Trevi-Finanziaria Industriale SPA

Rating Change NEUTRAL

Equity | Italy | Engineering & Construction
16 November 2010

Unstable terrain

Bank of America Merrill Lynch

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PO cut 25% to €10 on lower estimates. Change to Neutral

We are cutting our earning forecasts by 17-24-21% in 2010-11-12E based on lower sales and margins, as the expected order flow has hitherto failed to materialise. As a result, our DCF-based PO is now €10 (25% lower). We are changing our rating to Neutral given limited potential upside (and low downside) and a lack of appeal that in our view will persist until consensus comes down some 20-25% in 2010-11 and/or relevant orders arrive that assure not only continuity but also growth and margin uptick. The stock trading on 11x 2010-11E.

Yet another miss: 3Q earnings 24% below expectations

Following a 1H short of expectations, 3Q results were weaker than expected. Q3 sales came in at €236mn (BofAML 245mn, cons 247mn) and EBIT of €22mn (vs BofaML 25, cons 26mn). Net income was €11.4mn, ie 24% below cons at 15mn. We are hence cutting our estimates and expect consensus to follow suit. The backlog was €759mn (vs BofAML 750mn) but no new orders were announced.

Solid business model but disappointing order flow

There is nothing fundamentally wrong with the company, whose business model we still view as strong, based on its: emerging markets exposure (>70% of sales), business mix (c.40% oil & gas drilling vs 60% construction foundations), profit mix (fairly well balanced between business units) and product appeal (track record on hydraulic drilling). Our contention after the Q2 earnings miss was that a gradual reversal in news flow was likely with a significant pick-up in orders and margins in H2: this appears not to be the case. And we think investors will demand a significant newsflow improvement, i.e. large & relevant orders and evidence of continuity upon completion of existing projects before subscribing to a bull case.

Estimates (Dec)

(EUR)	2008A	2009A	2010E	2011E	2012E
EPS (Reported Diluted)	1.10	1.20	0.78	0.81	0.90
EPS Change (YoY)	34.4%	9.1%	-35.1%	3.9%	11.2%
Dividend / Share	0.11	0.11	0.10	0.10	0.11

Valuation (Dec)

	2008A	2009A	2010E	2011E	2012E
P/E	8.19x	7.51x	11.6x	11.1x	10.00x
Dividend Yield	1.28%	1.22%	1.08%	1.13%	1.26%
EV / EBITDA*	5.56x	5.08x	6.11x	6.05x	5.72x
Free Cash Flow Yield*	-28.8%	-16.1%	14.1%	9.83%	16.3%

* For full definitions of *iQmethod*℠ measures, see page 8.

Stock Data

Price	EUR9.00
Price Objective	EUR10.00
Date Established	16-Nov-2010
Investment Opinion	B-2-8
Volatility Risk	MEDIUM
52-Week Range	EUR8.95-EUR13.38
Mrkt Val / Shares Out (mn)	EUR576 / 64.0
Average Daily Volume	206,244
BofAML Ticker / Exchange	TVFZF / MIL
Bloomberg / Reuters	TFI IM / TFI.MI
ROE (2010E)	16.2%
Net Dbt to Eqty (Dec-2009A)	140.8%
Est. 5-Yr EPS / DPS Growth	-4.6% / 1.8%
Free Float	44.3%

Key Changes

(EUR)	Previous	Current
Inv. Opinion	B-1-7	B-2-8
Inv. Rating	BUY	NEUTRAL
Price Obj.	13.30	10.00
2010E EPS	0.93	0.78
2011E EPS	1.06	0.81
2012E EPS	1.14	0.90
2010E DPS	0.12	0.10

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iQprofile℠ Trevi-Finanziaria Industriale SPA

