Trevi-Finanziaria Industriale SPA

Price Objective Change BUY

Equity | Italy | Engineering & Construction
23 September 2010

Bank of America Merrill Lynch

Unai Franco >> +44 20 7996 0904
Research Analyst
MLPF&S (UK)
unai.franco@baml.com

Positive prospects, lower base

Cutting estimates but retaining Buy recommendation

We are cutting our FY10-11-12 EPS estimates by 22-26-23% to reflect the Q-on-Q volatility of sales/profits (as evidenced in 1H results) and mgmt's €1bn sales target for FY10. We think that the recent de-rating is excessive and that currently at 11.3x 2010E PE, 10x 11E, the stock price does not reflect Trevi's superior business model or its growth prospects. Our DCF-based new PO is €13.3 /share (or 12.5x 2011E PE, 7x EV/EBITDA), implying a 25% potential upside. Buy.

Backlog to rise (even ex-Mosul), €150mn+ added since 1H

We expect new order newsflow to continue improving (the group's units Trevi and Petreven have signed orders worth €150mn+ since 1H10). We are forecasting the backlog to increase in subsequent quarters vs €716mn posted in 1H and to hit c.€770mn by 2010YE. We understand Trevi is in a negotiation process for an important order in the Middle East (Mosul); although we believe that Trevi is well positioned to get involved in the project, visibility remains uncertain and hence we are not including it in our model or price objective. Should it materialise, though, it would offer a very significant upside to our estimates and the stock.

All business units to drive growth from 2011 onwards

All four business units should drive growth in the next 2-3 years, as well as the group's exposure to emerging markets (which generate 70% of total sales) and the USA. Opportunities worth highlighting: 1) target contracts worth $700/800mn in the ST in Trevi's core US niche (dams/dykes/levees); 2) attractive foundation targets in Africa and Middle East (especially Nigeria, Kuwait, Saudi Arabia, Libya); 3) expanding order perimeter and field of application (offshore, HH) for Drillmec and opportunities in Central Asia, Iraq, Kuwait, USA and South America; 4) modest US demand recovery and new market opportunities (China, Brazil, India) with newly established local presence, as well as new products, for Soilmec.

Estimates (Dec)

(EUR)	2008A	2009A	2010E	2011E	2012E
EPS (Reported Diluted)	1.10	1.20	0.93	1.06	1.14
EPS Change (YoY)	34.4%	9.1%	-22.0%	13.4%	8.0%
Dividend / Share	0.11	0.11	0.12	0.13	0.15

Valuation (Dec)

	2008A	2009A	2010E	2011E	2012E
P/E	9.65x	8.85x	11.4x	10.0x	9.27x
Dividend Yield	1.08%	1.03%	1.11%	1.26%	1.37%
EV / EBITDA*	6.17x	5.65x	6.42x	5.74x	5.47x
Free Cash Flow Yield*	-24.5%	-13.7%	10.9%	11.9%	11.4%

* For full definitions of *iQmethod*℠ measures, see page 10.

Stock Data

Price	EUR10.61
Price Objective	EUR13.30
Date Established	23-Sep-2010
Investment Opinion	B-1-7
Volatility Risk	MEDIUM
52-Week Range	EUR9.71-EUR13.38
Mrkt Val / Shares Out (mn)	EUR679 / 64.0
Average Daily Volume	276,139
BofAML Ticker / Exchange	TVFZF / MIL
Bloomberg / Reuters	TFI IM / TFI.MI
ROE (2010E)	19.3%
Net Dbt to Eqty (Dec-2009A)	140.8%
Est. 5-Yr EPS / DPS Growth	-0.9% / 5.8%
Free Float	44.3%

Key Changes

(EUR)	Previous	Current
Price Obj.	16.00	13.30
2010E EPS	1.20	0.93
2011E EPS	1.44	1.06
2012E EPS	1.49	1.14
2010E DPS	0.15	0.12

>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the FINRA rules.

Refer to "Other Important Disclosures" for information on certain Merrill Lynch entities that take responsibility for this report in particular jurisdictions.

Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Refer to important disclosures on page 11 to 13. Analyst Certification on Page 8. Price Objective Basis/Risk on page 8. Link to Definitions on page 8.
10975704

