	2009	2010E	2011E	2012E
Ebitda Margin	15.9%	15.6%	17.6%	16.1%	16.1%	16.3%
Ebitda adj Margin	15.9%	15.6%	17.6%	16.1%	16.1%	16.3%
Ebit margin	12.4%	11.9%	11.3%	11.5%	11.9%	12.3%
Pbt margin	10.2%	10.2%	10.1%	9.7%	10.6%	11.4%
Ni rep margin	6.6%	7.0%	7.9%	6.6%	7.2%	7.8%
Ni adj margin	6.6%	7.0%	7.9%	6.6%	7.2%	7.8%

SHARE DATA	2007	2008	2009	2010E	2011E	2012E
FD EPS (€ cents)	81.0	107.9	118.5	93.9	109.5	127.2
Growth	112.4%	33.2%	10%	-21%	17%	16%
FD Adj. EPS (€ cents)	81.0	107.9	118.5	93.9	109.5	127.2
Growth	112.4%	33.2%	10%	-21%	17%	16%
DPS (€ cents)	10.0	12.0	12.0	14.0	14.0	14.0
BVPS (€)	2.4	3.5	4.7	5.6	6.1	7.2

VARIOUS - € mn	2007	2008	2009	2010E	2011E	2012E
Capital emloyed	299	549	746	736	653	704
FCF - € mn	25	-173	-114	75	90	38
Capex	39	117	75	61	62	64
Working capital	134	272	437	406	370	397

INDEBTNESS - €mn	2007	2008	2009	2010E	2011E	2012E
NFP	-143	-322	-444	-377	-226	-198
D/E	0.91 x	1.42 x	1.47 x	1.05 x	0.53 x	0.39 x
Debt/EBITDA	1.1 x	1.9 x	2.4 x	2.4 x	1.3 x	1.1 x
Interests cov	7.4 x	9.0 x	14.3 x	9.2 x	12.6 x	17.6 x

MARKET RATIOS	2007	2008	2009	2010E	2011E	2012E
FD PE	15.1 x	6.8 x	9.3 x	13.9 x	11.9 x	10.3 x
FD Adj. PE	15.1 x	6.8 x	9.3 x	13.9 x	11.9 x	10.3 x
PBV	5.0 x	2.1 x	2.3 x	2.3 x	2.1 x	1.8 x
P/CF	9.5 x	4.4 x	5.7 x	8.0 x	7.8 x	7.1 x

EV FIGURES	2007	2008	2009	2010E	2011E	2012E
EV/Sales	1.1 x	0.7 x	1.0 x	1.2 x	1.0 x	0.9 x
EV/EBITDA	6.9 x	4.8 x	6.3 x	7.7 x	6.7 x	6.0 x
EV/EBIT	8.9 x	6.2 x	9.8 x	10.7 x	9.0 x	7.9 x
EV/CE	3.1 x	1.4 x	1.5 x	1.6 x	1.7 x	1.6 x

REMUNERATION	2007	2008	2009	2010E	2011E	2012E
Div. Yield	0.8%	1.6%	1.1%	1.1%	1.1%	1.1%
FCF yield	3.2%	-36.7%	-16.2%	9.0%	9.8%	4.2%
ROE	40.1%	39.0%	31.1%	19.6%	19.5%	19.1%
ROCE	23.4%	21.3%	14.6%	10.6%	12.7%	14.5%

Source: EQUITA SIM estimates & company data

COMPANY OVERVIEW

The Trevi Group (TFI) – originally founded in 1957 and listed on the Milan Bourse since July 1999 – consists of **4 divisions active in different but related business segments**, i.e. Trevi, Soilmec, Drillmec, and Petreven:

- **Trevi** executes special works in the **underground engineering** segment
- **Soilmec** produces **plant and machinery** used for **underground engineering**
- **Drillmec** produces **mechanical systems**, innovative **hydraulic systems** and accessories for **oil, geothermal and water drilling**
- **Petreven** is active in **onshore drilling, operating the drilling systems made by Drillmec** (solely hydraulic systems, i.e. the **HH Series**).

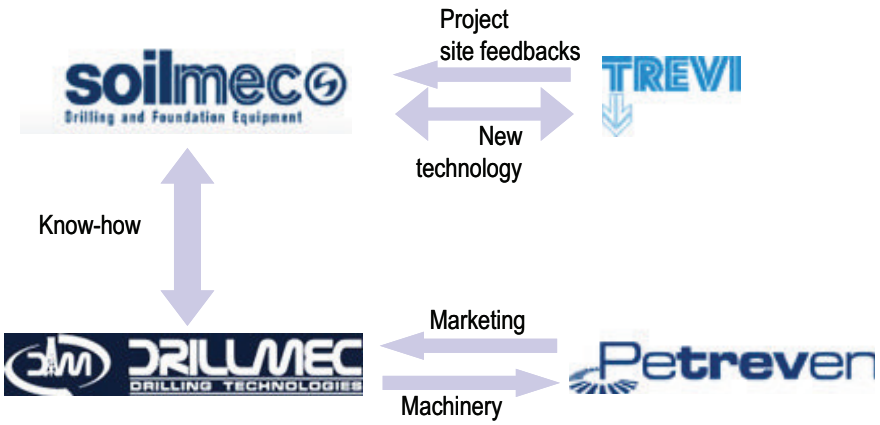
TREVI GROUP

Source: Company presentation

The order in which the four different divisions are listed also indicates the chronological sequence with which the group's various business segments were created and developed, applying a criterion of synergic diversification:

- The **know-how developed in Trevi** in the construction of foundations was and is constantly **exploited in Soilmec** to create a **full range of equipment** able to meet the most widely varying needs of operators in the foundations sector.
- The **technology developed in Soilmec** was in turn used to start production of the first items of machinery for oil, geothermal and water drilling. This business segment was then spun off to create Drillmec (in terms of type of machinery the boundary between Soilmec and Drillmec is very permeable).
- Drillmec's development of **innovative hydraulic drilling technology** (the HH Series) led Trevi's management to found **Petreven**, which entered the vast onshore drilling market with the specific **mission of developing and boosting interest** – in an extremely conservative sector - **in a new, and much better performing technology**

CROSS FERTILIZATION OF THE KNOW HOW



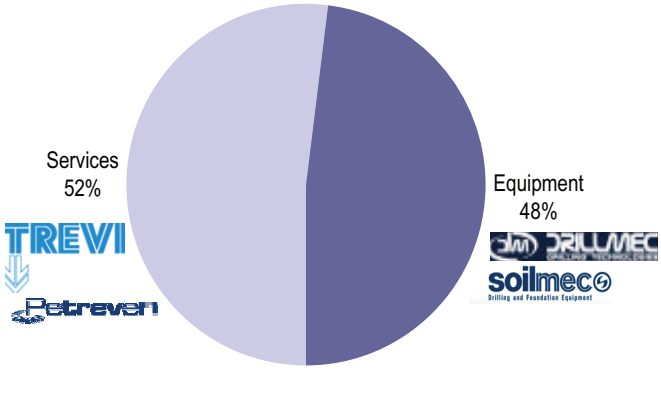
Source: EQUITA SIM

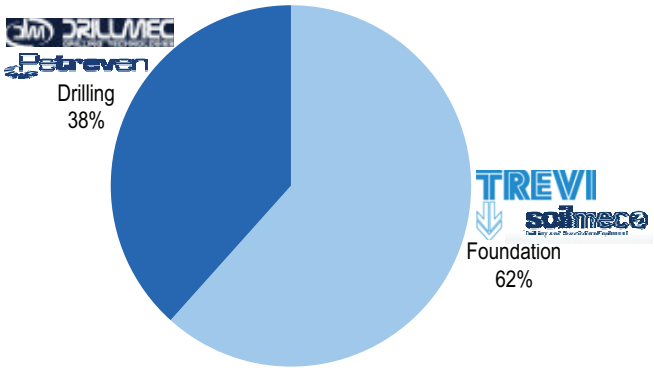
The four divisions just mentioned are joined by **Trevi Energy** (which should currently be considered to be in **start-up** mode), active in the **design and development of offshore wind farms.**
Once again in this case the aim of diversification is to exploit (a) possible **synergies with Drillmec & Soilmec** for the production of **wind turbines** and (b) **synergies with Trevi** for **construction of the cement platforms** necessary for installation of the towers in the open sea.

The relationships between the four divisions lend themselves to **dual representation of the group.** In effect, TFI can be viewed:

- Either as a company consisting of a **Service division** (Trevi + Petreven), focused on continuous process innovation, and an **Engineering division** (Drillmec + Soilmec) instead focused on continuous product innovation …
- … or as a company consisting of a **Special Foundations division** (Trevi + Soilmec) and a **Drilling division** (Petreven + Drillmec), both focused on maximisation of customer satisfaction through a constant two-way flow of information and feedback between the two divisions forming the divisions.

DUAL REPRESENTATION OF 2010E SALES

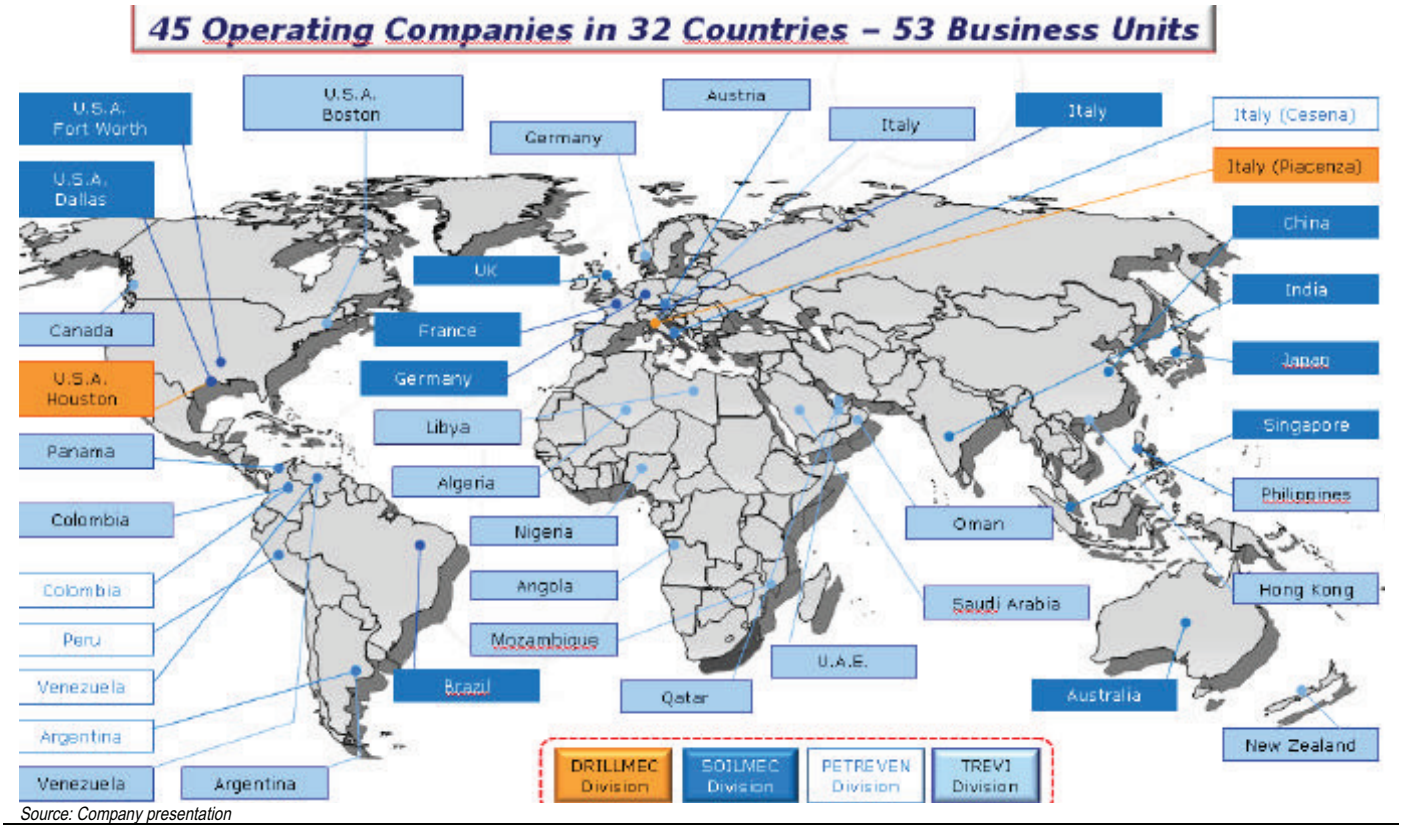




Source: EQUITA SIM elaboration on company data

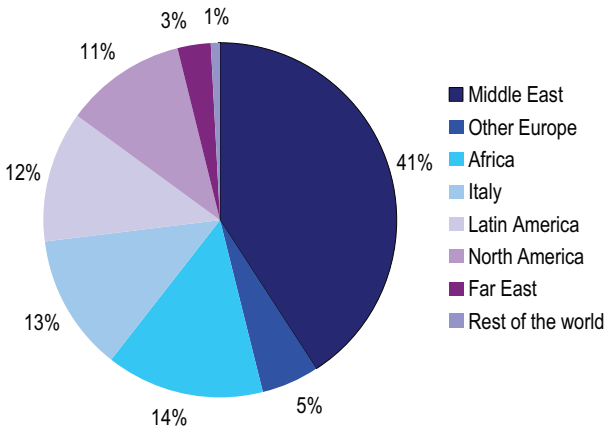
TFI is active in over 32 countries via some 43 operating companies and thus features **good geographical diversification of revenues.**

