fidentiis EQUITIES

INDEPENDENCE OF IDEAS

Italy / Construction

01 April 2010

Trevi Finanziaria (TFI IM)

A future built on solid foundations

Buy

Last (€)	12.5
Valuation Range (€)	15.9
Market Cap.(€m)	802
Av. Daily Vol.(m sh)	0.18
Free Float	44.8%
YTD	15.1%

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- **Thanks to its solid reputation, Trevi could shortly be awarded with a number of very large orders such as the restructuring works of Mosul, the biggest dam in Iraq.**
- **Over the next 12 months, we see a potential total order-inflow, not yet in our estimates, at around € 1.7bn, strongly increasing the backlog reported at € 780m.**
- **4Q'09 has been weak, slightly below consensus on EBITDA and 2010E is seen to be a transition year: 1) Flat at the top line level 2) Slightly decreasing margins as a consequence of smaller and less profitable orders compared to 2009, with the equipment division expected to recover from the second part of the year.**
- **2011E is foreseen to recover on sales (+4.8%) and margins (net profit +9%); the new orders aforementioned could add further € 323m to the sales and € 52m to the EBITDA per year (+30.5% in comparison with current estimates)**
- **Trevi is currently trading 11x PE, at a 30% discount in comparison with Bauer (15.8x): this discount should also widen, factoring in the new potential orders.**
- **We set a PT at € 15.9, initiating the coverage with a Buy rating. If awarded with the potential new orders, this valuation could be increased by € 2.7 per share.**

	Sales (€m)	EBITDA (€m)	vs. Cons	Net Profit (€m)	EPS (old) (€)	EPS(new) (€)	vs. Cons	P/E (x)	EV/EBITDA (x)	DPS (€)	DIV Yield
2007	837	129	n.a.	56	n.a	0.87	n.a.	n.a.	n.a.	0.10	0.8%
2008	1069	166	n.a.	75	n.a	1.17	n.a.	n.a.	n.a.	0.12	1.0%
2009	1.036	182	n.a.	82	n.a	1,28	n.a.	n.a.	n.a.	0,12	1,0%
2010E	1.047	164	-10,1%	73	n.a	1,14	-2,6%	10,9	7,1	0,13	1,0%
2011E	1.103	171	-17,6%	82	n.a.	1,28	-10,6%	9,8	6,3	0,13	1,0%

Est 3 Yr Sales CAGR:	1,1%	*Shares Outstanding (m):*	64
Est 3 Yr EPS CAGR:	3,2%	*Mkt Cap (€m):*	802

Share price performance	YTD	1 month	3 months	12 months
Absolute	15.1%	8.1%	15.1%	154%
Relative to FTSMib	16.8%	0.9%	16.8%	112%
Relative to Stoxx600	11.3%	2.1%	11.3%	107%

Investment Summary

New important orders, to be awarded over the next 12 months according to Fidentiis expectations, could give Trevi further appeal.

1) Mosul Dam, in Iraq (€ 2bn, to be shared with Bauer), is forecast by Fidentiis to be announced by the **end of the year**

2) Panama Canal (€ 135m for the foundation part), is forecast to be announced in **6 months**

3) Panama Underground (€ 165m estimated for the foundations), is expected by Fidentiis to be announced in **3-6 months**

4) some **4 new dams** in Lat.Am. (€ 125m related to foundations), according to Fidentiis to be announced in **18 months**

5) the restructure of **a new dam in US** (€ 120m), to be announced **by the end of the year**.

All of the above are the main opportunities ahead that have not been **entirely factored in our estimates**. Only considering those potential orders, the **total inflows over the next 18 months could be at around € 1.7bn, more than double of the current backlog** (2009 order-backlog reported at € 780m)**.**

Q4'09 has been reported down on sales by -31%, with EBITDA dropped from € 35m to € 21m. Q4'09 was weaker compared to the first part of the year that didn't experience yet the **drop in sales from the equipment division (-18.2% on FY basis)**. With an **order backlog reported at € 780m** at the end of 2009, **2010E is expected to be flat on the top line with lower margins** as a consequence of **1) The foundation equipment division still weak 2) A less profitable order-backlog** with regard to the foundation services division. Net debt, reported at € 444m, is seen to decrease to € 364m as a consequence of the lower capex and the better NWC management.