iQprofile℠ Trevi-Finanziaria Industriale SPA

Key Income Statement Data (Dec)	2008A	2009A	2010E	2011E	2012E
(EUR Millions)					
Sales	1,069	1,036	1,007	1,091	1,157
EBITDA Adjusted	166	182	160	179	188
Depreciation & Amortization	(38.7)	(64.4)	(48.5)	(52.5)	(55.6)
EBIT Adjusted	128	117	111	126	132
Net Interest & Other Income	(18.4)	(12.7)	(14.4)	(16.1)	(12.6)
Tax Expense / Benefit	(31.8)	(20.4)	(32.0)	(36.4)	(39.4)
Net Income (Adjusted)	74.7	82.2	63.6	72.4	78.4
Average Fully Diluted Shares Outstanding	70.2	70.2	70.2	70.2	70.2
Key Cash Flow Statement Data					
Net Income (Reported)	74.7	82.2	63.6	72.4	78.4
Depreciation & Amortization	38.7	64.4	48.5	52.5	55.6
Change in Working Capital	(154)	(171)	6.75	13.2	(7.37)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	(13.6)	(15.5)	1.43	1.48	1.60
Cash Flow from Operations	(54.0)	(40.1)	120	140	128
Capital Expenditure	(110)	(51.7)	(46.2)	(58.8)	(50.5)
(Acquisition) / Disposal of Investments	0	(17.6)	0	0	0
Other CFI	(9.70)	(6.93)	(10.1)	(7.63)	(3.47)
Cash Flow from Investing	(120)	(76.2)	(56.3)	(66.4)	(54.0)
Share Issue / (Repurchase)	(0.20)	0	0	0	0
Cost of Dividends Paid	(6.93)	(8.06)	(7.68)	(8.27)	(9.41)
Increase (decrease) debt	177	146	(41.3)	(107)	64.0
Other CFF	(176)	(143)	41.3	107	(64.0)
Cash Flow from Financing	(6.17)	(5.56)	(7.68)	(8.27)	(9.41)
Total Cash Flow (CFO + CFI + CFF)	(180)	(122)	56.4	64.8	64.8
FX and other changes to cash	177	146	(41.3)	(107)	64.0
Change in Cash	(2.69)	23.9	15.1	(42.3)	129
Change in Net Debt	180	122	(56.4)	(64.8)	(64.8)
Net Debt	323	445	388	324	259
Key Balance Sheet Data					
Property, Plant & Equipment	294	320	325	342	348
Goodwill	0	6.00	6.00	6.00	6.00
Other Intangibles	6.07	7.69	14.7	16.4	13.3
Other Non-Current Assets	31.8	34.4	34.4	34.4	34.4
Trade Receivables	294	295	332	327	335
Cash & Equivalents	88.1	112	127	84.8	214
Other Current Assets	444	458	424	440	449
Total Assets	1,159	1,233	1,263	1,250	1,399
Long-Term Debt	219	341	283	225	260
Other Non-Current Liabilities	44.8	46.8	52.3	53.5	54.4
Short-Term Debt	192	216	232	184	213
Other Current Liabilities	468	313	324	367	387
Total Liabilities	924	917	892	828	913
Total Equity	235	316	372	422	486
Total Equity & Liabilities	1,159	1,233	1,264	1,250	1,399
Business Performance*					
Return On Capital Employed	16.4%	11.8%	8.12%	9.43%	9.44%
Return On Equity	39.0%	31.1%	19.3%	18.9%	17.8%
Operating Margin	11.9%	11.3%	11.1%	11.6%	11.4%
Free Cash Flow (MM)	(164)	(91.8)	74.1	80.7	77.7
Quality of Earnings*					
Cash Realization Ratio	-0.72x	-0.49x	1.89x	1.93x	1.64x
Asset Replacement Ratio	3.67x	1.32x	1.13x	1.39x	1.14x
Tax Rate	29.1%	19.5%	33.0%	33.0%	33.0%
Net Debt/Equity	137%	141%	104%	76.7%	53.2%
Interest Cover	6.16x	6.37x	6.67x	7.01x	9.23x

* For full definitions of *iQmethod*℠ measures, see page 10.

Company Description

Trevi Group is the global top-4 specialist in foundation services (46% of sales) and second-largest foundation equipment producer through Soilmec (20%). Its arm Drillmec also manufactures drilling rigs (26% of sales) and Petreven offers drilling services (8%). It operates in over 80 countries with direct presence in 28 of them. Its reliance on the WEu market is limited to 19% (15% Italy) of sales, NAm generates 15% of sales, and a globally well diversified range of emerging markets 70%.

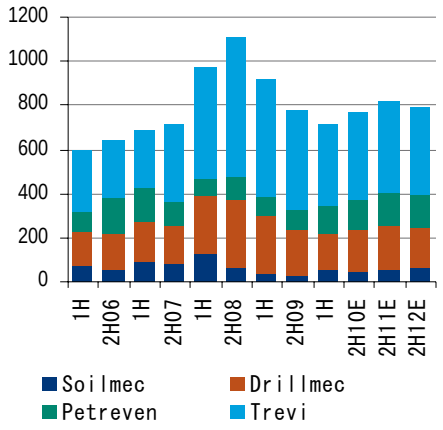
Investment Thesis

Trevi's well-balanced business rests on four pillars, diversified across 80 countries. With a solid balance sheet, a quality order backlog of EUR0.7bn (9 months of sales) driven by State-backed infrastructure in emerging markets and NAm and a product portfolio in constant expansion, appealing even with falling oil prices, we believe Trevi is well positioned to continue leveraging on its niche expertise and flexible/efficient business model in coming years.

Stock Data

Price to Book Value	1.9x

Chart 1: Trevi – historical and forecast backlog

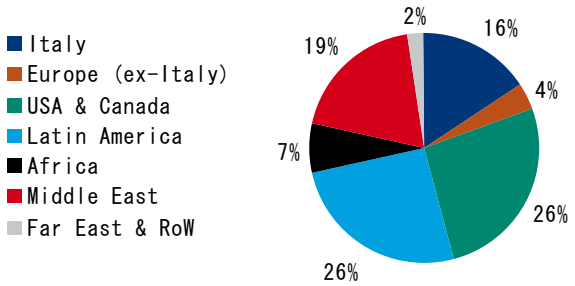


Source: Company data, BofA Merrill Lynch Global Research estimates

What has changed?