TREVI GROUP: GLOBAL PRESENCE



Source: Company presentation

GEOGRAPHICAL BREAKDOWN OF 2009 SALES

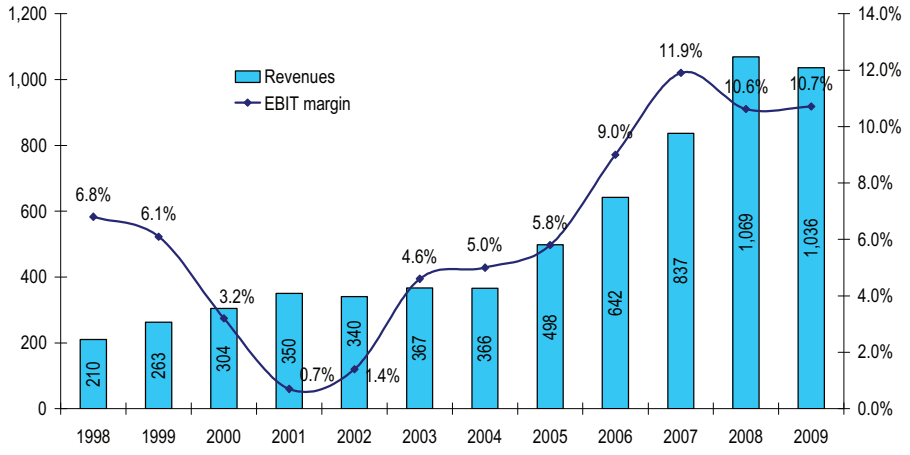


Source: EQUITA SIM elaboration on company data

Since 1998 to date revenues have grown at 15.6% CAGR while the **EBIT margin has risen from 6.8% to 10.7%.** Growth accelerated strongly as from 2004 **(2004-2009E top-line CAGR = 26%)** thanks to management's decision to tackle the crisis occurring at the start of the decade by focusing on:

- further specialisation of the services offered by Trevi
- significant expansion of Soilmec's range of machinery
- the completion of Drillmec's product range
- the growing internationalisation of the four division with the entering in new markets such as Brazil, Chine and India.

HISTORICAL GROWTH TRENDS



Source: EQUITA SIM elaboration on company data

We now take a closer look at each of the businesses.

FOUNDATIONS DIVISION (TREVI)

Trevi (45% of TFI's consolidated 2010E sales and 57% of EBIT) is the world's fourth leading player in specialised underground and drilling engineering services.
It in fact follows the UK company Keller (KLR LN), the French company Soletanche Bachy (controlled by Vinci), and the German company Bauer (B5A GR).
Bauer is the player most comparable to TFI because it is the only one active not only in construction but also in the production of equipment for foundations and drilling.

As highlighted earlier, Trevi's activity was the group's original business. Trevi was in fact **founded in 1957** by Davide Trevisani with the name of Impresa Palificazioni Trevisani Geometra Davide.
Trevi's story is the result of a well calibrated process of **internal growth** (also based on the creation of numerous branches in countries and regions such as Nigeria, Hong Kong, the Philippines and Thailand) **and acquisitions** designed to strengthen the group's geographical presence in the areas of the globe featuring the greatest demand for these types of services.
Among the more recent acquisitions we highlight:

- **Icos USA** (1997): a Boston-based company and leader in the North American market
- **Swissboring Overseas** (1999): a company active since 1973 in the Persian Gulf area and in particular in the UAE, Oman and Qatar
- **Rodio Italia** (2005): the oldest Italian company specialised in geotechnical engineering, founded in 1921
- **Galante SA** (2009): a company active in South America, in particular in Colombia, Peru and the Dominican Republic
- **Arabian Soil Contractors** (2009): a company specialised in foundations active in Saudi Arabia.

Trevi constructs foundations and consolidates and treats soil for:

- **Maritime works** such as the construction of bridges, ports and wharves (a major project involving Trevi was the Vasco de Gama Bridge in Portugal)

VASCO DE GAMA BRIDGE

Source: World Wide Web

- **Transport and communication lines**, particularly those featuring the presence of tunnels (the Bologna-Florence high-speed rail section, the Naples and Rome city rail systems, and the Caracas-Cuà railway line in Venezuela)
- **Heritage restoration work** (the Tower of Pisa, the Abu Simbel temple in Egypt, and Florence's mediaeval bridge, the Ponte Vecchio)

- **Deep foundations** (the World Trade Centre, the new Library of Alexandria in Egypt, and the Palm Island in Dubai);

WORLD TRADE CENTRE FOUNDATIONS

Source: Company presentation

- **Dams** (above all for the part concerning restoration and consolidation of old dams)

AN EXAMPLE OF DAM: ARAPUMI DAM

Source: Company presentation

- **Environmental protection work** aiming to isolate polluted areas and make them safe
- **Underground car parks.**

As regards this latter area of activity, Trevi (in conjunction with Soilmec) is able to construct **totally automated underground car parks.** Thanks to their special design – aiming to minimise the space necessary for their construction – these car parks can be inserted in settings already built up (a typical example is the courtyard of a residential building or a neighbourhood square where it would be impossible to build car-park entry and exit ramps).
These car parks (marketed under the name of **TreviPark®**) are **cylindrically shaped** and **feature the following main components:**

- A continuous, circular concrete diaphragm wall
- Precast reinforced concrete boxes for the car parking bays
- A steel rotating tower equipped with a car lift
- An automatic trolley for car deposit and retrieval
- Electromechanical and electronic devices for automatic movement of the cars.

TREVI PARK ® SOLUTION

Source: TreviPark ® brochure

Returning to the general picture, Trevi operates **both as a general contractor** - in particular for projects such as the **consolidation of old dams or construction of car parks and, above all as a subcontractor** of operators active in the infrastructures sector (Impregilo, for example) or in particularly complex property development projects (all those relating to the construction of skyscrapers).

Trevi's growth is therefore closely linked to:

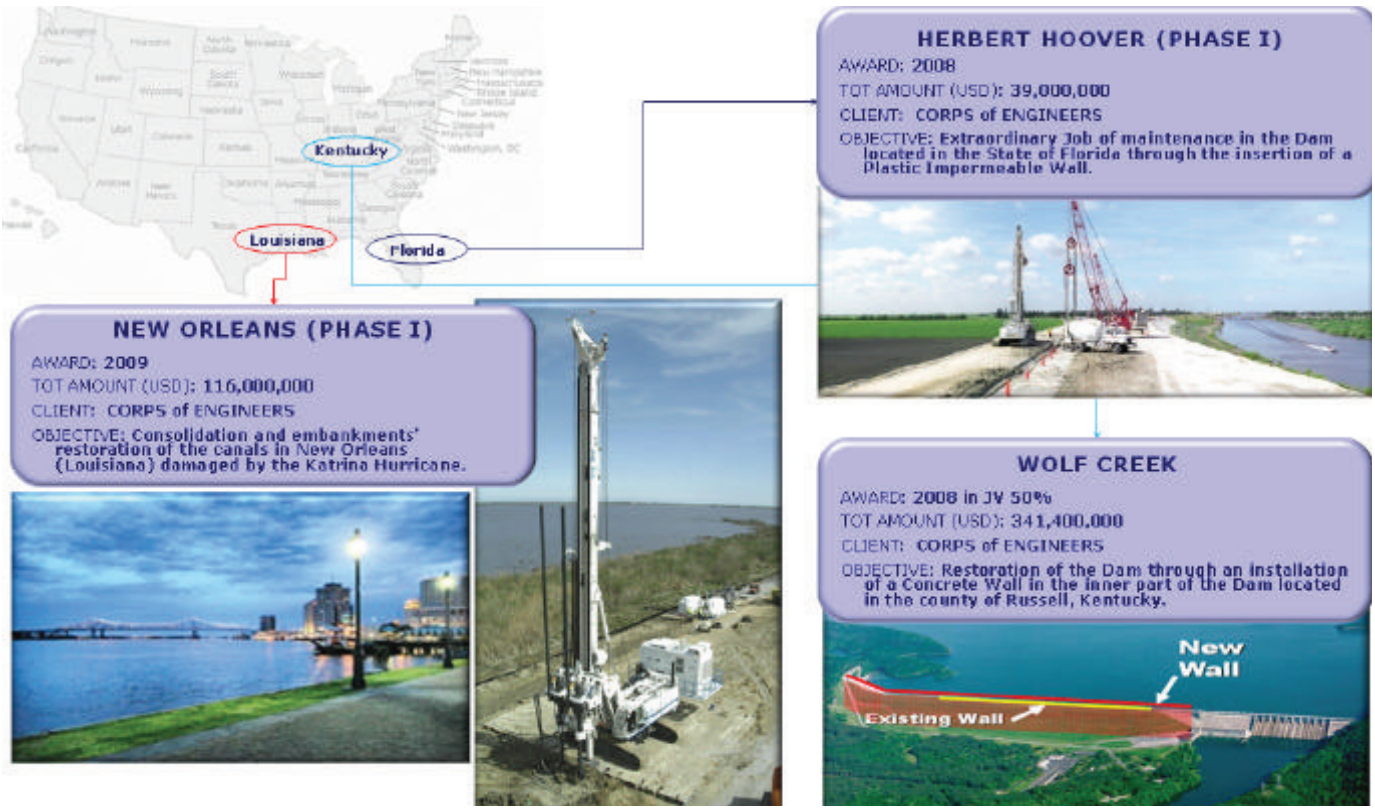
- The **infrastructures sector** (bridges, city rail systems, railways, and ports). The subcontractor role assumed by Trevi in these types of jobs enables it to exploit the sector's present strong development (particularly in emerging markets) to the full, as it can also participate as a subcontractor in bids for tender made by syndicates competing for the same job.
- **Development of modern cities** which are increasingly opting for verticalisation with the construction both of skyscrapers and of underground car parks
- Plans for **restoration and revamping of dams built during the 20th century** (the US market, to which Trevi is very exposed, shows great potential in this specific area of activity)
- Plans for recovery and redevelopment of **derelict industrial brownfield sites**

Its link to the residential building sector is instead very limited because this sector requires **far less sophisticated know-how** (the segment features the presence of **many players, including very small ones**, which do battle in the competitive arena mainly on the basis of price).