2011E is expected to show a **recovery** on both sales (+5%) and margins (net profit forecast + 9%), **without considering the impact of the new orders**. In a best case scenario, with a total impact of the potential new orders, both **sales and EBITDA would be higher by 30%**.

At the current price, Trevi looks cheap:

- **11x 2010 P/E**, which implies a **30% discount vs Bauer** (15.8x on earnings).
- **FCF yield** to equity **above 11%** in 2010E-11E, which is also driven by a cash generation from the reduction of net working capital and lower CAPEX in comparison to the extraordinary amount of the last 3 years

We initiate the coverage with a **PT** at **€ 15.9** based on a DCF model, implying a **potential upside at 25%**. At price target, the stock would trade at 9.2x-8.8x '10E-'11E EV/EBITDA and 15.4x-13.7x PE.

Our valuation does not actually consider any new large aforementioned orders. If awarded, **the 6 large orders would add to the PT € 2.7 per share**. Mosul Dam would represent around half of the total potential of the new orders. This would add around € 1.3 per share, according to Fidentiis calculation.

Any potential weakness of the stock, due lower than forecast results, is a buy opportunity in light of the strong news-flow expected in the short-mid terms.

Coverage initiated with Buy.

1. New orders ahead, set to change the current picture

- **Some new potential orders could add € 1.7bn to the backlog**
- **Mosul Dam is the biggest contract that Trevi could shortly be awarded**
- **Further important orders could come from Lat.Am., the US and Africa**

A number of important orders could shortly be awarded, substantially changing the order-backlog reported at € 780m in 2009 (€ 1.1bn in 2008). According to Fidentiis expectations, the new orders **regarding big infrastructure works**, will increase company visibility on the medium term, sustaining the current level of profitability.

Potential order	Order in-take € m	Duration (years)	Impact on sales/year € m	Impact on EBITDA/year € m	Impact on Valuation €/Share
Mosul	1000	7	143	23	1.2
Panama Canal	135	5	27	4	0.2
Panama Underground	165	4	41	7	0.3
US Dam	120	3	40	6	0.3
Libya Underground	120	4	30	5	0.2
4 Dams in Lat.Am	125	3	42	7	0.3
Total	**1665**		**323**	**52**	**2.7**

Source: Fidentiis estimates

Mosul: the restructuring of the largest Iraqi dam – By the end of the year, the Iraqi government should finally take a decision about the **restructuring project of Mosul**, the **largest Iraqi dam** (fourth largest dam in Mid-East by reserve capacity) located on the Tigris river. Completed in 1984, the dam is **considered to be the most dangerous in the world**: its embankment has been located on top of gypsum, a soft mineral that dissolves when it comes into contact with water. **Trevi, together with Bauer**, could be awarded the project by the Iraqi government in order to **reinforce the foundations of the dam**. The works should **last 7 years** and the **total value** of the project is estimated (by Fidentiis) at **around € 2bn** (50% is expected to be related to Trevi)**, concerning both the services and equipment provision**.

Panama: the enlargement of the canal and the underground – The enlargement of the **Panama Canal** (already awarded to Impregilo/Sacyr, at around $ 5.3bn total value) and **Panama underground** (still to be awarded, forecast at around € 1.1bn) are two important contracts that would be able to increase Trevi presence in a promising region in terms of investments in the infrastructure sector. According to Fidentiis estimates, if awarded, the two orders could generate **adding sales at around € 300m:** € 165m from the underground and € 135m from the canal (according to Fidentiis calculation).