Key Income Statement Data (Dec)	2008A	2009A	2010E	2011E	2012E
(EUR Millions)					
Sales	1,069	1,036	965	1,036	1,097
EBITDA Adjusted	166	182	151	153	162
Depreciation & Amortization	(38.7)	(64.4)	(54.0)	(53.7)	(56.0)
EBIT Adjusted	128	117	97.2	99.2	106
Net Interest & Other Income	(18.4)	(12.7)	(16.8)	(15.7)	(12.5)
Tax Expense / Benefit	(31.8)	(20.4)	(26.5)	(27.5)	(30.8)
Net Income (Adjusted)	74.7	82.2	52.7	54.8	61.2
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	52.7	54.8	61.2
Depreciation & Amortization	38.7	64.4	54.0	53.7	56.0
Change in Working Capital	(154)	(171)	12.4	(5.87)	13.8
Deferred Taxation Charge	0	0	0	0	0
Other CFO	(13.6)	(15.5)	11.2	11.1	11.2
Cash Flow from Operations	(54.0)	(40.1)	130	114	142
Capital Expenditure	(110)	(51.7)	(48.9)	(57.1)	(48.4)
(Acquisition) / Disposal of Investments	0	(17.6)	0	0	0
Other CFI	(9.70)	(6.93)	(9.65)	(7.25)	(3.29)
Cash Flow from Investing	(120)	(76.2)	(58.5)	(64.4)	(51.7)
Share Issue / (Repurchase)	(0.20)	0	0	0	0
Cost of Dividends Paid	(6.93)	(8.06)	(7.68)	(6.85)	(7.12)
Increase (decrease) debt	177	146	(57.1)	(118)	49.1
Other CFF	(176)	(143)	57.1	118	(49.1)
Cash Flow from Financing	(6.17)	(5.56)	(7.68)	(6.85)	(7.12)
Total Cash Flow (CFO + CFI + CFF)	(180)	(122)	64.0	42.5	83.5
FX and other changes to cash	177	146	(57.1)	(118)	49.1
Change in Cash	(2.69)	23.9	6.98	(76.0)	133
Change in Net Debt	180	122	(64.0)	(42.5)	(83.5)
Net Debt	323	445	381	338	255
Key Balance Sheet Data					
Property, Plant & Equipment	294	320	325	338	341
Goodwill	0	6.00	6.00	6.00	6.00
Other Intangibles	6.07	7.69	14.3	15.8	12.8
Other Non-Current Assets	31.8	34.4	34.4	34.4	34.4
Trade Receivables	294	295	318	331	329
Cash & Equivalents	88.1	112	119	43.0	175
Other Current Assets	444	458	430	433	431
Total Assets	1,159	1,233	1,246	1,202	1,329
Long-Term Debt	219	341	275	210	237
Other Non-Current Liabilities	44.8	46.8	57.5	75.8	86.9
Short-Term Debt	192	216	225	172	194
Other Current Liabilities	468	313	328	350	368
Total Liabilities	924	917	885	807	886
Total Equity	235	316	361	395	444
Total Equity & Liabilities	1,159	1,233	1,246	1,202	1,330
Business Performance*					
Return On Capital Employed	16.4%	11.8%	7.17%	7.64%	7.88%
Return On Equity	39.0%	31.1%	16.2%	15.0%	15.1%
Operating Margin	11.9%	11.3%	10.1%	9.58%	9.63%
Free Cash Flow (MM)	(164)	(91.8)	81.4	56.6	93.9
Quality of Earnings*					
Cash Realization Ratio	-0.72x	-0.49x	2.47x	2.07x	2.32x
Asset Replacement Ratio	3.67x	1.32x	1.11x	1.30x	1.07x
Tax Rate	29.1%	19.5%	33.0%	33.0%	33.0%
Net Debt/Equity	137%	141%	105%	85.7%	57.4%
Interest Cover	6.16x	6.37x	6.98x	5.67x	7.92x

* For full definitions of *iQmethod*℠ measures, see page 8.

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 70% of sales in emerging countries. Despite an order backlog above the EUR0.7bn mark (9 months of sales) driven by infrastructure in emerging markets and NAm, and its drilling equipment and services business, we believe potential upside to be limited given high consensus estimates and an order flow that is failing to deliver within expectations.

Stock Data

Price to Book Value	1.7x

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	697	770	-9.4%	730	824	-11.4%	701	791	-11.4%
Net sales	964.5	1006.9	-4.2%	1035.6	1090.7	-5.1%	1096.9	1156.7	-5.2%
...growth	-6.9%	-2.8%	-410bp	7.4%	8.3%	-95bp	5.9%	6.1%	-14bp
EBITDA	151.2	160.0	-5.5%	152.8	178.9	-14.6%	161.6	187.6	-13.8%
...margin	15.7%	15.9%	-22bp	14.8%	16.4%	-164bp	14.7%	16.2%	-148bp
EBIT	97.2	111.5	-12.8%	99.2	126.4	-21.5%	105.7	131.9	-19.9%
...margin	10.1%	11.1%	-100bp	9.6%	11.6%	-201bp	9.6%	11.4%	-177bp
EPS	0.78	0.93	-16.7%	0.81	1.06	-23.6%	0.90	1.14	-21.4%
NWC on sales	43.9%	42.6%	129bp	41.5%	38.2%	332bp	37.9%	36.6%	129bp
Net debt	380.7	388.4	-2.0%	338.2	323.5	4.5%	254.7	258.7	-1.5%