Trevi's now global presence aids and supports the division's growth. Among the most attractive areas we highlight:

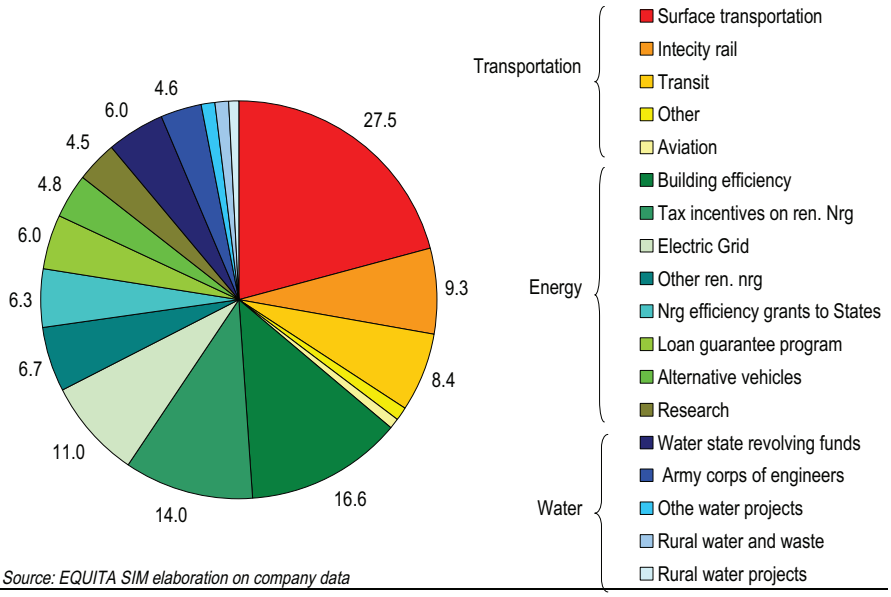
- The **USA –** in the first place as regards consolidation of **old dams** (the latest contract was for the Wolf Creek dam, worth USD 341 mn, in a 50/50 JV with Soletanche Bachy) **and levees** (we point out the contract worth USD 100 mn for consolidation of the New Orleans levees). The market, which on this front should continue to flourish (3.3k US dams are rated as "unsecured"), could also feature in the medium term a number of opportunities relating to infrastructure spending arising from President Obama's stimulus plans.

TREVI GROUP: UNITED STATES PRESENCE



Source: Company presentation

US STIMULUS PLAN ($ mn)



Source: EQUITA SIM elaboration on company data

- The **Middle East** – while the Dubai crisis makes the emirate's development prospects a question market, the growth prospects of countries whose economy is strictly linked to oil prices (Qatar, Saudi Arabia, Abu Dhabi, and Kuwait, etc.) remain intact.

MIDDLE EAST: NEW OPPORTUNITIES

TREVI Group through its controlled company SWISSBORING Overseas Corporation Ltd., is established in the Middle East region since 1973.

The table on side shows estimates related to the volume of investments for every country included n the region during the year 2010.

The total value of investments (in $bln) is extremely relevant and includes many projects related to major infrastructures.

PROJECTS UNDER WAY IN 2010

Country	Value ($bn)	% of total across region
UAE	212.9	29.3
Saudi Arabia	214.5	29.5
Bahrain	29.3	4
Oman	12.8	1.8
Kuwait	48.9	6.7
Qatar	33.8	4.7
Egypt	26.0	3.6
Syria	20.6	2.8
Jordan	16.6	2.3
Iran	6.7	0.9
Iraq	22.3	3.1
Yemen	2.2	0.3
Algeria	37.5	5.2
Tunisia	35.1	4.8
Morocco	5.0	0.7
Libya	0.7	0.1
Lebanon	1.0	0.1
Source: MEED Projects		

Source: Company presentation

- **Africa** – thanks to Trevi's longstanding presence in Nigeria, Angola, Algeria and Libya, which, proportionally to their size, benefit from the rise in oil prices in the same as the Middle Eastern economy does.

Based on what has been stated thus far, TFI's core business seems to continue to have a combination of **good growth prospects** and **good visibility** for expected sales thanks to a backlog of some € 450 mn. This a high figure if one remembers that average contract duration is 5-6 months and the majority of contracts are worth less than € 5 mn each.

We end our analysis of the Foundations division by pointing out that:

- Contracts' generally limited individual **size**
- Their **short duration**
- The **early positioning time-wise of Trevi's work** in a project's overall schedule, i.e. in the very first phases
- The typical presence of **upfront down payments** of about 10-15% of a job's price …

…significantly reduce the risk of non-payment of works.

Notwithstanding this, 2009 accounts were weighed down by a **receivables write-down of some € 13 mn relating to non-payment of work done mainly in Dubai.** As regards this, however, during recent presentations management has repeatedly underlined that:

- Provisioning was decided applying **extremely prudent criteria** in parallel with procedures that had led **not to bankruptcy but to rescheduling of the client's debt exposure**
- Because of this, it is very likely that during the 2-year period 2010-2011 gradual collection of these receivables will lead to **recognition in the income statement of incidental income.**

SOILMEC

Soilmec **(17% of TFI's consolidated 2010E sales and 12% of its EBIT)** is the group company specialised in the **design and construction of machinery used in the foundations engineering segment.**
Soilmec was created in 1969 as a **support operation** for Pali Trevisani – i.e. the original ancestor of **TFI's present Trevi division** described in the previous subsection. Soilmec and Trevi have always been linked by a relationship of very close collaboration. In this relationship the quest for new solutions for the execution of projects developed by Trevi and the latter's feedback on equipment utilisation have enabled Soilmec to increase the range and efficiency of products in its catalogue for non-captive sales (which of course also include those to Trevi's competitors).

Today **Soilmec is the world's No.2 maker** of this type of machinery, second only to the German player Bauer. In practice, they are the only two players able to operate on a global scale.
There are **other medium-sized players operating in smaller geographical areas** and featuring less extensive product ranges.
The **Chinese market is a law unto itself**. This market (explosive in terms of numbers) is dominated by **local players** who, de facto, have **copied machinery sold in China in the 1980s by foreign players** (including Trevi). The machinery made by these companies features **exceptionally low prices** but also **very limited quality and reliability** and thus goes exclusively to the local market.

Soilmec and Bauer share the larger customers that undertake the higher value-added projects. These customers are **driven not so much by the price variable** (which is instead more important for smaller operators) **as by product quality, after-sales assistance**, and **training of personnel** to operate machinery.

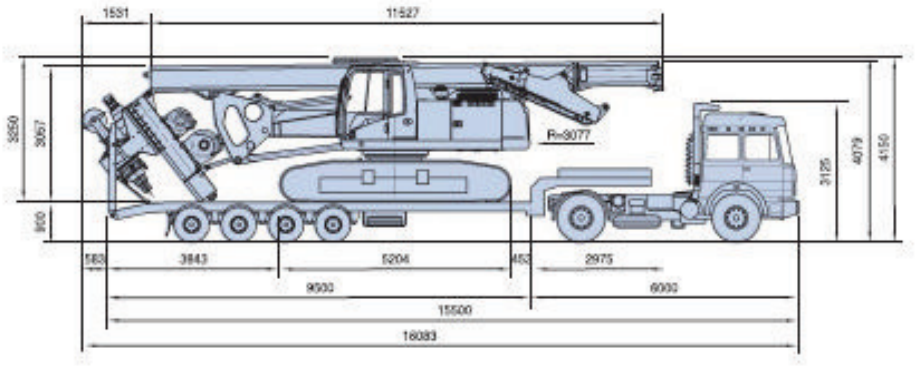
Soilmec's machinery is used in the same fields as those where Trevi operates and its activity is therefore closely linked to:
- The **infrastructures sector**
- **Vertical development of modern cities**
- Plans for recovery and redevelopment of **derelict industrial brownfield sites** …

… plus, for example, geothermal engineering and water prospecting.

The company has a **closer link to residential and industrial building** than Trevi does.
In effect, **Soilmec sells machinery not only to the top players** involved in the higher value-added projects (e.g. Trevi, Soletanche Bachy or Keller) but also to a series of smaller players with mainly local operating scope that work on simpler projects.

Soilmec's strengths lie in the:
- **Group R&D centre** able to achieve continuous improvement of the machinery's underlying technology (the R&D centre occupies about 125 people and has a portfolio of over 100 active patents). Thanks to the focus on R&D, every year Soilmec launch 5/6 new type of machinery able to meet new customer needs.
- **Optimisation of the production set-up with significant use of outsourcing** for low value-added phases.
- **Distinctive features of Soilmec machinery**, i.e.
  - **Quality and reliability of machinery**, which is assembled by a team of highly specialised workers that subjects the products to severe testing before delivery to customers
  - **Multifunctionality**
  - **Ease of transport by road** (even for the larger machinery items)
  - **Speed of on-site assembly**
  - **Safety**

SOILMEC EQUIPMENT: EASINESS OF TRANSPORTATION

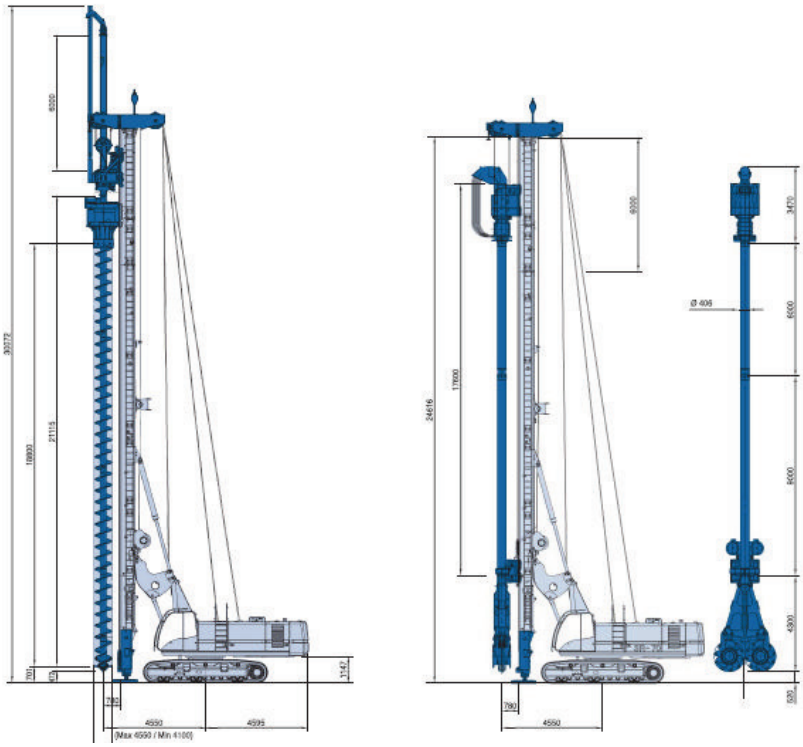


Source: Soilmec general catalogue

- **After-sales assistance,** which also includes a complex system for remote monitoring of machinery performed directly at TFI's HQ in Cesena (on the Adriatic coast of Italy).
- Its **extremely flexible production model**, which makes it possible to outsource production in boom phases of the cycle and then newly insource it (preserving margins) in slack phases of the cycle
- The **significant internationalization of its business**, currently increasing further thanks to entry of new, extremely promising markets, i.e. Brazil, China and India

A typical Soilmec machine consists of a **standard machine body** to which the **extremely specialised tool** that materially performs the construction task is applied.

SOILMEC EQUIPMENT: MULTIFUNCTIONALITY (1)



Source: Soilmec general catalogue

There are of course **constraints on the machine body's degree of standardisation** due to:

- The machine's **capacity**
- The characteristics that the machine must have to **permit application of the equipment items required.**

The following table shows the multifunctionality typical of Soilmec machinery.

