Trevi

Italy/Construction & Materials

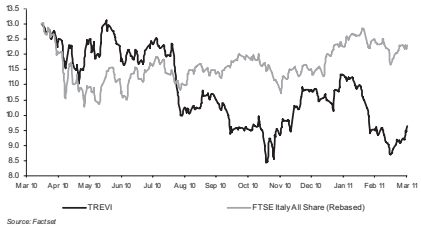
Buy

Recommendation unchanged

Share price: EUR	**9.64**
closing price as of 01/04/2011	
Target price: EUR	**13.30**
vs Target Price: EUR	**12.30**
Reuters/Bloomberg	TFI.MI/TFI IM

Market capitalisation (EURm)	617
Current N° of shares (m)	64
Free float	44%
Daily avg. no. trad. sh. 12 mth	189,167
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	1.47%
Abs. perf. 3 mth	-10.62%
Abs. perf. 12 mth	-24.90%

Key financials (EUR)	12/10	12/11e	12/12e
Sales (m)	953	1,059	1,183
EBITDA (m)	137	157	182
EBITDA margin	*14.4%*	*14.9%*	*15.4%*
EBIT (m)	84	101	123
EBIT margin	*8.8%*	*9.5%*	*10.4%*
Net Profit (adj.)(m)	46	57	73
ROCE	10.9%	11.9%	14.2%
Net debt/(cash) (m)	395	417	399
Net Debt/Equity	*1.1*	*1.0*	*0.9*
Debt/EBITDA	2.9	2.7	2.2
Int. cover(EBITDA/Fin. int	8.8	9.8	11.2
EV/Sales	1.2	1.1	0.9
EV/EBITDA	8.6	7.2	6.1
EV/EBITDA (adj.)	8.6	7.2	6.1
EV/EBIT	14.1	11.2	9.1
P/E (adj.)	14.9	10.8	8.4
P/BV	1.9	1.5	1.4
OpFCF yield	*15.6%*	*13.4%*	*19.9%*
Dividend yield	*1.3%*	*1.3%*	*1.3%*
EPS (adj.)	0.72	0.89	1.14
BVPS	5.53	6.29	6.81
DPS	0.13	0.13	0.13



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New order for Drillmec in Turkey

The facts: Drillmec, the Trevi Group subsidiary specialized in production of drilling equipment, announced the acquisition of a contract from Gumus Madencilik Insaat Petrol in Turkey. The supply regards 11 oil drilling rigs of between 2,000 and 3,000 HP.

The value of the equipment to be supplied is USD 212m.

Our analysis: this new important order increases considerably the visibility on the order backlog and on the sales growth of Drillmec.

Following this contract, we have forecast a growth by 13.0% for Drillmec (in addition to this last contract, in our estimates for the drilling equipment division we have included the contracts signed in Mexico and in Belarus for around USD 115m, but we did not have prudentially take account new potential big orders that the group could obtain during the year based on the ongoing negotiations).

Furthermore, we have estimated a growth by 24.4% for Petreven (the company signed the contracts for two additional rigs in the final part of 2010 and the company should start to operate two further rigs in the second part of 2011)

Furthermore, in terms of NFP, we maintained a prudent estimate of a slight increase in net debt (from EUR 395.3m at the end of 2010 to EUR 413.9m at the end of 2011) due to an increase in investments and in NWC required by the strong orders expected for the drilling equipment division (indeed, the production cycle in the oil & gas drilling equipment sector requires a strong increase in the working capital during the manufacturing phase and afterwards a strong decrease during the delivery phase with a consequent strong cash generation).

Drillmec is the driver for 2011: following a company contact, Trevi's management confirmed us that they are confident that the growing demand for shale gas rigs and the increasing interest in ever more safe drilling plants in the USA can be an important growth opportunity for the group. Indeed, HH technology, which is designed and produced by Drillmec, is particularly right for the shale gas drilling activity (high flexibility, high speed of relocation and transport of the equipment, directional drilling). Based on this growing demand for new equipments and the new Drillmec's plant in Texas, the management is launching a marketing campaign for institutional clients for the first time in the USA.

In the light of this scenario in the USA and on the current negotiations for important orders in other areas such as Middle East and Eastern Europe, the management confirmed that the drilling divisions (Petreven in the drilling service field and Drillmec in the drilling equipment sector) will be the drivers of the result growth expected in 2011.

Conclusion & Action: *In the light of the foregoing considerations, we confirm our Buy recommendation and, based on our revised estimates and on our DCF model (WACC 8.2% and 1.5% perpetual growth rate), we set a target price of EUR 13.3 per share.*

We highlight that, in our opinion, the stock price could have a strong boost in the coming months in case of further potential announcement of new big orders.