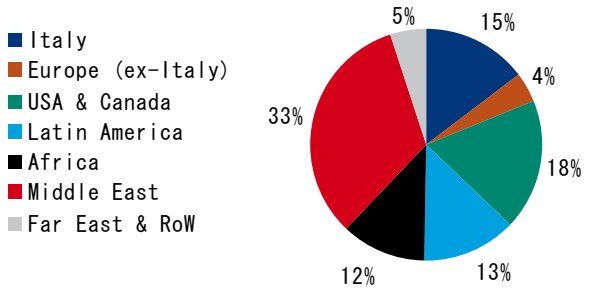
- **Management is guiding at a FY10 revenue target €1bn**, which implies a significantly higher revenue and profits in the second half of the year vs 1H.
- **1H10 results came below expectations.** In our view, the main cause behind the current volatility of quarterly sales/profits lies in the relative importance of some big projects and the timing of their completion. Eg, 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 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.
- We think that 1H results and a relatively stable (down YoY from peak levels) backlog during 2010 raised **concerns over the pipeline of new orders,** especially as **expectations regarding a very large, important order in the Middle East (Mosul dam in Iraq)** have so far not been met**.** We believe Trevi is very well positioned vs competitors in the negotiations, but think that timing is still uncertain, so we are **not including it in our model**. Should it materialise, though, it would offer **a very significant upside to our estimates and the stock.**
- As a result, we are **cutting our estimates by 22-26% and PO by 17% to €13.3.** Following our meeting with management, we feel **confident about the company's MT/LT prospects**, and think that **newsflow should improve also in the ST**. Hence, **we retain our Buy recommendation**.

Chart 2: Backlog as of 1H 2010 – geographical breakdown



Source: Company data

Chart 3: 2011E sales forecast



Source: BofA Merrill Lynch Global research estimates

Key estimate changes at a glance

Table 1: Trevi - key estimates, new vs old

	2010E new	2010E old	delta	2011E new	2011E old	delta	2012E new	2012E old	delta
Backlog	770	996	-22.8%	824	1063	-22.5%	791	1010	-21.7%
Net sales	1006.9	1097.8	-8.3%	1090.7	1225.1	-11.0%	1156.7	1323.7	-12.6%
...growth	-2.8%	6.0%	-877bp	8.3%	11.6%	-328bp	6.1%	8.0%	-194bp
EBITDA	160.0	187.7	-14.8%	178.9	213.8	-16.3%	187.6	216.3	-13.3%
...margin	15.9%	17.1%	-121bp	16.4%	17.5%	-105bp	16.2%	16.3%	-9bp
EBIT	111.5	139.2	-19.9%	126.4	164.3	-23.1%	131.9	166.6	-20.8%
...margin	11.1%	12.7%	-161bp	11.6%	13.4%	-182bp	11.4%	12.6%	-119bp
EPS	0.93	1.20	-22.3%	1.06	1.44	-26.2%	1.14	1.49	-23.3%
NWC on sales	42.6%	35.1%	750bp	38.2%	32.9%	524bp	36.6%	31.7%	492bp
Net debt	388.4	326.3	19.0%	323.5	271.0	19.4%	258.7	210.6	22.8%

Source: BofA Merrill Lynch Global research estimates

Flying long-haul on four engines

Here's an updated list of the key current drivers for each of Trevi's four divisions:

Trevi

- **USA offers very significant ST/MT opportunities**, as evidenced by the volume of contracts currently in the market: $500mn in dam/dyke rehabilitation projects (where Trevi has a very strong foothold) and further $200/300mn in ongoing levee improvements in New Orleans (where Trevi is already carrying out works). Plus, Trevi is targeting a promising pipeline of infrastructure works (eg bridges, tunnels, motorways), which could get an extra boost if Obama's $50bn infrastructure packet is launched. Also, mgmt is confident Trevi will continue to benefit from its relationships with relevant private entities based in the East Coast (eg Harvard University, various hospitals, hotel groups, etc) and their ambitious investment programmes.

- **Trevi's diversified local presence in emerging countries (70% of total sales) should continue to pay off** in the next 6-12 months, especially in:

  Africa, eg in Nigeria, Libya, Angola, Ivory Coast;

  Middle East, eg Qatar, Abu Dhabi, Oman, and most importantly Iraq, recently targeted Saudi Arabia and Kuwait, where it is setting up a local subsidiary;

- **Quality of backlog and pipeline to remain solid:** we think that the quality of works on the portfolio and in the pipeline remains robust, while an increasing number of them exclude the procurement of raw materials (usually a lower margin activity). Hence, margins have the potential to improve.

Petreven

- **Trevi's prospects in drilling services continues to be very attractive**, as evidenced by the **€125mn worth of contracts signed in the last three months** in Chile (a new market that offers further opportunities), Colombia and Venezuela with major oil companies. Not only these are financially relevant, but they also expand the experience, application coverage and track record of Trevi's already proven hydraulic (HH) technology. We think more should follow in the MT.

Drillmec

- **Order perimeter is expanding,** which means that Drillmec is now able to bid for more and bigger projects, with a proven credibility in both mechanical and hydraulic technologies. We expect this trend to continue

  Drillmec is now coming of age The **two rigs worth €100mn** commissioned by Saipem that the company is building this year **for Kazakhstan are an important milestone** for various reasons: 1) they are sizable and prove Drillmec's ability to engineer, project-manage and construct a **full scale drilling system;** 2) they are **offshore** (shallow waters) rigs, a relatively new territory for Drillmec, but that has a huge potential; 3) they also expand the field of application and experience of Drillmec, and hence their target market.

We think the regions with highest potential are:

- **South and Central America**, where it has important relationships and a robust track record of sales with oil companies operating in the area.

- **Middle East/Central Asia**, especially Iraq (the single country with probably the highest potential due to many years of underinvestment), Kuwait (a new opportunity for the group), Oman, Kazakhstan (most recent market entry).

- and **USA,** where a number of oil rigs made by Drillmec are already operating**.** Drillmec has an important local base in Houston and is now in the process of reorganising its logistic, service and production activities in order to address this market that is now, more than ever, a potential growth area for Drillmec.

