Equity Research

Trevi Finanziaria Industriale

Building Materials & Infrastructure - Italy
Infrastructure

7 April 2011

Report - Mid Caps

Rating	TP	EPS 11e	EPS 12e
↗ (+)	↗ 18%	↗ 4%	↘ (1%)

Outperform (Upgraded from Neutral)

Target price	**EUR12 (+18%)**
Sector rating	**Neutral**

Price (6 April 2011)	**EUR10.2**
Market cap./Free float (EURm)	716.0/335.6
EV (EURm)	1,076.7
3m avg. volume (EURm)	2.0
Reuters/Bloomberg	TFI.MI/TFI IM

Financial data	12/10	12/11e	12/12e	12/13e
Adjusted EPS (EUR)	0.69	0.88	1.07	1.25
EPS - IBES (EUR)	0.70	0.89	1.06	1.27
Net dividend (EUR)	0.13	0.13	0.14	0.14
Sales (EURm)	952.9	1,068	1,182	1,266
Adjusted EBITA (EURm)	84.3	105.4	124.1	136.1
Adj. net profit (EURm)	46.1	59.0	74.9	88.1
Adj. net debt / EBITDA (x)	3.3	2.2	1.6	1.1

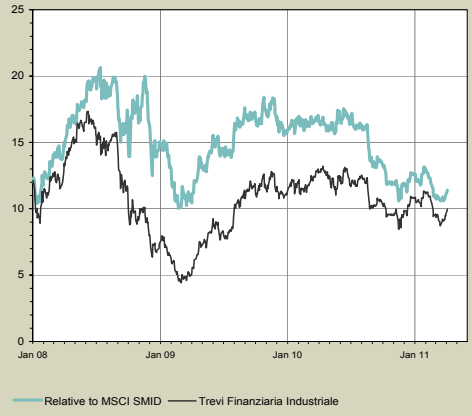
Stockmarket ratios*	12/10	12/11e	12/12e	12/13e
P/E (x)	16.4	11.6	9.6	8.1
P/BV (x)	2.0	1.5	1.3	1.2
Net yield (%)	1.1	1.3	1.3	1.4
FCF yield (%)	8.9	4.7	10.3	13.3
EV/Sales (x)	1.2	1.0	0.9	0.8
EV/EBITDA (x)	9.1	7.0	5.8	4.9
EV/EBITA (x)	14.0	10.2	8.3	7.0

** Yearly average price for FY ended 12/10*

Performance* (%)	1w	1m	3m	12m
Absolute	7	9	(2)	(19)
Rel. Build. Mat. & Infra.	6	6	(9)	(25)
Rel. MSCI SMID	6	9	(3)	(28)

** In listing currency, with dividend reinvested*

Price relative to MSCI SMID



Digging out of a hole

► **Downward earnings revisions have run their course**

As highlighted in our initiation report (26 August), 2010 revenue and earnings expectations were too high for Trevi (following a weak 2009 order intake in the Special Foundation Services division), and consensus estimates needed to be reset. After three earnings releases and a significant underperformance relative to the Italian small cap index and to its peers in the Special Foundation and Oil & Gas industries, we believe that the downward earnings revision process has run its course and that the group's growth will resume in 2011.

► **Buy the shares ahead of an acceleration in order intake**

After a disappointing 2009 and H1 10, order intake accelerated in H2 10, driven mostly by the Special Foundation Services division (Trevi) and the Oil & Gas drilling equipment division (Drillmec). We expect this trend to continue in 2011, particularly at the Oil & Gas divisions, which are benefiting from the current strength in commodity prices. We believe that this will set the stage for a return to revenue growth (+12% and +11% in 2011e and 2012e) and margin expansion (EBIT margin +110bp and +60bp in 2011e and 2012e, respectively).

► **Raising our estimates, rating and TP**

We have raised our estimates for 2011/12 and are now 3% above consensus on 2011e EBITDA and 7% above on 2012e. We have upgraded our rating to Outperform from Neutral and lifted our TP by 18%, from EUR10.2 to EUR12.0, using the average of a DCF and a SOTP based on peers' multiples in the Special Foundation and Oil & Gas services industries. Our TP hike reflects our higher forecasts as well as the recent rerating of Oil & Gas drilling peers. At our target price, the implied multiples would be 11.4x 2011e EV/EBIT and 1.1x 2011e EV/Sales.

► **Bull/bear scenario analysis suggests a risk/reward of -17%/+43%**

We have performed a scenario analysis to take into account the main risks to our investment case (margin deterioration in Services and inventory overhang in Mechanical). Our bull/bear scenario analysis points to a risk/reward of -17%/+43%.

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Price at 06 Apr. 11 / Target Price
EUR10.2 / EUR12 +18%
Reuters / Bloomberg: TFI.MI / TFI IM

TREVI FINANZIARIA IND. (Outperform)

Analyst: Giuseppe Corona +39 02 89631731

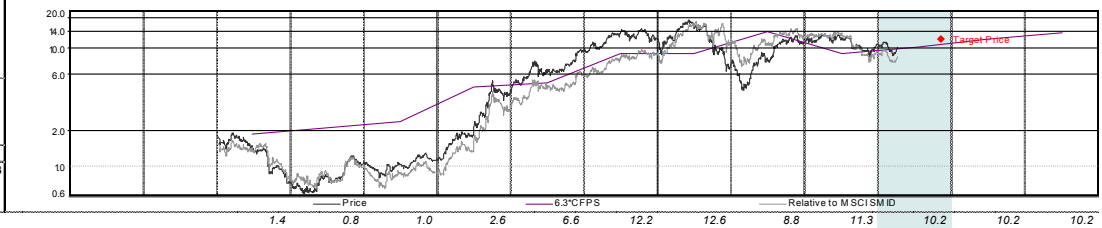
Infrastructure | Building Materials & Infrastructure (Neutral) - Italy

Company Highlights	EURm
Enterprise value	1,077
Market capitalisation	716
Free float	336
3m average volume	2

Performance (*)	1m	3m	12m
Absolute	9%	(2%)	(19%)
Rel. Sector	6%	(9%)	(25%)
Rel. MSCI SMID	9%	(3%)	(28%)