EXECUTABLE TECHNOLOGIES BY MEANS OF SOILMEC ROTARY RIGS

	SR-20	SR-60	SR-100	STM-30	SF-40	SF-120
Large Diameter Bored Piles (LD)						
Dry drilling / Bentonite drilling	x	x	x	x	x	
Cased by rotary head	x	x	x	x		
Cased by casing oscillator		x	x		x	
Continuous Flight Auger						
Augered piles (CFA)	x	x	x			x
Double head cased pile (CAP)		x	x			x
Displacement piles (Discrepiles)		x	x			x
Vibroflotation		x	x			
Deep Mixing						
Turbojet		x	x			x
Cutter turbo jet (CT-Jet)			x			
Reverse Circulation Drilling (RCDS)			x			
Convertible into Crane Version (SC series)			x			
Convertible into Grab Crane Version (HB series)			x			

Source: Soilmec general catalogue

EXECUTABLE TECHNOLOGIES BY MEANS OF SOILMEC MICROGRILLING RIGS

	PSM-8	SM-14	PSM-20	SM-30	ST-30	PSM-8GT
Micropiles	x	x	x	x	x	
Anchors	x	x	x			
Jet Grounting	x	x	x	x	x	
Double Rotary (Anchors/Micropiles)	x	x	x		x	
Vibrorotary		x	x			
Top Hammer	x	x	x		x	
Soil Investigation (Lega Dura)	x					
Soil Investigation (Diamond)	x	x				
Geotermia						x
Tunnelling					x	
Special Application (CFA-PB)		x				

Source: Soilmec general catalogue

We highlight the fact that:

- In terms of **machine body, standardisation helps Soilmec to reduce the costs of machinery** as well as to **win the loyalty of the customer**, who finds it easier to buy a new tool accessory than a whole new machine from a competitor
- The **extreme specialisation of the equipment** means that most of the **major players in the earth-moving machinery sector** (Caterpillar and CNH, etc.) are not interested in the segment due to the **lack of economies of scale** typical of their core business (as well as a number of sales too small to justify operations in what can be defined as a market niche)

The main **machinery and equipment items** made by Soilmec are:

- Large diameter pile rigs
- Continuous flight auger pile rigs;
- Hydraulic grabs
- Hydro mills
- Continuous diaphragm wall systems for tunnelling
- Hydraulic equipment for the execution of micropiles, anchors and jet grouting
- Soil investigators
- Tunnel consolidators
- Cranes

SOILMEC: MAIN MACHINERY IN THE GENERAL CATALOGUE

Source: Soilmec general catalogue

These products are used to construct:

- **Bored piles** (reinforced concrete piles used, for example, to consolidate the site on which to construct a building's actual foundations)
- **Diaphragm walls** (underground walls used, for example, to shore up the soil surrounding an underground car park or railway)
- **Anchorages** (mainly underground, reinforced concrete structures to which to anchor, for example, the support cables of a suspension bridge)
- **Tunnels**
- **Geothermal plants.**

From the commercial standpoint, Soilmec sells both to order and based on its catalogue.
Like Trevi, Soilmec thus has an order backlog, which, however, is small as (a) the average job lasts less than 3 months and (b) the majority of products made by Soilmec have a price of less than € 1 mn.

As regards payments, in contrast with Trevi **Soilmec very rarely receives advance down payments.** Notwithstanding this, its historical experience shows that **the risks of non-payment of products supplied are limited.**
During 2008 and 2009 however, steady lengthening of payment times occurred, creating pressure on TFI's working capital. This was exacerbated by the sharp downturn in sales, which caused Soilmec's finished product inventory to increase significantly.

DRILLMEC

Drillmec (32% of TFI's consolidated 2010E sales and 21% of its EBIT) came into being in 2004 as a spin-off of Soilmec.
The rationale underlying the spin-off was the desire to **separate the area of Soilmec** that made machinery for **onshore drilling for oil or water prospecting or for systems to extract and exploit geothermal energy.**

The genesis of this area of Soilmec's business dates back to the early 1980s when, seeing the **technological similarity** of foundation engineering and oil drilling equipment, TFI entered into close collaboration with ENI/Saipem to develop machinery capable of maximizing the efficiency of the drilling process.
Over the years **internal growth** was supported by focused **M&A activity**, leading Soilmec to gain **control of premier companies active in the segment** (including Massarenti, Comasdue, Silvio Ballerini and Branham).
30 years after taking its very first steps as a business, **Drillmec today is able to supply a vast range of on-shore drilling rigs.**
In addition, the € 100-mn contract concluded with Saipem last September 2009 for two drilling rigs to be used for the Kashagan deposit also demonstrates that Drillmec's technology can be adapted for offshore drilling (shallow-water drilling in this specific case).

The completeness of its range is not, however, a characteristic able to differentiate Drillmec in a market featuring the presence of **supplier companies not comparable** with Drillmec in terms of **size** and the type of products and services offered. One of Drillmec's key strengths lies in an **approach designed to meet the customer's specific requirements** in a sector that instead typically features a less than flexible offering.

Taking on board Soilmec's approach oriented towards technological innovation, Drillmec created a **competitive advantage** for itself in the onshore drilling segment by being **the first in the world to patent, in 1993 a totally automated hydraulic rig**, starting with a rig for water-well drilling.
Starting from the first hydraulic rig, **Drillmec developed a whole series of rigs** (called the HH Series) **able to meet most of the needs of customers active in onshore drilling.** Today the HH350 rig, as it has pull-down capacity of 40 tonnes, is able to reach a depth of approximately 6,500 m (fewer than 20% of the world's rigs require achievement of greater depths).

HH SERIES

Source: Drillmec Brochure

During 2011 development should be completed of the HH 600, a hydraulic rig with pull-down capacity of 600 tonnes, which in practice will complete the HH Series.

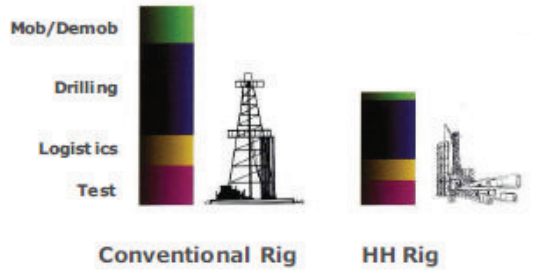
Drillmec's dynamism, however, comes up against a sector (onshore drilling) featuring operators not keen on technological innovation and preferring **old but highly reliable technologies.**
This preference stems from the need to **maximize the predictability of exploration times.** Any delay due, for example, to machinery breakdowns or worker injury causes huge losses for oil companies because it delays oil extraction operations.

Notwithstanding this, HH Series rigs have everything it takes to be able to establish themselves in this type of market.
Compared with conventional rigs, HH Series rigs in fact feature:

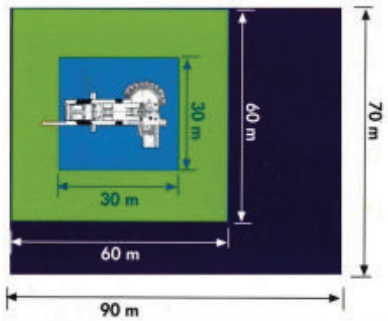
- **Less time** needed for **handling** (2-3 days for full dismantling and assembly of rigs vs. 9-10 days needed for conventional rigs)
- **Faster total drilling times** (10-12 days vs. 25-30 days)
- Much greater **compactness** (a conventional rig with the same capacity occupies about double the space)

HH SERIES VS TRADITIONAL TECHNOLOGY (1)

Operational Timings



Local Dimensions



Source: Company presentation

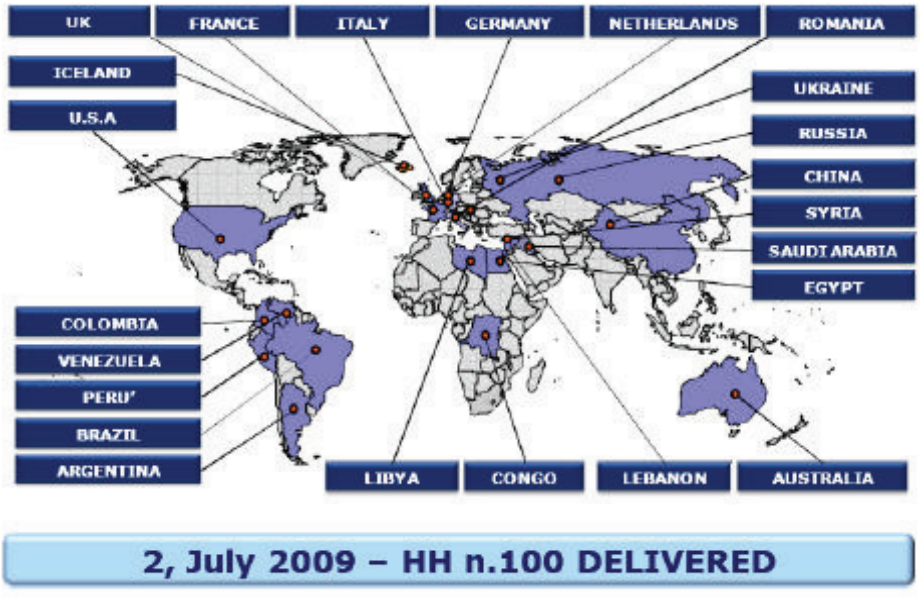
- **Fewer mechanical breakdowns**
- Need for **fewer workers**
- **Superior worker safety** mainly due to the fact that HH Series rigs operate totally automatically (the Petreven subsidiary, which uses only HH Series rigs, has not experienced any worker injuries for over 6 years)

HH SERIES VS TRADITIONAL TECHNOLOGY (2)

Source: Company presentation

To date Drillmec has sold more than 100 HH Series rigs in about 20 different countries.

HH RIGS DELIVERED



Source: Company presentation

By exploiting the relations already built up with the main oil companies, **management aims to spread Drillmec's hydraulic technology, overcoming the reluctance to change traditionally shown by operators in the sector.**

DRILLMEC: FULL PRODUCTS RANGE (*)

Source: Company presentation

Drillmec management has welcomed Bauer's decision to enter the hydraulic rig segment because it will help to spread the new technology among onshore oil players.
Given the size of the market, **even a low penetration rate could tangibly change Drillmec's numbers.** Over time the company could diversify its source of revenue by significantly increasing income from after-sales customer support activities.

A boost for growth may also come from the recent expansion of the Houston base, on which management is very much counting in order to establish Drillmec's technology also in the USA.

We round off the presentation of the division by underling that Drillmec operates with **credit risk close to zero**. This is because of the presence of counterparties with premier creditworthiness and payments that – for the larger and customised plants – are based on completion progress and often envisage upfront down payments.

PETREVEN

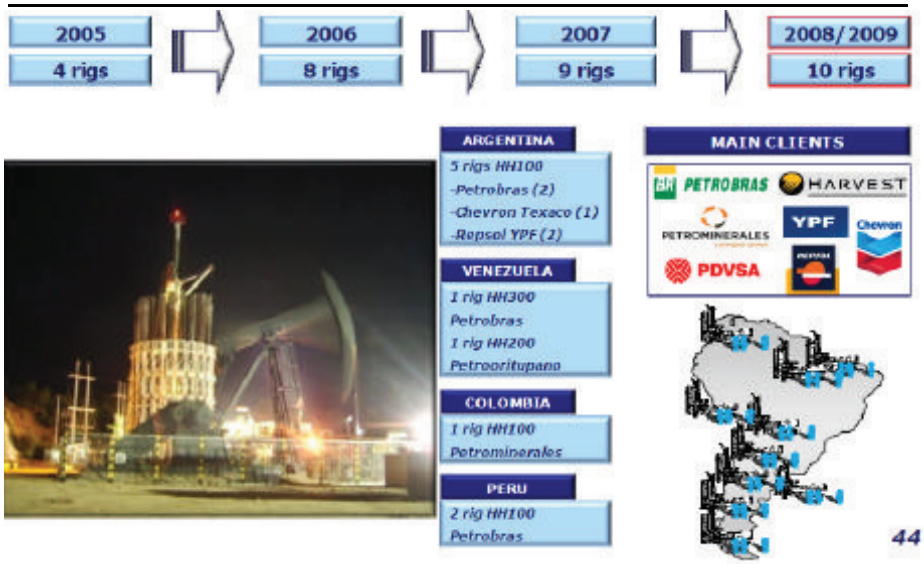
Petreven (7% of TFI's consolidated 2010E sales and 9% of its EBIT) **operates Drillmec HH Series rigs on behalf of some of the oil majors**, which pay it a daily fee for rental and operation.

Petreven's mission is to develop and increase interest in HH Series rigs. TFI management has no intention of becoming an onshore drilling player and no presumption of being able to do so.