Source: Company data, Bofa Merrill Lynch Global research estimates

Q3 results rather disappointing

Table 2: Trevi - Summary of 3Q10 results (€ mn)

	1Q 09	2Q 09	3Q 09	4Q 09	1Q 10	2Q 10	3Q 10	3Q BofAML	3Q cons
Order backlog	901.7	917	783.5	780	786	716	759	750	
Total sales	289.2	282.3	264.9	199.4	235.0	217.7	236.4	245	247
...Mechanical Division	137.2	135.5	144.4	79.3	115.8	96.9	129.7		
.....Foundation Equipment - SOILMEC	56.0	36.7	40.6	54.1	39.2	52.3	42.5		
.....Drilling Equipment - DRILLMEC	81.5	99.4	104.4	25.2	76.8	45.0	89.0		
...Services Division	158.1	150.6	119.2	126.3	121.3	125.6	115.2		
.....Foundation Services - TREVI	139.1	135.1	108.1	112.9	107.1	107.2	94.3		
.....Drilling Services - PETREVEN	20.8	16.3	13.2	15.1	15.6	20.0	22.5		
EBITDA	51.4	64.3	45.6	32.0	38.7	30.1	37.2	40	39
...margin	*17.8%*	*22.8%*	*17.2%*	*16.0%*	*16.5%*	*13.8%*	*15.8%*		
EBIT	39.3	38.4	31.9	7.7	25.9	17.6	22.3	25	26
...margin	*13.6%*	*13.6%*	*12.1%*	*3.9%*	*11.0%*	*8.1%*	*9.4%*		
...Mechanical Division	16.0	10.8	9.5	-0.3	7.0	10.6	11.2		
.....margin	*11.7%*	*8.0%*	*6.6%*	*-0.4%*	*6.0%*	*10.9%*	*8.6%*		
...Services Division	24.0	28.6	21.9	8.8	19.2	8.4	13.0		
.....margin	*15.2%*	*19.0%*	*18.4%*	*7.0%*	*15.8%*	*6.7%*	*11.3%*		
PBT	35.7	33.8	27.9	7.2	23.3	14.4	17.0	18	18
NI	24.1	27.2	18.8	12.1	15.4	8.0	11.4		15
Net debt	411.5	449.4	441.8	443.8	414.5	398.1	395.7		
YoY change (%)									
Backlog	*8.5%*	*-5.8%*	*-36.2%*	*-29.6%*	*-12.8%*	*-21.9%*	*-3.1%*		
Total sales	*23.2%*	*10.7%*	*-7.3%*	*-32.0%*	*-18.7%*	*-22.9%*	*-10.8%*		
...Mechanical Division	*11.6%*	*-15.4%*	*-10.5%*	*-51.3%*	*-15.6%*	*-28.5%*	*-10.2%*		
.....Foundation Equipment - SOILMEC	*-19.5%*	*-59.6%*	*-55.2%*	*-20.6%*	*-29.9%*	*42.5%*	*4.8%*		
.....Drilling Equipment - DRILLMEC	*51.2%*	*43.3%*	*44.8%*	*-73.0%*	*-5.7%*	*-54.7%*	*-14.8%*		
...Services Division	*35.9%*	*34.7%*	*-6.3%*	*-22.3%*	*-23.3%*	*-16.6%*	*-3.3%*		
.....Foundation Services - TREVI	*33.4%*	*33.8%*	*-3.5%*	*-18.7%*	*-23.0%*	*-20.6%*	*-12.8%*		
.....Drilling Services - PETREVEN	*61.8%*	*41.3%*	*-15.1%*	*-39.6%*	*-24.9%*	*22.5%*	*70.6%*		
EBITDA	*25.0%*	*84.3%*	*-10.5%*	*-18.9%*	*-24.6%*	*-53.1%*	*-18.3%*		
EBIT	*18.5%*	*42.6%*	*-24.2%*	*-69.6%*	*-34.2%*	*-54.0%*	*-30.2%*		
PBT	*39.2%*	*36.6%*	*-32.8%*	*-58.3%*	*-34.7%*	*-57.3%*	*-39.3%*		