12m Hi/Lo (EUR) : 13.2 -23% / 8.5 +21%

CAGR	2003/2011	2011/2013
EPS restated (**)	NC	20%
CFPS	22%	14%



Price (yearly avg from Dec. 02 to Dec. 10)	*1.4*	*0.8*	*1.0*	*2.6*	*6.6*	*12.2*	*12.6*	*8.8*	*11.3*	*10.2*	*10.2*	*10.2*
PER SHARE DATA (EUR)	**Dec. 02**	**Dec. 03**	**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08**	**Dec. 09**	**Dec. 10**	**Dec. 11e**	**Dec. 12e**	**Dec. 13e**
No of shares year end, basic, (m)	64.000	64.000	64.000	64.000	64.000	63.634	63.227	64.000	64.000	70.195	70.195	70.195
Average no of shares, diluted, excl. treasury stocks (m)	64.000	64.000	64.000	64.000	70.195	70.011	69.625	69.808	70.195	70.195	70.195	70.195
EPS reported	*(0.08)*	*(0.08)*	*0.04*	*0.34*	*0.40*	*0.87*	*1.18*	*1.28*	*0.72*	*0.84*	*1.07*	*1.25*
EPS restated	(0.04)	(0.01)	0.14	0.35	0.37	0.82	1.12	1.22	0.69	0.88	1.07	1.25
% change	*NS*	*75.1%*	*NS*	*152.1%*	*6.1%*	*119.3%*	*36.1%*	*9.5%*	*(43.4%)*	*26.6%*	*21.9%*	*17.6%*
CFPS	0.30	0.34	0.38	0.75	0.80	1.43	1.44	2.19	1.44	1.63	1.89	2.13
Book value (BVPS) (a)	1.1	1.0	1.2	1.5	1.9	2.5	3.6	4.7	5.5	6.8	7.7	8.8
Net dividend	0.00	0.00	0.01	0.02	0.03	0.05	0.11	0.13	0.13	0.13	0.14	0.14
STOCKMARKET RATIOS **YEARLY AVERAGE PRICES for end Dec. 02 to Dec. 10**				**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08**	**Dec. 09**	**Dec. 10**	**Dec. 11e**	**Dec. 12e**	**Dec. 13e**
P / E (P/ EPS restated)	NC	NC	7.5x	7.4x	17.7x	14.9x	11.2x	7.2x	16.4x	11.6x	9.6x	8.1x
P / E relative to DJ Euro STOXX Small	NC	NC	37%	38%	109%	90%	130%	94%	154%			
P / CF	4.6x	2.4x	2.8x	3.5x	8.3x	8.5x	8.7x	4.0x	7.9x	6.3x	5.4x	4.8x
FCF yield	1.9%	12.3%	(38.1%)	23.7%	(9.8%)	8.7%	(21.2%)	(15.7%)	8.9%	4.7%	10.3%	13.3%
P / BVPS	1.24x	0.81x	0.87x	1.72x	3.48x	4.96x	3.51x	1.87x	2.05x	1.51x	1.33x	1.16x
Net yield	0.0%	0.0%	1.4%	0.6%	0.4%	0.4%	0.9%	1.4%	1.1%	1.3%	1.3%	1.4%
Payout	(0.0%)	(0.0%)	10.5%	4.3%	6.9%	6.6%	9.8%	10.3%	18.8%	14.8%	12.8%	11.4%
EV / Sales	0.76x	0.54x	0.67x	0.65x	0.99x	1.14x	1.09x	1.03x	1.24x	1.01x	0.87x	0.75x
EV / Restated EBITDA	7.5x	6.5x	7.0x	5.7x	8.0x	7.5x	7.3x	6.8x	9.1x	7.0x	5.8x	4.9x
EV / Restated EBITA	17.8x	19.1x	13.5x	8.8x	11.2x	9.3x	9.1x	9.2x	14.0x	10.2x	8.3x	7.0x
EV / OpFCF	13.0x	9.8x	NC	5.8x	NC	9.6x	NC	NC	11.3x	13.7x	8.4x	6.6x
EV / Capital employed (incl. gross goodw ill)	1.2x	1.0x	1.0x	1.2x	1.9x	2.9x	2.0x	1.4x	1.5x	1.3x	1.3x	1.2x
ENTERPRISE VALUE (EURm)	**257**	**199**	**246**	**323**	**639**	**960**	**1,164**	**1,069**	**1,182**	**1,077**	**1,026**	**953**
Market cap	89	52	67	167	424	778	796	560	726	716	716	716
+ Adjusted net debt	156	135	164	138	194	161	345	481	429	332	279	204
+ Other liabilities and commitments	9	10	13	14	16	15	15	17	17	17	17	17
+ Revalued minority interests	5	3	4	5	5	7	9	14	12	14	16	18
- Revalued investments	1	1	1	1	1	1	1	2	2	2	2	2
P & L HIGHLIGHTS (EURm) **Switch to IFRS data from FY ended 12/05**			**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08**	**Dec. 09**	**Dec. 10**	**Dec. 11e**	**Dec. 12e**	**Dec. 13e**
Sales	**340.1**	**366.6**	**366.4**	**496.6**	**642.4**	**841.6**	**1,069.1**	**1,035.8**	**952.9**	**1,068.4**	**1,182.3**	**1,266.0**
Restated EBITDA (b)	**34.4**	**30.5**	**35.4**	**56.3**	**80.1**	**128.5**	**158.5**	**157.1**	**129.6**	**153.6**	**177.2**	**192.8**
Depreciation	(19.9)	(20.1)	(17.1)	(19.7)	(22.9)	(25.0)	(30.8)	(40.3)	(45.3)	(48.2)	(53.1)	(56.7)
Restated EBITA (b) (**)	**14.5**	**10.4**	**18.3**	**36.6**	**57.1**	**103.5**	**127.7**	**116.8**	**84.3**	**105.4**	**124.1**	**136.1**
Reported operating profit (loss)	14.4	10.4	18.6	37.3	57.2	103.6	127.6	117.4	84.3	105.4	124.1	136.1
Net financial income (charges)	(13.5)	(10.2)	(8.7)	(3.3)	(15.5)	(18.1)	(18.4)	(12.7)	(14.4)	(15.0)	(14.2)	(11.0)
Affiliates	-	-	-	-	-	-	-	-	-	-	-	-
Other	(1.2)	(2.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	(4.5)	(3.2)	(6.4)	(11.6)	(14.7)	(28.1)	(31.8)	(20.4)	(24.5)	(29.4)	(33.0)	(35.0)
Minorities	(0.5)	(0.0)	(0.9)	(0.6)	(1.2)	(2.0)	(2.7)	(2.0)	0.7	(2.0)	(2.0)	(2.0)
Goodw ill amortisation	(2.8)	(4.5)	(6.1)	-	-	-	-	-	-	-	-	-
Net attributable profit reported	(5.3)	(5.2)	2.6	21.8	25.9	55.4	74.6	82.2	46.1	59.0	74.9	88.1
Net attributable profit restated (c)	**(5.4)**	**(5.2)**	**2.9**	**22.6**	**26.4**	**55.8**	**75.4**	**83.0**	**46.1**	**59.0**	**74.9**	**88.1**
CASH FLOW HIGHLIGHTS (EURm)	**Dec. 02**	**Dec. 03**	**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08**	**Dec. 09**	**Dec. 10**	**Dec. 11e**	**Dec. 12e**	**Dec. 13e**
EBITDA (reported)	**37.1**	**35.0**	**41.7**	**63.9**	**84.8**	**133.6**	**166.3**	**181.8**	**137.3**	**159.6**	**183.2**	**198.8**
EBITDA adjustment (b)	**(2.7)**	**(4.5)**	**(6.4)**	**(7.6)**	**(4.7)**	**(5.1)**	**(7.8)**	**(24.7)**	**(7.6)**	**(6.0)**	**(6.0)**	**(6.0)**
Other items	2.7	4.5	6.4	7.6	4.7	5.1	7.8	24.7	7.6	6.0	6.0	6.0
Change in WCR	13.5	4.8	(28.3)	11.7	(45.2)	16.7	(154.6)	(168.5)	8.3	(16.9)	4.7	8.2
Operating cash flow	**50.5**	**39.8**	**13.5**	**75.6**	**39.5**	**150.4**	**11.7**	**13.3**	**145.6**	**142.7**	**187.9**	**207.0**
Capex	(30.7)	(19.6)	(25.3)	(20.0)	(55.5)	(50.3)	(117.2)	(75.1)	(41.3)	(64.1)	(65.0)	(63.3)
Operating free cash flow (OpFCF)	**19.8**	**20.3**	**(11.8)**	**55.7**	**(16.0)**	**100.0**	**(105.5)**	**(61.8)**	**104.3**	**78.6**	**122.9**	**143.7**
Net financial items + tax paid	(18.0)	(13.4)	(15.2)	(14.9)	(26.3)	(31.8)	(65.1)	(28.4)	(38.9)	(44.4)	(47.2)	(46.0)
Free cash flow	**1.8**	**6.9**	**(26.9)**	**40.8**	**(42.3)**	**68.2**	**(170.7)**	**(90.3)**	**65.4**	**34.2**	**75.7**	**97.7**
Net financial investments & acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	(1.6)	(6.7)	(17.8)	(5.7)	(31.6)	(1.8)	(23.4)	(9.4)	(10.1)	(13.7)	(12.5)
Capital increase (decrease)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	70.0	0.0	0.0
Dividends paid			(0.9)	(1.0)	(1.7)	(3.5)	(6.9)	(8.1)	(8.3)	(9.1)	(9.1)	(9.6)
Increase (decrease) in net financial debt	**(1.8)**	**(5.3)**	**34.6**	**(22.0)**	**49.7**	**(33.1)**	**179.3**	**121.7**	**(47.7)**	**(85.0)**	**(52.8)**	**(75.6)**
Cash flow, group share	**19**	**22**	**24**	**48**	**56**	**99**	**98**	**151**	**98**	**112**	**133**	**150**
BALANCE SHEET HIGHLIGHTS (EURm)	**Dec. 02**	**Dec. 03**	**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08**	**Dec. 09**	**Dec. 10**	**Dec. 11e**	**Dec. 12e**	**Dec. 13e**
Fixed operating assets, incl. gross goodw ill	138	130	158	172	197	213	300	334	342	352	358	359
WCR	75	70	98	87	132	115	270	438	430	447	442	434
Capital employed, incl. gross goodw ill	**213**	**200**	**256**	**259**	**329**	**328**	**570**	**772**	**772**	**799**	**800**	**792**
Shareholders' funds, group share	72	65	77	97	122	156	226	302	354	474	540	618
Minorities	5	3	4	5	5	7	9	14	12	14	16	18
Provisions/ Other liabilities	20	20	36	45	47	45	45	46	51	41	27	15
Net financial debt (cash)	119	114	148	126	176	143	322	444	396	311	258	183
FINANCIAL RATIOS (%)	**Dec. 02**	**Dec. 03**	**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08**	**Dec. 09**	**Dec. 10**	**Dec. 11e**	**Dec. 12e**	**Dec. 13e**
Sales (% change)	NS	7.8%	(0.1%)	35.5%	29.4%	31.0%	27.0%	(3.1%)	(8.0%)	12.1%	10.7%	7.1%
Organic sales grow th		7.8%	(0.1%)	35.5%	29.4%	31.0%	27.0%	(3.1%)	(8.0%)	12.1%	10.7%	7.1%
Restated EBITA (% change) (**)	NS	(27.8%)	75.4%	99.7%	56.3%	81.2%	23.3%	(8.5%)	(27.8%)	25.0%	17.7%	9.7%
Restated attributable net profit (% change) (**)	NS	75.1%	NS	152.1%	17.1%	111.1%	35.1%	10.0%	(44.4%)	28.0%	26.9%	17.6%
Personnel costs / Sales	24.6%	23.4%	22.2%	18.9%	16.3%	14.4%	13.7%	16.0%	18.1%	17.1%	16.4%	16.0%
Restated EBITDA margin	10.1%	8.3%	9.7%	11.3%	12.5%	15.3%	14.8%	15.2%	13.6%	14.4%	15.0%	15.2%
Restated EBITA margin	4.3%	2.8%	5.0%	7.4%	8.9%	12.3%	11.9%	11.3%	8.8%	9.9%	10.5%	10.8%
Tax rate	NC	67.7%	40.3%	34.0%	35.2%	32.8%	29.2%	19.5%	35.0%	32.5%	30.0%	28.0%
Net margin	(1.4%)	(1.4%)	0.9%	4.5%	4.2%	6.8%	7.2%	8.1%	4.8%	5.7%	6.5%	7.1%
Capex / Sales	9.0%	5.3%	6.9%	4.0%	8.6%	6.0%	11.0%	7.3%	4.3%	6.0%	5.5%	5.0%
OpFCF / Sales	5.8%	5.5%	(3.2%)	11.2%	(2.5%)	11.9%	(9.9%)	(6.0%)	10.9%	7.4%	10.4%	11.4%
WCR / Sales	22.0%	19.1%	26.8%	17.4%	20.5%	13.7%	25.2%	42.3%	45.1%	41.8%	37.4%	34.3%
Capital employed (excl. gross goodw ill) / Sales	61.2%	53.7%	68.9%	51.4%	50.5%	38.3%	52.8%	73.2%	79.1%	73.6%	67.1%	62.6%
ROE	(3.6%)	(1.0%)	11.6%	23.2%	21.7%	35.7%	33.3%	27.5%	13.0%	12.5%	13.9%	14.2%
Gearing	204%	198%	203%	135%	152%	98%	147%	152%	117%	68%	50%	32%
EBITDA / Financial charges	2.6x	3.0x	4.8x	6.3x	7.7x	9.4x	9.2x	9.0x	9.2x	10.2x	12.4x	17.5x
Adjusted financial debt / EBITDA	4.5x	4.4x	4.6x	2.4x	2.4x	1.3x	2.2x	3.1x	3.3x	2.2x	1.6x	1.1x
ROCE, excl. gross goodw ill		1.7%	4.3%	10.3%	12.0%	22.2%	16.5%	13.0%	7.7%	9.3%	11.2%	12.6%
ROCE, incl. gross goodw ill		1.7%	4.3%	10.1%	11.9%	21.8%	16.3%	12.7%	7.5%	9.1%	10.9%	12.3%
WACC		4.8%	6.0%	7.7%	8.4%	9.2%	10.0%	8.7%	9.1%	9.5%	9.5%	9.5%
Average number of employees	2,760	2,911	3,238	3,577	4,218	5,067	5,898	6,064	6,064	6,367	6,622	6,821

Latest Model update : 06 Apr. 11 (a) Intangibles: EUR18.44m, or EUR0 per share. (b) adjusted for capital gains/losses, impairment charges, exceptional restructuring charges, capitalized R&D, pension charge replaced by service cost
(c) adj.for capital gains losses, imp.charges, capitalized R&D, am. of intangibles from M&A, exceptional restructuring, (*) In listing currency, with div. reinvested, (**) also adjusted for am. of intangibles from M&A, or for am. of gwill for pre IFRS years

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Investment case

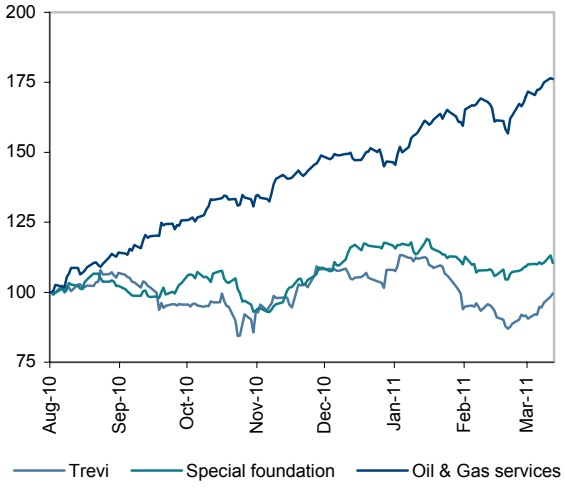
We have upgraded Trevi to Outperform from Neutral and raised our TP from EUR10.2 to EUR12.0 per share (+18% upside).

Downward earnings revisions have run their course

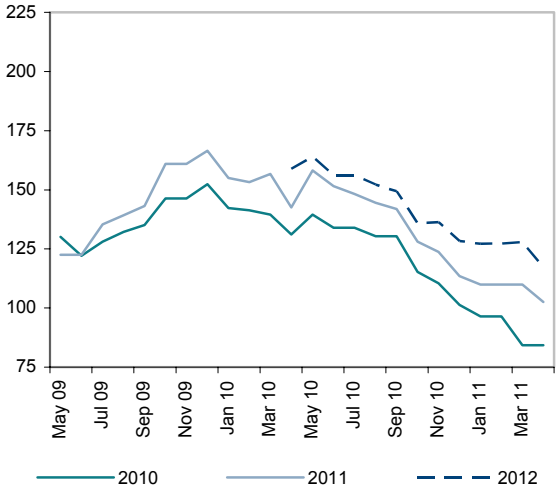
Weighed down by the significant downward earnings revisions (which began in August 2010), Trevi has underperformed relative to the Italian small cap index and to its peers in the Special Foundation and Oil & Gas services industries. As highlighted in our initiation (26 August 2010), we had indeed believed that consensus estimates needed to be reset, as 2010 revenue and earnings expectations were too high after a weak 2009 order intake.

Figure 1: Relative performance and EBIT revisions

Vs Special Foundation and Oil & Gas services industries



EBIT revisions (EURm)



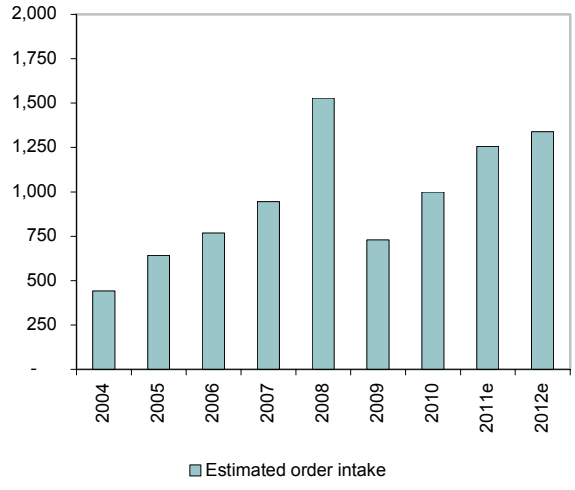
Source: Data Stream and IBES

Acceleration in order intake in H2 10 bodes well for 2011/12

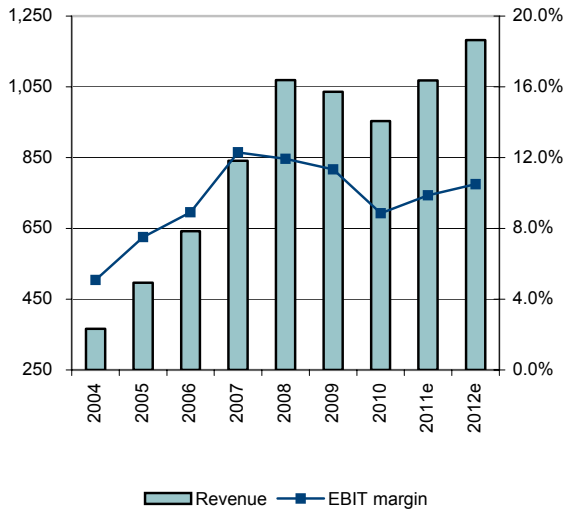
After a disappointing 2009 and H1 10, order intake accelerated during H2 10; we expect this trend to continue in 2011 (particularly at the Oil & Gas divisions, which are benefiting from the current strength in commodity prices), setting the stage for a return to revenue growth and increased profitability in 2011/12.

Figure 2: Order intake

Trevi group order intake (EURm)



Revenue and profitability



Source: Company and Exane BNP Paribas estimates

Raising our estimates for 2011/12

We have raised our EBITDA forecasts by 3% in 2011e and 6% in 2012e and our net income forecasts by 4% and 9%, respectively. This does not translate into an increase in our 2012e EPS forecast (down 1% versus our prior forecast) as we had previously not used the number of shares diluted for the convertible loan maturing in November 2011.

Our new forecasts are now 3% above consensus on 2011e EBITDA and 7% above consensus on 2012e EBITDA.