Today Petreven manages a total of 10 rigs in:

- **Argentina** (5 rigs) for **Petrobras** (2), **Chevron** (1) and **Repsol** (2);
- **Venezuela** (2) for **Petrobras** (1) and **PDVSA** (1)
- **Colombia** (1) for **Petrominerales**
- **Peru** (2) for **Petrobras**

PETREVEN: OPERATING RIGS



Source: Company presentation

Because of the reluctance of onshore drilling players to change, as described earlier, Petreven also plays a **crucial role in marketing hydraulic technology,** above all when it finds itself operating alongside conventional rigs, demonstrating to the customer **the clear and real difference in terms of performance between hydraulic and conventional rigs.**

SWOT ANALYSIS

Strengths

- **Continuous innovation aided by the 4 divisions' inter-relations.**
  The strong inter-relations between the four business areas stimulates the continuous process and product innovation that enables TFI to be one of the leaders in the special foundations segment (Trevi + Soilmec) and to revolutionise the rules of the competitive game in the drilling division (Drillmec + Petreven).
- **Know-how very hard to emulate**
  TFI's know-how in the various forms typical of Trevi and of the engineering division (Soilmec + Drillmec) is very hard indeed to emulate as it is the result of experience and research initiated over 50 years ago.
- **Winning technology in onshore drilling segment**
  The **HH Series'** technology is **really revolutionary** in many respects, headed by the time needed for drilling and drilling reliability and safety. **If the technology were to succeed in establishing itself** in the onshore drilling world, Drillmec would benefit from being the **first mover** and from having **a technology that is tried and true** (also thanks to the direct experience provided by Petreven). Given the size of the sector, even a low rate of penetration could have an exceptional impact on the P&L of Drillmec and thus of TFI.
- **Exposure to infrastructures trend via coverage of a highly specialised niche**
  Trevi and Soilmec benefit from exposure to the growth trend of expenditure for infrastructures and for the development of modern cities, exploiting the strong position acquired over time in a market niche with high entry barriers consisting of the expertise and proprietary technology developed thus far
- **Dominant position in the business of consolidation of old dams**
  Trevi is one of the top global players in works to restructure old dams. About 50 years after it is built, a dam in fact requires in-depth review followed by major consolidation and rehabilitation work. The most attractive market in this respect is the USA where Trevi enjoys an outstanding reputation stemming from its longstanding relationship with the US Army Corps of Engineers (USACE) (as demonstrated by the major contracts won in the last three years for rehabilitation of the Wolf Creek, Herbert Hoover and Tuttle Creek dams)
- **Global exposure with a special presence in the Middle East and emerging markets**
  TFI's global geographical presence enables it to **exploit the growth of emerging markets of continuously expanding areas such as Africa, Latin America and the Middle East.** And indeed in the Middle East (Abu Dhabi, Oman, Qatar, and Kuwait) TFI has an excellent track record and reputation thanks to past projects and to acquisitions of key players in the special foundations segment, i.e. Swissboring (1999) and Arabian Soil Contractors (2009). The latter acquisition aims to extend the reach of Trevi's operations in new markets little served in the past, such as Saudi Arabia.
- **Little exposure of margins to currency and raw material fluctuations**
  Currencies: TFI is not significantly exposed to exchange rate fluctuations thanks to the **substantially equivalent currency structure of costs and revenues**. In practice, the foreign exchange risk is mainly a **translation risk.** More specifically, in:
  - **Trevi** –foreign-currency payments are usually offset by costs borne in the same currency
  - **Soilmec** - costs and revenues are in EUR (the main competitor Bauer has the same currency structure)

- **Drillmec** - at least 50% of sales are in USD (and management seeks to achieve the same balance for costs)
- **Petreven** - all revenues and costs are in USD.

Any temporary differences are usually managed using **very simple forward sale or purchase transactions.**

Raw materials: changes in raw materials' costs are not a significant issue for TFI. In effect:

- **Trevi**, in most cases, does not handle management of raw materials (which is the general contractor's responsibility). When Trevi acts as a general contractor, the contracts envisage semi-automatic adjustment of costs recognised by the customer.
- **Soilmec** – here raw materials' impact on the machinery's price is not significant
- **Drillmec** is one of the group companies most exposed to the price of steel due to the large quantities of material needed to construct rigs (particularly conventional ones). For this division, however, management applies immediate closure of exposure with rig supply contracts are signed.

Weaknesses

- **Too small in onshore drilling compared with traditional competitors**
  One of Drillmec's main problems is the fact that it is **too small compared with the main players in the segment**. This translates into limited visibility and consequently limits the possibility of highlighting the potential of the HH Series.
- **Increase of working capital**
  During 2008 and 2009 **TFI and in particular Soilmec experienced steady lengthening of payment times**, which placed pressure on working capital. This was also exacerbated by the sharp slowdown of Soilmec's sales which translated into a significant increase of finished product inventory. In contrast with Trevi, Soilmec is in fact **more exposed to industrial and residential business** because a not indifferent part of its customer base consists of small customers active in works featuring lower value-added. We however underline that 1Q10 showed faint signs of inversion of this trend.

Opportunities

- **Entry of new markets such as India**
  One of the growth opportunities is undoubtedly the possibility of developing new, very promising markets where **Trevi and Soilmec do not operate today.** Management plans include the intention of expanding the geographical catchment area to **India, Brazil and Hong-Kong.**
- **Return of Soilmec to China**
  As is often the case in all construction-related sectors, **the Chinese market has exceptional growth rates and prospects** (taking solely city rail systems, it is planned that, in the next 20 years, approximately 80 Chinese cities will equip themselves with this type of infrastructure).
  While Trevi's entry of the market is highly unlikely (there are already many domestic Chinese companies supported by the authorities able to do such jobs), **Soilmec's return to China** forms part of management's plans.
  Today the market is dominated by machines made by local players featuring very low prices and performance compared with Soilmec's standards (the Chinese machines are mostly poor copies of Soilmec and/or Bauer machinery). Management intends to offer lower-performing versions of Soilmec machines at lower prices, making the higher value-added parts in Italy but delocalising to China the lower value-added portion of production (relating to steel structures, for example).
  This strategic choice explains the recent opening of a branch in China, to act as a base for Soilmec's local activities.

- **Development of HH technology for offshore drilling**
  To date hydraulic technology has been applied only to onshore rigs. Further room for growth could come from application of the technology to offshore drilling (something on which Drillmec's technical experts are working).
- **Compression of working capital thanks to down payments and development of Drillmec's business**
  Development of Drillmec's business would help to compress working capital thanks to the advance down payments often paid to Drillmec (as in the case of the major Saipem contract won for the supply of shallow-water drilling rigs for the Kashagan deposit).

Threats

- **Prolonged economic stagnation**
  A scenario of prolonged economic crisis/stagnation could decrease governments' spending capacity and consequently have a negative effect on infrastructure investment plans.
- **Oil price slump**
  Any slump in the price of oil (as happened during 2H08) could translate into lower spending capacity in countries that are strategic for TFI, such as, for example, the UAE, Saudi Arabia, Venezuela, Algeria, Libya and Nigeria. Such a scenario would have negative effects mainly on Trevi and Soilmec but less so on Drillmec as hydraulic technology – because it is more efficient than traditional technology – could become even more appealing.
- **USD exposure**
  Good matching of foreign-currency costs and revenues means that there is a very limited forex effect on margins. As instead regards the forex risk relating to the **effect of translation of foreign-currency financial statements**, Trevi features **fairly significant exposure to the USD**, a currency in which about 50% of 2009 revenues were denominated.
  According to the simulations performed by the company and shown in the annual report, **5% appreciation of the USD** vs. the EUR would have translated into a **2009 pre-tax profit € 5.69 mn higher** than reported (i.e. +5% vs. the reported figure of € 104.6 mn).
  USD depreciation would instead have had exactly the opposite effect (€ -5.69 mn, -5%).

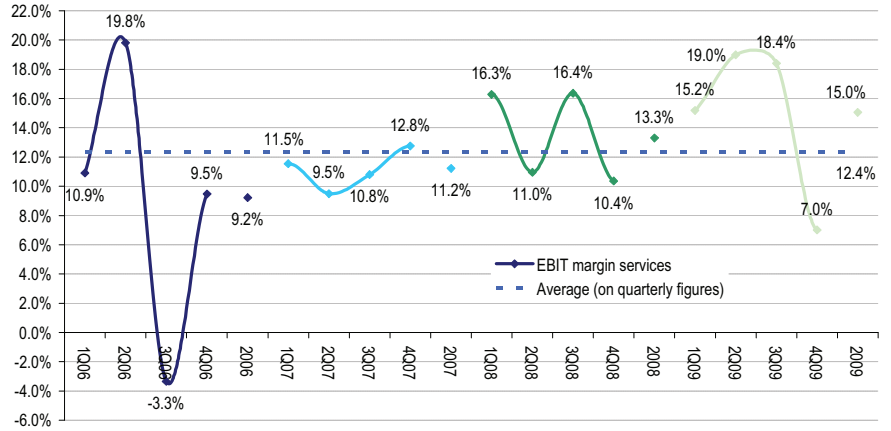
FINANCIALS

Margins

As far as margins are concerned, **the Service division features margins that are normally higher than those of the Mechanical division.**

The Service division's average EBIT margin in the last four years was about 12-13%, with substantially equivalent performance by Trevi and Petreven (remembering that the latter accounts for a minor part of TFI's business).

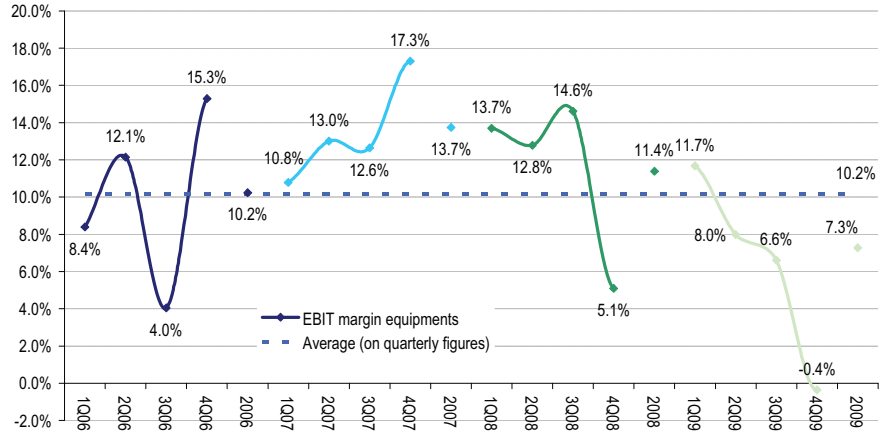
SERVICE DIVISION'S MARGIN



Source: EQUITA SIM elaboration on company data

The Mechanical division's average EBIT margin in the same period was instead about 10-11% (once again with substantially equivalent performance by the two companies involved – Drillmec and Soilmec).