- **Drillmec's innovative hydraulic (HH) technology** gives the group an edge: 1) 30% lower drilling costs; 2) a 30% improvement in drilling performance (drilling time); and 3) 40% lower transportation costs. They are also safer and require fewer trained staff to operate than conventional mechanical rigs. With over 100 rigs sold so far Drillmec is best positioned in this market thanks to its twenty years of successful track record and an increasing list of satisfied clients, including names such as Shell, Chevron, Petrobras, Repsol, Saipem.

- **M&A opportunities**: we think the group could consider candidates that provide: 1) either an entry into a new market/segment (eg offshore), 2) or technology to increase the value perimeter of drilling systems (eg control systems) and the value added. In any case, small/mid size acquisitions are probably likely, given the group's track record.

Soilmec

- As **demand has bottomed in the last 12 months**, we think that **sales and margins should start slowly growing next year**. On the other hand, the company should be able to half inventories by 2010YE. While demand in Europe is likely to remain flat, there are signs of **demand pickup in the USA** (although we think it is too early to be too optimistic), while the **potential to penetrate in emerging countries remains very high** (especially with new technologies and products vs local players that lack a wide product portfolio).

In our view, this will be supported by a number of important, recent initiatives:

- New local manufacturing/service platforms in **China** (already assembling and selling equipment in the regional market), **India** (soon to start production of tools and components) and **Brazil** (soon to start assembly of equipment for regional market following a successful domestic trade fair last August);

- Reorganisation of **Dubai** plant (closer integration with Indian plant) and integration of Watson (a company acquired last year that has an important presence in a captive market) with Soilmec/Drillmec's **USA** base;

- The **expansion of the product portfolio** carried out in recent years. More recently, **Soilmec has formed a technological parternship with Caterpillar** to co-design and commercialise a new series of products that offer attractive upside for Trevi.

Trevi Energy – a fifth leg in the making

- Born as a **project aimed at engineering in renewable energy projects** (eg, offshore wind, geothermal), we think that its MT/LT prospects are positive. We think the group has been considering various offshore wind projects in Italy, although their financial impact is difficult to quantify and would probably not materialise until 2/3 years from now, at the earliest. Yet in any case, this initiative shows again the group's LT vision and ambition.

Financials

Table 2: Trevi - company profile

SHARE PROFILE (€)	2005	2006	2007	2008	2009	2010E	2011E	2012E
Share price, high	5.23	9.69	14.61	17.23	12.81	13.20		
Share price, low	1.11	4.31	9.11	6.35	4.43	9.98		
Share price, avg./current	2.57	6.55	12.09	12.51	8.81	10.61	10.61	10.61
% change in average	151.9	154.9	84.5	3.5	-29.6	20.5	0.0	0.0
Share number (avg., last) (†)	64.0	64.0	64.0	64.0	64.0	64.0	64.0	64.0
VALUATION PROFILE (€)	**2005**	**2006**	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**
EPS	0.20	0.38	0.82	1.11	1.21	0.93	1.06	1.14
EPS adjusted	0.20	0.38	0.82	1.10	1.20	0.93	1.06	1.14
P/E, high	25.8	25.6	17.9	15.7	14.4	18.4		
P/E, low	5.5	11.4	11.1	5.8	5.3	6.8		
P/E (average) (x)	12.7	17.3	14.8	11.4	7.3	11.4	10.0	9.3
P/PBT (average) (x)	6.4	10.8	9.8	8.0	5.9	7.7	6.8	6.2
DPS total (reported) (†)	0.02	0.05	0.10	0.12	0.12	0.13	0.15	0.16
DPS total (adjusted) (†)	0.03	0.05	0.11	0.11	0.11	0.12	0.13	0.15
DPS ordinary (adjusted) (†)	0.03	0.05	0.11	0.11	0.11	0.12	0.13	0.15
Dividend yield (average) (%) (ordinary, adjusted) (†)	1.0	0.8	0.9	0.9	1.2	1.1	1.3	1.4
Dividend yield (average) (%) (total, adjusted) (†)	1.0	0.8	0.9	0.9	1.2	1.1	1.3	1.4
Payout ratio (%) (ordinary)	12.9	14.3	13.2	10.4	9.1	12.6	12.7	12.7
Book value per share	1.5	1.7	2.2	3.2	4.3	5.1	5.8	6.7
P/BV (average) (x)	1.7	3.8	5.4	3.9	2.0	2.1	1.8	1.6
CEPS	0.6	0.8	1.2	1.6	2.1	1.6	1.8	1.9
P/CE (average) (x)	4.1	8.5	9.9	7.7	4.2	6.6	6.0	5.6
FCFPS	0.23	-0.67	0.78	-2.48	-1.66	0.91	1.04	1.06
P/FCF (average) (x)	11.2	-9.8	15.5	-5.0	-5.3	11.6	10.2	10.0
FCF Yield (%)	8.9	-10.2	6.5	-19.8	-18.8	8.6	9.8	10.0
Net debt/share	2.0	2.5	2.0	4.6	6.3	5.5	4.6	3.7
Net debt/share avg.	2.0	2.5	2.0	4.6	6.3	5.5	4.6	3.7
Enterprise value/share	4.6	9.1	14.1	17.1	15.1	16.1	15.2	14.3
Enterprise value/share (*)	5.2	8.7	13.8	17.2	14.9	16.0	15.1	14.1
EBIT/share	0.5	0.8	1.5	1.8	1.7	1.6	1.8	1.9
EV/EBIT (average)	10.1	10.9	9.5	9.4	9.1	10.2	8.5	7.6
EV/EBIT (average) (*)	11.5	10.5	9.3	9.4	8.9	10.1	8.4	7.5
EBITDA/share	0.9	1.2	1.9	2.4	2.6	2.3	2.5	2.7
EV/EBITDA (average)	5.2	7.4	7.4	7.2	5.8	7.1	6.0	5.4
EV/EBITDA (average) (*)	6.0	7.1	7.2	7.2	5.8	7.0	5.9	5.3
EV/Sales (average)	58.0	98.8	117.8	112.3	102.6	112.5	97.9	86.7
EV/Sales (average) (*)	66.5	94.6	115.0	112.6	101.3	111.5	96.9	85.6
MOMENTUM PROFILE (% change)	**2005**	**2006**	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**
Revenues from goods and services	35.9	29.2	30.9	27.0	-3.1	-2.8	8.3	6.1
EBITDA	32.8	54.9	56.5	24.1	9.3	-12.0	11.8	4.8
EBIT	55.8	102.4	79.0	22.7	-8.0	-5.0	13.4	4.4
PBT	163.2	68.6	101.6	27.1	-4.2	-7.2	13.6	8.2
Net Income	401.9	108.7	108.5	33.8	10.0	-22.6	13.8	8.2
EPS adjusted	396.4	87.0	115.9	34.4	9.1	-22.0	13.4	8.0
CEPS	51.8	24.3	58.0	32.0	29.3	-23.5	11.4	7.3
FCFPS		-391.8	-216.8	-417.3	-33.1	-155.1	14.1	1.6
DPS ordinary	71.0	106.5	99.9	6.1	-4.7	7.7	13.8	8.2

