13 August 2014
Initiation of coverage

Fincantieri

Italy | Capital goods

Buy (None)

Target price **EUR 0.85**

Current price EUR 0.64

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Master of the seas

We initiate coverage of Fincantieri with a Buy rating and a TP of EUR0.85. We believe the 18% share decline since the IPO has made the valuation undemanding. Despite choppy waters in recent years, Fincantieri has managed to strengthen its positioning by improving its technological profile and diversifying its business by segment and geography. The group is well placed to take advantage of a market recovery, with growth driven by Cruise and Offshore

Leading, well-diversified shipbuilder

Fincantieri is the largest western shipbuilder by turnover (EUR3.8bn in 2013) and the fourth largest worldwide by backlog. The group has a broad coverage of the high value-added segments, with world leadership in Cruise, and established positions in Naval and Offshore, the latter mainly through the 55.6%-owned Norwegian subsidiary Vard, whose acquisition in 2013 was a transformational deal, as it has vastly increased the group's perimeter and significantly improved its geographic and client diversification. Following the IPO, Fincantieri is currently 72.5%-owned by Fintecna, in turn indirectly owned by the Italian treasury.

Ready to leverage on a recovery in its markets

The group's markets are recovering. In Cruise, drivers are favourable, as penetration in tourism is still low and constantly growing. Competition from Asian players has been largely unsuccessful so far. In Naval, we believe the prospects are more muted, although Fincantieri can bolster its leadership in captive markets (Italy and the US). In Offshore, the underlying drivers look favourable, driven by growing E&P spending, particularly in deepwater.

We project a 13% EBITDA CAGR for 2013-16

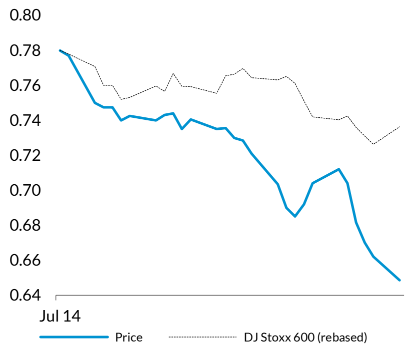
Fincantieri defended its profitability in 2011-13 amid difficult market conditions, maintaining a solid financial position. Significant price pressure in Cruise and the effect of lower defence budgets in Naval have been offset by effective cost cutting, while the consolidation of Vard boosted the 2013 results. We project a 10% backlog CAGR for 2013-16 (driven by Cruise and Offshore) to result in CAGRs of 12% for revenues and 13% EBITDA, with earnings momentum ramping up in 2015/16, following a flattish 2014.

Initiating coverage with a Buy rating and a TP of EUR0.85

We believe the 18% share price decline since the IPO has left the stock's valuation undemanding. Based on absolute (DCF, EV/CE vs. ROCE/WACC) and relative (peer multiples) valuation methods, we derive a TP of EUR0.85. This suggests attractive upside of 30%, underpinning our Buy rating.

Reuters FCT.MI
Bloomberg FCT IM
Index DJ Stoxx 600

Market data	
Market cap (EURm)	1,097
Free float	28%
No. of shares outstanding (m)	1,692
Avg. daily trading volume('000)	3,765
YTD abs performance	-18.3%
52-week high (EUR)	0.78
52-week low (EUR)	0.65



FY to 31/12 (EUR)	2014E	2015E	2016E
Sales (m)	4,108.7	4,797.0	5,355.2
EBITDA adj (m)	295.3	358.3	426.2
EBIT adj (m)	196.3	254.3	315.5
Net profit adj (m)	65.4	90.6	124.2
Net fin. debt (m)	4.4	-31.2	-143.2
FCF (m)	-200.4	35.6	112.0
EPS adj. and fully dil.	0.04	0.05	0.07
Net dividend	0.00	0.00	0.00

FY to 31/12 (EUR)	2014E	2015E	2016E
P/E (x) adj and ful. dil.	14.5	12.1	8.8
EV/EBITDA (x)	4.8	3.8	3.0
EV/EBIT (x)	7.2	5.4	4.0
FCF yield	-12.1%	2.2%	7.5%
Dividend yield	0.0%	0.0%	0.0%
Net debt/EBITDA (x)	0.2	0.1	-0.2
Gearing	0.3%	-1.8%	-7.6%
ROIC	8.0%	9.3%	11.2%
EV/IC (x)	0.8	0.8	0.7

IMPORTANT. Please refer to the last page of this report for "Important disclosures" and analyst certification(s)

Summary

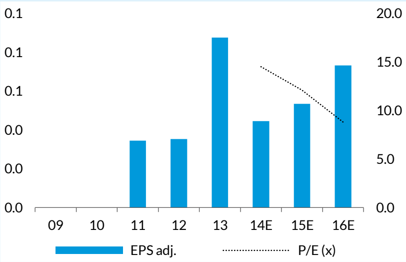
Company profile

With revenues of EUR3.8bn and EBITDA of EUR298m (2013), Fincantieri is the largest western shipbuilder by turnover and the fourth largest worldwide by backlog. The group has a broad coverage of the high value-added segment, with world leadership in Cruise Ships (28% of 2013 revenues) and established positions in Naval (29% of 2013 revenues), particularly in the captive Italian and US markets. The group also has a strong positioning in Offshore (34% of 2013 revenues), the latter having been built up through the acquisition of a 55.6% stake in Vard (headquartered in Norway and listed in Singapore) in 2013.

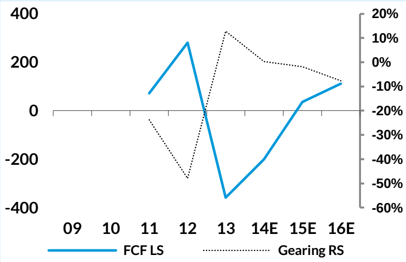
Management structure	
Vincenzo Petrone	Chairman
Giuseppe Bono	CEO
Fabrizio Palermo	CFO

Key shareholders	
Fintecna	72.5%

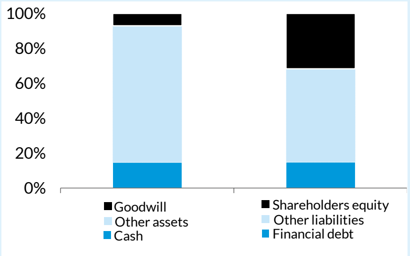
EPS and P/E



FCF and gearing



Balance sheet structure, 2014E



Valuation

Base case

We base our valuation on the average of several absolute (DCF, EV/CE vs. ROCE/WACC) and relative (peers multiples) valuation methods

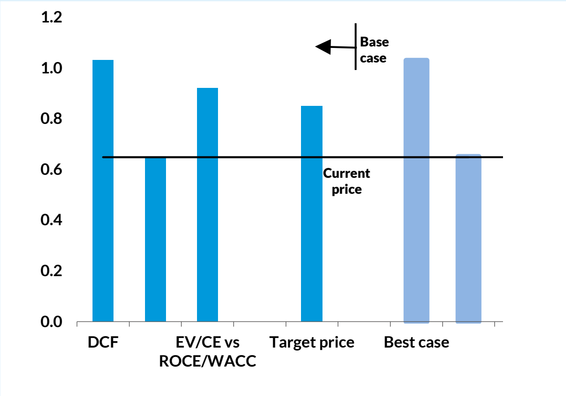
Best case

In case of delivery, we believe the stock might approach fair value based on DCF

Worst case

In case of no/mixed delivery, we believe the stock might be trading more in line with peers P/E

Target price



Risk to our rating

The main risks could stem from: 1) the backlog developing below expectations, 2) contract execution issues, 3) lower than expected margins, 3) working capital issues

Contents

Contents

Investment summary

Well-diversified shipbuilder, strong technological profile

With revenues of EUR3.8bn and EBITDA of EUR298m (2013), Fincantieri is the largest western shipbuilder by turnover and the fourth largest worldwide by backlog. The group has a broad coverage of the high value-added segment, with world leadership in Cruise Ships (28% of 2013 revenues) and established positions in Naval (29% of 2013 revenues), particularly in the captive Italian and US markets. The group also has a strong positioning in Offshore (34% of 2013 revenues), the latter having been built up through the acquisition of a 55.6% stake in Vard (headquartered in Norway and listed in Singapore) in 2013. Finally, the group operates in the smaller (5% of 2013 revenues) "other" shipbuilding sub-segment, which includes Ferries, Mega-Yachts and Repair & Conversion and in the small (5% of 2013 revenues) but growing segment of Equipment, Systems and Services, which leverages strongly on the remaining group's activities. Fincantieri is controlled by Fintecna, the holding company of Cassa Depositi e Prestiti (80%-owned by the Italian treasury), which following the IPO holds a 72.5% stake.

Largest western shipbuilder by turnover, fourth largest worldwide

72.5%-controlled by Fintecna (Italian CDP)

Vard acquisition: a well-suited transformational deal

Fincantieri bought a 55.63% stake in Vard in 2013 with a EUR498m cash-out (impact on net financial position: EUR169m including Vard's cash of EUR329m). Vard's share price has fallen since then, largely as a result of operational challenges in Brazil, but is now recovering. The acquisition has vastly increased the group's perimeter and significantly improved its geographic and client diversification. Strategically, it has added another pillar (Offshore) to the core Cruise and Naval businesses. We believe that for now Fincantieri may not be too interested in extracting the potentially significant synergies, but this could change after the reduction of Vard's minorities.

Acquisition of 55.63% in Vard (2013): a transformational deal

Ready to make the most of market recovery

The company's markets are recovering. Specifically, the backlog recovered strongly in Cruise in 2013, where Fincantieri commands a high 46% market share. The drivers are quite favourable, as cruise penetration in tourism is still low and is constantly growing. This segment is characterised by a high level of customisation, craftsmanship and technological content: the entry of Asian competitors has been largely unsuccessful, so far. The longstanding relationship with Carnival is a key strength. For Naval, we believe the prospects are more muted. Fincantieri can make the most of its well-established positions in captive markets: Italy, which accounts for the vast majority of its revenues, and, to a lesser extent, the US.

Solid positioning enables the group to make the most of the recovery in its market

While the defence spending outlook in these markets does not look particularly supportive, the EUR5.8bn funding (2014 *Legge di Stabilità*) for the renewal of the Italian naval fleet, to be deployed over 20 years, of which EUR3bn could be of interest to Fincantieri, plus the continuation of the LCS programme in the US provide some reassurance. There may also be opportunities in addressable emerging markets.

Supportive outlook, particularly in Cruise and Offshore

In Offshore, Vard is the world leader in OSCVs (oil support construction vessels). While the company's market is highly fragmented and competitive, the underlying drivers look favourable, driven by growing E&P spending, particularly in regions where conditions are harsh, thus requiring complex high-tech vessels. We also believe that the serious operational issues related to the Brazilian operation (which penalised profitability in 2013) may be gradually solved going forward.

In the other shipbuilding sub-segment: 1) the Ferries market is currently very depressed, with a low order book; high fleet obsolescence coupled with better credit market conditions and environmental regulations might provide opportunities in future; 2) in Mega-Yachts, the drivers look favourable, with potential room for growth starting from a low market share; 3) in Repair & Conversion, Fincantieri's established positioning in the Mediterranean enables it to exploit growing demand for fleet upgrades; 4) in Equipment, Systems & Services, Fincantieri is positioned with an innovative product portfolio in selected niches. Strategically, the company aims to make the most of the opportunities offered by its key business segments (Cruise, Naval, Offshore plus Repair & Conversion) to develop its business, while also extending its product portfolio to high added-value technologies

We project a 13% EBITDA CAGR in 2013-16

We project a 13% EBITDA CAGR 2013-16

Fincantieri defended its profitability in 2011-13 amid difficult market conditions, keeping a solid financial position. Significant price pressure in Cruise and the effects of lower defence budgets in Naval have been offset by effective cost cutting, while the consolidation of Vard boosted the 2013 results. We project a 10% backlog CAGR in 2013-16 (driven by Cruise and Offshore) to result in CAGRs of 12% for revenues and 13% for EBITDA, with the latter flattish in 2014 (poorer mix due to decline in Naval, lower PPA release) before recovering sharply in 2015-16. Thanks to lower extraordinary charges, we see forecast a CAGR of 26% in reported net profit. We expect net working capital absorption (higher backlog) and still high capex to penalise free cash flow, with cumulated FCF generation close to breakeven in 2014-16E.

Working capital buildup set to penalise FCF

Risks

Among the key risks, we flag: 1) macroeconomic conditions; 2) client concentration; 3) delivery time and budget risks; 4) working capital management and related credit risk; 5) expiry of the temporary layoff scheme in Italy; 6) low-cost competitors; 7) the defence budget in Italy and the US; 8) the resolution of operational problems in Brazil.