Figure 3: EBNPP old vs new estimates

EURm	2011e EBNPP old	2011e EBNPP new	2012e EBNPP old	2012e EBNPP new
Total revenue	1,039	1,068	1,096	1,182
y/y change	*9%*	*12%*	*5%*	*11%*
Reported EBITDA	155	160	173	183
% of revenue	*16.2%*	*14.9%*	*15.8%*	*15.5%*
Reported EBIT	101	105	117	124
% of revenue	*10.6%*	*9.9%*	*10.7%*	*10.5%*
Net income	57	59	69	75
% of revenue	*6.0%*	*5.5%*	*6.3%*	*6.3%*

Source: Exane BNP Paribas estimates

Figure 4: EBNPP vs consensus estimates

EURm	2011e EBNPP	2011e Consensus	Diff	2012e EBNPP	2012e Consensus	Diff
Total revenue	1,068	1,046	*2%*	1,182	1,120	*6%*
y/y change	*12%*	*10%*		*11%*	*7%*	
Reported EBITDA	160	155	*3%*	183	171	*7%*
% of revenue	*14.9%*	*14.8%*		*15.5%*	*15.3%*	
Reported EBIT	105	103	*3%*	124	117	*6%*
% of revenue	*9.9%*	*9.8%*		*10.5%*	*10.5%*	

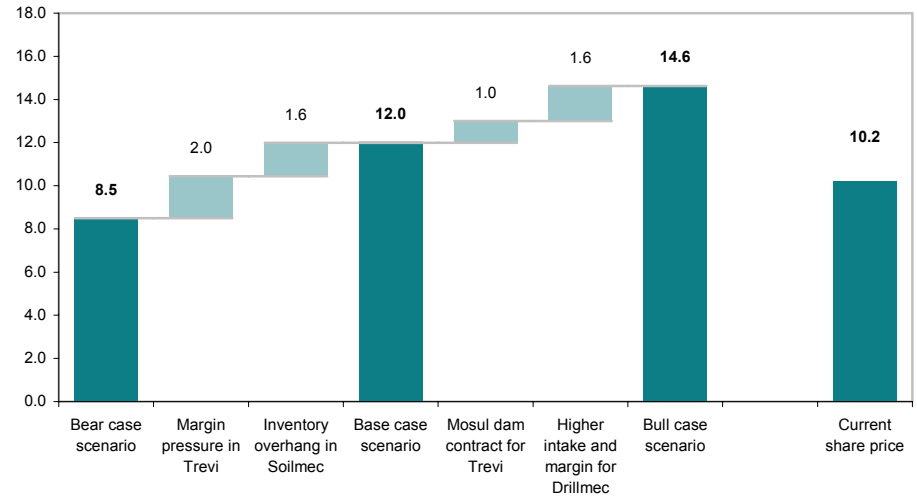
Source: Exane BNP Paribas estimates

Upgrading from Neutral to Outperform and raising our TP to EUR12.0 per share

We have raised our TP by 18%, from EUR10.2 to EUR12.0, using the average of a DCF and SOTP based on peers' multiples in the Special Foundation and Oil & Gas services industries. Our TP hike reflects our higher forecasts as well as the recent rerating of Oil & Gas drilling peers.

We have also included a scenario analysis to take into account some levers that could have a meaningful impact on our valuation in the next twelve months. Our bull/bear scenario analysis suggest a risk/reward of -17%/+43% from the current levels.

Figure 5: Valuation scenario



Source: Exane BNP Paribas estimates

Bear-case scenario

- *Pricing pressure and the geographic exposure of the backlog in special foundation works lead to lower profitability in the Services division*. We assume there could be pricing pressure in the special foundation works' newly acquired contracts and the geographic exposure of the backlog (i.e., increased exposure to Italian projects) lead to structurally lower profitability in the Services division (200bp lower than our base-case scenario).
- *Working capital overhang in Soilmec leads to lower profitability in the Mechanical division*. We assume that the continued overhang from Soilmec's inventory translates into higher working capital requirements (+500bp vs our base-case scenario) and lower profitability in the Mechanical division (100bp lower than our base-case scenario).

Bull-case scenario

- *Award of the Mosul dam contract*. We assume this significant contract is awarded to Trevi in 2011. Based on our estimates, the value of this contract for Trevi would be around EUR1 per share.
- *Stronger order intake for Drillmec leads to higher revenue/higher profitability in the Mechanical division*. We assume that a higher order intake and stronger revenues for Drillmec (+10% vs our base-case scenario) lead to higher profitability in the Mechanical division (+100bp higher than our base-case scenario).

Key risks to our investment case

We believe that the key risk to our investment case is the higher-than-normal level of working capital, which spiked significantly during the last economic downturn (higher receivables in the Services division and a higher inventory of finished products in the Mechanical division) and has since failed to "normalise".

- *Receivables in Services*. This could potentially lead to increased write-down activity (similar to what happened in 2009), although management believes that there are no "critical" exposures and that receivables are currently well diversified by both client and geography.
- *Inventory in Mechanical*. This could potentially lead to lower margins in the Mechanical division, although management believes that Soilmec's current inventory is not at risk of obsolescence.

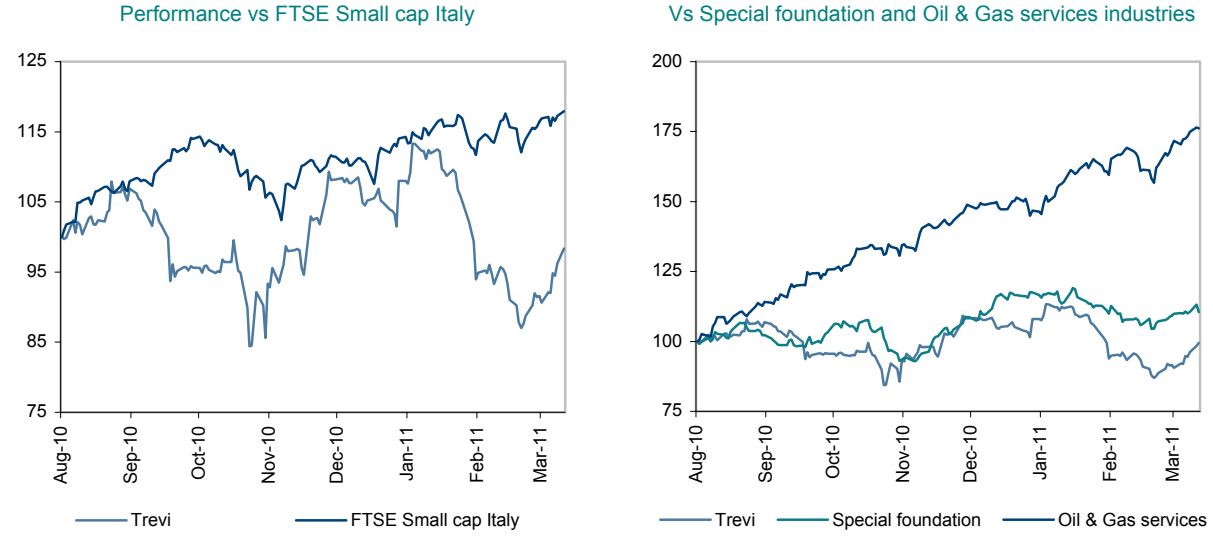
Valuation

We are increasing our TP from EUR10.2 to EUR 12.0 per share. Our new TP provides an 18% upside from current levels. Our TP hike reflects our higher forecasts as well as the recent rerating of oil & gas drilling peers.

Recent share price performance

Trevi's stock is flat since our initiation report in August 2010, underperforming the FTSE Small cap Italy Index by 18%. The shares have also underperformed its peers in the special foundation and Oil and Gas services industries (11% and 77% respectively).

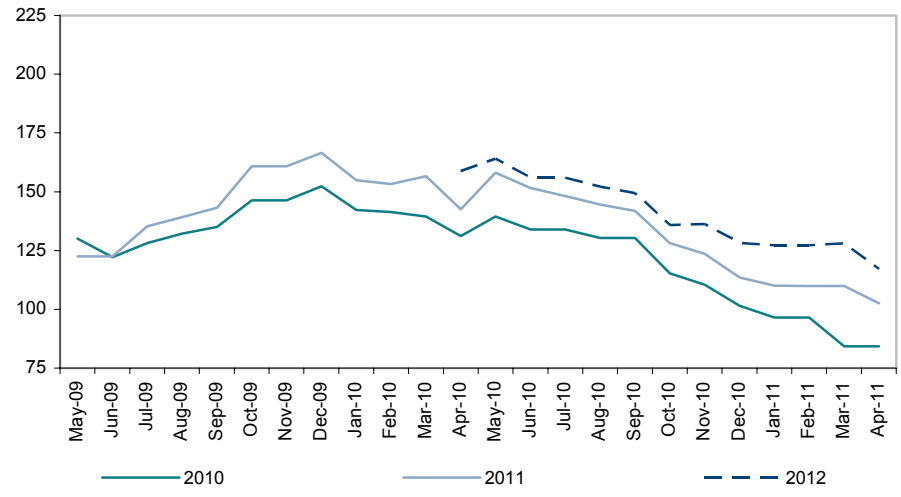
Figure 6: Share price performance



Source: DataStream

The reason for such steep underperformance lies in Trevi's downward revision process which started in May 2010, and accelerated with the first earnings' disappointment in August (Q2 10).

Figure 7: IBES estimates for EBIT



Source: IBES

DCF Analysis

Our DCF valuation scenario suggests an equity value of EUR12.0 per share. The main assumptions are detailed in the table below.

Figure 8: Discounted Cash Flow - main assumptions

DCF Highlights	2007	2008	2009	2010	2011e	2012e	2013e	2014e	2015e	2016e
Revenue	842	1,069	1,036	953	1,068	1,182	1,266	1,345	1,405	1,459
% y/y change	*31.0%*	*27.0%*	*-3.1%*	*-8.0%*	*12.1%*	*10.7%*	*7.1%*	*6.2%*	*4.5%*	*3.8%*
Adjusted EBITDA	130	160	160	128	154	177	193	209	221	229
% of revenue	*15.4%*	*15.0%*	*15.4%*	*13.4%*	*14.4%*	*15.0%*	*15.2%*	*15.5%*	*15.7%*	*15.7%*
Depreciation, amortization and other non cash costs	26	32	42	43	48	53	57	57	59	61
% of revenue	*3.1%*	*3.0%*	*4.1%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*	*4.2%*	*4.2%*	*4.2%*
EBIT	104	128	117	84	105	124	136	152	162	168
% of revenue	*12.3%*	*11.9%*	*11.3%*	*8.8%*	*9.9%*	*10.5%*	*10.8%*	*11.3%*	*11.5%*	*11.5%*
Tax	34	37	23	29	34	37	38	43	45	47
% tax rate	*32.8%*	*29.2%*	*19.5%*	*34.9%*	*32.5%*	*30.0%*	*28.0%*	*28.0%*	*28.0%*	*28.0%*
Working capital	115	270	438	430	447	442	434	412	399	411
% of revenue	*13.7%*	*25.2%*	*42.3%*	*45.1%*	*41.8%*	*37.4%*	*34.3%*	*30.6%*	*28.4%*	*28.2%*
Working capital change	(17)	155	169	(8)	17	(5)	(8)	(22)	(13)	13
Capital expenditures	50	117	75	41	64	65	63	67	70	73
% of revenue	*6.0%*	*11.0%*	*7.3%*	*4.3%*	*6.0%*	*5.5%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Operating Free Cash flow	60	(152)	(118)	63	35	76	96	118	115	94
Capital employed	322	564	758	754	786	794	792	780	779	803
ROIC	*22.8%*	*20.9%*	*14.3%*	*7.2%*	*9.1%*	*10.8%*	*12.0%*	*13.4%*	*14.3%*	*14.5%*

Source: Exane BNP Paribas estimates

We are assuming terminal growth of 2.5% and a WACC of 10%.

Figure 9: WACC Calculation

(%)	Target
Risk Free Rate	3.3%
Unlevered Beta	1.2
Levered Beta	1.6
Market Premium	5.8%
Emerging Markets Risk Premium	1.0%
Cost of Equity	13.7%
Debt Spread	1.0%
Cost of Debt	4.3%
After Tax Cost of Debt	2.8%
Tax Rate	34.9%
Target Debt to Equity	35%
WACC	10.0%
Terminal Growth	2.5%

Source: Exane BNP Paribas estimates

Based on our calculation, we obtain an enterprise value of EUR1,230m and an equity value of EUR842m or EUR12.0 per share.

Figure 10: DCF valuation

EURm	
Discounted FCF (2011-2016)	418
Terminal Value	812
Enterprise Value	**1,230**
Adjusted Net Debt	376
Minorities	12
Equity value	**842**
Equity value/share (EUR/share)	**12.0**

Source: Exane BNP Paribas estimates

Peers' Analysis

In order to conduct our peers' analysis, we have selected a group of companies with a similar business profile, in both the special foundation and Oil & Gas services industries.