Source: Company data, BofA Merrill Lynch Global Research estimates, Bloomberg; (*) Adjusted for convertible bond and advanced payments; (†) Number of shares includes own shares, while reported DPS excludes dilution and own shares, and adjusted DPS includes both

Table 3: Trevi - financial summary

Income statement (year to December, €mn, IFRS)	2005	2006	2007	2008	2009	2010E	2011E	2012E
Revenues from goods and services	497.8	643.3	842.0	1069.2	1035.8	1006.9	1090.7	1156.7
Other revenues	9.0	32.1	36.9	132.6	59.5	25.0	30.0	20.0
Value of production	506.8	675.3	878.9	1201.8	1095.3	1031.9	1120.7	1176.7
Raw materials, consumables and goods (net of inventory variations)	-220.1	-314.6	-423.8	-637.7	-461.6	-438.5	-477.6	-491.4
Cost of services	-110.6	-143.7	-165.6	-205.3	-234.6	-215.8	-232.0	-238.7
Costs for use of third-party assets and other operating costs	-26.8	-26.8	-34.0	-45.5	-52.0	-50.6	-54.4	-76.0
Value added	149.3	190.3	255.6	313.2	347.1	327.0	356.7	370.6
Labour	-94.0	-104.7	-121.6	-146.9	-165.3	-167.0	-177.8	-183.0
EBITDA	55.3	85.6	134.0	166.3	181.8	160.0	178.9	187.6
Depreciation, amortisation and provisions	-26.6	-27.6	-30.1	-38.7	-64.4	-48.5	-52.5	-55.6
EBIT	28.7	58.1	104.0	127.6	117.4	111.5	126.4	131.9
Net financial items	-3.4	-15.5	-18.1	-18.4	-12.7	-14.4	-16.1	-12.6
Extraordinary items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported pre-tax profit	25.3	42.6	85.9	109.2	104.6	97.1	110.3	119.3
Minorities	-0.9	-1.2	-2.0	-2.7	-2.0	-1.4	-1.5	-1.6
Tax	-11.6	-14.7	-28.1	-31.8	-20.4	-32.0	-36.4	-39.4
Net profit	12.8	26.8	55.8	74.7	82.2	63.6	72.4	78.4
EBITDA margin (%)	*11.1*	*13.3*	*15.9*	*15.6*	*17.6*	*15.9*	*16.4*	*16.2*
EBIT margin (%)	*5.8*	*9.0*	*12.3*	*11.9*	*11.3*	*11.1*	*11.6*	*11.4*
Tax rate (%)	*45.8*	*34.4*	*32.7*	*29.1*	*19.5*	*33.0*	*33.0*	*33.0*
Return on equity (%)	*14.7*	*24.4*	*40.1*	*39.0*	*31.1*	*19.3*	*18.9*	*17.8*
Cash flow (€mn)	**2005**	**2006**	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**
Net Income (pre-minorities)	13.7	27.9	57.8	77.4	84.2	65.0	73.9	80.0
Non-cash items	35.9	30.2	43.8	22.4	46.9	48.5	52.5	55.6
Net change in commercial working capital	4.1	-14.4	10.4	-110.5	-209.4	6.7	13.2	-7.4
Total net change in working capital	0.3	-55.8	-3.4	-153.8	-171.2	6.7	13.2	-7.4
Operating cash flow	50.0	2.3	98.2	-54.0	-40.1	120.3	139.5	128.2
Capital expenditures	-10.8	-49.2	-38.7	-110.2	-51.7	-46.2	-58.8	-50.5
Other investment	-24.7	-0.1	-4.7	-9.7	-24.5	-10.1	-7.6	-3.5
Free cash flow	14.5	-46.9	54.8	-173.9	-116.3	64.1	73.1	74.3
Other	7.8	-0.9	-18.1	1.0	2.5	0.0	0.0	0.0
Dividend paid	-1.0	-1.7	-3.5	-6.9	-8.1	-7.7	-8.3	-9.4
Share issue	0.7	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0
Change in net debt	-22.0	49.5	-33.1	180.1	121.9	-56.4	-64.8	-64.8
Operating cash flow/capex (%)	4.6	0.0	2.5	-0.5	-0.8	2.6	2.4	2.5
Capex/depreciation (%)	0.6	2.2	1.6	3.7	1.3	1.1	1.4	1.1
Balance sheet (€mn)	**2005**	**2006**	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**
Cash and liquid assets	51.4	89.9	90.8	88.1	112.0	127.0	84.8	213.5
Trade receivables	185.1	187.0	187.8	294.1	295.0	332.3	327.2	335.5
Other	46.3	57.1	76.6	108.9	101.8	101.8	101.8	101.8
Inventory	81.8	118.3	170.8	335.6	356.2	322.2	338.1	347.0
Current assets	364.6	452.4	525.9	826.7	864.9	883.3	851.8	997.8
Intangibles	3.5	4.9	5.4	6.1	13.7	20.7	22.4	19.3
Other fixed assets	183.0	213.2	230.2	326.2	354.2	359.5	376.0	382.1
Fixed assets	186.5	218.2	235.6	332.3	367.9	380.2	398.5	401.4
Total assets	551.1	670.5	761.6	1159.0	1232.8	1263.5	1250.3	1399.2
Interest bearing	177.4	265.7	233.5	410.9	556.7	515.4	408.3	472.2
Trade payables	154.6	178.7	230.4	335.7	165.0	171.2	196.3	208.2
Other	117.0	98.6	134.2	176.8	195.2	205.0	223.7	232.8
Total liabilities	449.1	543.1	598.1	923.7	916.9	891.6	828.4	913.3
Minority	4.8	5.4	7.0	8.9	13.7	13.7	13.7	13.7
Shareholders' equity	97.2	122.0	156.5	226.4	302.2	358.2	408.3	472.2
Balance sheet total	551.1	670.5	761.6	1159.0	1232.8	1263.5	1250.3	1399.2
Net debt	126.0	175.8	142.8	322.9	444.7	388.4	323.5	258.7
Net gearing (%) (net debt/equity)	123.5	138.0	87.3	137.2	140.8	104.4	76.7	53.2
Gross gearing (%) (debt/capital)	182.5	217.9	149.2	181.5	184.2	143.9	100.0	100.0
Interest cover (x)	2.7	4.6	6.1	6.2	6.4	6.7	7.0	9.2
Net commercial working capital (% of sales)	22.6	19.7	13.8	21.2	42.1	42.6	38.2	36.6