Macroeconomic conditions

Macroeconomic conditions, state of credit markets might affect the business

Fincantieri's activities could be affected by several macroeconomic variables. In particular, the parent company, Fincantieri, is exposed to Europe and the US, while Vard is exposed to Europe, South America and Asia. Among the key influencing variables, we flag: GDP growth, consumer confidence (especially for the Cruise segment, 28% of 2013 revenues), public budget size and allocation (for the Naval segment, 29% of 2013 revenues), the price of commodities and, in particular, oil (for the Offshore segment, 34% of 2013 revenues). In general, demand for ships is affected by the state of the credit market. Diversification by product, client and geographical market should mitigate this risk.

Client concentration

Client concentration risk in Cruise and Naval

Fincantieri has three key customers: 1) in the Cruise segment, Fincantieri has strong and longstanding relationships with the US-based Carnival group, a key player in the cruise industry boasting a diversified product offering and several brands; Carnival's commercial strategy could clearly have an impact on Fincantieri's business; 2) in the Naval segment, the bulk of revenues stem from the Italian Navy and Coast Guard, whose demand for new ships in turn depends on the Italian defence budget (size and allocation); 3) the US Navy and Coast Guard are also important clients for the Naval segment.

Delivery and budget risk

Contract execution risk (timing, budget)

A key priority is the delivery of ships on-time and on-budget. The delivery of vessels beyond the agreed deadline (typically around three years in Cruise and Naval and up to two years in Offshore) could result in significant penalties. Cost overruns might also impact profitability, particularly as many contracts are at a fixed price (lump-sum). This risk is managed through hedging contracts on raw materials and components, which are typically finalised by the time the contract is signed. So far, the company has a good record of on-time and on-budget delivery.

Working capital management and credit risk

Working capital management is of key importance

Several contracts, particularly in Cruise and Offshore, include an upfront payment during the execution phase (typically 20%), with the outstanding amount being paid on delivery (typically 80%). As such, a working capital build-up is typical during the execution of contracts and particularly in the two years following a backlog recovery. High working capital also requires appropriate credit risk management, as clients may ask to postpone the delivery date or fail to fulfil payment terms.

Forex

Forex

Fincantieri is net short USD. Based on the disclosed sensitivity, USD/EUR and CAD/EUR strengthening of 5% would generate a EUR15.8m negative impact on pre-tax profit.

Expiry of temporary layoff scheme in Italy

In 2013, Fincantieri significantly benefited from the extension of the temporary layoff scheme in Italy (Cassa Integrazione Guadagni, CIG) until August 2014. This scheme, which generated EUR15m of extraordinary costs in 2013, after EUR19m in 2012 and EUR20m in 2011, involved 1,139 people on average in 2013, or 15% of the Italian workforce, and generated significant (non-disclosed) labour cost savings, booked above the EBITDA line. In July 2014, the temporary layoff scheme was extended until August 2015, including a maximum of 1,066 Italian workers. While the increasing order backlog should allow for lower recourse to this instrument in future and higher capacity utilisation at the Italian plants, the renewal/non-renewal of the CIG scheme and its size after 2015 might affect profitability.

Low-cost competitors

Potential competition from Asian player, largely unsuccessful so far

Asian players are dominant in the production of standard vessels, mainly because they enjoy cost advantages versus European shipyards. Fincantieri has specialised in high added-value markets (cruise, mega-yachts, ferries) in which the degree of product customisation and craftsmanship and entry barriers are higher. More aggressive commercial policies by competitors might represent a risk, particularly if they improve their technological expertise. So far, among Asian players, Mitsubishi Heavy Industries has entered the cruise ship segment, incurring in heavy losses.

Naval: defence budget in Italy and US

Naval: defence budget risk

In Naval, Fincantieri's key clients are the Italian Navy and Coast Guard, and to a lesser extent the US Navy and Coast Guard. In recent years, defence budgets have been under pressure in both countries. Moreover, the outlook for this business segment could be affected by public budget decisions. In January, the LCS (Littoral Combat Ship) programme in the US, which represents the bulk of Fincantieri's revenues in the country, was cut from 52 vessels to 32. This makes the prospects of this programme continuing after 2015 more uncertain, with a potential impact on Fincantieri's US activities after 2018. In Italy, the EUR5.8bn included in the "2014 *Legge di Stabilità*'" for the renewal of the Navy fleet have been earmarked (of which c. EUR3bn could be of interest to Fincantieri), but the timing of their release over a 20-year period has not been disclosed.

Offshore: operational problems in Brazil

Offshore: resolution of ongoing operational problems in Brazil is key

In 2013, Vard's results were penalised by operational challenges (delays, cost overruns) at its Niteroi shipyard in Brazil, mainly coming from high employee turnover, which has been challenging for both Vard and its subcontractors. How quickly/slowly these operational challenges are solved might affect results in the future. In addition, the operational ramp-up of the Vard Promar shipyard in Brazil, where production started in June 2013, could influence results. We also flag the risk of greater competition from Asian players, which currently mostly operate in the lower added-value product range, to which Vard has limited exposure.

Leading shipbuilder, diversified portfolio

Fincantieri is the largest western shipbuilder by turnover and the fourth largest worldwide. The group has a broad coverage of the high value-added segment, with world leadership in Cruise Ships, leading positions in Naval (particularly in the Italian and US markets) and a strong positioning in Offshore. The latter has been strengthened through the acquisition of a 55.6% stake in the Singapore-listed Vard. Fincantieri is controlled by Fintecna, the holding company of Cassa Depositi e Prestiti (80% owned by the Italian treasury), which following the IPO holds a 72.5% stake.

Business lines

Largest western shipbuilder

Fincantieri is the largest western shipbuilder by turnover (EUR3.8bn in 2013), and the fourth largest worldwide by backlog, after the Korean players Samsung Heavy, Daewoo Heavy and Hyundai Heavy. The group has a broad coverage of the high value-added segments.

Three business segments

The business is divided into three segments:

- **Shipbuilding**: this segment is involved in the design and construction of cruise ships (worldwide leadership) and naval defence ships (mostly in Italy and the US), ferries, mega-yachts, as well as ship conversion and repair. Production is carried out in the eight Italian shipyards plus a further three based in the US.
- **Offshore:** this segment is devoted to the construction of support vessels for the Oil & Gas exploration and production markets. The vast majority of activities in this segment are covered by the 55.6%-owned subsidiary Vard, acquired in 2013 and listed on the Singapore Stock Exchange, which operates ten shipyards.
- **Equipment, Systems and Services:** this division designs and manufactures systems and equipment and provides aftersales services.

Table 1: Group structure

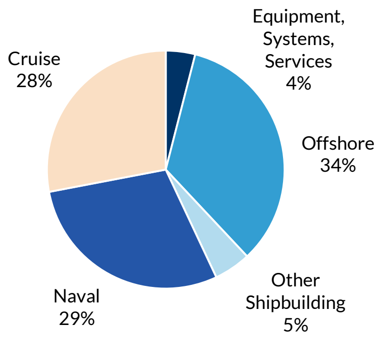
Segments	**Shipbuilding**					**Offshore**	**Equipment, systems, services**	
			Other shipbuilding					
Business areas	**Cruise**	**Naval**	**Ferries**	**Ship repairs and conversion**	**Mega yachts**	**Offshore**	**Equipment and systems**	**After sales**
End market	Leisure	Defence	Transport	Maintenance	Luxury	Oil&gas	Equipment	Life cycle management
Product portfolio	Luxury/niche Upper premium Premium Contemporary	Aircraft carrier Submarines Destroyers Frigates Corvettes Patrol vessels Amphibious ships Logistics support Special vessels Barges	Fast Ferries Cruise Ferries Ro-pax	Repair Refitting Conversion Refurbishment	Luxury yachts >60m	Offshore support vessels Construction vessels Drilling vessels	Steam turbines Stabilisation, propulsion, dynamic positioning and power generation systems Automation systems Cabins	Integrated logistics support In-service warranty service Product lifecycle management Training and assistance
Description/ Positioning	Full range of cruise ships for all segments	Sole supplier for the Italian navy for all the large ships One of the key manufacturers for US Navy and Coast Guard	Large ferries for transportation of passengers and vehicles High technology ferries	One of the key players in the Mediterranean	One of the key players in the construction of luxury vessels of over 100m length	Vard: complex and high-end offshore support vessels Fincantieri: innovative drilling units, fixed and semi-submersible rigs	One of the reference players in the design and construction on marine systems, components and turnkey solutions	Logistics support and life cycle services, with focus on naval

Source: Fincantieri, Kepler Cheuvreux

In 2013, the Shipbuilding segment accounted for 62% of consolidated turnover with Cruise (28%) and Naval (29%) accounting for the lion's share and Other Shipbuilding representing the remaining 5%. The Offshore segment accounted for 34% of revenues but an over-proportional 48% of consolidated EBITDA. Finally, Equipment, Systems and Services accounted for the residual 4% of both revenues and EBITDA.

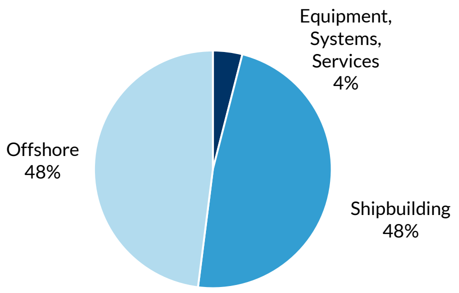
Shipbuilding (Cruise + Naval) and Offshore are the three key business areas

Chart 1: Fincantieri – 2013 revenue breakdown



Source: Fincantieri, Kepler Cheuvreux, gross of consolidation effects

Chart 2: Fincantieri – 2013 EBITDA breakdown

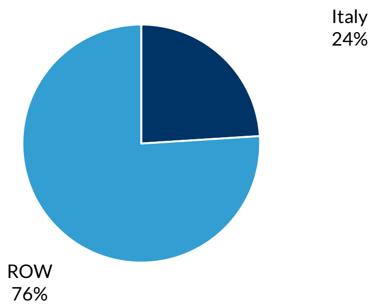


Source: Fincantieri, Kepler Cheuvreux

In terms of the group's geographical breakdown, Italy accounted for 24% of consolidated revenues in 2013, but the eight Italian shipyards contributed 56% of total turnover.

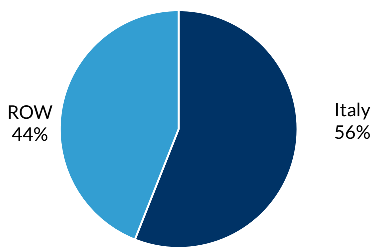
Italy: 24% of revenues (2013), but 56% of production...

Chart 3: Fincantieri – revenues by region 2013



Source: Fincantieri, Kepler Cheuvreux

Chart 4: Fincantieri – production by region 2013



Source: Fincantieri, KeplerCheuvreux

The eight Italian shipyards employed 38% of the company's total workforce of approximately 20,400 at the end of 2013, of which 48% at Fincantieri ex-Vard (Italy + US) and 52% at Vard, where most of the low added-value activities were carried out in the two Romanian shipyards, Braila and Tulcea.

...and 38% of the workforce, with eight shipyards out of a total of 21

Table 2: Production network – shipyards and employees by country

Country	Shipyards	%	Employees	%
Italy	8	38%	7.7k	38%
USA	3	14%	2.0k	10%
Total Fincantieri ex Vard	11	52%	9.7K	48%
Norway	5	24%	1.8k	9%
Romania	2	10%	6.1k	30%
Brasil	2	10%	2.0k	10%
Vietnam	1	5%	0.6k	3%
Total Vard	10	48%	10.7k	52%
Total	21	100%	20.4k	0%

Source: Fincantieri, Kepler Cheuvreux

History, management team and shareholder structure

The company was founded in 1959 to manage the Italian state-owned shipyards. In the 1990s, it established market leadership in the growing Cruise segment. It has dealt well with the adverse market conditions in recent years, particularly after 2008, through several significant actions, as explained in the following table.

Table 3: Fincantieri – market environment and key actions since foundation (1959)

Year/period	Event/market environment	Strategic actions
1959	Fincantieri was founded to manage major Italian shipyards	
1990-2002	Delivery of first cruise ship (1990) Development of leading positioning in cruise and ferries	
2002-08	Increase in commodity price	Diversification of client base (cruise, ferries, naval)
	USD/EUR depreciation	Three new business areas: mega-yachts, repair &conversion, marine systems
	Cancellation of state aid (EU)	2008: entry into the US defence market (acquisition of Manitowoc Marine)
	Reduction in money for R&D (Italy) Reduction in Italian Navy orders Higher competition from Asian players	New JV in UAE
2008-Today	New order reduction	Agreement with unions and Ministry of Labour for the optimisation of Italian production capacity
	Price pressure	Entry into the oil & gas segment (Vard acquisition in 2013)
	Industry restructuring	Entry into the after-sales business

Source: Fincantieri, Kepler Cheuvreux

The top three positions at Fincantieri are as follows:

- **CEO**. Giuseppe Bono has been Fincantieri's CEO since 2002 and Chairman of Vard since 2013. He has over 30 years of experience in Italian state-owned multinational companies in the Defence and Mechanical sectors. Over 2000-02, he was CEO of Finmeccanica, while over 1993-2000 he held senior positions in the Finmeccanica group, including the role of CFO and General Manager from 1997.

