Trevi

Italy/Construction & Materials

Trevi (Buy) Loss of Sportitalia contract, new rumours on Danila

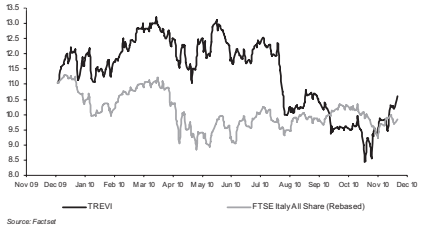
Buy

Recommendation unchanged

Share price: EUR	**10.61**
closing price as of 20/12/2010	
Target price: EUR	**13.00**
vs Target Price: EUR	**12.70**
Reuters/Bloomberg	TFI.MI/TFI IM

Market capitalisation (EURm)	679
Current N° of shares (m)	64
Free float	44%
Daily avg. no. trad. sh. 12 mth	188,505
Daily avg. trad. vol. 12 mth (m)	2
Price high 12 mth (EUR)	13.20
Price low 12 mth (EUR)	8.45
Abs. perf. 1 mth	15.01%
Abs. perf. 3 mth	-0.38%
Abs. perf. 12 mth	-5.27%

Key financials (EUR)	12/09	12/10e	12/11e
Sales (m)	1,036	977	1,054
EBITDA (m)	182	149	172
EBITDA margin	*17.6%*	*15.3%*	*16.3%*
EBIT (m)	117	101	117
EBIT margin	*11.3%*	*10.4%*	*11.1%*
Net Profit (adj.)(m)	82	59	70
ROCE	8.2%	13.3%	14.8%
Net debt/(cash) (m)	445	383	346
Net Debt/Equity	*1.4*	*1.0*	*0.8*
Debt/EBITDA	2.4	2.6	2.0
Int. cover(EBITDA/Fin. int	9.9	9.2	10.3
EV/Sales	1.2	1.2	1.1
EV/EBITDA	6.8	7.7	6.5
EV/EBITDA (adj.)	6.8	7.7	6.5
EV/EBIT	10.6	11.4	9.5
P/E (adj.)	8.6	11.5	9.6
P/BV	2.3	1.9	1.6
OpFCF yield	*-3.7%*	*24.8%*	*16.5%*
Dividend yield	*1.1%*	*1.1%*	*1.1%*
EPS (adj.)	1.28	0.93	1.10
BVPS	4.72	5.53	6.51
DPS	0.12	0.12	0.12



Source: Factset

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New orders for a value of EUR 130m

The facts: as said by the management during the last conference call in November, thanks to the negotiations of the last few months, Trevi group was awarded new orders:

- EUR 80m to the *foundation service* division in Middle East, South America and the USA;
- EUR 53m to the *drilling equipment* division (Drillmec) in the Americas and in Belarus for hydraulic and conventional technologies for the local company Belorusneft.

Our analysis: these new orders are already part of our 2011 estimates. Positive impact because of the followings: *1)* the contracts in the foundation service division increase the order portfolio visibility; *2)* the contract in Belarus for a complete mechanical petroleum plant 1,500 HP allows Drillmec to enter the Eastern European market in which the group does not yet show a good presence and has interesting growth potentials in the coming years

Based on these elements, we confirm our current FY 11 estimates.

Conclusion & Action: *we confirm our Buy recommendation and, based on the roll over of our DCF model (WACC 8.1% and 1.5% perpetual growth rate), we have raised our target price from EUR 12.7 to EUR 13.0 per share.*

Despite the stock showed a first recovery in the last month (up 17.4%), Trevi continues to be strongly undervalued compared to its two peers in the foundation sector: Trevi 10e P/E is 9.9x, well below Bauer AG and Keller trading at an average 10e P/E of 15.1x (-20.0%).

Furthermore, as confirmed by the last contracts for a value of EUR 53m, Trevi can be considered a small but well-known player in the drilling equipment segment, while it is important to highlight that Keller and Bauer AG are not present in this sector. Therefore, we believe that a correct stock valuation has to take into account this part of Trevi's business (Drillmec and Petreven), accounting for 34% of total sales, that should be awarded a multiple in line with drilling peers of around 14.0x 2010e earnings).