

Trevi

Italy/Construction & Materials

Buy

Recommendation unchanged

Share price: EUR 9.07

closing price as of 25/03/2011

Target price: EUR 12.30

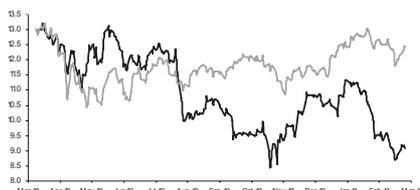
vs Target Price: EUR **13.00**

Reuters/Bloomberg

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Market capitalisation (EURm)	580
Current N° of shares (m)	64
Free float	44%
Daily avg. no. trad. sh. 12 mth	188,394
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	-4.53%
Abs. perf. 3 mth	-16.25%
Abs. perf. 12 mth	-29.53%

Key financials (EUR)	12/10	12/11e	12/12e
Sales (m)	953	1,050	1,170
EBITDA (m)	137	158	184
EBITDA margin	14.4%	15.0%	15.7%
EBIT (m)	84	101	124
EBIT margin	8.8%	9.7%	10.6%
Net Profit (adj.)(m)	46	57	74
ROCE	10.9%	11.9%	13.6%
Net debt/(cash) (m)	395	422	446
Net Debt/Equity	1.1	1.0	1.0
Debt/EBITDA	2.9	2.7	2.4
Int. cover(EBITDA/Fin. int)	8.8	9.9	11.3
EV/Sales	1.2	1.0	1.0
EV/EBITDA	8.6	7.0	6.1
EV/EBITDA (adj.)	8.6	7.0	6.1
EV/EBIT	14.1	10.8	9.1
P/E (adj.)	14.9	10.1	7.8
P/BV	1.9	1.4	1.3
OpFCF yield	15.6%	11.6%	13.3%
Dividend yield	1.4%	1.4%	1.4%
EPS (adj.)	0.72	0.89	1.16
BVPS	5.53	6.30	6.83
DPS	0.13	0.13	0.13



Source: Factset

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Feedback from FY 10 result conference call

Management's outlook for 2011: during the FY 10 result conference call last Friday, the management said to expect a positive result trend for 2011 based on the order book at the end of December and on the interesting "soft" backlog (the management confirmed that there are currently several significant negotiations in all sectors and in several geographical areas):

TREVI (foundation work) – based on the current negotiations, the management is confident that the group could obtain new contracts for foundation work; the most interesting areas in the short-mid term should be: Far East (especially Philippines, Singapore and Hong Kong) and South and North America; lastly, the management explained that the negotiation with Iraqi government for the foundation work of the Mosul dam is ongoing;

SOILMEC (foundation equipment) – thanks to the significant investments realised in the past two years the group is ready to benefit of the recovery of the construction equipment sector. Indeed, the management increased the group's competitive advantage thanks to: a) the upgrading of the existent plants and the construction of new plants in the emerging markets, b) a complete range of new patented products with strong technological innovations able to strengthen the historical markets and to serve new areas;

PETREVEN (drilling service) – the group obtained three new contracts in the final part of 2010 that will have positive effects FY 11 results; furthermore, other drilling works should begin during the current year;

DRILLMEC (drilling equipment) – based on the strong momentum in the oil sector, the management specified that this division will be the main driver of the group growth in 2011, both in terms of sales growth and increase in profitability; after the big contract obtained in Mexico and the agreement signed in Belarus with a local company at the beginning of the year, Drillmec has currently several negotiations which should allow the group to obtain further important orders of drilling equipment by June; important contracts could be obtained both for traditional and hydraulic rigs in South and North America, Middle East and Eastern Europe.

Our analysis: our view on group's fundamental remains positive and, based on the foregoing indications, 2011 should be a growth year both in term of sales and of profitability, therefore we maintain our FY 11e sales growth of +10.5% and FY 11e EBITDA growth of 14.9%.

Conclusion & Action: although the stock price drop was partially justified by a delay in the obtaining of potential big orders expected from the investors by the end of 2010, we believe that, based on the current negotiations and on the solid financial situation, the stock, at current price, is strongly undervalued compared to the peers: indeed, Trevi's P/E 11e is 10.0x, so decidedly lower (-14.2%) than Bauer AG and Keller average P/E 11e of 11.6x.

It is important to highlight that Keller and Bauer AG are not present in the drilling sector; on the contrary, Trevi can be considered a small but well-known players in these sectors and, based on the management indications, we believe that significant orders in the drilling equipment could be a key factor of the growth in 2011. Therefore, we believe that a correct stock valuation has to take this part of Trevi's business into account, since it weigh 33% on total sales (we remind investors that 10e P/E average of the drilling peers is 16.2x).

In the light of the foregoing considerations, we confirm our Buy recommendation and our target price of EUR 12.3 per share and we believe that the stock price could have a strong boost in the coming months in case of potential announcement of new big orders.