Source: Company data, BofA Merrill Lynch Global Research estimates

Price objective basis & risk

Trevi-Finanziaria Industriale SPA (TVFZF)

Our 12M price objective of EUR13.3 is based on a weighted, three-stage DCF model for 2010E and 2011E, which assumes: 1) three years with a +3.7% sales CAGR and an EBITDA margin between 15.9-16.4% in 2010-12E, 2) four years of +1.6% CAGR of sales and 15.5% EBITDA margin, 3) stable 1.5% EBIT growth. We use a WACC of 8.5% and a tax rate of 33%. We have also subtracted the estimated advanced cash payments for WIP (c.EUR54mn 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 14.2x 2010E and 12.5x 2011E, an EV/EBITDA of 8.3x 2010E and 7x 2011E, and an EV/EBIT of 11.9x 2010E and 9.9x 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.

Analyst Certification

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

EMEA - Small Caps Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
BUY				
	Bauer	BRAGF	B5A GR	Gerhard Orgonas, CFA
	BIC SA	BICEF	BB FP	Caroline Cohen
	Bilfinger Berger	BFLBF	GBF GR	Gerhard Orgonas, CFA
	Brembo SPA	BRBOF	BRE IM	Unai Franco
	CAF	CAUXF	CAF SM	Unai Franco
	Chantiers Beneteau	BTEAF	BEN FP	Caroline Cohen
	CTS Eventim AG	CEVMF	EVD GR	Claus Roller, CFA
	Ebro Foods	EBRPF	EBRO SM	Unai Franco
	Gemalto	GTOFF	GTO FP	Caroline Cohen
	GFK	GFKAF	GFK GR	Claus Roller, CFA
	Grenke Leasing	ZGKRF	GLJ GR	Gerhard Orgonas, CFA
	Indesit Company SPA	IDTCF	IND IM	Unai Franco
	Ingenico	INGIF	ING FP	Caroline Cohen
	Landi Renzo SPA	LDRZF	LR IM	Unai Franco
	L'Espresso	GPEDF	ES IM	Flavio Cereda
	Luxottica Group	LUX	LUX US	Flavio Cereda
	Luxottica Group	LUXGF	LUX IM	Flavio Cereda
	MARR Spa	MRRFF	MARR IM	Flavio Cereda
	Natuzzi	NTZ	NTZ US	Flavio Cereda