CEO Giuseppe Bono: with the company since 2002, considerable experience in state-owned companies

- **Chairman.** Vincenzo Petrone was appointed Chairman in June 2013. Over 2000-12 he was Italy's ambassador in Japan and Brazil and director of the Confindustria Manufacturer Association.
- **CFO**. Fabrizio Palermo was appointed CFO of Fincantieri in 2006 and has been deputy corporate general manager since 2011. He joined Fincantieri in 2005 as Head of Business Development and Corporate Finance. Before 2005, he was strategic consultant at McKinsey and financial analyst at Morgan Stanley.

Table 4: Fincantieri – management team

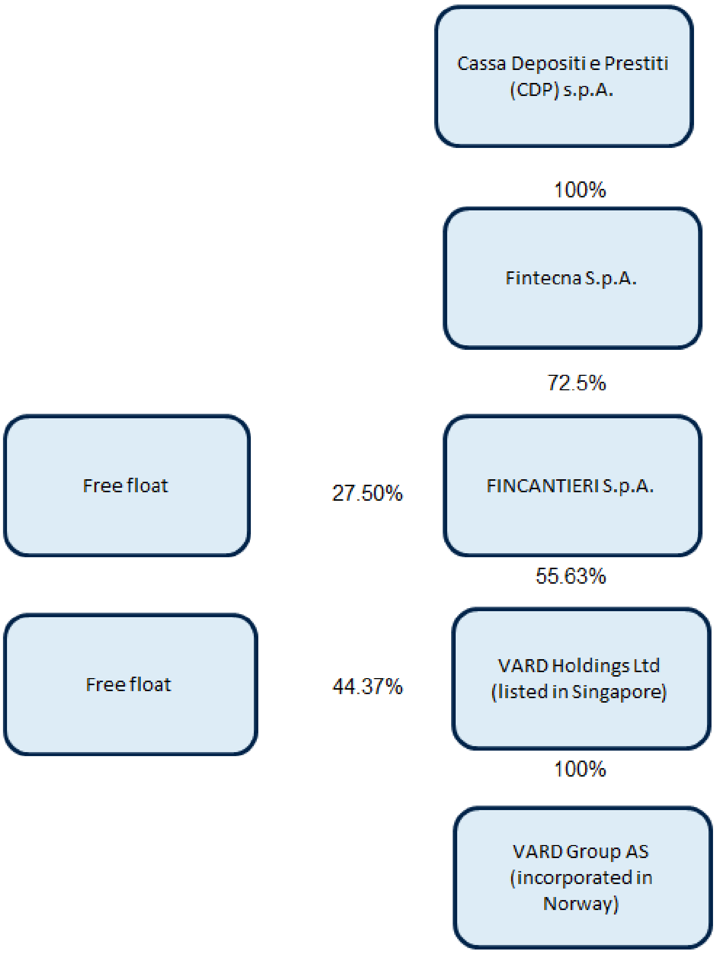
Person	Role	In Fincantieri since
Vincenzo Petrone	Chairman	2013
Giuseppe Bono	CEO	2002
Fabrizio Palermo	CFO	2005
Vitalian Papaianni	Corporate GM	2008
Enrico Buschi	COO	1974

Source: Fincantieri, Kepler Cheuvreux

72.5% controlled by Fintecna

Following the IPO, Fincantieri is 72.5%-controlled by Fintecna, which in turn is 100% controlled by Cassa Depositi e Prestiti. This is a joint-stock company under public control, with the Italian government holding an 80.1% stake, a group of banking foundations with 18.4% and the remaining 1.5% in treasury shares.

Chart 5: Fincantieri – group structure



Source: Fincantieri, Kepler Cheuvreux

Fincantieri versus Asian competitors: key differences

Fincantieri versus Asian players: main differences

Shipbuilding is a global sector dominated by Asian players. Fincantieri competes in high value-added segments and boasts a well-diversified product portfolio, with activities in all the high added-value segments and a balanced exposure to Cruise, Naval and Offshore. Fincantieri offers high technological content and a high degree of customisation across a network of 21 shipyards worldwide. In contrast, Asian shipbuilders, which enjoy input cost advantages, are mostly focused on the large-scale production of standard vessels with mass production in single locations.

Table 5: Fincantieri versus Asian competitors: positioning, competitive advantages and disadvantages

	Asian shipbuilders	Fincantieri
	Production of standard vessels	Production of high tech customised vessels
Product	Mainly standard productions: tankers, bulk carriers	Higher level of product complexity. Higher customisation
Operations	Mass production in single location	Global network of shipyards (21). High flexibility.
Main competitive advantages	Access to low-cost steel and in general lower input costs, including labour Large shipyards to produce standard vessels	High tech product portfolio More flexible network of shipyards Highly skilled workforce
Main competitive disadvantages	More limited design and production flexibility	Higher input costs including labour. Highly unionised workforce
Ship average unit price (EURm)	Tens of millions	Hundreds of millions

Source: Fincantieri, Kepler Cheuvreux

Fincantieri's business is more diversified than both its Asian and European peers'.

Most diversified player in the industry

Table 6: Fincantieri combines presence in high-tech segments and strong business diversification

		Main focus: standard ships						Specialised players					
Company	**Fincantieri**	**Hyundai Heavy**	**Samsung Heavy**	**DSME (Daewoo)**	**JMU (Japan Marine)**	**MES (Mitsui Engin.)**	**STX**	**Meyer Werft**	**Lurssen**	**BAE Systems**	**DCNS**	**Keppel**	**IHC Merwede**
Country	Italy	Korea	Korea	Korea	Japan	Japan	Korea	Germany	Germany	UK	France	Singapore	Netherl.
Cruise	X						(x)	x					
Naval	X	x		x	x	x	x		x	x	x		
Ferries	X	x	x	x			(x)	x					
Mega Yachts	X								x				
Repair&Conversion	X	x		x	x		x		x			x	
Offshore	X	x	x	x	x		x					x	x
Equipment&Systems	x	x	x	x	x	x	x					x	x
After sales	x	x	x	x	x		x			x	x	x	x

Source: Fincantieri, Kepler Cheuvreux (x): under divestment

Fincantieri is more profitable than Asian shipbuilders: better EBITDA/EBIT margin

Fincantieri's margins above Asian shipbuilders

We compare Fincantieri with its main listed Asian shipbuilding peers. Our sample includes the three largest Korean shipbuilders (Hyundai Heavy, Samsung Heavy and Daewoo Shipbuilding), plus the Japanese shipbuilder Mitsui. As we flagged in Table 5, Fincantieri is more diversified than these players, with higher product diversification and a more technological product range. We have excluded Hyundai and Samsung from the peer group, given the absence of meaningful estimates and trading multiples.

Based on our comparison, which looks at EBITDA and EBIT pre-extraordinary charges (EUR80m or 210bps on revenues), Fincantieri enjoyed a 160bps and 140bps advantage over peers in terms of EBITDA and EBIT margins in 2013. The net profit margin (1.5%) calculated on the reported figures post-minorities is 10bps below average. Fincantieri's ROE (post minorities and extraordinary charges) of 5.9% is 210bps above average.

Table 7: Fincantieri versus its main listed Asian peers - 2013 data

	Fincantieri	Hyunday Heavy	Samsung Heavy	DSME (Dewoo)	MES (Mitsui)	Average	Fincantieri vs. average
	Italy	Korea	Korea	Korea			
Currency	EURm	KRWm	KRWm	KRWm	JPYbn		
Revenues	3811	24283	14835	15305	577		
EBITDA	298	1260	1196	701	40		
Margin	7.8%	5.2%	8.1%	4.6%	6.9%	6.2%	+160bps
EBIT	209	734	914	441	24		
Margin	5.5%	3.0%	6.2%	2.9%	4.2%	4.1%	+140bps
Net profit	57	452	632	269	-8		
Margin	1.5%	1.9%	4.3%	1.8%	-1.4%	1.6%	-10bps
ROE	5.9%	2.9%	11.4%	5.6%	-4.6%	3.8%	+210bps

Source: Thomson Reuters, Bloomberg, Kepler Cheuvreux

SWOT analysis

Table 8: Fincantieri - SWOT analysis

Strengths	Weaknesses
Engineering & design capabilities. High-tech profile	Still low capacity utilisation: c. 70%, set to improve
Long-term relationships with high-profile clients	High capital intensity
Naval: high market share in captive markets (Italy and US)	Working capital built up during periods of growing backlog
Skilled management team. Positive track record	
Opportunities	**Threats**
Recovery in its market	Contract (mostly lump sum) execution risk: 1) timing; 2) budget
Naval: expansion outside Italy and the US	Price pressure, both on output (lower) and input costs (higher)
Further streamlining of the production footprint (mainly Italy)	Naval: reduction/containment of defence budget in Italy and the US
Development of high-margin aftersales business	Increasing competition from low-cost players
Growth in mega-yachts, from relatively low levels	

Source: Kepler Cheuvreux

Longstanding relations with key clients

Among the company's key strengths, we would highlight the long-term relationships with several key clients. We flag Carnival in the Cruise segment, the Italian and US Navy in Naval and several Norwegian players in Offshore.

Table 9: Key clients – long-term relationships

Segment	Client	Relationship	Vessels delivered since 1990	Vessels in the orderbook
Cruise	Carnival	>25 years	56	56
Naval	Italian Navy	>50 years	30	8
	US Navy	>30 years		
Ferries	Grimaldi	16 years	13	
Offshore (Vard)	DOF	>20 years	51	8
	Farstad	>20 years		
	Tidewater	>10 years		
	Farstro	>20 years		
	Island Offshore	>10 years		

Source: Fincantieri, Kepler Cheuvreux

Vard acquisition: a transformational deal

Fincantieri bought a 55.63% stake in Vard in 2013 with a EUR500m cash-out (impact on net financial position: EUR169m including Vard's cash position). Vard's share price has fallen since then, largely as a result of operational challenges in Brazil, but is now recovering. The acquisition vastly increased the group's perimeter and significantly improved its geographic and client diversification. Strategically, it added another pillar (Offshore) to the core Cruise and Naval businesses. We believe that for now Fincantieri might have little interest in extracting potentially relevant synergies, but this could change after the reduction of Vard's minorities.

The deal and its impact on Fincantieri's financials

Vard: 55.63% stake bought in 2013 for EUR498m

Listed in Singapore

In 2013, Fincantieri bought a 55.63% stake in Vard, headquartered in Norway and listed in Singapore. On 23 January, the company bought a 50.75% stake in STX OSV (currently Vard) at a price of SGD1.22 per share, while in March 2013, following the completion of the mandatory PTO, the stake was increased to 55.63%. The cash-out for this 55.63% stake was EUR498m, while the impact on Fincantieri's net financial position (net of Vard's cash of EUR329m) was EUR169m.

Table 10: Vard acquisition

Date	Stake	Price (SGD)	Number of shares	Cash-out (SGDm)	Cash-out (EURm)	Impact on NFP
23 January	50.75%	1.22				
13 March	4.88%	1.22				
Total	55.63%	1.22	656.5	801	500	169

Source: Fincantieri, Kepler Cheuvreux

Vard's key activities

Headquartered in Norway, Vard is a global shipbuilder dedicated to the construction of offshore and specialised vessels used in the offshore Oil & Gas E&P and oil service industries. Its core business is the design and construction of complex and customised oil support vessels (OSV) including:

- **PSVs (platform supply vessels).**
- **AHTS (anchor handling tug supply) vessels.**
- **OSCV (offshore subsea construction vessels).**

Large impact on Fincantieri's size and financials

The Vard acquisition has been a transformational deal for Fincantieri, significantly increasing its perimeter, business and geographic diversification, adding a significant pillar (Offshore) to its already existing Cruise and Naval activities. In fact, in 2013 Vard boosted revenues by 53% (compared to the like-for-like 2013 perimeter), EBITDA by 108% and its workforce by 110%. The number of shipyards has also increased from 11 to 21 (+91%).

Table 11: Vard acquisition – impact on Fincantieri's 2013 financials

EURm	2012	2013 ex Vard	2013 with Vard	Vard impact on 2013
Revenues	2,381	2,490	3,811	53%
YOY		5%	60%	
EBITDA	147	143	298	108%
YOY		-3%	103%	
Employees	10,240	9,700	20,389	110%
YOY		-5%	99%	
Shipyards	11	11	21	91%
		0%	91	

Source: Fincantieri, Kepler Cheuvreux; 2013 ex Vard: Kepler Cheuvreux calculation

Challenging 2013

A bad 2013, mostly driven by operational issues at the Brazilian Niteroi shipyard

Compared with the acquisition price, the stock largely declined in the following months, which we believe is mainly due to earnings pressure driven by operational challenges and extra costs at its Brazilian Niteroi shipyard during 2013, mainly due to difficulties in finding high-quality subcontractors. The ramp-up of the newly-built Promar shipyard has also proved more difficult than expected. Pressure on P&L continued in H1 2014 (comparison will become easier as of H2) , while the order book accelerated further to +55% YOY versus +28% YOY at the end of 2013, due to a significant increase in the average vessel unit value, with a higher proportion of OSCV vessels.