Further opportunities from US, Libya and Lat.Am – A new **dam in the US** estimated at around **€ 120m** (forecast by Fidentiis) could be awarded in 3Q'10E, as a part of ongoing plans to restructure dams in the country. New opportunities, on medium-long term, could also come from the **underground in Tripoli** (the first step of the bid has already been concluded, **€ 120m** is the potential impact for Trevi expected by Fidentiis) and from some **new large dams in**

Lat.Am. (at least 4 potential new dams, one in Ecuador, two in Chile and one in Colombia with a total value € 830m. Potential orders intake for Trevi is forecast at **€ 125m**. With these potential contracts, **Trevi could add € 365m of new orders inflow.**

Overall, on the medium term, the **potential order-inflow** could achieve a **total value of € 1665m** (with the largest part to be awarded by the end of 2010E), more than doubling the current backlog. Assuming an **average length** per contract of **4 years (Mosul 7, Panama Canal 5 and 3-4 years for dams and the underground)**, this orders inflow would add:

- **around € 323m** per year in term of **sales**, that could guarantee a **strong visibility on the medium term for the foundations division** of the Group
- **an EBITDA of € 52m,** that is calculated with a margin of 16% corresponding to around **30% of 2009 EBITDA**

2. Financial analysis: 2010E seen to be a transition year

- **4Q'09 has been weak and penalized by a declining equipment division**
- **2010E: Top line foreseen flat, with lower margins on EBITDA and Net profit level**
- **2011E expected to be driven by a recovery of equipment division**

Weak 4Q'09...

The last quarter of 2009 followed the negative trend of 3Q'09. 4Q'09 was weaker than the first part of the year, slightly below on EBITDA vs Consensus estimates, mainly as a consequence of:

- **a pronounced slowdown of foundation equipments,** as a consequence of the lack of order-inflow during the previous months
- **the termination of some important orders in drilling equipment**
- **further provisions** (around € 2.5m in the quarter) that impacted on the EBIT

€ m	Q4'08	Q4'09	yoy	FY08	FY09	yoy	FY09 Consensus	Actual/Consensus
Sales	289	199	-31,1%	1069	1036	-3,1%	1125	-7,9%
EBITDA	35	21	-41,8%	166	182	9,3%	185	-1,7%
margin %	12,2%	10,3%		15,6%	17,6%		16,4%	
EBIT	21	8	-63,8%	128	117	-8,0%	131	-10,4%
margin %	7,3%	3,8%		11,9%	11,3%		11,6%	
Net Income	n.a	n.a		75	82	10,0%	77	7,4%

Source: Company data, Bloomberg

On the whole, Trevi reported a better than expected 2009 net profit (+7.4% compared to Consensus) driven by

- lower than forecast financial interest
- a positive FOREX (€ 4.7m)
- a particularly low tax rate (19.5%) mainly impacted by 1) a tax remboursement related to 2008, 2) an increased geographical diversification

Net debt has been reported at € 445m (from € 441m in 3Q'09) and the order-backlog at € 780m, in line with 9M'09 level.

...and a recovery forecast starting from 2011E

Ruling out every big order previously mentioned, **2010E for Trevi** is forecast to be a transition year, with **lower visibility** due to a smaller than 2008 order backlog (book-to-bill ratio at 0,7x), **flat sales** and **lower margins** driven by:

- **Flat sales and lower margins in the equipment division:** still negative in the foundation machines, partially offset by a positive expected trend of the drilling equipments
- A **slightly positive services division**, with smaller and less profitable orders compared to 2009
- **Zero provisions,** compared to the € 22m reported in 2009
- **A normalized tax rate at 26%**
- **Lower capex,** in the range of € 40-50m
- **A reduction of NWC,** mainly as a consequence of the lower inventories