EMEA - Small Caps Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
	Nexans	NXPRF	NEX FP	Caroline Cohen
	Orpea	ORPEF	ORP FP	Caroline Cohen
	PFEIFFER	PFFVF	PFV GR	Gerhard Orgonas, CFA
	Poltrona Frau	PFAUF	PFG IM	Flavio Cereda
	Praktiker	PKKRF	PRA GR	Gerhard Orgonas, CFA
	Prysmian	PRYMF	PRY IM	Caroline Cohen
	Rheinmetall AG	RNMBF	RHM GR	Gerhard Orgonas, CFA
	Safilo	SAFLF	SFL IM	Flavio Cereda
	SAFT	SGPEF	SAFT FP	Caroline Cohen
	SEB	SEBYF	SK FP	Caroline Cohen
	SMA Solar	SMTGF	S92 GR	Claus Roller, CFA
	Takkt	TAKKF	TTK GR	Claus Roller, CFA
	Tognum	TGNMF	TGM GR	Claus Roller, CFA
	Trevi-Finanziaria Industriale SPA	TVFZF	TFI IM	Unai Franco
	Vossloh	VOSSF	VOS GR	Claus Roller, CFA
	Yoox Group	XYOOF	YOOX IM	Flavio Cereda
NEUTRAL				
	A. Mondadori Editore SPA	MDEPF	MN IM	Flavio Cereda
	Bechtle AG	XBACF	BC8 GR	Claus Roller, CFA
	Benetton Group Spa	BNTOF	BEN IM	Flavio Cereda
	Centrotherm Photo	CPHVF	CTN GR	Claus Roller, CFA
	Fielmann	FLMNF	FIE GR	Flavio Cereda
	GEA	GEAGF	G1A GR	Claus Roller, CFA
	Heidelberg	HBGRF	HDD GR	Claus Roller, CFA
	Krones	KRNNF	KRN GR	Claus Roller, CFA
	Neopost SA	NPACF	NEO FP	Caroline Cohen
	Roth & Rau	RRAUF	R8R GR	Gerhard Orgonas, CFA
	Trigano SA	TGNOF	TRI FP	Caroline Cohen
UNDERPERFORM				
	Aeffe	XEAFF	AEF IM	Unai Franco
	Gerresheimer AG	GRRMF	GXI GR	Gerhard Orgonas, CFA
	Mersen	CBLNF	MRN FP	Caroline Cohen
	Nice SPA	NIESF	NICE IM	Flavio Cereda
	PUMA	PMMAF	PUM GR	Claus Roller, CFA
	Rational AG	RTLLF	RAA GR	Claus Roller, CFA
	Wacker Neuson	WKRCF	WAC GR	Gerhard Orgonas, CFA
	Wincor	WNXDF	WIN GR	Claus Roller, CFA
	Zignago Vetro SPA	XZNGF	ZV IM	Flavio Cereda
RVW				
	Il Sole 24 Ore	XIILF	S24 IM	Flavio Cereda
	Meyer Burger	MYBUF	MBTN SW	Claus Roller, CFA

iQmethod℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

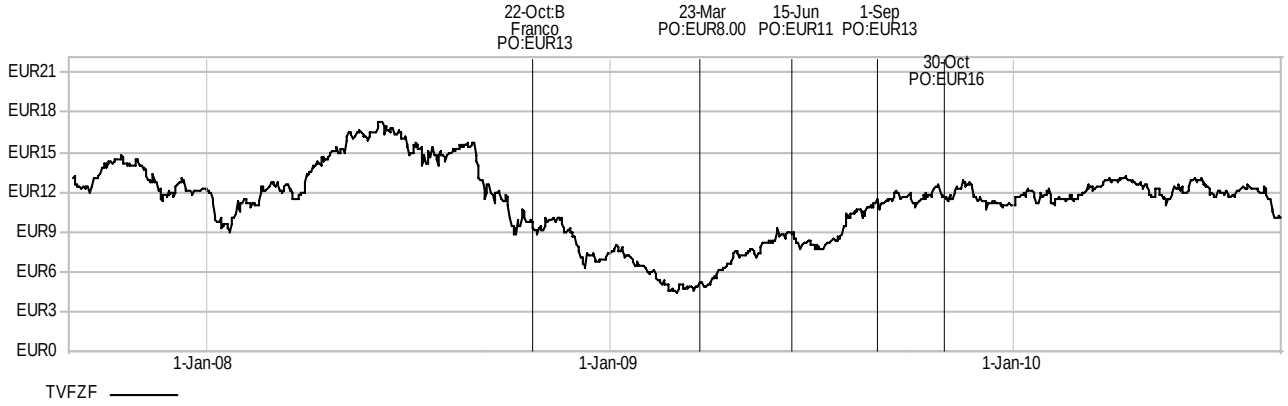
iQmethod℠ is the set of BofA Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase ® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Merrill Lynch.

iQprofile℠, ***iQmethod***℠ are service marks of Merrill Lynch & Co., Inc.***iQdatabase***® is a registered service mark of Merrill Lynch & Co., Inc.

Important Disclosures

TVFZF Price Chart



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

"Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of August 31, 2010 or such later date as indicated.

BofAML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of December 31, 2008 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

Investment Rating Distribution: Engineering & Construction Group (as of 01 Jul 2010)

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%

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

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. *VOLATILITY RISK RATINGS*, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. *INVESTMENT RATINGS* reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofAML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofAML Comment referencing the stock.

In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale: Trevi.

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Bank of America Corporation, including profits derived from investment banking revenues.

Other Important Disclosures

BofA Merrill Lynch (BofAML) Research refers to the combined Global Research operations of Merrill Lynch and BAS.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch Research policies relating to conflicts of interest are described at http://www.ml.com/media/43347.pdf.

"Merrill Lynch" includes Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") and its affiliates, including BofA (defined below). "BofA" refers to Banc of America Securities LLC ("BAS"), Banc of America Securities Limited ("BASL") and their affiliates. Investors should contact their Merrill Lynch or BofA representative if they have questions concerning this report.