Sound order book

Table 12: Vard – operational challenges penalised FY 2013 and H1 2014 profitability, backlog up

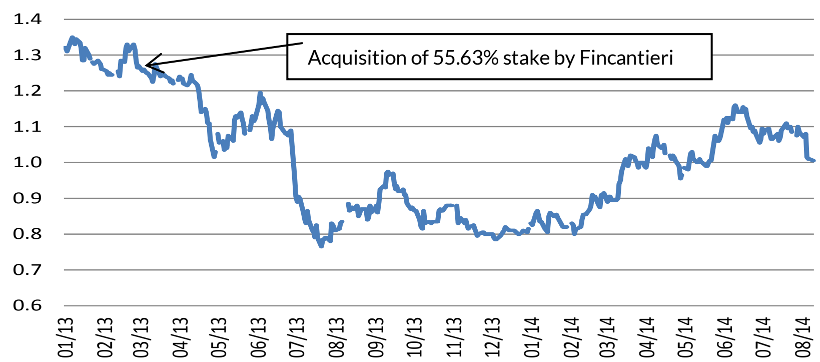
NOKm	2013	2012	YOY	H1 14	H1 13	YOY
Sales	11155	11129	0.2%	5614	5692	-1.4%
EBITDA	686	1473	-53.4%	360	425	-15.3%
margin	6.1%	13.2%		6.4%	7.5%	
EBIT	480	1305	-63.2%	263	295	-10.9%
margin	*4.3%*	*11.7%*		*4.6%*	*10.0%*	
Pre tax profit	497	1225	-59.4%	274	299	-8.4%
Net profit	300	791	-62.1%	190	136	39.7%
Order book	19356	15096	28.2%	21613	13.950	54.9%
Order book - vessels	41	48	-14.6%	43	41	4.9%

Source: VARD, Kepler Cheuvreux

Vard shares fell sharply in H2 2013 – recovering thereafter

Following a sharp fall in H2 2013, the stock has recovered so far in 2014, we think mainly on the back of a higher order backlog plus some perceived speculative appeal.

Chart 6: Vard's share price (SGD)



Source: Thomson Reuters, Kepler Cheuvreux

Key rationale for acquisition and synergy potential

We believe there is little interest in realising synergy potential in the short term

The acquisition of Vard has allowed Fincantieri to become the largest western shipyard. Geographic and client diversification has also significantly increased. Through this acquisition, the group has significantly diversified its business, adding the Offshore business line to the core Cruise and Naval segments.

We believe Fincantieri might consider raising its stake in Vard in the future. Given the impact of the group's financials, the synergies potential might also be substantial (mostly purchasing, G&A). However, we believe Fincantieri has no real interest in disclosing or extracting these synergies before control has been strengthened.

Cruise: market leadership, high tech

Fincantieri commands a high 46% worldwide market share in Cruise (28% of 2013 consolidated revenues), a segment dominated by western players. The segment is characterised by a high level of customisation, craftsmanship and technological content, given high barriers to entry and the fact that competition from Asian competitors has been largely unsuccessful so far. The longstanding relationship with Carnival, the worldwide leader in cruise operations, is a key strength. The drivers are quite favourable, as cruise penetration in tourism is still low and is constantly growing.

Positioning: Fincantieri's absolute leadership

Cruise: four dedicated shipyards in Italy, high flexibility

Fincantieri serves the cruise segment through four dedicated shipyards in Italy: two larger (Monfalcone and Marghera) and two smaller (Sestri Ponente and Ancona). Design and engineering are implemented at the Trieste headquarters. Identical ships can be built at the same time in different shipyards, helping to maximise production capacity and minimise the delivery time risk.

Market dominated by European players, STX in trouble

The cruise shipbuilding segment is dominated by European players, with Meyer Werft and STX Europe (France and Finland) present in this competitive area. According to Fincantieri, the financial difficulties currently experienced by the Korean STX Corporation, which controls STX France and Finland and its divestment policy with the exit from Cruise and Ferries, might have an impact on the company's market. This could bring higher intake opportunities for Fincantieri.

Mitsubishi tried to enter: huge losses so far

Among Asian players, Mitsubishi Heavy Industries has delivered two ships with a further two in the order book. In March 2014, Mitsubishi announced a USD586m extraordinary loss related to two ships awarded in 2011 by Aida (Carnival group).

Table 13: Cruise shipbuilding – competitor overview

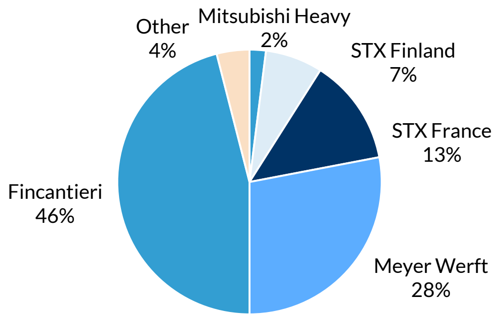
	Fincantieri	Meyer Werft	STX France	STX Finland	Mitsubishi Heavy
Dedicated Shipyards	4	1	1	1	1
Order book (March 2014)	13	7	1	2	2
Product offering	Luxury Upper premium Premium Contemporary	Contemporary	Contemporary	Contemporary	Contemporary

Source: Fincantieri, Kepler Cheuvreux

Fincantieri world leader with 46% market share

Based on the number of ships ordered over 2004-13 (total: 85), Fincantieri is the world leader with a 46% market share.

Chart 7: Cruise segment – Fincantieri is leader with 46% market share



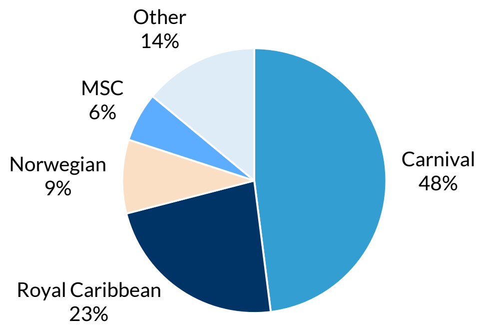
Source: Fincantieri, Kepler Cheuvreux

Drivers: trends look supportive

Carnival (48% market share) is the worldwide leader in a concentrated market: Fincantieri's longstanding client

The cruise industry is highly concentrated, with Carnival and Royal Caribbean accounting for c. 70% of passengers. Carnival is the market leader with a 48% share and has been a client of Fincantieri for more than 25 years.

Chart 8: Cruise operators –a highly concentrated industry



Source: Cruise Market Watch, Fincantieri, Kepler Cheuvreux

Market polarisation: large (mass market) and smaller (luxury) ships

The cruise market is divided into luxury, premium, upper premium and contemporary, but is concentrating in two main clusters.

On one side, the market is focused on 130-170k GRT (Gross Register Tonnage) ships for the premium and contemporary segments, with demand for higher on-board entertainment. While in the 1990s cruise ships rarely exceeded 2,000 passengers, after 2010 several ships with capacity for more than 5,000 passengers were launched.

On the other side, there is a focus on 40-70k GRT ships for the luxury segment. Fincantieri has won all the orders for luxury cruises since 2012.

Table 14: Cruise ships: market segmentation

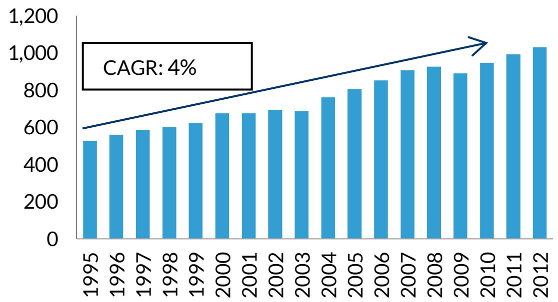
Segment	Luxury	Upper premium	Premium	Contemporary
Pax	<750	750-1500	1,500-3,600	>3,000
Capacity (k GRT)	10-60	40-90	90-140	130-220
Type of route	Exclusive cruise. Less popular route. Average duration >14 days	Upscale on board service. Average duration: >14 days	Higher onboard standards vs. contemporary. Average duration: 7-14 days	Average duration: =<7 days
Type of end client	Wealthy, demanding	Medium/high level	Demanding	Diversified client base, oriented towards onboard entertainment and best price/quality ratio

Source: Fincantieri Kepler Cheuvreux

Healthy growth in the past…

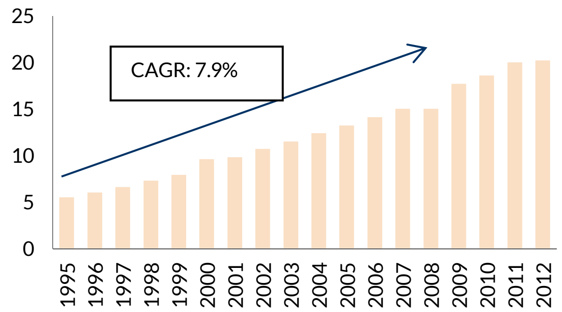
In 1995-2002 the cruise market posted solid growth, with a 7.9% passenger CAGR, with growth also remaining healthy (7.7%) in 2008-12, despite the economic slowdown. This trend compares favourably with CAGRs of 4% and 2.7% for the total number of tourists worldwide. Overall, in 2012 the cruise industry served 20.3m passengers, a still low 2% of a total of 1,035m tourists; however, it has nearly doubled from 1.1% in 1995.

Chart 9: Total number of tourists (m)



Source: World Tourism Organisation, Fincantieri, Kepler Cheuvreux

Chart 10: Cruise tourists



Source: World Tourism organisation, Fincantieri, Kepler Cheuvreux

…and supportive outlook

The outlook is supportive, driven by demand for leisure and tourism. In fact, cruise passengers are expected to reach 27.6m in 2020 (CAGR: 4.1%), mainly driven by an increased number of cruise passengers as a proportion of the total population in traditional markets. In the US, penetration is expected to increase from 3.2% in 2013 to 4.2% in 2020, while in the EU it is forecast to rise from 1.3% to 1.6%.

In these markets, we expect growth to be supported by:

- **Repeat customers in Cruise**, thanks to client loyalty, perceived value-for-money of the cruise experience, wider range of available routes and more differentiated packages.
- **Older population.** This is particularly true in "large markets" like the US and the UK. Ageing is a favourable trend, as the main target market is still older adults.

- **Offer diversification by client segment.** This includes diversification by nationality and demographic group (e.g. families with children).

Asian market still largely untapped

The market is also likely to be supported by growth in Asia, where penetration in cruise holidays is still very low (<0.1%).

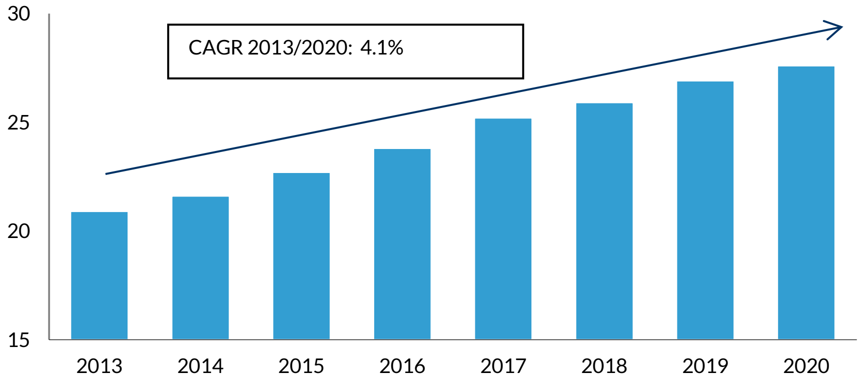
In addition to favourable demand, the industry is also supply-driven: once ships have been built, cruise lines look for new customers through new and more sophisticated discounting strategies.

Accordingly, Fincantieri expects a recovery in demand for cruise ships compared with crisis levels, with an order run-rate of about eight ships a year compared with three (2008-10).

Cruise: sound order intake in 2013 and Q1 2014

In 2013 saw a strong recovery, as contracts for nine ships were finalised in the market. Of these, Fincantieri received orders for six ships, three of which are prototypes. On 22 May, MSC Cruises signed a contract with Fincantieri for the construction of two cruise ships with an option for a third one. The new ships have a total value of EUR700m each, for a total of EUR2.1bn (including the option).