Source: Company data, Bofa Merrill Lynch Global Research estimates, Bloomberg

Financials

Table 3: 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	10.00	10.00	10.00
% change in average	151.9	154.9	84.5	3.5	-29.6	13.5	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	0.78	0.81	0.90
EPS adjusted	0.20	0.38	0.82	1.10	1.20	0.78	0.81	0.90
P/E, high	25.8	25.6	17.9	15.7	14.4	22.1		
P/E, low	5.5	11.4	11.1	5.8	5.3	8.2		
P/E (average) (x)	12.7	17.3	14.8	11.4	7.3	12.8	12.4	11.1
P/PBT (average) (x)	6.4	10.8	9.8	8.0	5.9	8.7	8.4	7.5
DPS total (reported) (†)	0.02	0.05	0.10	0.12	0.12	0.11	0.11	0.12
DPS total (adjusted) (†)	0.03	0.05	0.11	0.11	0.11	0.10	0.10	0.11
DPS ordinary (adjusted) (†)	0.03	0.05	0.11	0.11	0.11	0.10	0.10	0.11
Dividend yield (average) (%) (ordinary, adjusted) (†)	1.0	0.8	0.9	0.9	1.2	1.0	1.0	1.1
Dividend yield (average) (%) (total, adjusted) (†)	1.0	0.8	0.9	0.9	1.2	1.0	1.0	1.1
Payout ratio (%) (ordinary)	12.9	14.3	13.2	10.4	9.1	12.5	12.5	12.6
Book value per share	1.5	1.7	2.2	3.2	4.3	4.9	5.4	6.1
P/BV (average) (x)	1.7	3.8	5.4	3.9	2.0	2.0	1.8	1.6
CEPS	0.6	0.8	1.2	1.6	2.1	1.5	1.5	1.7
P/CE (average) (x)	4.1	8.5	9.9	7.7	4.2	6.6	6.5	6.0
FCFPS	0.23	-0.67	0.78	-2.48	-1.66	1.02	0.70	1.29
P/FCF (average) (x)	11.2	-9.8	15.5	-5.0	-5.3	9.8	14.2	7.7
FCF Yield (%)	8.9	-10.2	6.5	-19.8	-18.8	10.2	7.0	12.9
Net debt/share	2.0	2.5	2.0	4.6	6.3	5.4	4.8	3.6
Net debt/share avg.	2.0	2.5	2.0	4.6	6.3	5.4	4.8	3.6
Enterprise value/share	4.6	9.1	14.1	17.1	15.1	15.4	14.8	13.6
Enterprise value/share (*)	5.2	8.7	13.8	17.2	14.9	15.2	14.6	13.4
EBIT/share	0.5	0.8	1.5	1.8	1.7	1.4	1.4	1.5
EV/EBIT (average)	10.1	10.9	9.5	9.4	9.1	11.1	10.5	9.1
EV/EBIT (average) (*)	11.5	10.5	9.3	9.4	8.9	11.0	10.3	8.9
EBITDA/share	0.9	1.2	1.9	2.4	2.6	2.2	2.2	2.3
EV/EBITDA (average)	5.2	7.4	7.4	7.2	5.8	7.2	6.8	5.9
EV/EBITDA (average) (*)	6.0	7.1	7.2	7.2	5.8	7.1	6.7	5.8
EV/Sales (average)	58.0	98.8	117.8	112.3	102.6	112.2	100.4	87.2
EV/Sales (average) (*)	66.5	94.6	115.0	112.6	101.3	110.7	98.8	85.5
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	-6.9	7.4	5.9
EBITDA	32.8	54.9	56.5	24.1	9.3	-16.8	1.1	5.8
EBIT	55.8	102.4	79.0	22.7	-8.0	-17.2	2.1	6.6
PBT	163.2	68.6	101.6	27.1	-4.2	-23.2	3.9	11.6
Net Income	401.9	108.7	108.5	33.8	10.0	-35.9	4.1	11.6
EPS adjusted	396.4	87.0	115.9	34.4	9.1	-35.1	3.9	11.2
CEPS	51.8	24.3	58.0	32.0	29.3	-27.2	1.7	8.0
FCFPS		-391.8	-216.8	-417.3	-33.1	-161.7	-31.2	83.5
DPS ordinary	71.0	106.5	99.9	6.1	-4.7	-10.9	4.1	11.6