MECHANICAL DIVISION'S MARGIN



Source: EQUITA SIM elaboration on company data

In historical terms, **there have also been fluctuations outside the ranges just highlighted. In 2009** for example:

- The **Service division's margins were higher** (15% or 17.4% net of one off provision on trade recieivables made in 3Q09), mainly because of a contingent situation featuring concentration in Trevi of a significant number of **projects featuring medium-high complexity**
- The **Mechanical division's margins were instead lower** (7.3%) due to the **crisis of Soilmec's market of reference.**

These margins are **little affected by fluctuations either of exchange rates or of raw materials costs** (see the Swot analysis for further details)

Cash generation

As regards capital expenditure, only Trevi features the need for major annual capex - estimated to be around € 35-40 mn solely for ordinary maintenance and for replacement of the equipment base. Top-line growth relating to an increase in the number of projects executed of course translates into a higher capex requirement. **Capex in Soilmec and Drillmec is instead more moderate** (less than € 10 mn for the two companies combined). Lastly, **Petreven** has a capex profile connected with any purchases from Drillmec of **new HH Series rigs.** Although just one hydraulic rig costs approximately € 10-15 mn, Petreven's capex over time has been relatively limited (today 10 rigs are active). This is because, as stated earlier, **the company's mission** is not only to establish itself as an onshore-drilling player but to **develop and increase interest in HH Series rigs.**

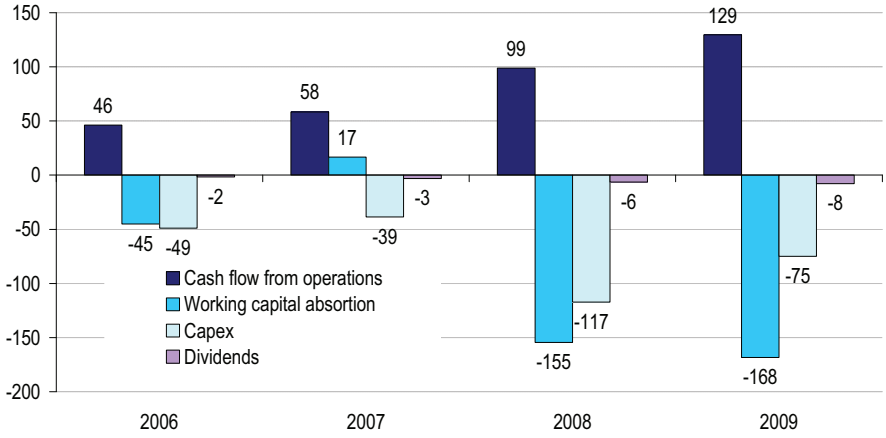
As instead regards cash-in:

- **Trevi,** in most of the international contracts in which it is involved, receives an advance down payment of 10-15% of the contract's total value, with the balance managed via the completion-status mechanism
- **Soilmec** produces both for inventory and to order and in any case mostly receives payment only after delivery of equipment
- For **Drillmec** it is instead hard to find a typical payment arrangement. There are contracts for rigs customized according to client requirements that feature a down payment and completion-status payments (as in the case of the jumbo contract of € 100 mn concluded with Saipem in 2H09). But there are also contracts envisaging payment on delivery, which therefore absorb working capital during the phase of rig construction and assembly.

TFI experienced a negative trend in terms of NFP in the last two years due to:

- **capex** requirements connected to the **significant increase in new contracts executed by Trevi** division (in 2008 capex in Trevi touched on € 80 mn)
- **capex** related to the expansion of the Soilmec's and Drillmec's production area (around €30 in 2008 and 2009)
- **NWC absorption** linked to steady lengthening of payment times and to the sharp downturn in sales that cause a significant increase of Soilmec's finished product inventory.

2006-2009 CASH FLOW STATEMENT



Source: EQUITA SIM estimates

NWC ITEMS VS REVENUES

	2006	2007	2008	2009
Receivables	35.0%	28.9%	31.5%	32.9%
Inventories & work in progress	17.5%	19.4%	27.9%	32.5%
Payables	32.3%	33.1%	36.8%	25.6%
NWC	**20.1%**	**15.3%**	**22.6%**	**39.9%**

Source: Company data

FOCUS ON CREDIT RISK

As stated earlier in the sections dedicated to the individual divisions, **the quality of trade receivables has never been a source of concern for TFI.**
For Trevi:

- Contracts' generally limited individual **size**
- Their **short duration**
- The **early positioning time-wise of Trevi's work** in a project's overall schedule, i.e. in the very first phases
- The typical presence of **upfront down payments** of about 10-15% of a job's price …

…significantly reduce the risk of non-payment of works.

For Drillmec and Petreven, in practice there is no credit risk as the divisions' counterparties are premier players in the global oil industry.

During 2008-2009, however, **two occurrences partly undermined this certainty** as regards Trevi and Soilmec:

- **Non-payment of works completed by Trevi in Dubai** (causing management to make provision of about € 20 mn, booked in 3Q09)
- **Increasing delay in payments experienced by TFI**, causing a significant increase in the division's NWC (only partly explained by the increase of finished-product inventory).

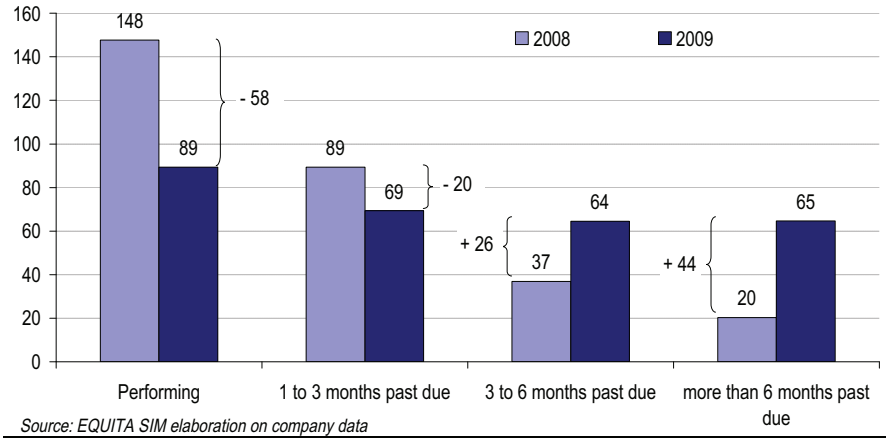
The table below shows the **breakdown of trade receivables according to payment status.**

PAYMENT STATUS OF TRADE RECEIVABLES

	2008	%	2009	%
Performing	148	50.2%	89	31.0%
1 to 3 months past due	89	30.4%	69	24.1%
3 to 6 months past due	37	12.5%	64	22.4%
more than 6 months past due	20	6.9%	65	22.5%
Total amount	**294**	**100.0%**	**288**	**100.0%**

Source: Company data

EVOLUTION OF THE PAYMENT STATUS OF TRADE RECEIVABLES



Source: EQUITA SIM elaboration on company data

We in any case underline that, **as regards the provisions made by Trevi in 3Q09,** (a) provisioning was decided applying **extremely prudent criteria** in parallel with procedures that had led **not to bankruptcy but to rescheduling of the client's debt exposure** and (b) because of this, it is very likely that during the 2-year period 2010-2011 gradual collection of these receivables will lead to **recognition in the income statement of incidental income.**

As instead regards **delays in payments** by clients, TFI has confirmed that it is **confident of the overall firmness of its receivables book** and does not expect significant losses due to non-collection.

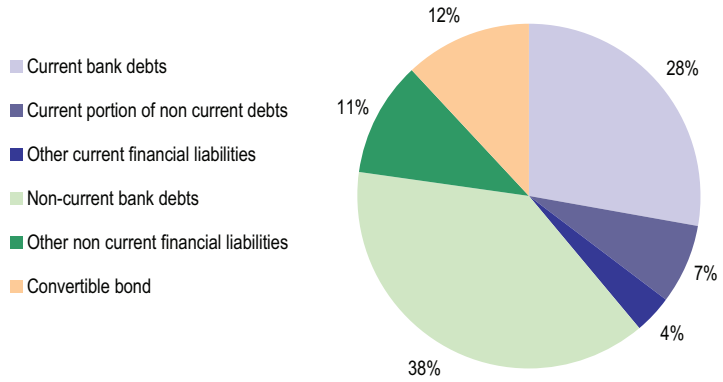
DEBT STRUCTURE

Liquidity risk

From the debt standpoint, TFI has a very solid structure that **shields the group from any significant liquidity or refinancing risks.**

Set against € 158 mn of current bank borrowing, mainly consisting of uncommitted revolving credit facilities, at 2009 year-end **TFI had unutilized committed revolving facilities of about € 70 mn.**
Based on the liquidity available, TFI will therefore not have any problems in handling refinancing requirements (about € 55 mn in 2010).

GROSS DEBT ANALYSIS



Source: EQUITA SIM elaboration on company data

Interest-rate risk

82% of the group's debt is variable-rate. According to management's simulations, detailed in the **2009** annual report, a **+50-bp increase of the Euribor curve** would have **increased finance expense by € 1.75 mn.**

Covenants

During the presentation of annual results, the CFO highlighted the ample margins existing on the main loan covenants, i.e. in summary:

- **Book value/NFP** ratio of less than 2.5x (at 2009 year-end it was 1.4x)
- **NFP/EBITDA** ratio of less than 3.5x (at 2009 it was 2.4x)
- **EBITDA/Finance expense** ratio of more than 4.5x (at 2009 year-end it was 10.4x).

Convertible loan

The profile of the TFI convertible bond loan is as follows:

- **Issue date:** 30 November 2006
- **Duration:** 5 years
- **Maturity date:** 30 November 2011
- **Par value:** € 70 mn
- **Interest rate:** 1.5%
- **Strike price:** €11.3
- **Conversion ratio:** 1 to 1
- **Number of shares to service loan:** 6,1 mn

1Q10 RESULTS

TFI ended 1Q10 with:

- **Production value:** € 231 mn, -28% YoY
- **EBIT:** € 26 mn, -34%
- **EBIT margin:** 11.2% (vs. 12.2% in 1Q09 and 10.7% in FY 2009)
- **Net profit:** € 15 mn, -36%
- **NFP: €** -414 mn vs. € -444 mn at 2009 year-end

We underline thet the YoY camprison for the 1H10 is very tough as the crisis began to affect TFI performance only starting from 2H09.

TFI FIRST QUARTER RESULTS (€ mn)

	1Q09	%	1Q010	%
Value of Production	**322**	100	**231**	100
Change			*-28%*	
EBITDA	**51**	16.0	**39**	16.8
Change			*-25%*	
EBIT	**39**	12.2	**26**	11.2
Change			*-34%*	
Pre Tax Profit	**36**	11.1	**23**	10.1
Change			*-35%*	
Net Profit	**24**	7.5	**15**	6.7
Change			*-36%*	
NFP	**-415**		**-414**	
Order backlog	**902**		**786**	

Source: Company data

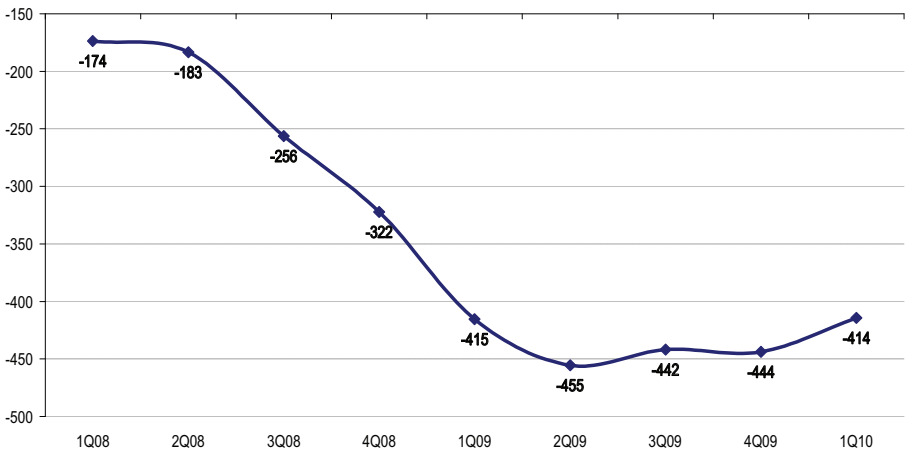
The top-line decrease was mainly due to the **slowdown of:**

- **Trevi** (-23% YoY), which was affected by unfavourable timing of the opening of new works sites (the impact of which should therefore already be absorbed during 2Q10)
- **Soilmec** (-30% YoY) for which there are not yet any significant signs of recovery
- **Petreven** (-25% YoY), whose production was, however, in line with the quarterly production reported from 2Q09 onwards.

Drillmec's top line instead decreased by only -6%.

On the positive side, we instead highlight reversal of the trend in NFP, which benefited from reduction of working capital.