Special Foundation

Figure 11: Comparables in special foundation

Company	Price	Market Cap	P/E 2011	P/E 2012	EV/EBIT 2011	EV/EBIT 2012	EV/Sales 2011	EV/Sales 2012	EBIT % 2011	EBIT % 2012	Net Debt EBITDA 2011e
Bauer	36.1	618	12.2x	10.0x	9.9x	8.6x	0.8x	0.8x	8.5%	9.0%	2.5x
Keller	619.5	398	11.1x	9.3x	8.3x	6.7x	0.4x	0.4x	5.2%	5.7%	0.9x
Median			**11.7x**	**9.6x**	**9.1x**	**7.6x**	**0.6x**	**0.6x**	**6.8%**	**7.4%**	**1.7x**
Trevi	**10.0**	**643**	**11.9x**	**9.3x**	**10.1x**	**8.1x**	**1.0x**	**0.9x**	**9.9%**	**10.5%**	**2.2x**

Source: Exane BNP Paribas estimates

Oil & Gas services

Figure 12: Comparables in Oil & Gas services

Company	Price	Market Cap	P/E 2011	P/E 2012	EV/EBIT 2011	EV/EBIT 2012	EV/Sales 2011	EV/Sales 2012	EBIT % 2011	EBIT % 2012	Net Debt EBITDA 2011e
National Oilwell Varco	80.5	33,888	19.4x	15.8x	11.6x	9.1x	2.3x	1.9x	19.8%	21.1%	-1.3x
Precision Drilling	13.7	3,785	18.2x	14.8x	12.9x	10.6x	2.5x	2.2x	19.5%	20.3%	0.9x
Nabors Industries	30.6	8,745	17.6x	13.6x	13.4x	10.8x	2.2x	1.8x	16.4%	17.0%	1.9x
Pride International	43.7	7,735	17.0x	13.1x	16.1x	11.5x	4.9x	4.0x	30.2%	34.7%	2.0x
Saipem	38.3	16,731	18.2x	15.9x	14.0x	12.0x	1.6x	1.5x	11.6%	12.2%	1.8x
CGGVeritas	25.7	3,885	45.5x	11.2x	21.5x	8.0x	2.2x	1.7x	10.0%	22.0%	1.3x
Technip	77.1	8,280	17.7x	13.5x	10.2x	7.5x	1.0x	0.8x	9.8%	10.3%	-1.3x
Median			**18.2x**	**13.6x**	**13.4x**	**10.6x**	**2.2x**	**1.8x**	**16.4%**	**20.3%**	**1.3x**
Trevi	**10.0**	**643**	**11.9x**	**9.3x**	**10.1x**	**8.1x**	**1.0x**	**0.9x**	**9.9%**	**10.5%**	**2.2x**

Source: Exane BNP Paribas estimates

Trevi's valuation

We arrive at a valuation range of EUR11.1-12.7 per share, by applying a weighted average (based on current business mix) of EV/EBIT and EV/Sales multiples to our 2011 estimates.

Figure 13: Target multiples

	2011e EV/EBIT	2011e EV/Sales
Special foundation multiples	9.1x	0.6x
Oil & Gas services multiples	13.4x	2.2x
Discount to Oil & Gas services sector	*0%*	*10%*
Trevi special foundation mix	60%	60%
Trevi Oil & Gas services mix	40%	40%
Trevi target multiple	**10.8x**	**1.2x**
Implied equity value (EUR/share)	**11.1**	**12.7**

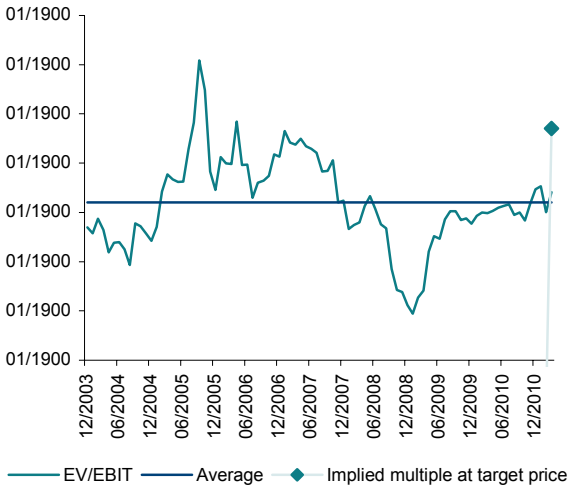
Source: Exane BNP Paribas estimates

Historical valuation range

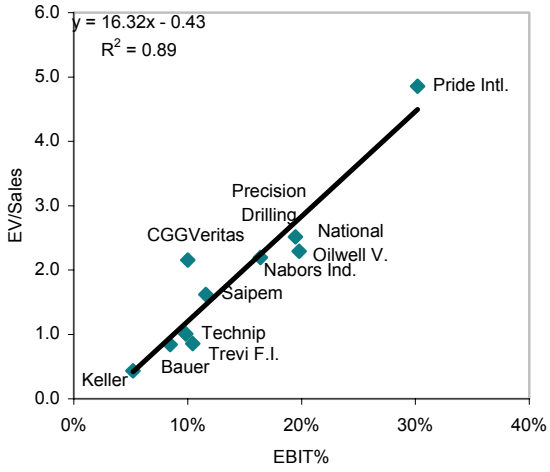
At our target price, the implied multiples of Trevi's shares would be 11.4x EV/EBIT and 1.1x EV/Sales. Although we acknowledge that these multiples are at the high end of historical valuation range, we believe that this is warranted given the business mix transitioning to a higher-return, higher-multiple one (Oil and Gas drilling services is becoming a bigger part of the group's valuation).

Figure 14: Moving to a higher-return business mix

Trevi's historical valuation range



Profitability value map



Source: Data Stream and Exane BNP Paribas estimates

Oil and Gas driving the growth

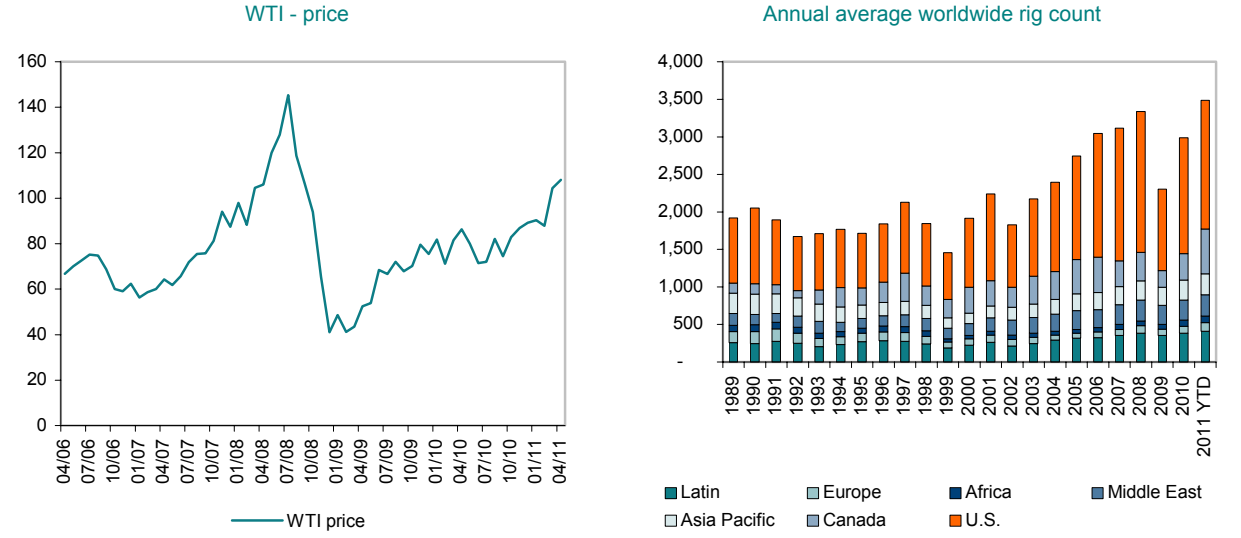
Summary

After two years of transition in 2009/10, marked by a declining order backlog (down two thirds from c.EUR300m in 2008 to c.EUR100m in 2010), we expect Drillmec, the Oil & Gas drilling equipment division, to benefit from the current robust industry environment and to capitalize on its strong technological and commercial product offering starting already in 2011. This will translate, according to our estimates, into a higher than expected order intake (EUR400m vs c.EUR190m in 2010), which will allow Drillmec to post double-digit top line growth in the next two years (+15% in 2011/12). Also Petreven, the Oil & Gas drilling service division will benefit from the overall strength of the sector, adding two additional rigs to its current fleet of twelve; this will allow Petreven to grow revenue at 15% and 14% in 2011/12 respectively. For the entire Oil and Gas drilling division, we expect revenue to grow 15% in both 2011 and 2012, after posting a decline of 2% in 2010.

Strength in the Oil & Gas sector to drive solid order intake in 2011/12

The continued strength of the oil price has pushed rig count back to 2008 historical peak. According to Baker Hughes, indeed, worldwide rig count surpassed the 3,500 mark at the end of February, near the peak recorded in September 2008.

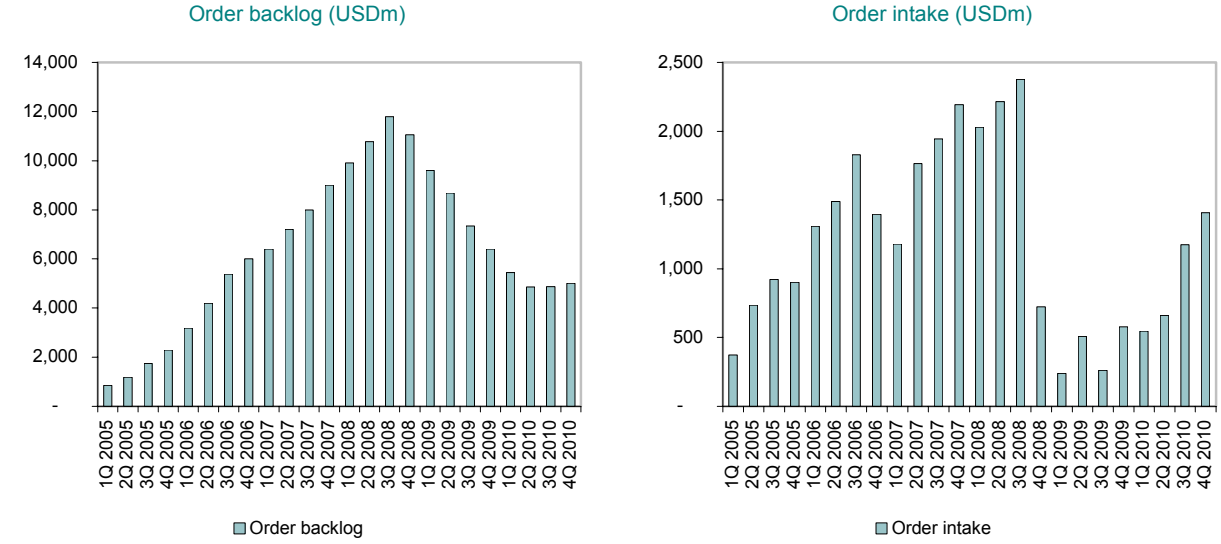
Figure 15: The oil cycle is back at full strength



Source: Data Stream and Baker Hughes

This robust industry environment is starting to translate into a higher demand for Oil & Gas drilling equipment and services, as also shown by the acceleration of the order intake of National Oilwell Varco (the world leader manufacturer of drilling equipment).

Figure 16: National Oilwell Varco backlog and order intake

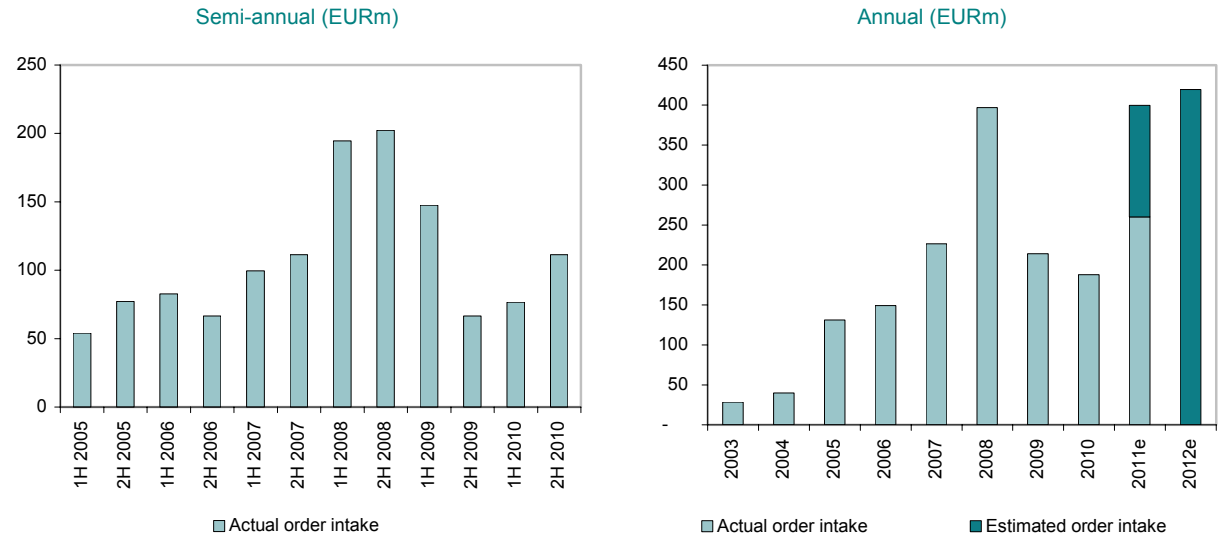


Source: Company data

A similar pattern also emerges by looking at Drillmec's order intake in 2010, with a 2H stronger than 1H. This positive trend carried over in 2011, with the company announcing four additional orders for an amount of ca. EUR260m (vs. our FY estimate of EUR400m):

- EUR10m from JSC SEISMOTEKHNIKA in Belarus
- USD105m from Pemex in Mexico
- USD212m from Yildizlar in Turkey
- USD 39m from Greka in China

Figure 17: Drillmec order intake



Source: Exane BNP Paribas estimates

These four recent contracts offer yet another proof that Drillmec is establishing itself as a viable supplier in what has been historically a very conservative industry; this is no a small achievement considering the young life of this division.

