

# Trevi

Italy/Construction & Materials

## Buy

Recommendation unchanged

**Share price: EUR 10.18**

*closing price as of 02/09/2010*

**Target price: EUR 13.80**

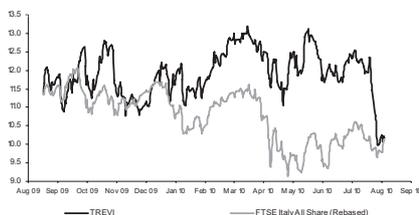
Target Price unchanged

Reuters/Bloomberg

TF1M/TF1M

Market capitalisation (EURm)	652
Current N° of shares (m)	64
Free float	44%
Daily avg. no. trad. sh. 12 mth	197,754
Daily avg. trad. vol. 12 mth (m)	2
Price high 12 mth (EUR)	13.20
Price low 12 mth (EUR)	9.98
Abs. perf. 1 mth	-18.82%
Abs. perf. 3 mth	-16.63%
Abs. perf. 12 mth	-5.30%

Key financials (EUR)	12/09	12/10e	12/11e
Sales (m)	1,036	977	1,050
EBITDA (m)	182	154	173
EBITDA margin	17.6%	15.8%	16.4%
EBIT (m)	117	107	119
EBIT margin	11.3%	11.0%	11.3%
Net Profit (adj.)(m)	82	66	72
ROCE	8.2%	14.0%	14.9%
Net debt/(cash) (m)	445	381	342
Net Debt/Equity	1.4	1.0	0.8
Debt/EBITDA	2.4	2.5	2.0
Int. cover(EBITDA/Fin. int)	9.9	9.6	10.5
EV/Sales	1.2	1.1	1.0
EV/EBITDA	6.8	7.3	6.3
EV/EBITDA (adj.)	6.8	7.3	6.3
EV/EBIT	10.6	10.5	9.1
P/E (adj.)	8.6	9.8	9.1
P/BV	2.3	1.8	1.5
OpFCF yield	-3.7%	25.8%	17.4%
Dividend yield	1.2%	1.2%	1.2%
EPS (adj.)	1.28	1.03	1.12
BVPS	4.72	5.64	6.64
DPS	0.12	0.12	0.12



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## Feedback from H1 10 result conference call

**The facts:** new elements have not emerged during the conference call, but the management accurately explained what was announced in H1 press release:

- H1 10 results showed a good improvement compared to H2 09 results; this is the sign of a recovery trend after the crisis destined to continue in H2 10;
- FY 10 sales should be around EUR 1bn (higher than our estimates of EUR 977m); so H2 10 result will be stronger than H1 one;
- Drillmec's weak H1 results will improve in H2 owing to the delivery of Saipem's order in Kazakhstan and Soilmec is showing a steadily improvement in the order intake compared to the same period of the last year (the group is receiving several demands for equipment especially from Middle East and South and North America);
- the order intake of the service sectors is expected to growth in the coming few months (main potential geographical area: Middle East, USA and Africa).

Furthermore, *the management confirmed that there are currently several significant negotiations in all sectors*, in the above mentioned geographical areas and characterised by high profitability. Nevertheless, *these negotiations are bound by confidentiality agreements; therefore, the management wants to maintain a strict and fair communication policy*, so they, contrary to other competitors, decided to not give more details about a single potential order or about the timing of the potential contract signature.

**Conclusion & Action:** *our view on group's fundamental and on its strong track record remains good. So we confirm Buy recommendation and our target price of EUR 13.8 per share, calculated based on DCF model (WACC 8.1% and 1.5% perpetual growth rate).*

*In our opinion, at the current price, the stock is strongly undervalued compared to the peers, despite Trevi is showing the same potential growth in the coming future: indeed, Trevi 10e P/E is 9.8x, so decidedly lower than Bauer AG and Keller average 10e P/E of 13.2x. Furthermore, if we apply this average 10e P/E to our Trevi FY 10e EPS, we obtain a Trevi group valuation of EUR 13.60 par share, which is in line with the value of EUR 13.80 per share calculated based on our DCF model.*

*It is important to highlight that Keller and Bauer AG are not present in the equipment and service drilling sectors; on the contrary, Trevi can be considered a small but well-known players in these sectors. Therefore, we believe that a correct stock valuation has to take this part of Trevi's business into account, since it weigh 34% on total sales (we remind investors that 10e P/E average of the drilling peers is 16.8x).*

*Lastly, we believe that the stock price could have a strong boost in the coming months in case of potential announcement of new big order.*