Chart 11: Cruise market, passengers (m) – 4.1% CAGR 2013-20



Source: Fincantieri Kepler Cheuvreux

Naval: highly exposed to Italy and US

In Naval (29% of 2013 sales), Fincantieri can leverage on its well-established positions in captive markets: Italy, which accounts for the vast majority of its revenues, and to a lesser extent the US. While the defence spending outlook in these markets does not look particularly supportive, the EUR5.8bn funding plan (*2014 Legge di Stabilità*) for the renewal of the Italian naval fleet, to be deployed over 20 years, plus the continuation of the LCS programme in the US provide some comfort. Some opportunities might also arise in addressable emerging markets.

Positioning: Italy and US its main markets

Italy and US: main markets

Fincantieri is the sole supplier of large ships to the Italian Navy, excluding minesweepers and vessels of less than 45m, and is a leading supplier to the US Navy and Coast Guard.

In Italy, operations are conducted at the Riva Trigoso/Muggiano integrated shipyard.

One shipyard in Italy, three in the US...

In the US, operations are performed by Fincantieri Marine Group, through three shipyards located in the Great Lakes (Wisconsin):

- **Marinette**, focused on the design and production of naval ships.
- **Green Bay,** specialised in aluminium construction.
- **Sturgeon Bay,** specialised in new-building of commercial ships and in ship-repair services.

...which Fincantieri entered in 2008 via an acquisition

Fincantieri (87.44% stake) and Lockheed Martin (12.56%) bought the US operations from Manitowoc Company, Inc. at end-2008 for a total of USD120m. Since the acquisition, c. USD100m has been invested in facility upgrades, with a focus on the construction of medium-sized vessels.

This business area is segmented by vessel type based on mission capability and propulsion system (conventional/nuclear; Fincantieri is not involved in the latter).

Table 15: Naval segment – product overview

Segments	Type of ship	Description
Surface naval vessels	Aircraft carriers	Capital ship for air operations, air power projection
	Destroyers	Vessels for multi-threat environments
	Frigates	Multi-mission vessels
	Corvettes	Fast vessels for coastal defence
	Patrol vessels	Vessels for littoral missions
Support and special vessels	Amphibious landing ships	Ships used in amphibious and special forces operations
	Logistic support vessels	Ships for transporting fuel, spare parts, ammunition
	Special vessels	Special ships for logistics operations, scientific activity, research, other
Submarines	Conventional units	Air-independent propulsion submarine

Source: Fincantieri, Kepler Cheuvreux

The end market can be divided into:

- **Accessible markets**: countries lacking a strong local shipbuilder, which require technology transfer alongside local content (local production facilities). These are typically emerging markets.
- **Non-accessible markets**: countries with a strong local shipbuilder that have historically invested in their fleets.

Accessible and non-accessible markets

Fincantieri's accessible markets are:

- **Italy and the US**, by definition accessible markets, as in these countries Fincantieri has local shipbuilding capabilities ("captive markets").
- **Emerging countries,** where it has been able to transfer technologies and in some cases to build locally: Brazil, India, UAE and Canada.

Table 16: Naval shipbuilding market: geographical segmentation

Country	Navy budget USDbn	Strength of domestic industry	Fincantieri presence (sales)	Fincantieri presence (shipyards)
Saudi Arabia	13	Low		
UAE	1	Medium	X	X (JV)
Australia	7	Medium		
Brazil	7	Medium	X	
Canada	8	Medium	X	
India	10	Medium	X	
Spain	7	High		
South Korea	8	High		
Italy	**14**	**High**	**X**	**X**
Germany	15	High		
Japan	15	High		
Russia	21	High		
UK	22	High		
France	22	High		
China	28	High		
US	**203**	**High**	**X**	**X**

Source: Fincantieri, Kepler Cheuvreux

Drivers: defence budget, penetration into new markets

The global defence market posted a CAGR of 2.9% over 1995-12, with a slowdown to +2% over 2008-12. Given constraints on public spending, the slowdown was more pronounced in Europe and the Americas, which are Fincantieri's main markets.

Defence budget: slowdown in several developed countries

Table 17: Global defence market trends, including navy, air force and army

EURbn	1995	On total	2008	On total	2012	On total	CAGR 1995-12	CAGR 2008-12
Europe	271	33%	322	26%	322	24%	1.0%	0.0%
Americas	364	44%	567	46%	593	44%	2.9%	1.1%
Asia & Oceania	135	16%	240	19%	293	22%	4.7%	5.1%
Africa	11	1%	23	2%	29	2%	5.6%	6.0%
Middle East	46	6%	82	7%	98	7%	1.0%	4.6%
Total	**827**	**100%**	**1,234**	**100%**	**1,335**	**100%**	**2.9%**	**2.0%**

Source: Fincantieri, Kepler Cheuvreux

Demand can be affected by: 1) the countries' economic growth; 2) offshore activity security needs; and 3) available resources and the state of public finances. Below, we list both the current and new programmes of interest for Fincantieri in Italy and the US:

Italian Navy

- **Existing programmes.** Fincantieri is involved in the FREMM (European multipurpose frigate) programme, together with French company DCNS. The programme involves ten ships to be delivered to the Italian Navy. In 2013, funding was allocated for the seventh and eighth of the FREMM class frigates. Further activity is related to the USSP (*Unità Supporto Subaqueo Polivalente*: multi-purpose underwater support unit). Fincantieri is also involved in the submarine programme Type U212A, which includes two units under construction with delivery in 2015-16.

- **New programmes. The *Legge di Stabilità (Italian Budget Law) 2014*,** which was approved in 2013, allocated EUR5.8bn of funds to the renewal of the fleet (of which c.EUR3bn could be of interest to Fincantieri), with funds already earmarked and to be provided over 20 years, which included both ships and combat systems. The fleet renewal plan was confirmed in June 2014 by the Defence committee's approval of the multiannual defence programme for the three years 2014-16. The timing of the release of these finds is still uncertain. This is the first significant shipbuilding programme since 2006 and should provide good visibility for Fincantieri. The focus will be on a new generation of multi-purposes vessels. The Italian Navy plans to scrap 50 out of 60 current vessels over the next ten years, due to a high rate of obsolescence, which, if there is adequate financing, could provide a substantial workload in the future.

Italy: the EUR5.8bn fleet renewal plan provides some support

US Navy

- **Existing programmes.** In 2010, the US subsidiary Fincantieri Marine Group was awarded a contract to build up to ten Freedom Class units for the Littoral Combat Ship (LCS) programme. Of these, eight have been already contracted while two (2015) are still just options. This programme provides visibility until 2015. Under a proposal by the Obama administration (January 2014), the total LCS programme might be cut from 52 ships to 32. If approved, this could jeopardise the prospects of this programme continuing beyond 2015. In 2013, the US subsidiary also secured orders from the US Coast Guard for a further four response boats-medium.

US: LCS (Litoral Combat Ship) is the main ongoing programme,

Table 18: Littoral Combat System (LCS) – 10 units over 2010-15

Year of contracting	Unit
2010	**LCS5**
2011	LCS7
2012	LCS9 LCS11
2013	LCS13 LCS15
2014	LCS17 LCS19
2015	LCS21 LCS23

Source: Fincantieri, Kepler Cheuvreux

Accessible markets outside Italy and US

Until now, revenues generated outside the captive Italian and US markets have been quite limited. The main programmes in accessible markets that might be of interest to Fincantieri are shown in the following table:

Table 19: Potential programmes in the main accessible market

Country	Programme
Brazil	Aircraft carrier, FREMM, patrol vessels, fleet tankers, landing craft
UAE	Patrol vessels, corvettes, landing craft
India	Landing ships, frigates, fleet tankers, amphibious landing ships
Canada	FREMM
Australia	Frigates, offshore surface combatants
South Africa	Patrol vessels, corvettes, landing craft

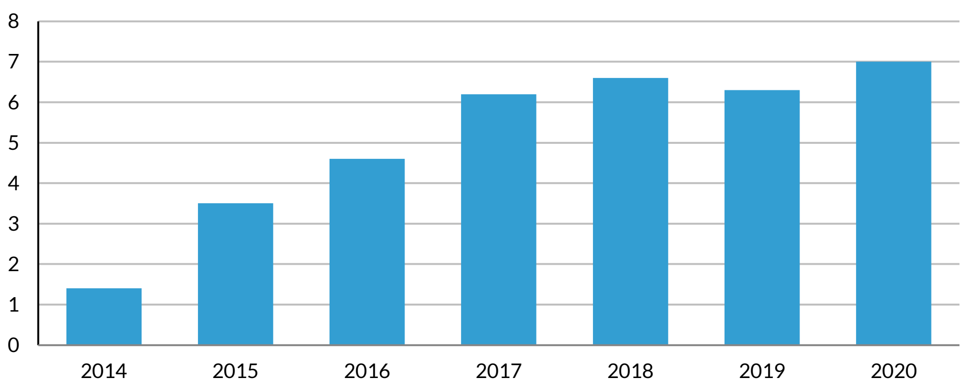
Source: Fincantieri, Kepler Cheuvreux

Other accessible markets: potentially sizeable opportunities, largely untapped so far…

…but high competition

Growth opportunities in non-captive markets are very important, as, according to the company, expenditure on naval programmes to be assigned in these markets should grow from EUR1.4bn in 2014 to EUR7bn in 2020, with a sharp increase over 2014-17. Accordingly, the ability to penetrate these markets from very low levels will play a major role in supporting future growth. However, we feel competition on this side is high. In fact, European competitors, like BAE Systems, DCNS and Navantia, all look eager to implement export deals.

Chart 12: Naval programmes to be assigned in non-captive markets (EURbn)



Source: Fincantieri, Kepler Cheuvreux

Other shipbuilding (ferries/mega-yachts/repair)

This business accounted for just 5% of consolidated turnover in 2013. The market for ferries is currently quite depressed, with a low order book. High fleet obsolescence, coupled with better credit market conditions and environmental regulations, could provide opportunities in future. In Mega-Yachts, the drivers look favourable, with potential room for growth starting from a low market share. Finally, in Repair & Conversion, Fincantieri's established position in the Mediterranean allows it to exploit growing demand for fleet upgrades.

High share in European ferries, growing in mega-yachts

Ferries

Ferries: focus on ships >150m in the Med, North Sea and Baltics

Only one ship in the backlog

Fincantieri operates in ferries through two Italian shipyards: Castellammare di Stabia and Ancona. The company is focused on the construction of vessels that are greater than 150m in length, for the Mediterranean, North Sea and Baltic Sea markets, with a focus on high-tech and fast ferries. Since 2000, Fincantieri has delivered 23 ferries, while only one is currently under construction.

Fincantieri boasts good coverage among operators active in its markets.

Table 20: Ferries – key clients in Fincantieri's markets

Regions	Operators	Fleet	Fincantieri client
North Sea and Baltic	Stena	29	
	Tallink	13	x
	P&O Ferries	11	x
	DFDS	16	
Mediterranean	Grimaldi	19	x
	Tirrenia	12	x
	Anek lines	10	
Other	Société des traversiers du Québec	13	x

Source: Fincantieri, Kepler Cheuvreux

Industry order book very low

Fincantieri and STX Finland are the two key players in this segment, but the Asian players (Samsung, DSME, Hyunday) have also some presence. The current order book in the industry is very low.

Table 21: Ferries (>150m)– key players

	Fincantieri	STX Finland	STX France	Main Far East players
Dedicated shipyards	2	1	1	3
Units delivered post 2000	23	18	1	13
Order book	1	0	1	0

Source: Fincantieri, Kepler Cheuvreux

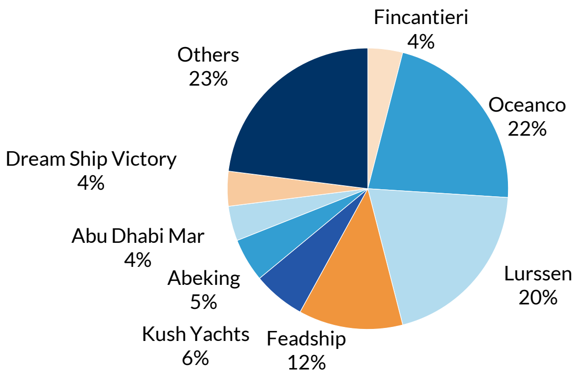
Mega-yachts

Mega-yachts: young business unit with one yacht built so far and one recently launched

This business, which covers the design and construction of yachts of over 80 metres in length, is relatively young for Fincantieri. A new dedicated centre (Muggiano) was constructed in 2005. Three mega-yachts were started in 2007 but were subsequently cancelled during the financial crisis without any loss for Fincantieri thanks to advance payments being higher than incurred expenses. Only one mega-yacht has been delivered so far (Serene, 134m, 2011), which was also the winner of the "2012 World Superyacht Award". Currently, one mega-yacht has been launched (Victory, 140m), while a letter of intent has also been signed for a new 130-metre mega-yacht. Also, in light of its relatively recent entry, Fincantieri's market share is a relatively low 4%, in a fragmented market. The established leaders are Oceanco, based in the Netherlands, and Lurssen, based in Germany.