	2009	2010E	2011E	2012E
Services	**549,1**	**559,1**	**590,7**	**616,4**
Growth %		1,8%	5,7%	4,3%
- Foundations	481,9	489,1	513,5	539,2
Growth %		1,5%	5,0%	5,0%
- Drilling	67,2	70,1	77,2	77,2
Growth %		4,2%	10,2%	0,0%
Equipments	**486,7**	**488,1**	**512,5**	**538,2**
Growth %		0,3%	5,0%	5,0%
- Foundations	186,3	168,1	176,5	185,3
Growth %		-9,8%	5,0%	5,0%
- Drilling	300,4	320,1	336,1	352,9
Growth %		6,6%	5,0%	5,0%
SALES	**1035,8**	**1047,3**	**1103,3**	**1154,6**
Growth %		1,1%	5,3%	4,7%
EBITDA	**181,8**	**163,7**	**170,6**	**178,6**
%	17,6%	15,6%	15,5%	15,5%
EBIT	**117,4**	**120,0**	**127,2**	**136,4**
%	11,3%	11,5%	11,5%	11,8%
Net profit	**82,2**	**73,3**	**82,1**	**90,6**
Growth %		-10,8%	12,1%	10,3%

Source: Fidentiis estimates

Net debt in 2010E is seen to be reported at € 363m, improving by € 82m compared to 2009.

From **2011E**, we expect that Trevi could benefit from a **recovery of both the foundation equipments division and services**, with an EBITDA in 2012 returning to the record level of 2009.

As a consequence of the slower growth rate, **capex** should achieve the range of **€ 40-45m** over the 2010-2012E period (in the range of € 75m in 2006-09E). Furthermore, **net working capital** is foreseen **to be reduced**, with a **free-cash flow generation** that should move from the negative level of 2009 to the range of **€ 75-90m** (**10-11% yield to equity**).

3. Valuation: PT at € 15.9, initiating with a Buy

- **PT at € 15.9/share, based on a DCF, factoring in a base case scenario**
- **The new orders would add € 2.7 per share to TP**
- **Trevi is trading at a discount of 30% vs Bauer PE**

Based on a **DCF model**, we set a **PT at €15.9** per share, with a potential **upside at 25%.** At target, Trevi would trade **15.4x and 13.7x '10-'11 PE**, with an EV/EBITDA at 9.2x and 8.8x respectively. Our valuation is factoring in:

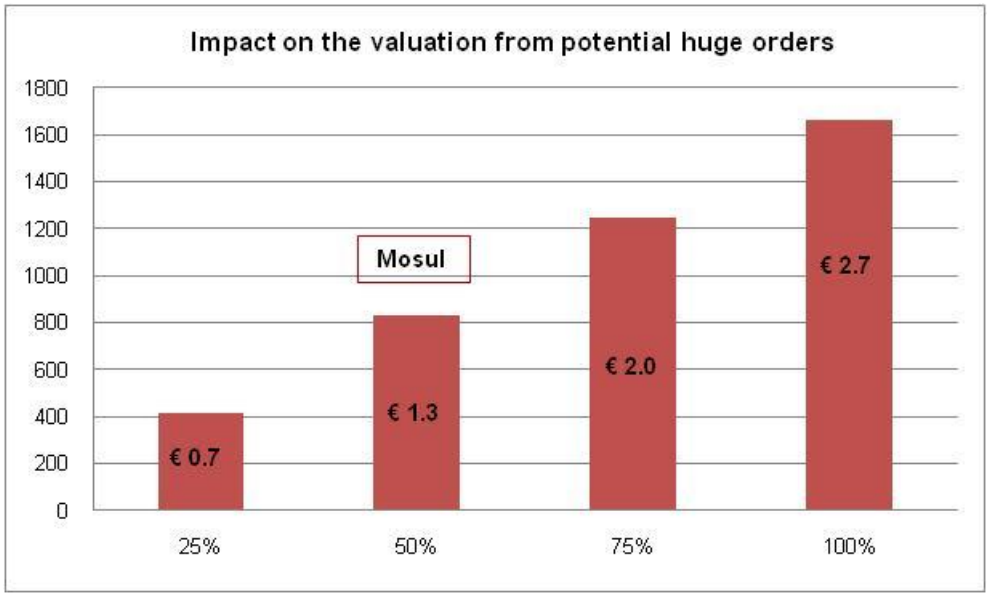
- A cost of capital at 9%
- A pre-tax cost of debt at 4.2%, with a gearing at 0.3x
- A 0% perpetual growth rate (and, as a consequence, a lower level of capex in 2017)
- A fully diluted number of shares (and a debt after dilution lower by € 70m compared to the level reported in 2009)