In this context, we believe that the award of the contract to build the two drilling islands for the Kashagan field for Saipem in 2009 have allowed Drillmec to make a quantum leap in the industry, providing the group a unique opportunity to work together with major oil companies such as Exxon and ENI and to show its capabilities of completing a very complex project.

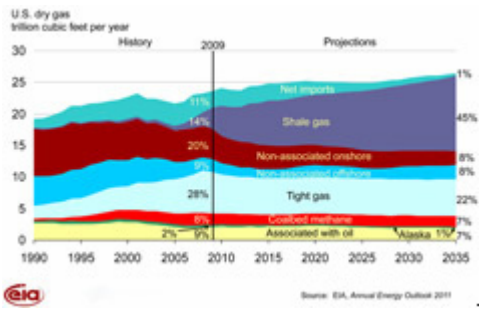
It is worthwhile to mention that the order from Pemex (three full package 1500HP drilling platforms) will be carried out entirely from the Houston's plant. Although the US market represents only a small part of Drillmec's business, we believe that it could play a major role for the group's growth in the near future. The US has indeed the world's largest (and aging) fleet of drilling equipment and the recent GoM accident has made it clear that higher safety standards will now be required, thus creating more demand for newer equipment.

Drillmec's location in Houston should allow the group to fully promote its image and competitive edge deriving from its technological innovation and focus on safety in the workplace. Drillmec, the first company to patent the hydraulic technology used in oil extraction with the HH series, has a competitive advantage in the land rig market thanks to higher safety standards, higher drilling performance (30% on average), lower drilling cost (30% on average), smaller footprint and lower time and cost of moving. Moreover, given the HH series' suitability for horizontal drilling, Drillmec could take advantage from the explosive growth expected in the shale gas exploration in US.

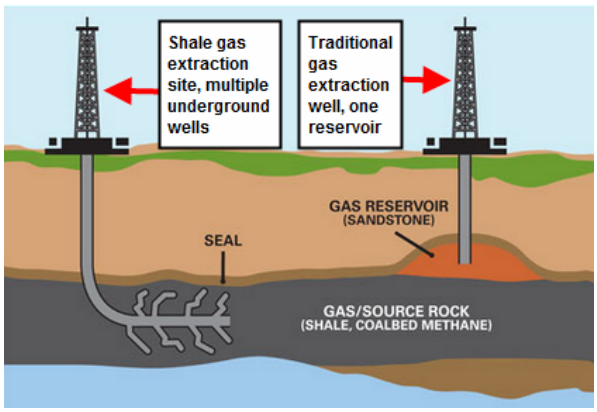
The HH series suitability to horizontal drilling is confirmed by the last order from Greka drilling, the main independent unconventional operator in China, where Drillmec rigs will operate in gas exploration, including Coal Bed Methane and Shale gas exploration.

Figure 18: Shale gas and horizontal drilling

Shale gas production



Horizontal drilling



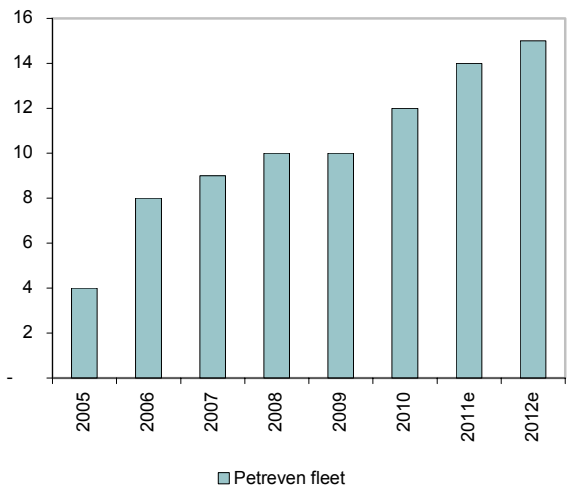
Source: EIA and website

The strong environment in the Oil & Gas sector will also allow Petreven, the group's Oil & Gas drilling service division, to continue on its growth path by adding two more rigs and by successfully negotiating the contracts' extension for its current fleet of twelve (also considering the recent strength in land rig rates).

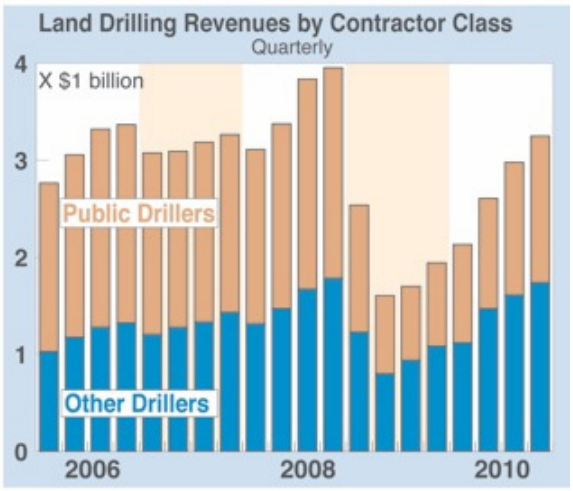
We estimate that a significant part of the 2011 expected revenue growth will be achieved thanks to the two drilling rigs (HH220) which were added during the last part of 2010 in Chile and Colombia. We believe it is important to highlight the premium daily rig rate that the HH machine operating in Chile, the first one operated by Petreven in the country, should achieve (ca. 45k USD vs ca. 28k USD, according to our estimates), given the difficult external climatic conditions.

Figure 19: Petreven

Drilling rig fleet



Quarterly land drilling revenue



Source: Company, Exane BNP Paribas estimates and website

For the Oil and Gas divisions we now estimate revenue to growth 15% in both 2011 and 2012, after a decline of 2% in 2010.

Figure 20: Oil & Gas division's revenues

	2005	2006	2007	2008	2009	2010	2011e	2012e
Petreven	18	27	47	65	65	80	92	105
% y/y change	*50.0%*	*49.5%*	*70.4%*	*39.2%*	*0.8%*	*22.4%*	*15.1%*	*13.8%*
Drillmec	79	119	194	289	310	288	332	381
% y/y change	*92.6%*	*52.0%*	*62.5%*	*48.8%*	*7.5%*	*-7.1%*	*15.0%*	*15.0%*
Total Oil & Gas	**97**	**147**	**241**	**354**	**376**	**368**	**424**	**486**
% y/y change	*82.8%*	*51.5%*	*64.0%*	*46.9%*	*6.3%*	*-2.0%*	*15.0%*	*14.7%*

Source: Exane BNP Paribas estimates

Foundation showing stabilization signs

Summary

The year 2010 proved to be a very challenging one for the special foundation business. Trevi, the special foundation services division, suffered indeed by declining revenue (-15% y/y, following the weak order intake in 2009) and deteriorating profitability. The revenue of Soilmec, the special foundation mechanical division showed a slight improvement instead, +8% y/y, after a difficult 2009, -41% y/y. Overall, the special foundation business is entering 2011 in a much better shape than 2010 thanks to the acceleration of order intake witnessed in the 2H10 vs. 1H10. We expect revenue to grow 8% in 2011/12 after declining 9% in 2010 and 12% in 2009.

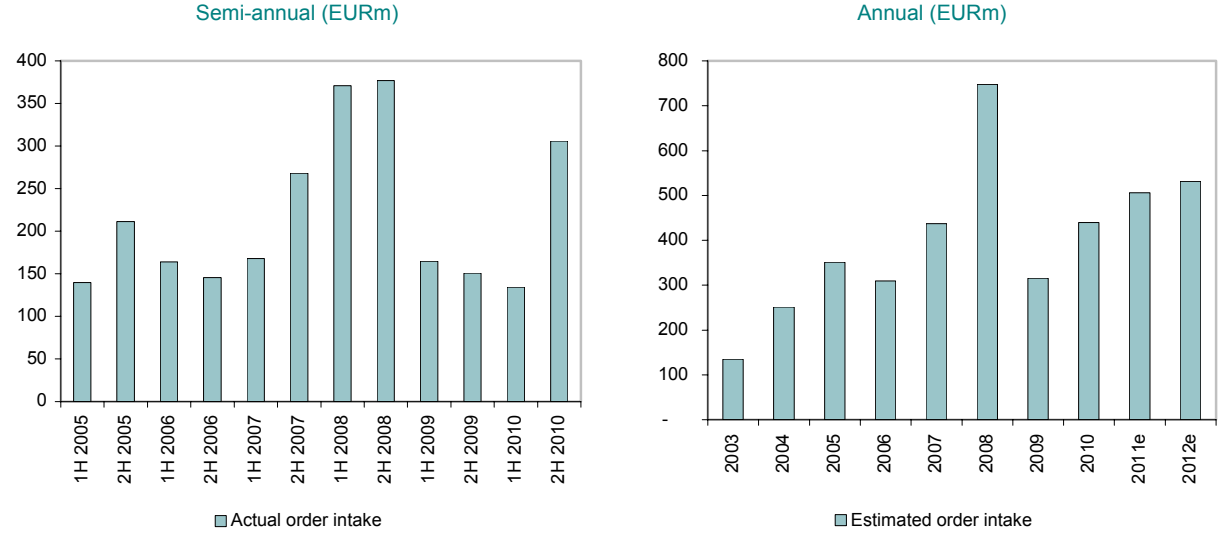
No big orders in 2010, but 2011 could be different

The order intake of the special foundation services division in 2010 was a tale of two halves, with a weak 1H, continuing the trend of 2009 and a much stronger 2H, thanks to the overall rebound of the construction market (primarily infrastructure). We believe that it is important to highlight that the acceleration of the order intake was achieved without the award of big contracts (i.e. above EUR50m), showing the strength of the group's business model and its geographic reach. Some key contracts' awards in 2010 confirm the leading position of the group in its reference market and its worldwide commercial reach:

- Marine works in Southern Italy (EUR35m)
- Special foundation works for a railway in Northern Italy (EUR24m)
- Special foundation works for a motorway in Kuwait
- Special foundation works for refineries in South America and Abu Dhabi

We believe that 2011 will probably be a different year as we expect the division to land few significant orders such as the contract for the Copenhagen's metro (ca. EUR100m in our estimates), which is expected to be included in the backlog in 1H11 (the contract is already awarded to Salini and Maire Tecnimont and Trevi will be the supplier of the special foundation works). We also expect positive news flow from US, where, as highlighted in our initiation note in August 2010, Trevi should continue to play a major role in the federal program aimed at repairing the nation's 85,000 dams' network.

Figure 21: Trevi order intake

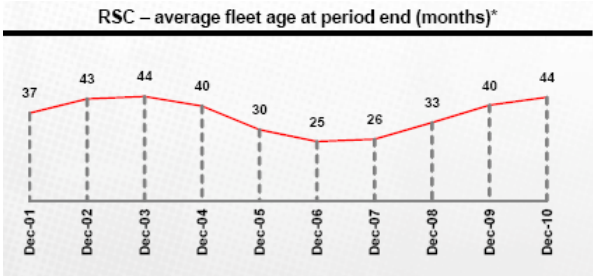


Source: Exane BNP Paribas

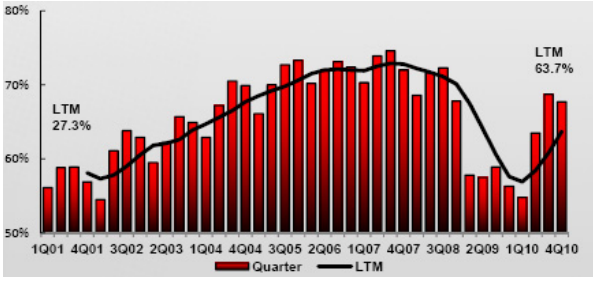
The special foundation mechanical division showed some positive momentum in 2010 with y/y growth of 8%, after a decline of 41% in 2009. Macro indicators point out to a better environment for capital equipment thanks to the strength in emerging markets and the extension of tax credit for equipment purchases in US for 2011/12.

Figure 22: Rental equipment fleet

Rental fleet age



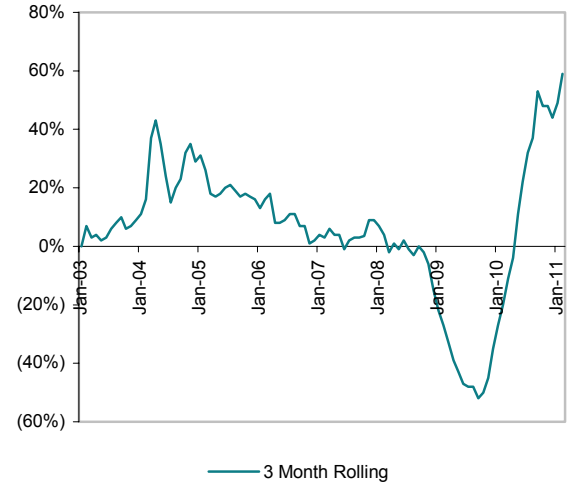
Rental fleet utilization rate



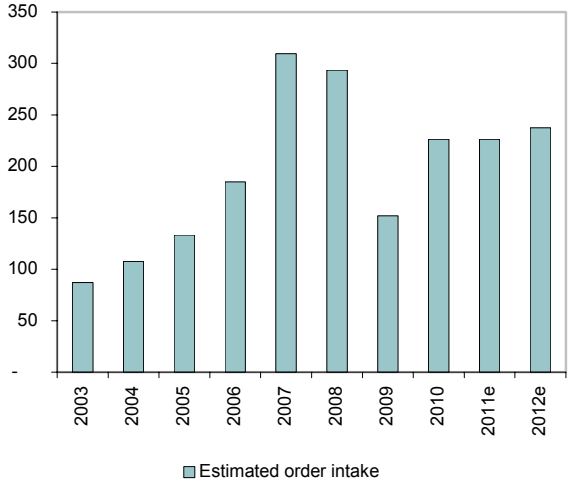
Source: RSC Equipment Rental website

Figure 23: Capital equipment

Caterpillar 3-month rolling average



Soilmec order intake (EURm)



Source: Caterpillar website and BNP Paribas estimates

For the special foundation divisions we now estimate revenue to grow 8% in 2011 and 8% in 2012, after declining 9% in 2010 and 12% in 2009.