Four-percent share in fragmented market

Chart 13: Mega-yachts >80m – market share (linear metres) in terms of backlog, end-2013



Source: Fincantieri, Kepler Cheuvreux

Repair & Conversion

Repair & Conversion: three dedicated shipyards (Italy + the US)

Fincantieri operates in the Repair & Conversion segment through two shipyards in Italy (Trieste, Palermo) plus one in the US on the Great Lakes (Sturgeon Bay). Palermo boasts one of the largest dry docks in the Mediterranean. It has a significant track record of winning and developing large and complex projects, with high engineering and project management capabilities. This includes the conversion of Scarabeo 8 for Saipem (Buy, TP EUR22.5) and the Rinascimento lengthening programme for MSC. We flag that large conversion projects may support the acquisition of new-build projects and vice-versa.

Good track record

Table 22: Fincantieri - repair & conversion – products and services

Repair	Refitting	Conversion	New rules
Damage repair	Upgrading of ship standards	Structural changes	Machinery and technology upgrade
Dry docking			
Special survey			

Source: Fincantieri, Kepler Cheuvreux

The competitive framework is quite fragmented, with several operators competing in Fincantieri's markets.

Table 23: Repair & conversion market – main players

	Fincantieri	Mariotti	Viktorlenac	Blohm+Voss	Lloyd Werft	Navantia	Keppel Verolme
Shipyards	3	3	1	1	1	1	1
Product offering							
Cruise	x	x	x	x	x	x	x
Mega Yachts	x	x		x	x	x	x
Offshore	x	x	x	x		x	x
Other commercial vessels	x	x	x	x	x	x	x

Source: Fincantieri, Kepler Cheuvreux

Drivers: fleet renewal in ferries, leisure in mega-yachts

Ferries

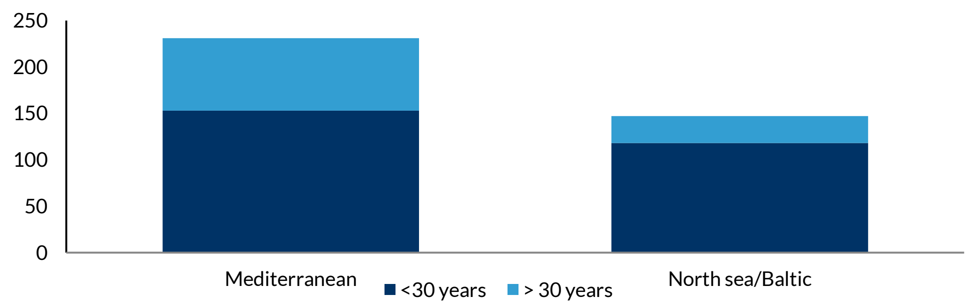
Ferries: demand driven by client profitability, fuel efficiency, compliance with regulations and fleet obsolescence

Over the last few years, demand for ferries has been affected by the low profitability of ferry operators and a lack of financing. No orders were placed in Fincantieri's accessible market in 2013: the market was penalised by sluggish passenger trends in the Mediterranean, low profitability for most ferry operators and a lack of financing.

Demand is focused on high-tech and clean ships. This is mostly a replacement market, driven by fuel efficiency and compliance with new regulations. Gas-powered ships are increasingly being used in the North Sea. Better credit market conditions and incentives to renew fleets could also affect market demand positively.

Fincantieri's markets in the Mediterranean and the North Sea include 378 vessels with an average age of c. 20 years. According to Fincantieri, 107 ships out of a total 378 (28% of total) will be more than 30 years old by 2016, and as such are in need of replacement.

Chart 14: Ferries – fleet obsolescence in Fincantieri's markets (2016E)



Source: Fincantieri, Kepler Cheuvreux

As for regulations, the outlook is more supportive in the North Sea and the Baltic Sea, where new regulations on emissions will become effective from January 2015: replacing the old fleet might be considered more economic than upgrading it. The Mediterranean area is currently not subject to ECA (Emission Control Areas) constraints.

The company's strategy includes maintaining a presence in its markets and keeping a high technological profile. Fincantieri aims to: 1) be a key shipbuilder for complex ferries (>150m, cruise ferries, LNG/dual-fuel) in Europe; 2) exploit market opportunities worldwide in high-tech ferries.

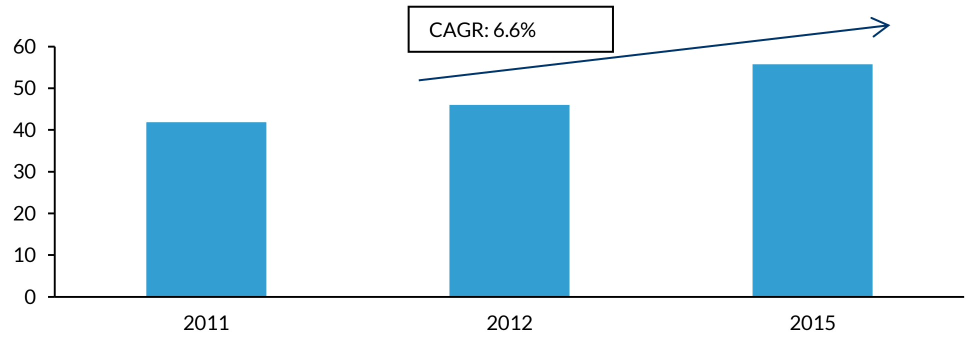
Mega-yachts

Mega yachts: demand driven by UHNWIs

Steady growth

Fincantieri intends to develop this business from the current low starting base, as it could potentially have above-average margins. Growth is strictly related to the luxury trends, with mega-yachts representing <3% of luxury revenues worldwide. UHNWI (Ultra High Net Worth Individuals) are the key client base, whose wealth is projected to see a supportive 6.6% CAGR over 2012-15.

Chart 15: Global growth of HNWIs' wealth (USD trn)



Source: Fincantieri Kepler Cheuvreux

Future growth could be driven by customers in consolidated markets (Middle East, Russia), plus penetration into new markets (Asia, Brazil). In the future, Fincantieri will look to consolidate its presence in mega-yachts of more than 100 metres, and increase its presence in the 80-100m segment.

Repair & conversion

Repair & Conversion: several supportive drivers

Future demand should be sustained by:

- **Cruise**: operators' increasing demand for upgrading older ships to new standards and increasing passenger accommodation capacity. Here, the key clients are the main shipowners in the Mediterranean and Fincantieri's focus will be on large and complex projects requiring high-tech expertise.
- **Offshore**: repair and conversion programmes to adapt vessels to new offshore uses. The addressable client base consists of shipowners and contractors operating in the Mediterranean and West Africa.
- **Naval**: potential demand for refitting old vessels acquired by emerging countries lacking a local shipbuilder.

The company's strategy is to leverage on its track record of winning new business, specifically increasing its penetration in repair.

Offshore: favourable drivers in place

Accounting for a sizeable 34% of Fincantieri's 2013 revenues, the Offshore segment is mostly managed through its 55.63% controlled listed subsidiary Vard, bought in 2013, which boasts world leadership in OSCVs (offshore subsea construction vessels). While the company's market is highly fragmented and competitive, the underlying drivers look favourable, driven by growing E&P spending, particularly in regions where conditions are harsh and require complex high-tech vessels.

Positioning: leadership in OSCVs

Fincantieri operates in offshore through:

The 55.63%-owned listed subsidiary Vard accounts for most of divisional activities

- Its 55.63%-owned subsidiary Vard, headquartered in Norway and listed in Singapore, which accounts for the vast majority of the segment. Vard operates ten shipyards, of which five in Norway, two in Romania, one in Brazil and one in Vietnam. In Italy, Fincantieri operates in this segment through its shipyards in Ancona and Palermo.
- The offshore business unit established by Fincantieri's parent company in 2012 for the development of other product lines (drilling units, semi-subs, heavy-lift naval units).

World leader in OSCVs

One of the key players in AHTS and PSVs

Following the acquisition of Vard, Fincantieri boasts world leadership in the design and construction of high-end OSCVs and is also one of the leaders in large AHTS (anchor handling tug supply) and PSVs (platform supply vessels). Vard is particularly strong in the design and construction of high-end OSCVs for harsh environments, a growing segment.

Table 24: Offshore segment – support vessels - product overview

Product segment	Type of ship	Description	Worldwide fleet size (end-2013)
PSV	Small medium	Transport cargo and personnel to and from offshore rigs	1910
	Large / high end	Advanced functionality	262
AHTS	Small medium	Anchoring and moving production units	2375
	Large / high end	Advanced functionality	72
OSCV	Subsea construction vessel	Construction, repair, inspection	212
	Pipe laying vessel	Laying underwater pipes	51
	Diving support vessel	Diving capabilities to support underwater personnel in subsea construction	106
	Well intervention vessel	Intervention on underwater wells	8

Source: Fincantieri, Kepler Cheuvreux

Vard is also present, more sporadically, in other specialist vessels.

Table 25: Offshore segment – drilling units and other units – product overview

Product segment	Type of ship	Description	Fleet size (end 2013)
Drilling units	Drillship	Significant autonomy, able to operate in remote areas	95
	Semisub	Harsh environment	226
Other	Heavy lift	Lifting heavy loads	n.a.
	Miscellaneous	Other specialist vessels	n.a.

Source: Fincantieri, Kepler Cheuvreux

Diversified client base, mainly Norwegian operators

The addressable client base includes all the main high-end vessel operators.

Among its key clients, we mention: Solstad, Island Offshore, Farstad, DOF, Siem Offshore, headquartered in Norway. Tidewater, Technip (Buy, TP EUR95) and Saipem (Buy, TP EUR22.5) are also key clients.

Table 26: Offshore – addressable client base

Offshore support vessels	Offshore drilling units
DCF	ENSCO
Bourbon	Noble
Farstad	Rowan
Island offshore	Stena Drilling
Sealion	Maersk drilling
Siem Offshore	Saipem
Solstad	
Emas	
Tidewater	
Technip	
Olympic	
Subsea7	

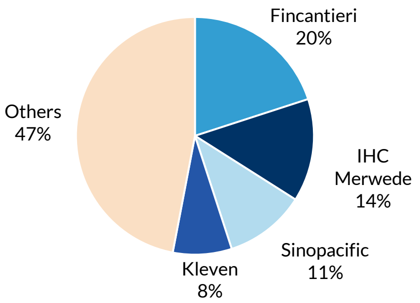
Source: Fincantieri, Kepler Cheuvreux

The sector is highly fragmented

Demand: different characteristics in different regions

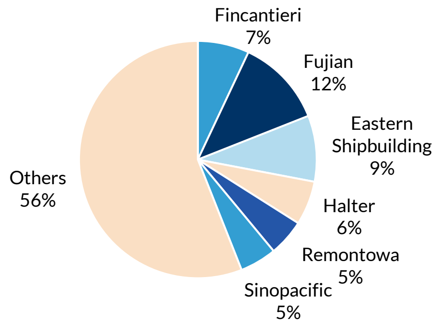
The core OSCV segment is highly fragmented and characterised by competition with global scale. Western players (Vard and some Dutch and Norwegian players) have reinforced their positioning, thanks to their technological capabilities. The AHTS and PSV segments are also fragmented markets, segmented into different geographical areas: in the North Sea, vessels are typically characterised by higher quality and specification levels. In the US, vessels must be manufactured in local shipyards (Jones Act). In Asia, products are more standard. The main players are Fincantieri and some Chinese and US manufacturers.

Chart 16: OSCV – market share (end-2013)



Source: Platou, Fincantieri, Kepler Cheuvreux; based on vessels in the orderbook

Chart 17: Large AHTS/PSV – market share (end-2013)



Source: Platou, Fincantieri, Kepler Cheuvreux; based on vessels in the orderbook

On the other hand, the drilling units market is dominated by Korean shipbuilders (particularly Samsung and Daewoo), which have also successfully penetrated Brazil. The pricing environment in this segment is particularly aggressive.

Koreans dominate the market for drilling units

Fincantieri's competitive advantage leverages on:

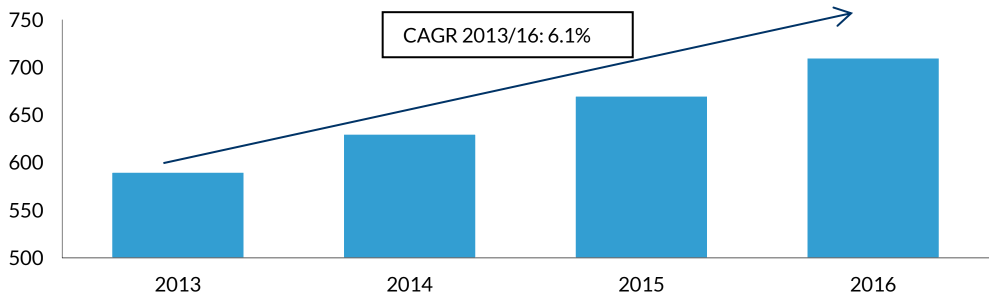
Fincantieri's key competitive advantages

- High innovative capabilities, thanks to partnerships with research centres for the development of specific projects.
- Significant investments in Vard's production facilities in Brazil (Niteroi and Promar), which should enable it to capture local growth opportunities.
- A flexible and cost-competitive business model, thanks to hull construction in Romania (competitive cost base), coupled with high added-value outfitting in Norway.
- A diversified client base, with strong and consolidated client relationships.