DCF model	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	Terminal value
Operating profit (NOPAT)	88,8	94,1	101,0	104,3	107,4	109,7	112,1	114,5	
Change working capital	10,1	8,1	-20,1	-20,5	-17,4	-17,4	-17,4	-17,4	
Depreciation	43,7	43,5	42,1	42,1	40,0	40,8	40,8	40,8	
Investments	-40,0	-40,0	-40,0	-42,6	-40,2	-44,4	-49,2	-23,4	
Net cash flow	**102,7**	**105,7**	**83,0**	**83,3**	**89,8**	**88,7**	**86,3**	**114,5**	**1538,9**
Discount factor	1,0	0,9	0,9	0,8	0,7	0,7	0,6	0,6	0,6
Present value	100,8	96,6	70,6	66,0	66,2	60,9	55,1	68,0	914,5

DCF per share derived from		**WACC derived from**	**7.4%**
Total present value	1498,7	Gearing	0.3
thereof terminal value:	*61%*	Interest costs, pre-tax	4.2%
Net debt (after bond conversion)	375,1	Tax rate	30.0%
Financial assets	2,1	**Interest costs, after taxes**	**2.9%**
Equity value	1126	**Required ROE**	**9.0%**
No. of shares fully diluted	70,6	Risk premium	5.0%
Discounted cash flow per share	**15,9**	Risk-free (10y. bond)	4.0%
		Beta	1.0

Source: Fidentiis estimates

Assuming a 100% impact of the potential new orders, in terms of valuation, **would translate as € 2.7** higher PT, meaning that an order inflow such as the Mosul project would increase Trevi valuation by at least € 1.2-1.3 per share.



Source: Fidentiis calculation

At current market price, **Trevi is trading** slightly at premium compared to Bauer valuation in terms of EV/EBITDA and **30% discounted on PE.**

	Mkt cap	Net debt	EV	EV/EBITDA 10E	P/E 10E
Trevi	813	364	1209	7,4	11,1
Trevi Consensus	813	383	1209	6,8	10,6
Bauer Consensus	568	379	969	6,5	15,8

Source: Fidentiis calculation, Bloomberg Data

We initiate Trevi with a Buy rating, PT at € 15.9, 25% potential upside.

4. Company Background and Competitive Position

- **Trevi has a focus on 1) The special foundations of the infrastructure sector 2) The oil drilling, providing both services and equipments**
- **In the special foundations sector, the expertise and a wide geographical presence, allowed Trevi to become a recognized leader in market niches of services and one of the two main global players for equipments**
- **In oil drilling, Trevi was the first-mover in the utilization of hydraulic systems, reducing cost and improving performance by 30% compared to the traditional equipments**

Trevi, set-up in 1957, operates in two different, but closely linked business, providing both services and equipments:

1) In the construction sector, with a **focus on special foundations,** characterised by larger dimension and space restriction
2) In the **oil drilling**, as a first mover in the application of the hydraulic systems

An impressive track-record and scale are the basis of Trevi's differentiation in the Special Foundation Division

Among services, the **huge number of works worldwide developed** in the last 50 years, particularly regarding **geotechnical and marine** orders (more than 50 dams/harbours/bridges built or restructured in the last 8 years), turned Trevi into a player able to **safely operate** with the **largest depths/dimensions**, with the most **challenging ground conditions** and in the most **demanding environments**. In a very fragmented market, Trevi is now recognized as **one of the 4 main service providers**, with a market share at around 8%.

Among equipments, the **wide distribution network** (above 120 distributors) and the **expertis accumulated in the services part**, gave Trevi the right scale for competing in every local market, becoming the second global player (after Bauer), with an estimated market share at around 20%.