Figure 24: Special foundation division's revenues

EURm	2005	2006	2007	2008	2009	2010	2011e	2012e
Trevi	272	322	358	456	495	420	451	496
% y/y change	*21.4%*	*18.5%*	*10.9%*	*27.5%*	*8.6%*	*-15.3%*	*7.5%*	*10.0%*
Soilmec	128	173	281	319	187	202	223	234
% y/y change	*43.0%*	*35.6%*	*62.2%*	*13.6%*	*-41.3%*	*8.0%*	*10.0%*	*5.0%*
Total special foundation	**400**	**496**	**639**	**775**	**683**	**622**	**674**	**730**
% y/y change	*27.5%*	*24.0%*	*28.8%*	*21.4%*	*-12.0%*	*-8.9%*	*8.3%*	*8.3%*

Source: Exane BNP Paribas estimates

Profitability at the through

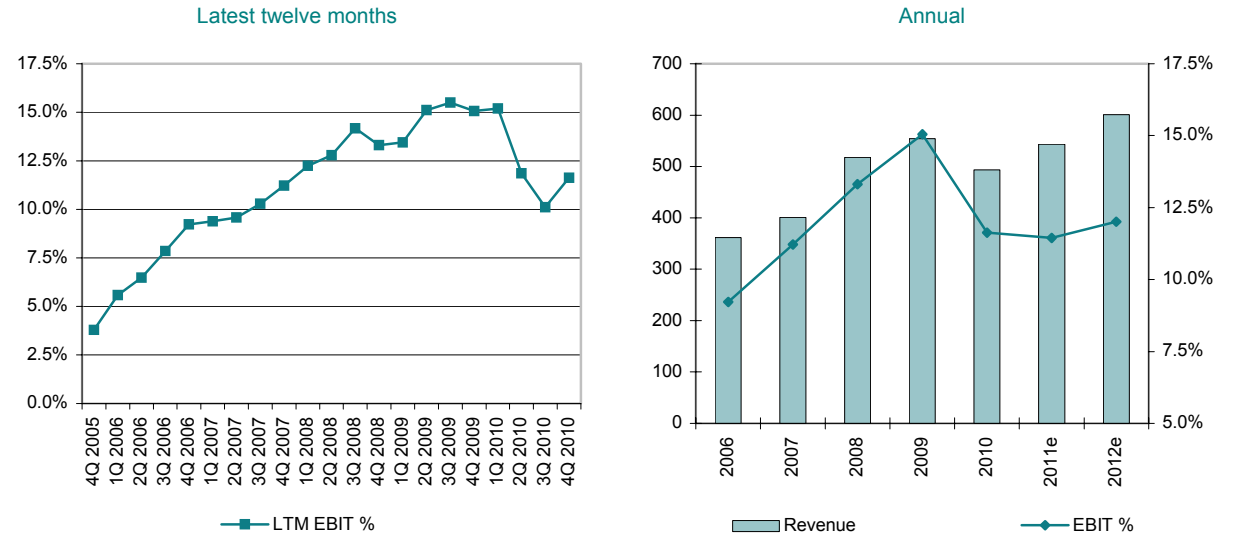
Summary

After a decline of 320bp in reported EBITDA margin (from 17.6% in 2009 to 14.4% in 2010) and 250bp in EBIT margin (from 11.3% to 8.8%), led by both divisions, we expect profitability to rebound in 2011/12, mainly driven by higher margins in the mechanical division (Soilmec and Drillmec). We believe indeed that the profitability of the mechanical division in 2010 was negatively affected by the delay of the delivery of the Drillmec order to Saipem and by a commercially "promotional" activity by Soilmec to enter new markets (i.e. China, Brazil) and work down the elevated inventory level, built during the 2008/09 downturn. For the overall group, we estimate EBIT % to increase to 9.9% in 2011 and 10.5% in 2012.

Profitability in the services division to be stable, mechanical higher

The profitability of the services division reported an annual decline of 530bp at the EBITDA level and 340bp at the EBIT level, due to difficult comparison with the exceptional 2010, which benefited from above industry average margin on contracts acquired during the late part of the previous economic cycle. We expect profitability to be relatively stable in 2011 and to grow somewhat in 2012, due to an improved environment in special foundation market and the increased weight of the higher margin Petreven.

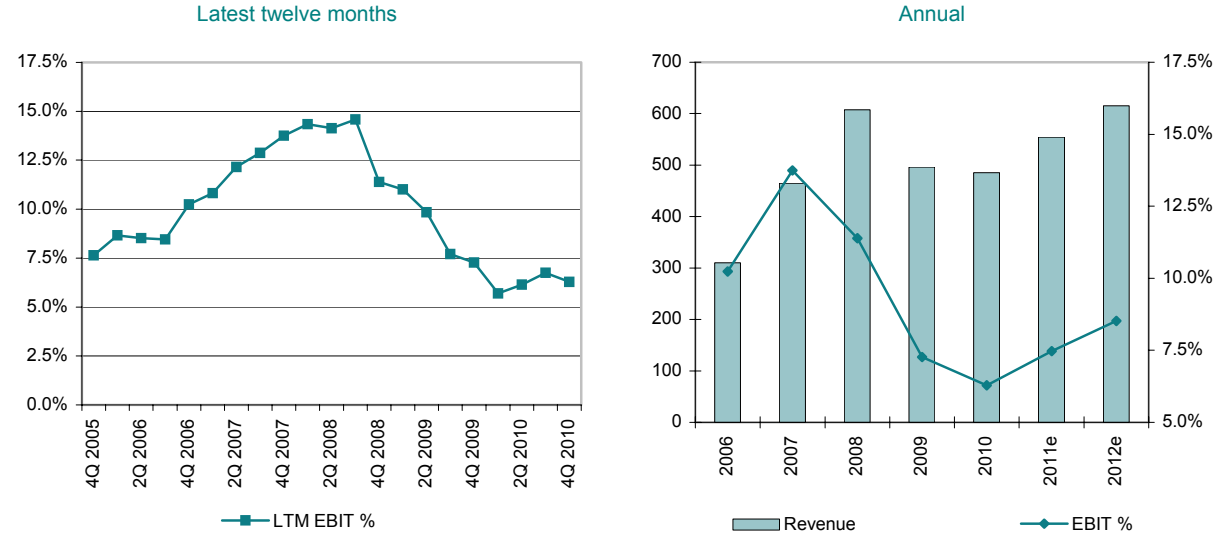
Figure 25: Services division profitability (Trevi and Petreven)



Source: Company and Exane BNP Paribas estimates

The profitability of the mechanical division reported an annual decline of 20bp at the EBITDA level and 100bp at the EBIT level, after recording a steep drop in 2009 (370bp EBITDA margin and 390bp EBIT margin), due to the delay of the delivery of the Drillmec order to Saipem and by a commercially "promotional" activity by Soilmec to enter new markets (i.e. China, Brazil) and to work down the elevated inventory level. We do expect profitability to rebound in 2011/12, mainly due to the increased volumes and better price/mix for both Soilmec and Drillmec.

Figure 26: Mechanical division profitability (Soilmec and Drillmec)



Source: Company and Exane BNP Paribas

Net Debt burden set to ease

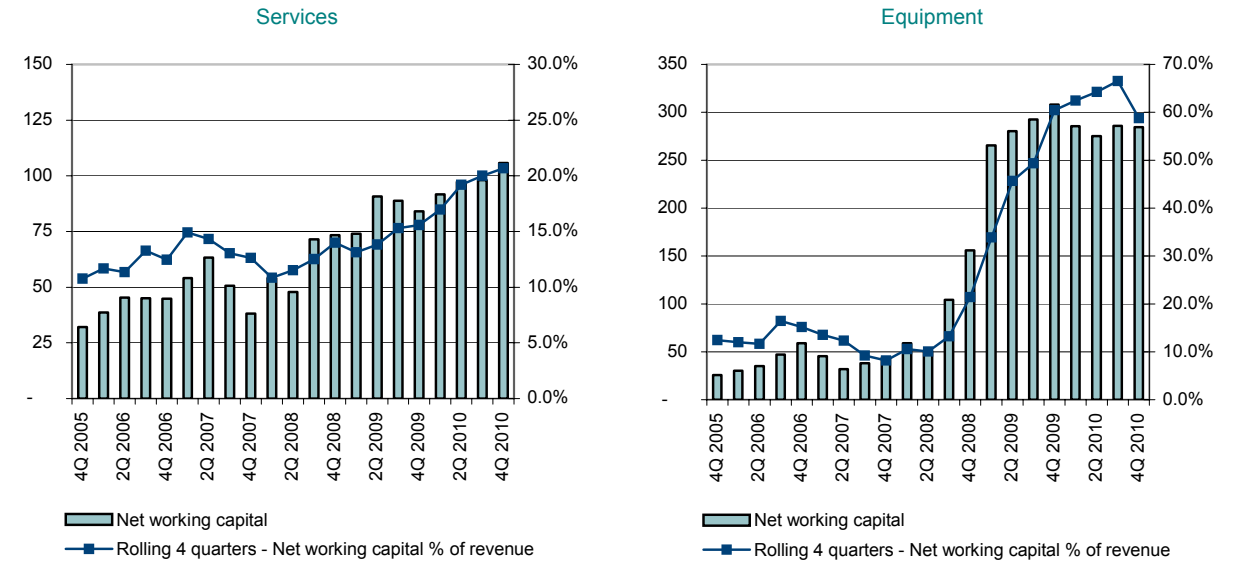
Summary

After rising in 2008 and 2009, the group's net financial position improved in 2010 thanks to a good free cash flow generation. We do expect net debt to decrease in 2011/12, although at a slower pace than in our previous estimates, owing to the likely rising working capital needs from the acceleration in the order intake, especially in Drillmec. In our analysis, we assume the conversion into equity of the convertible loan maturing in November 2011. We estimate net debt to reach EUR311m in 2011 and EUR258m in 2012, down from EUR396m in 2010.

Net financial position set to decline

The group's net financial position decreased from EUR444m at the end of 2009 to EUR396m at the end of 2010, thanks to a good free cash flow generation. Despite this improvement, working capital requirement is still meaningful due to the high level of receivables in the services division and the high level of inventories in the equipment division.

Figure 27: Working capital requirement by divisions (EURm)



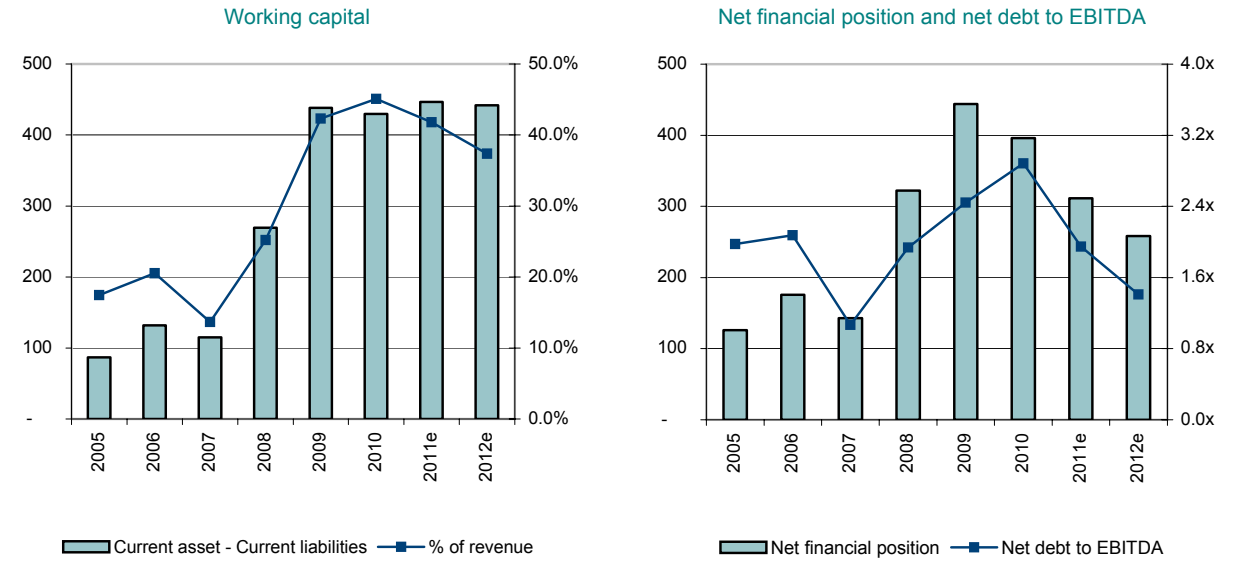
Source: Company and Exane BNP Paribas estimates

As far as the services division, we do expect the increased company's effort of a more timely collection of the receivables to start to pay off in 2011, thus reducing the working capital requirement to a more normal level. Management believes that there are no "critical" exposures and that receivables are currently well diversified both by clients and by geography.