Drivers: E&P capex, exposure to deepwater

E&P capex is expected to post a CAGR of 6.2% over 2013-16, with upside if oil prices remain above USD100/bl.

Chart 18: Oil & gas exploration and production global capex (USDbn)



Source: Fincantieri, Kepler Cheuvreux

Expected demand for drilling ships and OSVs is supportive. More specifically, exploration in new areas (e.g. Arctic, ultra deep-water) should support demand for innovative OSVs and drillships, with a positive outlook particularly for high-end OSVs and particularly OSCVs (in which Vard is a worldwide leader), including harsh-environment and ice-class ships.

High-end OSV vessels: favourable drivers (growing E&P in harsh environments)

Vard should benefit from local business opportunities in Norway and Brazil as well as potential opportunities in Vietnam and the US.

The strategy for the offshore division is based on the following key pillars:

- Strengthening market leadership in OSVs.
- Leveraging on Fincantieri and Vard's combined capabilities plus existing and new technological partnerships.

With the aim of:

- Reinforcing its positioning in existing clients and business segments.
- Expanding into growing niches while developing new technologies (ultra-deep, harsh, Arctic environment, CNG).

Outside Vard, Fincantieri has set up some initiatives to enter the offshore segment and to develop innovative offshore drilling units. These initiatives are focused on:

Partnerships with international design and research centres to reinforce the technological profile

- Partnerships with international design and research centres.
- Development of "Polo Offshore": this is a cooperation agreement between various Italian companies involved in the offshore and oil & gas equipment sectors to develop innovative products and R&D.

Key initiatives include:

- **Arctic drillship**: an innovative drillship to operate in Arctic conditions developed by Fincantieri Offshore with the Russian Krylov State Research Centre.
- **Proxima**: an innovative design involving a new vessel configuration that allows an increased speed of drilling and greater cruising speed, to maximise utilisation rates.
- **Overdrill**: a new generation of drillships developed by Fincantieri Offshore with Aker Solutions.
- **CNG vessel**: a new vessel class able to transport natural gas compressed at 300 bar, with an innovative storage solution based on integrating the storage equipment into the hull.

Equipment, Systems & Services: a growing area

The Equipment, Systems & Services segment accounted for just 4% of consolidated sales and EBITDA in 2013. Fincantieri is positioned with an innovative product portfolio in selected niches. Competing against global operators, the group also benefits from competitive pricing in several applications. Strategically, the company aims to leverage on opportunities offered by its key segments (Cruise, Naval, Offshore plus Repair & Conversion) to develop its business, while also extending its product portfolio to high added-value technologies.

Positioning: solid presence in specific niches

Equipment, Systems & Services: 4% of total revenues and EBITDA

In this segment, which accounted for just 4% of Fincantieri's consolidated revenues and EBITDA in 2013, the group is involved in the design and manufacture of systems and equipment and the provision of aftersales services. Fincantieri is well positioned with an innovative product portfolio, a high-tech profile and strong design and innovation skills. The focus is on lifecycle cost reduction and environmental safety. This segment is strongly integrated with the Repair & Conversion activities (included in the Shipbuilding segment/other shipbuilding), as Fincantieri boasts the capacity to support vessel maintenance, repair and overhaul worldwide. The group has an extensive steam turbine product portfolio, ranging from 10MW to 50MW.

Integrated with Repair & Conversion

Table 27: Equipment, Systems & Services: overview

Segments	Products	Key applications
Stabilisation, propulsion, dynamic positioning, generation	Stabilisation systems Propulsion systems Positioning systems Diesel engines	New ships. Repair/transformation and maintenance
Automation systems	Platform automation systems Navigation systems Dynamic positioning systems	New ships. Repair/transformation and maintenance
Steam turbines	Turbines <30MW Turbines 30-50MW	Power plants/renewables
Aftersales	Integrated Logistic Support In service support	Delivered ships (mainly naval)

Source: Fincantieri, Kepler Cheuvreux

Key clients...

Its key clients are shipbuilders, industrial companies, EPC contractors and navies. The aftersales business, formerly developed for naval clients, is being extended to other customers who are becoming more sensitive to full-cycle management of their fleet.

Table 28: Equipment, Systems & Services: main clients and focus areas

Client segment	Key clients	Steam turbines	Systems for stabilisation, propulsion, dynamic positioning and generation	Automation systems	Aftersales
Shipbuilders	Fincantieri (captive), Meyer Werft, DCNS	(x)	x	x	x
Industrial	Cofely, Vinci, Atzwanger	x			
EPC contractors	ENI, Saipem		(x)		
Navies	Italian and US Navy		x	x	x

Source: Fincantieri, Kepler Cheuvreux (x): under development

....and competitors

Fincantieri competes with global operators (including Siemens, MAN and Mitsubishi) and specialist operators and has good positions in niche segments. In Automation Systems and Steam Turbines, competitive pricing is also a strategic lever.

Table 29: Equipment, Systems & Services: main peers and competitive positioning

Segments	Global operators	Specialised operators	Fincantieri positioning
Systems for stabilisation, propulsion, dynamic positioning, generation	Rolls Royce, MAN, Wärtsilä, Mitsubishi, MTU	Sperry Marine, Quantum, Brunvoll, schottel, Fouré, SKF, Blohm+Voss	Best-in-class technology, specialist product offering
Automation systems	Siemens, Imtech, GE, L3, Kongsberg	Navis Engineering, Furuno, Martec,	Highly customised products, competitive pricing
Steam turbines	Siemens, MAN, GE, Dresser Rand, Mitsubishi, Shin Nippon	TGM, Franco Tosi, M+M, Ekol	Competitive pricing, highly customised products

Source: Fincantieri, Kepler Cheuvreux

Drivers: leverage on key divisions, expand product portfolio

Strategy: maximise opportunities offered by the key divisions, upgrading and expanding the product portfolio

Fincantieri aims to leverage on the opportunities offered by its key divisions (Cruise, Naval, Offshore plus Repairs & Conversion), based on the following key pillars:

- Strengthen its product portfolio by leveraging on the Naval and Cruise businesses. The Vard acquisition also clearly offers opportunities in Offshore.
- Insource skills and production of high added-value components currently purchased from suppliers.
- Extend marine systems components into the Offshore segment.
- Expand the steam turbine portfolio.
- Develop activities into second-hand naval vessels to be disposed by the Italian Navy, which might be attractive for several emerging countries.

Financials: trend and forecasts

Fincantieri defended its profitability in 2011-13 amid difficult market conditions, keeping a solid financial position. Significant price pressure in Cruise and the effect of lower defence budgets in Naval have been offset by effective cost cutting, while the consolidation of Vard boosted 2013 results. We project a 10% backlog CAGR for 2013-16 (driven by Cruise and Offshore) to result in CAGRs of 12% and 13% for revenues and EBITDA respectively, with the latter flattish in 2014 (poorer mix due to decline in Naval, lower PPA release) before recovering in 2015-16. We project a 4% CAGR 2013-16 in adjusted net profit, penalised by higher financial charges, taxes and minorities. Thanks to lower extraordinary charges, we forecast a CAGR of 26% for reported net profit. We expect net working capital absorption (higher backlog) and still high capex to penalise free cash flow.

Table 30: Fincantieri - CAGR 2013-16E – key indicators

Indicator	CAGR 2013-16E	Notes
Revenues	12.0%	
EBITDA adjusted	12.7%	Margin up 20bps: down in 2014, up in 2015-16. 2013 helped by PPA
EBIT adjusted	14.7%	Margin up 40bps
Pre-tax profit	17.7%	
Net profit adjusted	4.5%	Penalised by higher tax rate and minorities
Net profit reported	25.9%	Benefits from lower extraordinary charges
Order backlog	10.5%	Shipbuilding: 10.5% driven by Cruise, Offshore: 9.4%, Systems: 19.3%

Source: Kepler Cheuvreux

Backlog: 10.5% CAGR in 2013-16E

Order intake – recovery after tough years

Table 31: Fincantieri - order intake 2011-16E

EURm	2011	2012	2013	2014E	2015E	2016E
Order Intake	1,863	1,394	4,998	5,555	5,732	5,899
o/w Shipbuilding	1,792	1,298	3,010	3,500	3,640	3,713
o/w Offshore	n.a.	n.a.	1,816	1,816	1,834	1,853
o/w Equipment, Systems, Services	142	127	205	275	295	373
o/w Eliminations	-71	-31	-33	-36	-37	-39
Total intake YOY		(25%)	+259%	+11%	+3%	+3%
Shipbuilding YOY		(28%)	+132%	+16%	+4	+2%
Offshore YOY		+0%	n.m.	+0%	+1%	+1%
Equipment, Systems, Services YOY		(11%)	+61%	+34%	+7%	+26%
Book to Bill (x)	0.78	0.59	1.31	1.35	1.19	1.10
Shipbuilding	0.78	0.57	1.26	1.37	1.20	1.09
Offshore	n.a.	n.a.	1.37	1.27	1.16	1.07
Equipment, Systems, Services	1.08	0.77	1.26	1.35	1.16	1.24

Source: Fincantieri, Kepler Cheuvreux

The company saw an order intake of c. EUR1.9bn in 2011, which then declined by 25% YOY to c. EUR1.4bn in 2012, with a low book-to-bill of 0.78x and 0.59x, respectively, amid difficult market conditions, characterised by: 1) fewer awards in Cruise; and 2) constrained defence budgets, which penalised intake in Naval.

Book-to-bill strongly recovered in 2013 to 1.31x, after weak 2011-12, driven by Cruise and Offshore

2013 was a year of recovery, with EUR5bn of orders and a solid 1.31x book-to-bill. Orders in shipbuilding significantly increased for Cruise, with six cruise ships awarded (two for Carnival, two for Viking Ocean, one each for Regent Seven Seas and Compagnie du Ponant), significantly above the two orders won in 2012 (Viking Ocean). Offshore also posted a good 1.37x book-to bill-in 2013, with Vard seeing its highest order intake since 2008, corresponding to 21 months of 2013 revenues. This was not driven by an increase in the number of ships awarded (which actually declined to 15 vs. 16 in 2012), but by a significant improvement in mix, with a higher proportion of OSCV vessels. However, Naval's order intake declined, with the award of two LCS ships for the US Navy plus four small patrol boats for the US Coast Guard and two ships under the FREMM programme in Italy.

We expect order intake to grow further in 2014-16

We project an 11% increase in 2014, with a sound + 16% in Shipbuilding and Offshore flat. We project EUR5.6n of new orders in 2014, with a good 1.35x book-to-bill. We expect further growth in 2015-16 (+3% per year).

We see the main drivers as: 1) a good outlook in Cruise; 2) the deployment of the fleet renewal programme in Italy included in the 2014 *Legge di Stabilità*, and 3) sound prospects in Offshore, particularly in OSCVs, driven by deepwater, with some slowdown as of H2 2014 following exceptional intake in H1. In Naval, there might be some uncertainty related to the LCS programme in the US after 2015.

Backlog: we project a 10.5% CAGR 2013-16, from EUR8.1bn to EUR10.9bn

The backlog was up by 70% in 2013 from the depressed levels of 2012 and up 18% organically, excluding Offshore (change of perimeter after the acquisition of Vard).

We project a 10.5% CAGR in 2013-16, which we believe is coherent with the outlook for the company's markets. In particular, we project CAGRs of 10.5% in Shipbuilding, 9.4% in Offshore and a higher 19.3% in Equipment, Systems and Services. We expect a total backlog of EUR10.9bn at the end of 2016, up from EUR8.1bn at the end of 2013.

Table 32: Fincantieri - backlog

EURm	2011	2012	2013	2014E	2015E	2016E	CAGR 2013/16
Total Backlog	5,373	4,735	8,068	9,482	10,380	10,885	
o/w Shipbuilding	5,316	4,623	5,345	6,297	6,906	7,215	
o/w Offshore	0	0	2,480	2,869	3,120	3,246	
o/w Equipment, Systems & Services	109	146	264	335	376	448	
Eliminations	(52)	(34)	(21)	(20)	(22)	(24)	
YOY		(12%)	+70%	+17%	+9%	+5%	10.5%
Shipbuilding YOY		(13%)	+16%	+18%	+9%	+4%	10.5%
Offshore YOY		+0%	n.m.	+16%	+9%	+4%	9.4%
Equipment, Systems & Services YOY		+34%	+81%	+27%	+12%	+19%	19.3%
Backlog to LTM revenues	2.26	1.99	2.12	2.31	2.16	2.03	
Shipbuilding	2.32	2.02	2.23	2.47	2.28	2.12	
Offshore			1.88	2.01	1.97	1.88	
Equipment, Systems & Services	0.83	0.88	1.62	1.65	1.48	1.49	

Source: Fincantieri, Kepler Cheuvreux

P&L: 13% EBITDA CAGR in 2013-16E

Resilient results during the crisis, effective cost cutting

Revenues were flat in 2012 (up by 18% in Naval, down by 15% in Cruise) and up strongly (+60%) in 2013. Stripping out the consolidation of Vard, revenues in 2013 were up by 5%.