In oil drilling, with a top-class product

Following the application of the hydraulic technology for the special foundation equipments, Trevi was able to enter the huge oil drilling market with new first-in-class machines, called HH. **Thanks to the application of the hydraulic systems**, **HH is 1) smaller and lighter** compared to traditional equipments **2) able to reduce drilling cost by 30% 3) increase the performance by around 25-30% 4) reduce accidents** thanks to the lower number of people employed in the activity.

Trevi started to sell these new equipments in 2000 as a **first mover** (focusing before only on traditional machines), benefiting from a clear **time advantage** compared to the other oil service providers and in comparison to Bauer, who launched similar machines only few years ago. Even though Trevi's **market share** in this sector is still **negligible** (around 6-8% including traditional and HH machines, according to Fidentiis calculation), this division experienced a high double digit growth in the last 4 years, moving from € 40.8m in 2004 to around € 260m in 2008.

COMPANY: Summarised P&L Account and key ratios

€m	2006	2007	2008	2009	2010E	2011E
Sales	**642**	**837**	**1.069**	**1.036**	**1.047**	**1.103**
EBITDA	**86**	**129**	**166**	**182**	**164**	**171**
Depreciation & Amort.	-28	-30	-39	-64	-44	-43
EBIT	**58**	**99**	**128**	**117**	**120**	**127**
Net Interest Expenses	-10	-14	-17	-17	-19	-13
Goodwill	0	0	0	0	0	0
Ordinary Profit	**43**	**86**	**109**	**105**	**101**	**114**
Extraordinary items	0	0	0	0	0	0
PBT	**43**	**86**	**109**	**105**	**101**	**114**
Taxes	-15	-28	-32	-20	-26	-30
Minorities	-1	-2	-3	-2	-2	-2
Net Profit	**27**	**56**	**75**	**82**	**73**	**82**
EPS	**0,42**	**0,87**	**1,17**	**1,28**	**1,14**	**1,28**
Sales growth	29,3%	30,3%	27,7%	-3,1%	1,1%	5,3%
EBITDA growth	54,9%	51,2%	28,4%	9,3%	-9,9%	4,2%
Net Profit growth	108,7%	108,5%	33,8%	10,0%	-10,8%	12,1%
EBITDA margin	13,3%	15,5%	15,6%	17,6%	15,6%	15,5%
EBIT margin	9,0%	11,9%	11,9%	11,3%	11,5%	11,5%
Net Pr. Margin	4,2%	6,7%	7,0%	7,9%	7,0%	7,4%
Interest Cover (1) (x)	5,6	7,3	7,4	6,7	6,5	9,5

COMPANY: Summarised Balance Sheet and key ratios

€m	2006	2007	2008	2009	2010E	2011E
Fixed assets	198	214	301	336	332	328
Goodwill	0	0	0	0	0	0
Inventories	118	171	336	356	353	343
Trade Receivables	236	254	379	362	366	385
Cash + S/T Inv. + other	90	91	88	112	36	44
Total Assets	**643**	**730**	**1.104**	**1.165**	**1.086**	**1.101**
Sharehold. Equity	127	163	235	316	383	459
L-T Financial Debt	197	172	219	341	350	300
S-T Financial Debt	69	61	192	216	50	20
Trade Payables	218	290	442	280	291	309
Provisions + Other	31	42	15	13	12	12
Total Liabilities	**643**	**730**	**1.104**	**1.165**	**1.086**	**1.101**
Net Debt	***176***	***143***	***323***	***445***	***364***	***276***
WACC	*7,4%*	*7,9%*	*6,1%*	*4,9%*	*6,4%*	*6,9%*
Net Debt/Equity	138,0%	87,3%	137,2%	140,9%	94,9%	60,1%
ROCE (2)	14,3%	22,0%	20,9%	14,3%	11,8%	12,7%
ROE	21,9%	35,7%	33,0%	27,2%	19,9%	18,6%
ROCE/WACC (x)	1,9	2,8	3,4	2,9	1,9	1,8