For the equipment division, we believe that Soilmec's inventories started to come down already in 2010, although Drillmec's inventories for the work in progress (mostly Saipem's order in Kashagan) offset some of the improvement. For 2011 we do expect a continuation of this trend, with Soilmec's inventories being worked down offset by increased working capital required to fund Drillmec's robust growth.

All in all, we estimate the net financial position to be lower at the end of 2011, also due to the conversion of the EUR70m convertible loan, maturing in November 2011. Regardless the level of the share price (the strike for the conversion is set at EUR11.30), Trevi group has the ability (and the willingness) to convert the loan, by liquidating the difference (between the share price at the moment of the conversion and the strike price) to the lender, should the share price be below the strike price.

Figure 28: Working capital and net financial position (EURm)



Source: Company and Exane BNP Paribas estimates

Funding Analysis

Trevi Finanziaria Industriale

Gross cash position at 31 Dec. 10	135		
EURm	**Dec. 11**	**Dec. 12**	**Dec. 13**
FCF	34	76	98
Gross debt reimbursements [1]	(250)	(65)	(70)
New funds (debt, capital, divestment)	70	0	0
Other cash outflows (acquisitions etc)			
Dividend base case	(9)	(9)	(10)
Share buybacks	0	0	0
SURPLUS/(SHORTFALL)			
Annual	(20)	2	18
Cumulative	**(20)**	**(19)**	**(1)**
Annual if div is 0	na	11	28
Cumulative if div is 0	na	**(10)**	**18**
Available credit lines			
Net Debt / EBITDA [2]	2.2x	1.6x	1.1x
Gearing [2]	68%	50%	32%

[1] Gross debt reimbursement post Dec.13: EUR146m
[2] Ratio based on our estimates

► This analysis assumes the conversion of the convertible loan (EUR70m) maturing on 30/11/2011.
(Comment updated on 27 Oct. 10)

Source: Exane BNP Paribas estimates

Analyst location

As per contact details, analysts are based in the following locations: London, UK for telephone numbers commencing +44; Paris, France +33; Brussels, Belgium +32; Frankfurt, Germany +49; Geneva, Switzerland +41; Madrid, Spain +34; Milan, Italy +39; New York, USA +1; Singapore +65; Stockholm, Sweden +46; Zurich, Switzerland +41

Rating definitions

Stock Rating (vs Sector)
Outperform: The stock is expected to outperform the industry large-cap coverage universe over a 12-month investment horizon.
Neutral: The stock is expected to perform in line with the industry large-cap coverage universe over a 12-month investment horizon.
Underperform: The stock is expected to underperform the industry large-cap coverage universe over a 12-month investment horizon.
Sector Rating (vs Market)
Outperform: The sector is expected to outperform the DJ STOXX50 over a 12-month investment horizon.
Neutral: The sector is expected to perform in line with the DJ STOXX50 over a 12-month investment horizon.
Underperform: The sector is expected to underperform the DJ STOXX50 over a 12-month investment horizon.
Key ideas
BUY: The stock is expected to deliver an absolute return in excess of 30% over the next two years. Exane BNP Paribas' Key Ideas Buy List comprises selected stocks that meet this criterion.

Distribution of Exane BNP Paribas' equity recommendations

As at 04/04/2011 Exane BNP Paribas covered 605 stocks. The stocks that, for regulatory reasons, are not accorded a rating by Exane BNP Paribas are excluded from these statistics. For regulatory reasons, our ratings of Outperform, Neutral and Underperform correspond respectively to Buy, Hold and Sell; the underlying signification is, however, different as our ratings are relative to the sector.
40% of stocks covered by Exane BNP Paribas were rated Outperform. During the last 12 months, Exane acted as distributor for BNP Paribas on the 2% of stocks with this rating for which BNP Paribas acted as manager or co-manager on a public offering. BNP Paribas provided investment banking services to 9% of the companies accorded this rating*.
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Trevi Finanziaria Industriale – historical closing price & target price (as of 06/04/2011)

Date	Closing price	Target price	Rating	Changes
15/11/2010	EUR9.50	EUR10.20	Neutral	Target price

Source: Exane BNP Paribas

Commitment of transparency on potential conflicts of interest

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Exane

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6. Disclosure to Company	
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- Have the conclusions of this report been amended following disclosure to the company/ies and prior to its distribution?	**NO**
7. Additional material conflicts	
- Is Exane aware of any additional material conflicts of interest with regard to the distribution of the research?	**NO**

Source: Exane

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Potential conflicts of interest: None.

Source: BNP Paribas

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TREVI FINANZIARIA INDUSTRIALE (Outperform)

Infrastructure | Building Materials & Infrastructure (Neutral) - Italy

Price at 6 Apr. 11 / Target Price
EUR10.2 / EUR12 +18%

Business

Trevi Finanziaria Industriale is an engineering firm which provides a wide range of technologies and innovative services in the field of foundation. The group operates through four operating units (Trevi, Petreven, Soilmec and Drillmec) in two main segments, Special Foundation and Oil and Gas drilling.

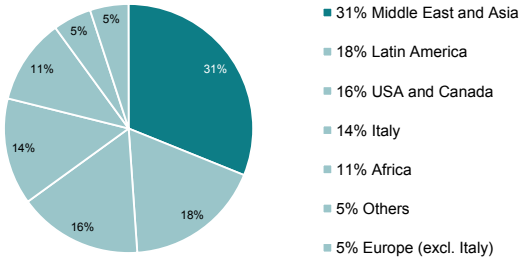
Management

Davide Trevisani, President
Gianluigi Trevisani, CEO
Cesare Trevisani, CEO
Stefano Trevisani, CEO
Daniele Forti, CFO
Stefano Campana, Investor Relations

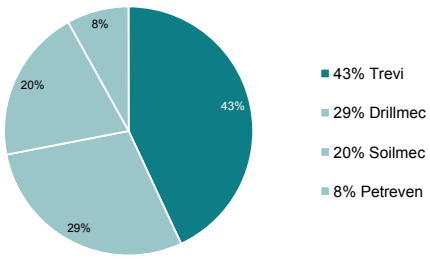
Shareholders

Trevi Holding APS	53.1%
Other	30.0%
Oppenheimer Funds	5.2%
Polaris Capital Management	5.1%
Kempen	2.4%
Citigroup	2.3%
Anima	2.0%
Other Shareholders	

2010 revenue breakdown by region



2010 revenue breakdown by division



Analyst

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Peer group YTD performance

Stock	Price (06 Apr. 11)		YTD performance in EUR (%) Abs.	Rel. Sector
Cementos Port. (-)	EUR	15.3	25.5	19
Astaldi (=)	EUR	5.9	18.8	13
Buzzi Unicem (-)	EUR	10.1	18.5	12
Deceuninck (+)	EUR	2.12	15.8	10
SIAS (+)	EUR	8.4	15.5	9
Italcementi (=)	EUR	7.3	15.0	9
Impregilo (=)	EUR	2.37	11.7	6
CFE (+)	EUR	59.1	10.0	4
Boskalis (=)	EUR	37.3	4.5	(1)
Wienerberger (+)	EUR	14.4	0.8	(5)
Bilfinger Berg. (=)	EUR	62.0	(1.9)	(7)
Vicat (=)	EUR	59.9	(4.1)	(9)
Trevi F.I. (+)	EUR	10.2	(5.4)	(10)
Rockwool Intl B (+)	DKK	657.0	(5.5)	(10)
RDB (-)	EUR	1.79	(10.5)	(15)
Kingspan (-)	EUR	6.5	(13.2)	(18)
Pfleiderer (=)	EUR	1.07	(56.2)	(59)

Sector calendar

07 Apr. 11 **Abengoa**: Investor Day
Pfleiderer: EGM
09 Apr. 11 **Abengoa**: AGM
11 Apr. 11 **Ferrovial (old)**: March Traffic Figures - 2011
13 Apr. 11 **Ciments Fr.**: AGM
14 Apr. 11 **Ferrovial (old)**: Q1 2011 Results
Grupo ACS: AGM 1st call
15 Apr. 11 **ADP**: March 2011 traffic figures
Brisa : AGM
Grupo ACS: AGM 2nd call
18 Apr. 11 **Astaldi**: AGM
Cimpor: AGM
Gpe Eurotunnel: Traffic and revenue for the 1st quarter of 2011
Cementir: AGM 1st call (12:00 CET)
19 Apr. 11 **Atlantia**: AGM 1st call
Italcementi: AGM
20 Apr. 11 **Atlantia**: AGM 2nd call
Eiffage: AGM
21 Apr. 11 **SIAS**: AGM 1st call
22 Apr. 11 **SIAS**: AGM 2nd call
26 Apr. 11 **Abertis**: AGM
Impregilo: AGM 1st call
Wavin: Ex & Div. Payment (0EUR)
27 Apr. 11 **RDB**: AGM 1st call
Rockwool Intl B: AGM
28 Apr. 11 **Colas**: Ex & Div. Payment (6.3EUR)
Ferrovial: Q1 2011 Results (Post Mkt)
Gpe Eurotunnel: AGM
Grupo ACS: Q1 2011 Results
Impregilo: AGM 2nd call
RDB: AGM 2nd call
Saint-Gobain: Q1 2011 Sales
Vicat: AGM
Vinci: Q1 2011 Results
29 Apr. 11 **Cemex ADR**: Q1 2011 Results
FLSmidth & Co.: AGM
30 Apr. 11 **Trevi F.I.**: AGM 1st call
Trevi F.I.: AGM 2nd call
02 May 11 **Vinci**: AGM
03 May 11 **Vicat**: Q1 2011 Sales (Post Mkt)
04 May 11 **Brisa** : Q1 2011 Results
CRH Plc: AGM
CRH Plc: Q1 2011 Results
Dyckerhoff Pref: Q1 2011 Results
Holcim R: Q1 2011 Results

Price at 06 Apr. 11 / Target Price

EUR10.2 / EUR12 +18%

Reuters / Bloomberg: TFI.MI / TFI IM

Analyst: Giuseppe Corona +39 02 89631731

TREVI FINANZIARIA IND. (Outperform)

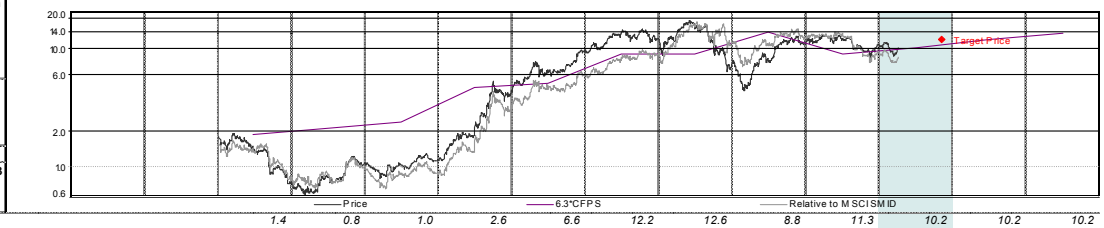
Infrastructure | Building Materials & Infrastructure (Neutral) - Italy

Company Highlights	EURm
Enterprise value	1,077
Market capitalisation	716
Free float	336
3m average volume	2

Performance (*)	1m	3m	12m
Absolute	9%	(2%)	(19%)
Rel. Sector	6%	(9%)	(25%)
Rel. MSCI SMID	9%	(3%)	(28%)