Information relating to Non-US affiliates of Merrill Lynch and Distribution of Affiliate Research Reports:

MLPF&S, BAS, and BASL distribute, or may in the future distribute, research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd.; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow; Merrill Lynch (Turkey): Merrill Lynch Yatirim Bankasi A.S.; Merrill Lynch (Dubai): Merrill Lynch International, Dubai Branch; MLPF&S (Zürich rep. office): MLPF&S Incorporated Zürich representative office; Merrill Lynch (Spain): Merrill Lynch Capital Markets Espana, S.A.S.V.; Merrill Lynch (Brazil): Banco Merrill Lynch de Investimentos S.A.

This note has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited and BASL, which are authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd and Banc of America Securities – Japan, Inc., registered securities dealers under the Financial Instruments and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited and Banc of America Securities Asia Limited, which are regulated by the Hong Kong SFC and the Hong Kong Monetary Authority; is issued and distributed in Taiwan by Merrill Lynch Securities (Taiwan) Ltd.; is issued and distributed in India by DSP Merrill Lynch Limited; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank), Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively) and Bank of America Singapore Limited (Merchant Bank). Merrill Lynch International Bank Limited (Merchant Bank), Merrill Lynch (Singapore) Pte Ltd and Bank of America Singapore Limited (Merchant Bank) are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), AFS License 235132 provides this note in Australia in accordance with section 911B of the Corporations Act 2001 and neither it nor any of its affiliates involved in preparing this note is an Authorised Deposit-Taking Institution under the Banking Act 1959 nor regulated by the Australian Prudential Regulation Authority. No approval is required for publication or distribution of this note in Brazil.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-US affiliates. MLPF&S is the distributor of this research report in the US and accepts full responsibility for research reports of its non-US affiliates distributed to MLPF&S clients in the US. Any US person (other than BAS and its respective clients) receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

BAS distributes this research report to its clients and accepts responsibility for the distribution of this report in the US to BAS clients. Transactions by US persons that are BAS clients in any security discussed herein must be carried out through BAS.

General Investment Related Disclosures:

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options, futures, warrants, and contracts for differences). This report is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this report.

Securities and other financial instruments discussed in this report, or recommended, offered or sold by Merrill Lynch, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

This report may contain a short-term trading idea or recommendation, which highlights a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Short-term trading ideas and recommendations are different from and do not affect a stock's fundamental equity rating, which reflects both a longer term total return expectation and attractiveness for investment relative to other stocks within its Coverage Cluster. Short-term trading ideas and recommendations may be more or less positive than a stock's fundamental equity rating.

BofA Merrill Lynch is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting "shortselling" in many jurisdictions. Investors are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in this report.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in this report. Investors in such securities and instruments, including ADRs, effectively assume currency risk.

UK Readers: The protections provided by the U.K. regulatory regime, including the Financial Services Scheme, do not apply in general to business coordinated by Merrill Lynch entities located outside of the United Kingdom. These disclosures should be read in conjunction with the BASL general policy statement on the handling of research conflicts, which is available upon request.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. Merrill Lynch may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

Merrill Lynch, through business units other than BofAML Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented in this report. Such ideas or recommendations reflect the different time frames,

assumptions, views and analytical methods of the persons who prepared them, and Merrill Lynch is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this report.

In the event that the recipient received this report pursuant to a contract between the recipient and MLPF&S for the provision of research services for a separate fee, and in connection therewith MLPF&S may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom MLPF&S has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by MLPF&S). MLPF&S is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities mentioned in this report.

Copyright and General Information regarding Research Reports:

Copyright 2010 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites and other portals by Merrill Lynch and are not publicly-available materials. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) without first obtaining expressed permission from an authorized officer of Merrill Lynch.

Materials prepared by Merrill Lynch research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of Merrill Lynch, including investment banking personnel. Merrill Lynch has established information barriers between BofAML Research and certain business groups. As a result, Merrill Lynch does not disclose certain client relationships with, or compensation received from, such companies in research reports.

To the extent this report discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this report. Merrill Lynch research personnel's knowledge of legal proceedings in which any Merrill Lynch entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving companies mentioned in this report is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of Merrill Lynch in connection with the legal proceedings or matters relevant to such proceedings.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. None of MLPF&S, any of its affiliates or their research analysts has any authority whatsoever to make any representation or warranty on behalf of the issuer(s). Merrill Lynch policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This report may contain links to third-party websites. Merrill Lynch is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by or any affiliation with Merrill Lynch. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. Merrill Lynch is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

Subject to the quiet period applicable under laws of the various jurisdictions in which we distribute research reports and other legal and Merrill Lynch policy-related restrictions on the publication of research reports, fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

Certain outstanding reports may contain discussions and/or investment opinions relating to securities, financial instruments and/or issuers that are no longer current. Always refer to the most recent research report relating to a company or issuer prior to making an investment decision.

In some cases, a company or issuer may be classified as Restricted or may be Under Review or Extended Review. In each case, investors should consider any investment opinion relating to such company or issuer (or its security and/or financial instruments) to be suspended or withdrawn and should not rely on the analyses and investment opinion(s) pertaining to such issuer (or its securities and/or financial instruments) nor should the analyses or opinion(s) be considered a solicitation of any kind. Sales persons and financial advisors affiliated with BAS, MLPF&S or any of their affiliates may not solicit purchases of securities or financial instruments that are Restricted or Under Review and may only solicit securities under Extended Review in accordance with firm policies.

Neither Merrill Lynch nor any officer or employee of Merrill Lynch accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.