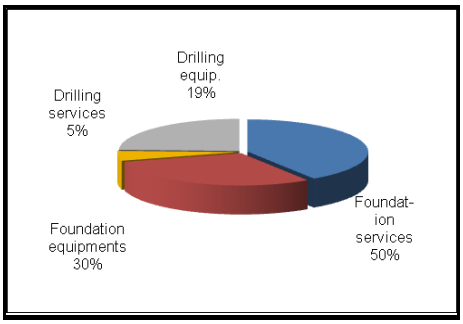
COMPANY: Simplified Cash Flow Statement and key ratios

€m	2006	2007	2008	2009E	2010E	2011E
Net Profit	27	56	75	82	73	82
+ Depreciation & Amort.	24	26	32	42	44	43
+ Goodwill charges	0	0	0	0	0	0
= Operating CF	**51**	**82**	**107**	**124**	**117**	**126**
- Chg in Working Capital	-52	13	-165	-168	10	8
- CAPEX of which:	-54	-50	-119	-77	-40	-40
Expansionary CPX	-24	-20	-89	-47	-10	-10
- Dividends	-2	-3	-6	-8	-8	-8
= Net FCF	**-57**	**42**	**-183**	**-128**	**79**	**86**
FCF Yld (M.Cp)	-6,9%	5,6%	-22,0%	-15,1%	10,9%	11,7%
FCF Yld (EV)	-6,9%	3,2%	-17,2%	-12,1%	5,1%	5,8%
FCF ex-exp CPX	**-31**	**65**	**-88**	**-74**	**97**	**104**
FCF Yld ex-exp CPX (M.Cp)	-3,7%	8,5%	-10,2%	-8,3%	13,1%	13,9%
FCF Yld ex-exp CPX (EV)	-3,0%	7,2%	-7,2%	-5,3%	9,0%	10,4%

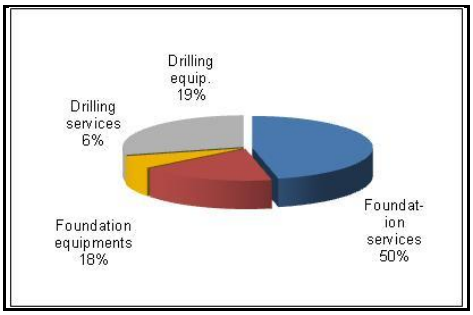
COMPANY: EV Valuations

€m	2009E	2010E	2009E
+ Mkt Cap	802	802	802
+ Net Debt	445	364	276
- Non-core assets	2	2	2
+/- Other	36	34	32
= EV	**1.285**	**1.202**	**1.112**
EV/Sales (x)	1,2	1,1	1,0
EV/EBITDA (x)	7,1	7,3	6,5
EV/EBIT (x)	11,0	10,0	8,7
EV/IC (x)	1,7	1,6	1,5

COMPANY: Divisional Sales Breakdown



COMPANY: Geographical Sales Breakdown



COMPANY (€m)

Total Debt in the B.Sheet	**557,1**
Short Term	216,0
Long Term: maturing in	341,1
24 months	*n.a*
36 months	*n.a*
more than 36 months	*n.a*
Cost Range	*n.a*
Rating (Moody's)	None
Short term	n.a.
Long term	n.a.
Estimated Off B/S Liabilities	None

COMPANY: Share Information

Outstanding no. shares (m)	64,0
Market Cap (€ m)	802
Avge daily volume (m sh, last 3 m)	0,18
Free float %	44,8%
Major shareholders	
Trevisani Family	55,2%
JP Morgan	2,0%
Oppenheimer	2,0%
Management shares option scheme	
% of Capital	No
Nearest to vest	No

(1) calculated as EBIT/Int. expenses (2) calculated as ROCE after taxes (*) Source: company data and Fidentiis estimates

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Recommendation history and target price trends – Trevi Finanziaria

Date of publication	Recommendation	Target price (EUR)
01/04/2010	Buy	15.9

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No. of recommendations	4	0	1
As a percentage of total	80%	0%	20%

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