12m Hi/Lo (EUR) : 13.2 -23% / 8.5 +21%

CAGR	2003/2011	2011/2013
EPS restated (**)	NC	20%
CFPS	22%	14%



Price (yearly avg from Dec. 02 to Dec. 10)	*1.4*	*0.8*	*1.0*	*2.6*	*6.6*	*12.2*	*12.6*	*8.8*	*11.3*	*10.2*	*10.2*	*10.2*
PER SHARE DATA (EUR)	**Dec. 02**	**Dec. 03**	**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08**	**Dec. 09**	**Dec. 10**	**Dec. 11e**	**Dec. 12e**	**Dec. 13e**
No of shares year end, basic, (m)	64.000	64.000	64.000	64.000	64.000	63.634	63.227	64.000	64.000	70.195	70.195	70.195
Average no of shares, diluted, excl. treasury stocks (m)	64.000	64.000	64.000	64.000	70.195	70.011	69.625	69.808	70.195	70.195	70.195	70.195
EPS reported	*(0.08)*	*(0.08)*	*0.04*	*0.34*	*0.40*	*0.87*	*1.18*	*1.28*	*0.72*	*0.84*	*1.07*	*1.25*
EPS restated	(0.04)	(0.01)	0.14	0.35	0.37	0.82	1.12	1.22	0.69	0.88	1.07	1.25
% change	*NS*	*75.1%*	*NS*	*152.1%*	*6.1%*	*119.3%*	*36.1%*	*9.5%*	*(43.4%)*	*26.6%*	*21.9%*	*17.6%*
CFPS	0.30	0.34	0.38	0.75	0.80	1.43	1.44	2.19	1.44	1.63	1.89	2.13
Book value (BVPS) (a)	1.1	1.0	1.2	1.5	1.9	2.5	3.6	4.7	5.5	6.8	7.7	8.8
Net dividend	0.00	0.00	0.01	0.02	0.03	0.05	0.11	0.13	0.13	0.13	0.14	0.14
STOCKMARKET RATIOS	**YEARLY AVERAGE PRICES for end Dec. 02 to Dec. 10**			**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08**	**Dec. 09**	**Dec. 10**	**Dec. 11e**	**Dec. 12e**	**Dec. 13e**
P / E (P/ EPS restated)	NC	NC	7.5x	7.4x	17.7x	14.9x	11.2x	7.2x	16.4x	11.6x	9.6x	8.1x
P / E relative to DJ Euro STOXX Small	NC	NC	37%	38%	109%	90%	130%	94%	154%			
P / CF	4.6x	2.4x	2.8x	3.5x	8.3x	8.5x	8.7x	4.0x	7.9x	6.3x	5.4x	4.8x
FCF yield	1.9%	12.3%	(38.1%)	23.7%	(9.8%)	8.7%	(21.2%)	(15.7%)	8.9%	4.7%	10.3%	13.3%
P / BVPS	1.24x	0.81x	0.87x	1.72x	3.48x	4.96x	3.51x	1.87x	2.05x	1.51x	1.33x	1.16x
Net yield	0.0%	0.0%	1.4%	0.6%	0.4%	0.4%	0.9%	1.4%	1.1%	1.3%	1.3%	1.4%
Payout	(0.0%)	(0.0%)	10.5%	4.3%	6.9%	6.6%	9.8%	10.3%	18.8%	14.8%	12.8%	11.4%
EV / Sales	0.76x	0.54x	0.67x	0.65x	0.99x	1.14x	1.09x	1.03x	1.24x	1.01x	0.87x	0.75x
EV / Restated EBITDA	7.5x	6.5x	7.0x	5.7x	8.0x	7.5x	7.3x	6.8x	9.1x	7.0x	5.8x	4.9x
EV / Restated EBITA	17.8x	19.1x	13.5x	8.8x	11.2x	9.3x	9.1x	9.2x	14.0x	10.2x	8.3x	7.0x
EV / OpFCF	13.0x	9.8x	NC	5.8x	NC	9.6x	NC	NC	11.3x	13.7x	8.4x	6.6x
EV / Capital employed (incl. gross goodw ill)	1.2x	1.0x	1.0x	1.2x	1.9x	2.9x	2.0x	1.4x	1.5x	1.3x	1.3x	1.2x
ENTERPRISE VALUE (EURm)	**257**	**199**	**246**	**323**	**639**	**960**	**1,164**	**1,069**	**1,182**	**1,077**	**1,026**	**953**
Market cap	89	52	67	167	424	778	796	560	726	716	716	716
+ Adjusted net debt	156	135	164	138	194	161	345	481	429	332	279	204
+ Other liabilities and commitments	9	10	13	14	16	15	15	17	17	17	17	17
+ Revalued minority interests	5	3	4	5	5	7	9	14	12	14	16	18
- Revalued investments	1	1	1	1	1	1	1	2	2	2	2	2
P & L HIGHLIGHTS (EURm)	**Switch to IFRS data from FY ended 12/05**		**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08**	**Dec. 09**	**Dec. 10**	**Dec. 11e**	**Dec. 12e**	**Dec. 13e**
Sales	**340.1**	**366.6**	**366.4**	**496.6**	**642.4**	**841.6**	**1,069.1**	**1,035.8**	**952.9**	**1,068.4**	**1,182.3**	**1,266.0**
Restated EBITDA (b)	**34.4**	**30.5**	**35.4**	**56.3**	**80.1**	**128.5**	**158.5**	**157.1**	**129.6**	**153.6**	**177.2**	**192.8**
Depreciation	(19.9)	(20.1)	(17.1)	(19.7)	(22.9)	(25.0)	(30.8)	(40.3)	(45.3)	(48.2)	(53.1)	(56.7)
Restated EBITA (b) (**)	**14.5**	**10.4**	**18.3**	**36.6**	**57.1**	**103.5**	**127.7**	**116.8**	**84.3**	**105.4**	**124.1**	**136.1**
Reported operating profit (loss)	14.4	10.4	18.6	37.3	57.2	103.6	127.6	117.4	84.3	105.4	124.1	136.1
Net financial income (charges)	(13.5)	(10.2)	(8.7)	(3.3)	(15.5)	(18.1)	(18.4)	(12.7)	(14.4)	(15.0)	(14.2)	(11.0)
Affiliates	-	-	-	-	-	-	-	-	-	-	-	-
Other	(1.2)	(2.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	(4.5)	(3.2)	(6.4)	(11.6)	(14.7)	(28.1)	(31.8)	(20.4)	(24.5)	(29.4)	(33.0)	(35.0)
Minorities	(0.5)	(0.0)	(0.9)	(0.6)	(1.2)	(2.0)	(2.7)	(2.0)	0.7	(2.0)	(2.0)	(2.0)
Goodw ill amortisation	(2.8)	(4.5)	(6.1)	-	-	-	-	-	-	-	-	-
Net attributable profit reported	(5.3)	(5.2)	2.6	21.8	25.9	55.4	74.6	82.2	46.1	59.0	74.9	88.1
Net attributable profit restated (c)	**(5.4)**	**(5.2)**	**2.9**	**22.6**	**26.4**	**55.8**	**75.4**	**83.0**	**46.1**	**59.0**	**74.9**	**88.1**
CASH FLOW HIGHLIGHTS (EURm)	**Dec. 02**	**Dec. 03**	**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08**	**Dec. 09**	**Dec. 10**	**Dec. 11e**	**Dec. 12e**	**Dec. 13e**
EBITDA (reported)	**37.1**	**35.0**	**41.7**	**63.9**	**84.8**	**133.6**	**166.3**	**181.8**	**137.3**	**159.6**	**183.2**	**198.8**
EBITDA adjustment (b)	**(2.7)**	**(4.5)**	**(6.4)**	**(7.6)**	**(4.7)**	**(5.1)**	**(7.8)**	**(24.7)**	**(7.6)**	**(6.0)**	**(6.0)**	**(6.0)**
Other items	2.7	4.5	6.4	7.6	4.7	5.1	7.8	24.7	7.6	6.0	6.0	6.0
Change in WCR	13.5	4.8	(28.3)	11.7	(45.2)	16.7	(154.6)	(168.5)	8.3	(16.9)	4.7	8.2
Operating cash flow	**50.5**	**39.8**	**13.5**	**75.6**	**39.5**	**150.4**	**11.7**	**13.3**	**145.6**	**142.7**	**187.9**	**207.0**
Capex	(30.7)	(19.6)	(25.3)	(20.0)	(55.5)	(50.3)	(117.2)	(75.1)	(41.3)	(64.1)	(65.0)	(63.3)
Operating free cash flow (OpFCF)	**19.8**	**20.3**	**(11.8)**	**55.7**	**(16.0)**	**100.0**	**(105.5)**	**(61.8)**	**104.3**	**78.6**	**122.9**	**143.7**
Net financial items + tax paid	(18.0)	(13.4)	(15.2)	(14.9)	(26.3)	(31.8)	(65.1)	(28.4)	(38.9)	(44.4)	(47.2)	(46.0)
Free cash flow	**1.8**	**6.9**	**(26.9)**	**40.8**	**(42.3)**	**68.2**	**(170.7)**	**(90.3)**	**65.4**	**34.2**	**75.7**	**97.7**
Net financial investments & acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	(1.6)	(6.7)	(17.8)	(5.7)	(31.6)	(1.8)	(23.4)	(9.4)	(10.1)	(13.7)	(12.5)
Capital increase (decrease)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	70.0	0.0	0.0
Dividends paid			(0.9)	(1.0)	(1.7)	(3.5)	(6.9)	(8.1)	(8.3)	(9.1)	(9.1)	(9.6)
Increase (decrease) in net financial debt	**(1.8)**	**(5.3)**	**34.6**	**(22.0)**	**49.7**	**(33.1)**	**179.3**	**121.7**	**(47.7)**	**(85.0)**	**(52.8)**	**(75.6)**
Cash flow, group share	**19**	**22**	**24**	**48**	**56**	**99**	**98**	**151**	**98**	**112**	**133**	**150**
BALANCE SHEET HIGHLIGHTS (EURm)	**Dec. 02**	**Dec. 03**	**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08**	**Dec. 09**	**Dec. 10**	**Dec. 11e**	**Dec. 12e**	**Dec. 13e**
Fixed operating assets, incl. gross goodw ill	138	130	158	172	197	213	300	334	342	352	358	359
WCR	75	70	98	87	132	115	270	438	430	447	442	434
Capital employed, incl. gross goodw ill	**213**	**200**	**256**	**259**	**329**	**328**	**570**	**772**	**772**	**799**	**800**	**792**
Shareholders' funds, group share	72	65	77	97	122	156	226	302	354	474	540	618
Minorities	5	3	4	5	5	7	9	14	12	14	16	18
Provisions/ Other liabilities	20	20	36	45	47	45	45	46	51	41	27	15
Net financial debt (cash)	119	114	148	126	176	143	322	444	396	311	258	183
FINANCIAL RATIOS (%)	**Dec. 02**	**Dec. 03**	**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08**	**Dec. 09**	**Dec. 10**	**Dec. 11e**	**Dec. 12e**	**Dec. 13e**
Sales (% change)	NS	7.8%	(0.1%)	35.5%	29.4%	31.0%	27.0%	(3.1%)	(8.0%)	12.1%	10.7%	7.1%
Organic sales grow th		7.8%	(0.1%)	35.5%	29.4%	31.0%	27.0%	(3.1%)	(8.0%)	12.1%	10.7%	7.1%
Restated EBITA (% change) (**)	NS	(27.8%)	75.4%	99.7%	56.3%	81.2%	23.3%	(8.5%)	(27.8%)	25.0%	17.7%	9.7%
Restated attributable net profit (% change) (**)	NS	75.1%	NS	152.1%	17.1%	111.1%	35.1%	10.0%	(44.4%)	28.0%	26.9%	17.6%
Personnel costs / Sales	24.6%	23.4%	22.2%	18.9%	16.3%	14.4%	13.7%	16.0%	18.1%	17.1%	16.4%	16.0%
Restated EBITDA margin	10.1%	8.3%	9.7%	11.3%	12.5%	15.3%	14.8%	15.2%	13.6%	14.4%	15.0%	15.2%
Restated EBITA margin	4.3%	2.8%	5.0%	7.4%	8.9%	12.3%	11.9%	11.3%	8.8%	9.9%	10.5%	10.8%
Tax rate	NC	67.7%	40.3%	34.0%	35.2%	32.8%	29.2%	19.5%	35.0%	32.5%	30.0%	28.0%
Net margin	(1.4%)	(1.4%)	0.9%	4.5%	4.2%	6.8%	7.2%	8.1%	4.8%	5.7%	6.5%	7.1%
Capex / Sales	9.0%	5.3%	6.9%	4.0%	8.6%	6.0%	11.0%	7.3%	4.3%	6.0%	5.5%	5.0%
OpFCF / Sales	5.8%	5.5%	(3.2%)	11.2%	(2.5%)	11.9%	(9.9%)	(6.0%)	10.9%	7.4%	10.4%	11.4%
WCR / Sales	22.0%	19.1%	26.8%	17.4%	20.5%	13.7%	25.2%	42.3%	45.1%	41.8%	37.4%	34.3%
Capital employed (excl. gross goodw ill) / Sales	61.2%	53.7%	68.9%	51.4%	50.5%	38.3%	52.8%	73.2%	79.1%	73.6%	67.1%	62.6%
ROE	(3.6%)	(1.0%)	11.6%	23.2%	21.7%	35.7%	33.3%	27.5%	13.0%	12.5%	13.9%	14.2%
Gearing	204%	198%	203%	135%	152%	98%	147%	152%	117%	68%	50%	32%
EBITDA / Financial charges	2.6x	3.0x	4.8x	6.3x	7.7x	9.4x	9.2x	9.0x	9.2x	10.2x	12.4x	17.5x
Adjusted financial debt / EBITDA	4.5x	4.4x	4.6x	2.4x	2.4x	1.3x	2.2x	3.1x	3.3x	2.2x	1.6x	1.1x
ROCE, excl. gross goodw ill		1.7%	4.3%	10.3%	12.0%	22.2%	16.5%	13.0%	7.7%	9.3%	11.2%	12.6%
ROCE, incl. gross goodw ill		1.7%	4.3%	10.1%	11.9%	21.8%	16.3%	12.7%	7.5%	9.1%	10.9%	12.3%
WACC		4.8%	6.0%	7.7%	8.4%	9.2%	10.0%	8.7%	9.1%	9.5%	9.5%	9.5%
Average number of employees	2,760	2,911	3,238	3,577	4,218	5,067	5,898	6,064	6,064	6,367	6,622	6,821

Latest Model update : 06 Apr. 11 (a) Intangibles: EUR18.44m, or EUR0 per share. (b) adjusted for capital gains/losses, impairment charges, exceptional restructuring charges, capitalized R&D, pension charge replaced by service cost

(c) adj.for capital gains losses, imp.charges, capitalized R&D, am. of intangibles from M&A, exceptional restructuring, (*) In listing currency, with div. reinvested, (**) also adjusted for am. of intangibles from M&A, or for am. of gwill for pre IFRS years

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