NFP TREND



Source: EQUITA SIM elaboration on company data

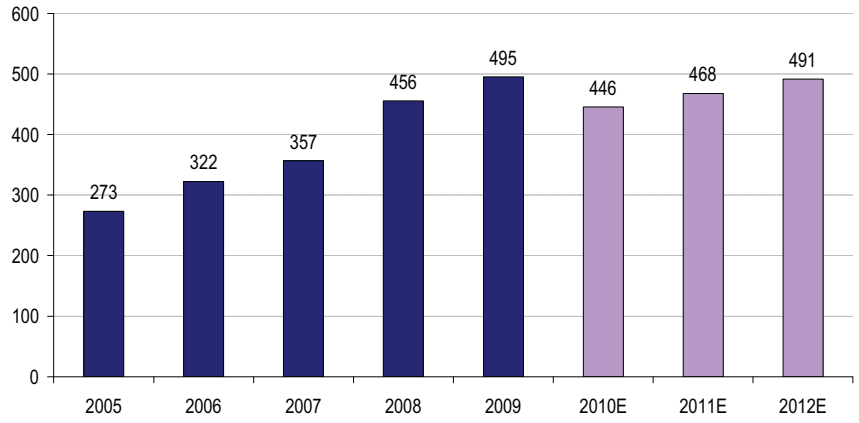
2010E-2012E ESTIMATES

In our estimates we have discounted revenues assumptions quite cautious as:

- The **Foundations division** hit an **all-time top-line record** in 2009
- **Soilmec's market of reference does not to show any clear signs of inversion** of the sales negative trend experienced in 2008/2009

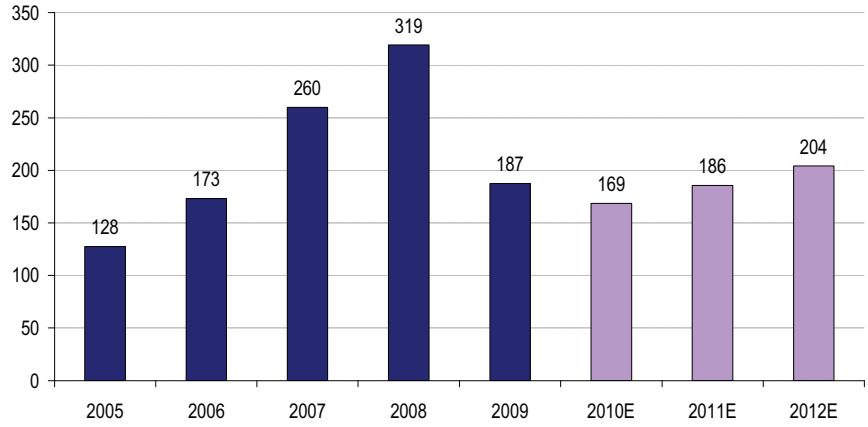
For Drillmec we are more bullish taking into consideration the perspectives of the oil sector and the potential of **HH Series** drilling technology.

TREVI HISTORICHAL REVENUES TREND



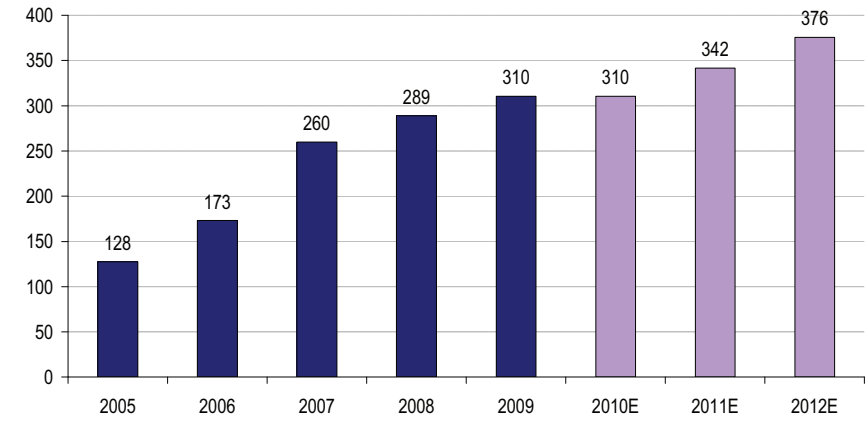
Source: EQUITA SIM elaboration on company data

SOILMEC HISTORICHAL REVENUES TREND



Source: EQUITA SIM elaboration on company data

DRILLMEC HISTORICHAL REVENUES TREND



Source: EQUITA SIM elaboration on company data

As regards our **assumptions on EBIT margin**, we have assumed that:

- The **Service division goes down to 14-15% from the peak levels hit in 2009** (17.4% net of one-off provisioning reported in the year vs. a 2006-2008 average of just over 11%). We recall the fact that **2009 benefited from** a significant number of **jobs featuring a particularly high level of complexity**
- The **Engineering division experiences steady recovery up to 11% in 2012E** from the very low 2009 levels (7.3% vs. a 2006-2008 average of over 11%). We in fact expect the division to benefit both from **cost cuts** stemming from rationalization of the production process achieved in 2009 (in particular in Soilmec) and from the **economies of scale connected with the sales growth expected for the 3-year period.**

TFI FULL YEAR ESTIMATES (€ mn)

	2007	%	2008	%	2009	%	2010E	%	2011E	%	2012E	%
REVENUES												
Services	**401**	47.7	**518**	48.4	**554**	53.5	**514**	52.4	**550**	51.8	**581**	50.8
Change			*29%*		*7%*		*-7%*		*7%*		*6%*	
o/w												
Foundations	***358***	*42.5*	***456***	*42.7*	***495***	*47.8*	***446***	*45.4*	***468***	*44.1*	***491***	*43.0*
Change			*28%*		*9%*		*-10%*		*5%*		*5%*	
Drilling activities	***47***	*5.5*	***65***	*6.1*	***65***	*6.3*	***72***	*7.4*	***86***	*8.1*	***93***	*8.2*
Change			*39%*		*1%*		*10%*		*19%*		*9%*	
Adjustments	***-3***		***-3***		***-6***		***-4***		***-4***		***-4***	
Equipment	**465**	55.2	**607**	56.8	**496**	47.9	**477**	48.7	**525**	49.4	**578**	50.5
Change			*31%*		*-18%*		*-4%*		*10%*		*10%*	
o/w												
Foundation and digging equipment	***281***	*33.4*	***319***	*29.9*	***187***	*18.1*	***169***	*17.2*	***186***	*17.5*	***204***	*17.9*
Change			*14%*		*-41%*		*-10%*		*10%*		*10%*	
Drilling equipment	***194***	*23.1*	***289***	*27.0*	***310***	*30.0*	***310***	*31.7*	***342***	*32.2*	***376***	*32.9*
Change			*49%*		*8%*		*0%*		*10%*		*10%*	
Adjustments	***-10***		***-1***		***-1***		***-2***		***-2***		***-2***	
Holding	**13**		**9**		**15**		**15**		**15**		**15**	
Change			*-29%*		*58%*		*0%*		*0%*		*0%*	
Adjustments	**-38**		**-65**		**-30**		**-25**		**-28**		**-31**	
Total revenues	**842**	100	**1069**	100	**1036**	100	**981**	100	**1062**	100	**1143**	100
Change			*27%*		*-3%*		*-5%*		*8%*		*8%*	
EBIT												
Services	**45**	43.3	**69**	54.0	**83**	71.1	**77**	68.4	**77**	61.0	**81**	57.7
Change			*53%*		*21%*		*-8%*		*0%*		*6%*	
Equipment	**64**	61.5	**69**	54.2	**36**	30.8	**38**	33.9	**53**	41.6	**64**	45.1
Change			*8%*		*-48%*		*6%*		*38%*		*21%*	
Total EBIT	**104**	100	**128**	100	**117**	100	**113**	100	**126**	100	**141**	100
Change			*23%*		*-8%*		*-4%*		*12%*		*12%*	
EBIT margin Services	**15.0**		**15.0**		**15.0**		**15.0**		**14.0**		**14.0**	
EBIT margin Equipment	**7.3**		**7.3**		**7.3**		**8.0**		**10.0**		**11.0**	
EBIT margin	**11.3**		**11.3**		**11.3**		**11.5**		**11.9**		**12.3**	

Source: EQUITA SIM estimates & company data

Our model reflects a 2010E featuring:

- **Sales =** € 981 mn (-5% YoY). This assumes (a) slowdown of Trevi (-10% vs. record levels achieved in 2009) and Soilmec (-10%), for which we do not expect any significant improvements in terms of demand, (b) steadiness for Drillmec (flat YoY), and (c) an increase for Petreven (+10%), mainly driven by the effect of USD revaluation vs. the EUR.
- **EBIT** = € 113 mn (-4%)
- **EBIT margin =** 10.8% improving slightly vs. 10.7% in 2009. This EBIT margin is the result of a flat YoY margin in the Service division (15%) and a slightly better margin in the Engineering division.
- **Net profit =** € 65 mn (-21%), which reflects the absence of the forex gains reported in 2009 (€ 4.7 mn) and the return to a normalised tax rate of 30% after 2009 benefited from an exceptional 20% tax rate due to one-off factors.

Based on our assumptions through to 2012E, estimated **2009-2012E CAGRs** are:

- **Sales** = 3%
- **EBIT** = 6%
- **Pre-tax profit** = 8%
- **Net profit** = 3%.

Lastly, in terms of **cash generation** our model reflects:

- Expected **normalization of investments** at around € 60-65 mn vs. € 11 7 mn in 2008 and € 75 mn in 2009 (years affected by (a) investments to enlarge the production area of Drillmec and Soilmec and (b) the boom of new contracts experienced in Trevi)
- **Limitation of NWC levels** in 2010E (€ -34 mn) and 2011E (€ -38 mn) thanks to gradual normalization of payments, followed by absorption of € 24 mn in 2012E due to top-line growth
- **Conversion of the € 70-mn convertible loan** in November 2011.

NWC ITEMS VS REVENUES

	2009	2010	2011	2012
Receivables	32.9%	34.0%	34.0%	34.0%
Inventories & work in progress	32.5%	31.0%	28.0%	28.0%
Payables	25.6%	26.0%	29.0%	29.0%
NWC	**39.9%**	**39.0%**	**33.0%**	**33.0%**

Source: Company data

TFI FULL YEAR ESTIMTES (€ mn)

	2009		2010E	%	2011E	%	2012E	%	2009-2012 CAGR
Value of Production	**1,095**	100	**1,041**	100	**1,122**	100	**1,203**	100	3.2%
Change			*-5%*		*8%*		*7%*		
EBITDA	**182**	16.6	**158**	15.2	**171**	15.3	**186**	15.5	0.8%
Change			*-13%*		*9%*		*9%*		
EBIT	**117**	10.7	**113**	10.8	**126**	11.2	**141**	11.7	6.3%
Change			*-4%*		*12%*		*12%*		
Pre Tax Profit	**105**	9.6	**95**	9.2	**113**	10.0	**130**	10.8	7.6%
Change			*-9%*		*17%*		*15%*		
Net Profit	**82**	7.5	**65**	6.2	**77**	6.8	**89**	7.4	2.3%
Change			*-21%*		*19%*		*16%*		
NFP	**-444**		**-377**		**-226**		**-198**		

Source: EQUITA SIM estimates & company data

We don't discount **the potential contribution** of award of the contract for consolidation of the **Mosul dam in Iraq.**
The likelihood of success is however high, as the Iraqi government has asked for submittal of a **joint bid by TFI and Bauer** (who were the only companies left in the running), thus changing the adjudication procedure into a **private negotiation.**

This contract is **very attractive** in terms both of **size** and of the **margins** achievable due to the major complexity of the project. The basic details of the potential deal are:

- **Total value:** about € 2 bn, of which 50% for TFI
- **Duration: 6 years**
- **Annual revenues** (our estimate): about € 170 mn for TFI
- **EBIT margin** (our estimate): 15%.
- **Down payment** (our estimate): 12%, i.e. about € 120 mn for TFI

The contract would therefore have a **significant impact on the Trevi division** and would **also have a positive impact on Soilmec**, which would immediately be called up to construct the special equipment needed to do the job.

VALUATION

TREVI VALUATION (€ mn)	
EV Equipment (DCF)	619
EV Constructions 8.4x 2011E EV/EBIT	690
Total EV	**1,308**
2009 NFP	-444
Convertible cash in	67
Dividend effect	-8
Equity	**924**
# of shares	70
Target price	13.2
Implied PE 2010E	14.2
Implied PE 2011E	12.0
Implied PE 2012E	10.3

Source: EQUITA SIM estimates

Our valuation of TFI is based on an **SOTP of the Service and Engineering divisions. We value** the**:**

- **Service division at 8.6x EBIT**, i.e. a multiple at a 10% discount vs. the theoretical multiple based on 2011E projections of ROCE, WACC, tax rate, and g
- **Engineering division based on a DCF model.**

Based on our assumptions we get a target price of € 13.2 PS.
At the target price TFI would trade at 14x 2010E earnings and 12x 2011E earnings.