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 4: 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	964.5	1035.6	1096.9
Other revenues	9.0	32.1	36.9	132.6	59.5	9.0	30.0	20.0
Value of production	506.8	675.3	878.9	1201.8	1095.3	973.5	1065.6	1116.9
Raw materials, consumables and goods (net of inventory variations)	-220.1	-314.6	-423.8	-637.7	-461.6	-406.2	-455.0	-476.8
Cost of services	-110.6	-143.7	-165.6	-205.3	-234.6	-197.0	-220.7	-231.3
Costs for use of third-party assets and other operating costs	-26.8	-26.8	-34.0	-45.5	-52.0	-50.4	-52.4	-54.4
Value added	149.3	190.3	255.6	313.2	347.1	319.8	337.5	354.4
Labour	-94.0	-104.7	-121.6	-146.9	-165.3	-168.6	-184.7	-192.8
EBITDA	55.3	85.6	134.0	166.3	181.8	151.2	152.8	161.6
Depreciation, amortisation and provisions	-26.6	-27.6	-30.1	-38.7	-64.4	-54.0	-53.7	-56.0
EBIT	28.7	58.1	104.0	127.6	117.4	97.2	99.2	105.7
Net financial items	-3.4	-15.5	-18.1	-18.4	-12.7	-16.8	-15.7	-12.5
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	80.4	83.5	93.2
Minorities	-0.9	-1.2	-2.0	-2.7	-2.0	-1.2	-1.1	-1.2
Tax	-11.6	-14.7	-28.1	-31.8	-20.4	-26.5	-27.5	-30.8
Net profit	12.8	26.8	55.8	74.7	82.2	52.7	54.8	61.2
EBITDA margin (%)	*11.1*	*13.3*	*15.9*	*15.6*	*17.6*	*15.7*	*14.8*	*14.7*
EBIT margin (%)	*5.8*	*9.0*	*12.3*	*11.9*	*11.3*	*10.1*	*9.6*	*9.6*
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*	*16.2*	*15.0*	*15.1*
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	53.8	55.9	62.4
Non-cash items	35.9	30.2	43.8	22.4	46.9	64.0	63.7	66.0
Net change in commercial working capital	4.1	-14.4	10.4	-110.5	-209.4	12.4	-5.9	13.8
Total net change in working capital	0.3	-55.8	-3.4	-153.8	-171.2	12.4	-5.9	13.8
Operating cash flow	50.0	2.3	98.2	-54.0	-40.1	130.3	113.7	142.3
Capital expenditures	-10.8	-49.2	-38.7	-110.2	-51.7	-48.9	-57.1	-48.4
Other investment	-24.7	-0.1	-4.7	-9.7	-24.5	-9.6	-7.2	-3.3
Free cash flow	14.5	-46.9	54.8	-173.9	-116.3	71.7	49.4	90.6
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	-6.8	-7.1
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	-64.0	-42.5	-83.5
Operating cash flow/capex (%)	4.6	0.0	2.5	-0.5	-0.8	2.7	2.0	2.9
Capex/depreciation (%)	0.6	2.2	1.6	3.7	1.3	1.1	1.3	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	118.9	43.0	175.5
Trade receivables	185.1	187.0	187.8	294.1	295.0	318.3	331.4	329.1
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	327.9	331.4	329.1
Current assets	364.6	452.4	525.9	826.7	864.9	866.9	807.5	935.4
Intangibles	3.5	4.9	5.4	6.1	13.7	20.3	21.8	18.8
Other fixed assets	183.0	213.2	230.2	326.2	354.2	358.9	372.2	375.3
Fixed assets	186.5	218.2	235.6	332.3	367.9	379.2	394.0	394.1
Total assets	551.1	670.5	761.6	1159.0	1232.8	1246.1	1201.5	1329.5
Interest bearing	177.4	265.7	233.5	410.9	556.7	499.6	381.2	430.2
Trade payables	154.6	178.7	230.4	335.7	165.0	173.6	186.4	197.4
Other	117.0	98.6	134.2	176.8	195.2	211.9	239.1	257.9
Total liabilities	449.1	543.1	598.1	923.7	916.9	885.2	806.7	885.6
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	347.2	381.2	430.2
Balance sheet total	551.1	670.5	761.6	1159.0	1232.8	1246.1	1201.5	1329.5
Net debt	126.0	175.8	142.8	322.9	444.7	380.7	338.2	254.7
Net gearing (%) (net debt/equity)	123.5	138.0	87.3	137.2	140.8	105.5	85.7	57.4
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	7.0	5.7	7.9
Net commercial working capital (% of sales)	22.6	19.7	13.8	21.2	42.1	43.9	41.5	37.9

