Trevi-Finanziaria Industriale SPA

Earnings Review BUY

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

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Q2: a first comment

Revenues and EBIT in the Q fall short of expectations

Revs were down 22% YoY to €218mn in the Q, while EBIT fell 54% to €18mn or 8.1% on sales (9.6% in 1H), while we were expecting to see figures in line with those posted in 1Q (€235/ 26mn). The net financial position improved by fourth consecutive quarter, driven by good cash and NWC management, and closed the quarter just below €400mn.

Shift between works drives Q-on-Q volatility. 2H to improve

The main current cause behind the volatility of quarterly sales/profits lies in the relative importance of some big projects and the timing of their completion. For example, Drillmec has completed the first of two large drilling rigs for Kazakhstan during 1H and started the preparation works to build the second one in 2Q. This phase generally takes up time and production resources but generates little profits. Also, the completion of some foundation works yet to be or in the process to be replaced in Africa and the Middle East has also weighted in the results. Management guided at FY10 revs off about €1bn, which implies a second half that should be better than 1H.

Backlog at €716mn, more new projects signed recently

The order portfolio at the end of June 2010 stood above the €700mn mark, including a five year contract worth $77mn signed by Petreven (drilling services using Drillmec's hydraulic rigs) in Chile. Moreover, in the past two months of the summer, the company has signed over €110mn worth of contracts (the most relevant ones by Petreven in Colombia and Venezuela, and by Trevi foundation services in Italy). Management also referred to ongoing negotiations in various contracts as a sign of the positive prospects of the company.

Stock Data

Price	EUR10.00
Price Objective	EUR16.00
Date Established	30-Oct-2009
Investment Opinion	B-1-7
Volatility Risk	MEDIUM
BofAML Ticker / Exchange	TVFZF / MIL
Bloomberg / Reuters	TFI IM / TFI.MI

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2Q results at a glance

1Q 09	2Q 09	3Q 09	4Q 09	1Q 10	2Q 10	1H 09	1H 10
901.7	917	783.5	780	786	716		
289.2	282.3	264.9	199.4	235.0	217.7	571.6	452.7
137.2	135.5	144.4	79.3	115.8	96.9	272.7	212.7
56.0	36.7	40.6	54.1	39.2	52.3	92.7	91.5
81.5	99.4	104.4	25.2	76.8	45.0	180.9	121.9
158.1	150.6	119.2	126.3	121.3	125.6	308.7	246.9
139.1	135.1	108.1	112.9	107.1	107.2	274.2	214.3
20.8	16.3	13.2	15.1	15.6	20.0	37.1	35.6
51.4	64.3	45.6	32.0	38.7	30.1	115.7	68.8
17.8%	*22.8%*	*17.2%*	*16.0%*	*16.5%*	*13.8%*	*20.2%*	*15.2%*
39.3	38.4	31.9	7.7	25.9	17.6	77.8	43.5
13.6%	*13.6%*	*12.1%*	*3.9%*	*11.0%*	*8.1%*	*13.6%*	*9.6%*
16.0	10.8	9.5	-0.3	7.0	10.6	26.8	17.5
11.7%	*8.0%*	*6.6%*	*-0.4%*	*6.0%*	*10.9%*	*9.8%*	*8.3%*
24.0	28.6	21.9	8.8	19.2	8.4	52.6	27.5
15.2%	*19.0%*	*18.4%*	*7.0%*	*15.8%*	*6.7%*	*17.0%*	*11.1%*
35.7	33.8	27.9	7.2	23.3	14.4	69.6	37.7
						51.2	23.3
411.5	449.4	441.8	443.8	414.5	398.1		
8.5%	*-5.8%*	*-36.2%*	*-29.6%*	*-12.8%*	*-21.9%*		
23.2%	*10.7%*	*-7.3%*	*-32.0%*	*-18.7%*	*-22.9%*	*16.7%*	*-20.8%*
11.6%	*-15.4%*	*-10.5%*	*-51.3%*	*-15.6%*	*-28.5%*	*-3.7%*	*-22.0%*
-19.5%	*-59.6%*	*-55.2%*	*-20.6%*	*-29.9%*	*42.5%*	*-42.2%*	*-1.3%*
51.2%	*43.3%*	*44.8%*	*-73.0%*	*-5.7%*	*-54.7%*	*46.7%*	*-32.6%*
35.9%	*34.7%*	*-6.3%*	*-22.3%*	*-23.3%*	*-16.6%*	*35.3%*	*-20.0%*
33.4%	*33.8%*	*-3.5%*	*-18.7%*	*-23.0%*	*-20.6%*	*33.6%*	*-21.9%*
61.8%	*41.3%*	*-15.1%*	*-39.6%*	*-24.9%*	*22.5%*	*52.1%*	*-4.0%*
25.0%	*84.3%*	*-10.5%*	*-18.9%*	*-24.6%*	*-53.1%*	*52.4%*	*-40.6%*
18.5%	*42.6%*	*-24.2%*	*-69.6%*	*-34.2%*	*-54.0%*	*29.5%*	*-44.1%*
39.2%	*36.6%*	*-32.8%*	*-58.3%*	*-34.7%*	*-57.3%*	*38.1%*	*-45.8%*

Price objective basis & risk

Trevi-Finanziaria Industriale SPA (TVFZF)

Our 12M price objective of EUR16 is based on a weighted, three-stage DCF model for 2010E and 2011E, which assumes: 1) three years with a +8.5% sales CAGR and an EBITDA margin between 17-17.5% in 2010-11E that converges to 16.3% in 2012E, 2) four years of +1.6% CAGR of sales and 16.3% EBITDA margin, 3) stable 1.5% EBIT growth. We use a WACC of 8.5% and a tax rate of 30%. We have also subtracted the estimated advanced cash payments for WIP (c.EUR70mn in 2010E) and the debt portion of the convertible, EUR64mn, from the net debt, while taking full account of the dilution (an additional 6.2m shares). Our PO implies a PE of 13.3x 2010E and 11.2x 2011E, an EV/EBITDA of 7.8x 2010E and 6.6x 2011E, and an EV/EBIT of 10.5x 2010E and 8.5x 2011E.

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

Link to Definitions

Industrials

Click here for definitions of commonly used terms.

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TVFZF Price Chart

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	28	66.67%	Buy	9	37.50%
Neutral	4	9.52%	Neutral	2	50.00%
Sell	10	23.81%	Sell	7	70.00%

Investment Rating Distribution: Global Group (as of 01 Jul 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1922	54.14%	Buy	1042	59.85%
Neutral	874	24.62%	Neutral	496	62.78%
Sell	754	21.24%	Sell	362	51.86%

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