We point out that our target price:

- **Reflects total conversion of the convertible loan** maturing in November 2011 (we have in fact adjusted both the number of shares and 2009 NFP)
- **Does not take into account** the contract for consolidation of the **Mosul dam** which, based on the initial input provided by the company, would be worth about € 85/90 mn and therefore would have a positive effect on target price of approximately € 1.2 PS.

PEER COMPARISON

Among listed players, **the company most comparable with TFI is the German company Bauer** (B5A GR). Bauer is in fact the only player in the world who, like TFI, operates both in the foundations segment and in the segment of underground engineering equipment.
We stress, however, that Bauer is not perfectly comparable with TFI because, in effect, its operations in the onshore drilling equipment segment are in the start-up phase.

Given that TFI's Trevi division accounts for 45% of consolidated sales and 57% of EBIT, there is also good affinity with the UK player Keller (KLR LN), global leader of the foundations segment.

Conversely, TFI's foundations business cannot be compared with operators like Astaldi and Impregilo.
This is because, except in the case of dams and parking facilities, **Trevi usually acts as subcontractor for the specific part of works concerning special foundations.**

Trevi in fact possesses extremely specialized know-how, operates in a **niche business** and in fact is a supplier of services for companies like **Impregilo (IPG) and Astaldi (AST)**, which instead take on the role of **general contractor for the execution of major infrastructure projects.**
The difference of roles is well summed up in comparison of the EBIT margin of Trevi division (12-13%) and the typical margin of AST and IPG (8-9%).

PEER COMPARISON

Company	Ticker	Price	Mkt. Cap	Sales	EBITDA	EBIT	Net Income	EV/EBITDA			PE			Yield	D/EBITDA		
				2010E	2010E	2010E	2010E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2010E	2011E	2012E
BAUER	B5A GR	29.6	506	1,140	162	94	42	6.4	5.6	5.2	12.1	9.0	7.6	2.2	2.7	3.3	2.5
KELLER	KLR LN	573.5	369	1,021	86	52	37	5.4	4.5	3.9	11.7	9.3	7.6	3.9	3.6	3.7	0.9
TREVI (*)	TFI IM	13.0	915	981	158	113	65	7.7	6.7	6.0	13.9	11.9	10.3	1.1	1.1	1.1	2.4
Sector Average								**6.5**	**5.6**	**5.0**	**12.6**	**10.1**	**8.5**				

(*) FD figures
Source: EQUITA SIM estimates & Bloomberg data

CONCLUSIONS

We start coverage of the stock with a **HOLD recommendation.** TFI features:

- A **unique business model** based on co-existence of four different divisions able to fuel **continuous innovation** as regards both **processes** and **products**
- Know-how that is very hard to emulate, coming from over 50 years of experience in the field
- Excellent **geographical diversification** and major exposure to **emerging countries** (70% of revenues are generated outside Europe and the USA)
- **Winning technology** in the onshore drilling segment
- A **dominant position** in the segment concerning consolidation of old dams.

At the same time, however:

- The **Foundations division** hit an **all-time top-line record** in 2009
- **Soilmec's market of reference continues not to show any clear signs of inversion** of the sales trend
- During 2008 and 2009 there was a **significant increase in working capital** due to delays in client payments (we nevertheless point out that 1Q10 showed faint signs of inversion of this trend).

At **14x 2010E earnings and 12x 2011E earnings, we think the stock fairly reflects the group's future growth prospects.** We would once again become buyers of the stock in the region of € 10-11 per share. Award of works for the Mosul dam could be a significant catalyst and would cause us to revise our present target priced upwards by about € 1.2 PS.

SENSITIVITY ANALYSIS

SENSITIVITY			
		Construction EBIT	
Wacc	-5%	Current	+5%
7.4%	14.2	14.7	15.3
7.9%	12.7	**13.2**	13.7
8.4%	11.4	11.8	12.3

Source: EQUITA SIM estimates

STATEMENT OF RISK

The primary factors that could adversely affect our view on TFI are the following:

- Significant change in the reference macroeconomic scenario
- Significant change in interest rates
- Significant change in oil price
- Major claims in projects currently under construction
- A mispriced acquisition

P&L	2007	2008	2009	2010E	2011E	2012E
Revenues	**842**	**1,069**	**1,036**	**981**	**1,062**	**1,143**
Growth	31%	27%	-3%	-5%	8%	8%
Total opex	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Margin	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA	**134**	**166**	**182**	**158**	**171**	**186**
Growth	56%	24%	9%	-13%	9%	9%
Margin	16%	16%	18%	16%	16%	16%
Depreciation& amortization	-26	-32	-42	-40	-40	-40
Provisions	-4	-6	-22	-5	-5	-5
Depreciation&provistion	**-30**	**-39**	**-64**	**-45**	**-45**	**-45**
EBIT	**104**	**128**	**117**	**113**	**126**	**141**
Growth	79%	23%	-8%	-4%	12%	12%
Margin	12%	12%	11%	11%	12%	12%
Net financial profit/Expenses	-18	-18	-13	-17	-14	-11
Profits/exp from equity inv	0	0	0	0	0	0
Other financial profit/Exp	na	na	na	na	na	na
Total financial expenses	**-18**	**-18**	**-13**	**-17**	**-14**	**-11**
Non recurring pre tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Profit before tax	**86**	**109**	**105**	**95**	**113**	**130**
Growth	102%	27%	-4%	-9%	18%	16%
Taxes	**-28**	**-32**	**-20**	**-29**	**-34**	**-39**
Tax rate	33%	29%	20%	30%	30%	30%
Minoritiy interests	**-2**	**-3**	**-2**	**-2**	**-2**	**-2**
Non recurring post tax	na	na	na	na	na	na
Net income	**56**	**75**	**82**	**65**	**77**	**89**
Growth	108%	34%	10%	-21%	19%	16%
Margin	7%	7%	8%	7%	7%	8%
Adj. net income	**56**	**75**	**82**	**65**	**77**	**89**
Growth	108%	34%	10%	-21%	19%	16%
Margin	7%	7%	8%	7%	7%	8%

CF Statement	2007	2008	2009	2010E	2011E	2012E
Cash Flow from Operations	88	116	104	102	114	126
(Increase) decrease in OWC	17	-155	-168	34	38	-24
(Purchase of fixed assets)	-50	-117	-75	-61	-62	-64
(Other net investments)	12	0	0	0	0	0
(Distribution of dividends)	-3	-6	-8	-8	-9	-10
Rights issue	0	0	0	0	0	0
Other	-30	-17	25	0	70	0
(Increase) Decrease in Net Debt	**33**	**-179**	**-122**	**67**	**151**	**28**

Source: EQUITA SIM estimates & company data

INFORMATION PURSUANT TO ARTICLE 69 ET SEQ. OF CONSOB (Italian securities & exchange commission) REGULATION no. 11971/1999

This publication has been prepared by Giuseppe Mapelli on behalf of EQUITA SIM SpA (licensed to practice by CONSOB resolution no. 11761 of December 22nd 1998 and registered as no. 67 in the Italian central register of investment service companies and financial intermediaries)

In the past EQUITA SIM has not published studies on Trevi Finanziaria.

EQUITA SIM is distributing this publication via e-mail to more than 700 qualified operators today: Tuesday, 15 June 2010

The prices of the financial instruments shown in the report are the reference prices posted on the day before publication of the same.

EQUITA SIM intends to provide continuous coverage of the financial instrument forming the subject of the present publication, with a semi-annual frequency and, in any case, with a frequency consistent with the timing of the issuer's periodical financial reporting and of any exceptional event occurring in the issuer's sphere of activity.
The information contained in this publication is based on sources believed to be reliable. Although EQUITA SIM makes every reasonable endeavour to obtain information from sources that it deems to be reliable, it accepts no responsibility or liability as to the completeness, accuracy or exactitude of such information. If there are doubts in this respect, EQUITA SIM clearly highlights this circumstance. The most important sources of information used are the issuer's public corporate documentation (such as, for example, annual and interim reports, press releases, and presentations) besides information made available by financial service companies (such as, for example, Bloomberg and Reuters) and domestic and international business publications. It is EQUITA SIM's practice to submit a pre-publication draft of its reports for review to the Investor Relations Department of the issuer forming the subject of the report, solely for the purpose of correcting any inadvertent material inaccuracies.
EQUITA SIM has adopted internal procedures able to assure the independence of its financial analysts and that establish appropriate rules of conduct for them.

Furthermore, it is pointed out that EQUITA SIM SpA is an intermediary licensed to provide all investment services as per Italian Legislative Decree no. 58/1998. Given this, EQUITA SIM might hold positions in and execute transactions concerning the financial instruments covered by the present publication, or could provide, or wish to provide, investment and/or related services to the issuers of the financial instruments covered by this publication. Consequently, it might have a potential conflict of interest concerning the issuers, financial issuers and transactions forming the subject of the present publication.

In addition, it is also pointed out that, within the constraints of current internal procedures, EQUITA SIM's directors, employees and/or outside professionals might hold long or short positions in the financial instruments covered by this publication and buy or sell them at any time, both on their own account and that of third parties.

The remuneration of the financial analysts who have produced the publication is not directly linked to corporate finance transactions undertaken by EQUITA SIM.

The recommendations to BUY, HOLD and REDUCE are based on Expected Total Return (ETR – expected absolute performance in the next 12 months inclusive of the dividend paid out by the stock's issuer) and on the degree of risk associated with the stock, as per the matrix shown in the table. The level of risk is based on the stock's liquidity and volatility and on the analyst's opinion of the business model of the company being analysed. Due to fluctuations of the stock, the ETR might temporarily fall outside the ranges shown in the table.

EXPECTED TOTAL RETURN FOR THE VARIOUS CATEGORIES OF RECOMMENDATION AND RISK PROFILE

RECOMMENDATION/RATING	Low Risk	Medium Risk	High Risk
BUY	ETR >= 7.5%	ETR >= 10%	ETR >= 15%
HOLD	-5% <ETR< 7.5%	-5% <ETR< 10%	0% <ETR< 15%
REDUCE	ETR <= -5%	ETR <= -5%	ETR <= 0%

The methods preferred by EQUITA SIM to evaluate and set a value on the stocks forming the subject of the publication, and therefore the Expected Total Return in 12 months, are those most commonly used in market practice, i.e. multiples comparison (comparison with market ratios, e.g. P/E, EV/EBITDA, and others, expressed by stocks belonging to the same or similar sectors), or classical financial methods such as discounted cash flow (DCF) models, or others based on similar concepts. For financial stocks, EQUITA SIM also uses valuation methods based on comparison of ROE (ROEV – return on embedded value – in the case of insurance companies), cost of capital and P/BV (P/EV – ratio of price to embedded value – in the case of insurance companies).

MOST RECENT CHANGES IN RECOMMENDATION AND/OR IN TARGET PRICE (OLD ONES IN BRACKETS):

Date	Rec.	Target Price (€)	Risk	Comment
Nil				

DISCLAIMER

The purpose of this publication is merely to provide information that is up to date and as accurate as possible. The publication does not represent to be, nor can it be construed as being, an offer or solicitation to buy, subscribe or sell financial products or instruments, or to execute any operation whatsoever concerning such products or instruments.
EQUITA SIM does not guarantee any specific result as regards the information contained in the present publication, and accepts no responsibility or liability for the outcome of the transactions recommended therein or for the results produced by such transactions. Each and every investment/divestiture decision is the sole responsibility of the party receiving the advice and recommendations, who is free to decide whether or not to implement them. Therefore, EQUITA SIM and/or the author of the present publication cannot in any way be held liable for any losses, damage or lower earnings that the party using the publication might suffer following execution of transactions on the basis of the information and/or recommendations contained therein.
The estimates and opinions expressed in the publication may be subject to change without notice.

EQUITY RATING DISPERSION AS MARCH 31 2010 *(art. 69-quinquies c. 2 lett. B e c. 3 reg. Consob 11971/99)*

	COMPANIES COVERED	COMPANIES COVERED WITH BANKING RELATIONSHIP
BUY	52.6%	60.0%
HOLD	38.0%	30.0%
REDUCE	8.2%	6.7%
NOT RATED	1.2%	3.3%