Source: Company data, Bofa Merrill Lynch Global Research estimates

Price objective basis & risk

Trevi-Finanziaria Industriale SPA (TVFZF)

Our 12M price objective of EUR10.0 is based on a weighted, three-stage DCF model for 2010E and 2011E, which assumes: 1) three years with a +2% sales CAGR and an EBITDA margin between 15.7-14.7% in 2010-12E, 2) four years of +1.6% CAGR of sales and 14.6% 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 13x 2010E and 12.4x 2011E, an EV/EBITDA of 7x 2010-11E, and an EV/EBIT of 11x 2010E and 10.5x 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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EMEA - Small Caps Coverage Cluster

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	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
	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
	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
	Nexans	NXPRF	NEX FP	Caroline Cohen
	Orpea	ORPEF	ORP FP	Caroline Cohen

EMEA - Small Caps Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
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	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
	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
	Centrotherm Photo	CPHVF	CTN GR	Claus Roller, CFA
	Ebro Foods	EBRPF	EBRO SM	Unai Franco
	GEA	GEAGF	G1A GR	Claus Roller, CFA
	Heidelberg	HBGRF	HDD GR	Claus Roller, CFA
	Krones	KRNNF	KRN GR	Claus Roller, CFA
	Landi Renzo SPA	LDRZF	LR IM	Unai Franco
	Neopost SA	NPACF	NEO FP	Caroline Cohen
	Poltrona Frau	PFAUF	PFG IM	Flavio Cereda
	Roth & Rau	RRAUF	R8R GR	Gerhard Orgonas, CFA
	Trevi-Finanziaria Industriale SPA	TVFZF	TFI IM	Unai Franco
	Trigano SA	TGNOF	TRI FP	Caroline Cohen
	Wincor	WNXDF	WIN GR	Claus Roller, CFA
UNDERPERFORM				
	Aeffe	XEAFF	AEF IM	Unai Franco
	Benetton Group Spa	BNTOF	BEN IM	Flavio Cereda
	Fielmann	FLMNF	FIE GR	Flavio Cereda
	Gerresheimer AG	GRRMF	GXI GR	Gerhard Orgonas, CFA
	Il Sole 24 Ore	XIILF	S24 IM	Flavio Cereda
	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
	Zignago Vetro SPA	XZNGF	ZV IM	Flavio Cereda
RVW				
	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

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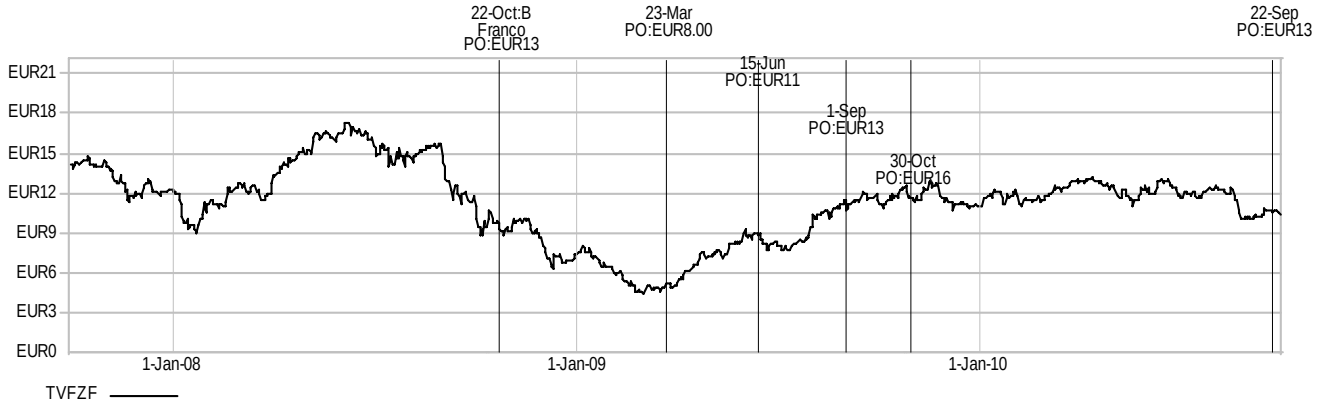

B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

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

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	34	65.38%	Buy	12	40.00%
Neutral	7	13.46%	Neutral	2	28.57%
Sell	11	21.15%	Sell	6	54.55%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1948	54.31%	Buy	821	46.73%
Neutral	891	24.84%	Neutral	397	49.07%
Sell	748	20.85%	Sell	259	37.16%

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