EBITDA more than doubled in 2013, driven by Vard's consolidation and release of material PPA provisions

After 4% growth in 2012, EBITDA was up by 103% in 2013. However, stripping out the consolidation of Vard, EBITDA was down by 3% like-for-like. The EBITDA margin was up by 30bps in 2012 to 6.2% and up by 160bps to 7.8% in 2013. However, we flag this figure was materially supported (EUR53m) by the release of PPA provisions accrued through the business combination with Vard and related to losses on ships under construction in Brazil. Overall, these PPA provisions amounted to EUR96m: we expect the remaining EUR43m to be released in 2014-15 (EUR15m were released in H1 2014). Also, EBITDA in 2013 benefited from capitalised R&D (EUR37m) for the development of new technologies and solutions related to new regulations.

Several negative drivers still penalised 2013 profitability

The shipbuilding division's profitability (EBITDA EUR155m, -1% YOY) was penalised in 2013 by: 1) lower prices of cruise ships awarded during the crisis; 2) the still low profitability of the US operations, whose capacity was still ramping up; 3) low utilisation of the Italian production capacity (c. 70%), partly offset by the positive impact of the temporary layoff scheme, which according to the agreement will be signed on 10 July with the Ministry of Labour and will last until August 2014. In 2013, the temporary layoff scheme involved 1,139 employees on average or 15% of the Italian workforce.

Net profit pre-extraordinary charges pertaining to Fincantieri shareholders was nearly flat in 2012 at EUR44m and increased strongly to EUR109m in 2013, benefiting from Vard's consolidation and, more substantially, from a very low tax rate (12% vs. 42% in 2012).

Material extraordinary charges in 2011-13

The group posted material extraordinary charges, detailed in Table 32, in 2011 (EUR51m), 2012 (EUR41m) and 2013 (EUR80m), which depressed reported net profit post minorities to EUR8m in 2011, EUR15m in 2012 and up to EUR57m in 2013.

Table 33: Fincantieri - P&L – historical trend and estimates

EURm	2011	2012	2013	2014E	2015E	2016E	CAGR13/16
Revenues	2,380	2,381	3,811	4,109	4,797	5,355	12.0%
Italy	828	892	907	889	1,022	1,135	
ROW	1,552	1,489	2,904	3,220	3,775	4,221	
Revenues YOY		+0%	+60%	+8%	+17%	+12%	
Cruise	1,244	1,062	1,075	1,269	1,598	1,838	19.6%
Naval	894	1,052	1,126	1,025	1,127	1,217	2.6%
Other Shipbuilding	150	178	193	255	306	349	21.8%
Total Shipbuilding	2,288	2,292	2,394	2548	3031	3404	12.4%
Offshore	n.a.	n.a.	1,321	1427	1584	1726	9.3%
Equipment, Systems, Services	131	165	163	204	255	301	22.6%
Eliminations	(39)	(76)	(67)	(70)	(72)	(75)	
Purchases	**(1,768)**	**(1,727)**	**(2,745)**	**(2,983)**	**(3,547)**	**(3,972)**	
% on sales	-74.3%	-72.5%	-72.0%	-72.6%	-73.9%	-74.2%	
Labour	**(458)**	**(507)**	**(752)**	(809)	(866)	(928)	
% on sales	-19.2%	-21.3%	-19.7%	-19.7%	-18.1%	-17.3%	
Employees total – year-end	**9,994**	**10,240**	**20,389**	**21,001**	**21,841**	**22,714**	
YOY		+2.5%	+99.1%	+3.0%	+4.0%	+4.0%	
o/w Fincantieri Italy	8,367	8,102	7,735	7,585	7,635	7,685	
o/w Fincantieri other	1,627	2,138	1,965	2,085	1,969	1,936	
o/w VARD			10,689	11,330	12,237	13,093	
Provisions, impairment	(13)	0	(16)	(22)	(26)	(29)	
EBITDA adjusted	141	147	298	295	358	426	12.7%
% margin	**5.9%**	**6.2%**	**7.8%**	**7.2%**	**7.5%**	**8.0%**	
YOY		+4%	+103%	(1%)	+21%	+19%	
o/w Shipbuilding	**156**	**157**	**155**	**161**	**197**	**231**	
% margin	6.8%	6.8%	6.5%	**6.3%**	**6.5%**	**6.8%**	
YOY		+1%	(1%)	+4%	+23%	+17%	
o/w Offshore	**0**	**0**	**155**	**140**	**162**	**190**	
% margin	0.0%	0.0%	11.7%	**9.8%**	**10.2%**	**11.0%**	
YOY		n.m.	n.m.	(10%)	+16%	+18%	
o/w Equipment, Systems, Services	**10**	**15**	**14**	**20**	**27**	**35**	
% margin	7.6%	9.1%	8.6%	9.8%	10.5%	11.6%	
YOY		+50%	(7%)	+43%	+34%	+30%	
o/w Other/Elisions	**(25)**	**(25)**	**(26)**	**(25)**	**(27)**	**(30)**	
D&A	(66)	(60)	(89)	(99)	(104)	(111)	
EBIT adjusted	75	87	209	196	254	316	14.7%
% margin	**3.2%**	**3.7%**	**5.5%**	**4.8%**	**5.3%**	**5.9%**	
Interest income	23	21	13	13	14	16	
Interest costs	(24)	(31)	(36)	(43)	(38)	(35)	
Interest on construction loans	0	0	(24)	(33)	(39)	(46)	
Forex	0	(2)	(8)	0	0	0	
Total net financial charges	(1)	(12)	(55)	(63)	(63)	(64)	
Equity stakes	0	1	2	2	2	3	
Total financial items	**(1)**	**(11)**	**(53)**	**(61)**	**(62)**	**(61)**	
Profit before tax	74	76	156	135	193	254	17.7%
Tax	(30)	(32)	(19)	(49)	(70)	(89)	
Tax rate (%)	41%	42%	12%	36%	36%	35%	
Net profit before extraord.	44	44	137	86	124	165	6.4%
% margin	1.8%	1.8%	3.6%	2.1%	2.6%	3.1%	
YOY		+0%	+211%	(37%)	+43%	+34%	
of which group	43	44	109	65	91	124	4.5%
of which minorities	1	0	28	21	33	41	13.6%
Extraordinaries	**(51)**	**(41)**	**(80)**	**(38)**	**(25)**	**(16)**	
o/w extra wages	(20)	(19)	(15)	(12)	(7)	(2)	
o/w restructuring costs	(20)	(9)	(11)	(5)	(5)	(5)	
o/w asbestos claims	(4)	(8)	(24)	(18)	(9)	(5)	
o/w other	(10)	(9)	(22)	(3)	(4)	(4)	
o/w non-recurring financial costs	3	4	(8)	0	0	0	
Tax effect- on extraordinaries	16	12	28	13	9	6	
Total net profit	9	15	85	62	107	155	22.1%
% margin	0.4%	0.6%	2.2%	1.5%	2.2%	2.9%	
YOY		+67%	+467%	-27%	74%	44%	
of which group	8	15	57	41	74	114	25.9%
o/w minorities	1	0	28	21	33	41	13.6%

Source: Fincantieri, Kepler Cheuvreux

We expect results to improve

We project revenues to increase by a 12% CAGR over 2013-16: +20% in Cruise, +3% in Naval, +9% in Offshore and +23% in the smaller Equipment, Systems & Services segment. We expect both Cruise and Offshore to benefit from a recovering backlog, while we take a more cautious stance on Naval. While the start of the fleet renewal plan (EUR5.8bn to be released over 20 years, of which EUR3bn could be of interest to Fincantieri) was recently confirmed, with approval in June of the multi-annual Defence programme for 2014/16, we believe visibility on its actual deployment over this period remains limited at this stage. As for 2014 alone, we expect revenues in the Naval segment to drop fairly sharply by 9% YOY, given that prospects for this year look weak, as shown in the official 2013 account statements. This is also set to impact the profitability of Shipbuilding, as Naval typically enjoys higher profitability than other segments.

We project a 10.9% revenues CAGR over 2013-16

Naval down in 2014

We project adjusted EBITDA to grow by a 12.7% CAGR in 2013-16, with the EBITDA margin up by 20bps at 8% (down slightly in 2014, recovery in 2015 and 2016). We flag that net of the PPA provisions release (EUR53m), the EBITDA margin would have been 6.4% in 2013. Growth should be experienced mainly in 2015-16, as we expect a 1% EBITDA decline in 2014 to EUR295m, chiefly driven by: 1) lower PPA provisions release, adverse mix, particularly in light of the 9% decline of revenues in Naval, which we expect during the year.

We forecast a 12.7% EBITDA CAGR over 2013-16: slight decline in 2014, recovery thereafter

EBITDA margin: up 20bps to 8% in 2016 from 7.8% in 2013

We project EBIT to grow at 14.7% and pre-tax profit at a 17.7% CAGR in 2013-16.

We assume the tax rate will normalise at 36% in 2014-16, substantially above the very low level (12%) experienced in 2013, which benefited from material deferred taxes.

Tax rate normalisation

According to our projections, total adjusted net income (pre-extraordinary charges) could achieve a 6.4% CAGR over 2013-16, penalised by higher taxes and financial charges, with a 4.5% CAGR after minorities (mainly 44.4% of Vard not owned). In fact, we expect the latter to grow more than proportionally over the period, due to the projected recovery of Vard's earnings from depressed levels.

We project a 4.5% adjusted net income CAGR, post minorities

As for extraordinary charges, we project a substantial decrease to EUR38m in 2014, EUR25m in 2015 and EUR16m in 2016, driven by: 1) a decline in costs for the temporary layoff scheme in Italy, where we expect capacity utilisation to increase; and 2) lower restructuring charges and asbestos claims. As for the extraordinary layoff scheme, which in 2013 included 15% of the Italian workforce and was recently renewed until August 2015, we flag that Fincantieri includes costs for the company in extraordinary charges, while material benefits coming from lower labour costs are accounted above EBITDA.

Decrease of extraordinary charges

After lower extraordinary charges, we project net profit after minorities to achieve a 25.9% CAGR in 2013-16, from EUR57m in 2013 to EUR114m in 2016.

We project 25.9% CAGR 2013-16 on reported net income

Balance sheet: higher debt on working capital absorption

At the end of 2013, net capital employed amounted to EUR1,365m, substantially above the EUR498m in 2012, due to: 1) the acquisition of Vard; 2) a material increase in working capital, mainly coming from more work in progress net of client advances; and 3) high capex (EUR263m in 2013, well above D&A of EUR89m). Capital employed was covered by EUR1,210m in equity (tangible equity net of EUR300m goodwill was EUR910m) and EUR155m in net debt, reversing from the net cash position in 2012 (EUR459m), due to the

Capital employed grew materially in 2013: Vard acquisition, higher working capital and capex

drivers highlighted above. The Vard acquisition (55.63% stake) led to a EUR169m net debt increase in 2013, as the EUR500m cash-out was largely offset by Vard's net cash position.

Table 34: Fincantieri – balance sheet – main data

EURm	2011	2012	2013	2014E	2015E	2016E
Accounts receivables	318	268	344	507	657	763
Days	*49*	*41*	*33*	45	50	52
WIP net of advances	149	(56)	757	1,069	1,222	1,394
Days	*23*	*(9)*	*73*	95	93	95
Inventories	276	273	400	450	526	587
Days	*42*	*42*	*38*	40	40	40
Other current assets	107	116	57	34.8	43.8	50.4
Days	*16*	*18*	*5*	10	10	10
Payables	(577)	(597)	(911)	(991)	(1,130)	(1,247)
Days of sales	*(88)*	*(92)*	*(87)*	(88)	(86)	(85)
Construction loans	0	0	(563)	(788)	(973)	(1,144)
Days	*0*	*0*	*(54)*	(70)	(74)	(78)
Provisions for risks/charges	(114)	(101)	(151)	(169)	(197)	(220)
Days of sales	*(17)*	*(15)*	*(14)*	(15)	(15)	(15)
Net working capital	159	(97)	(67)	114	149	182
Days	*24*	*(15)*	*(6)*	10	11	12
Working capital / Sales	**+6.7%**	**(4.1%)**	**(1.8%)**	**+2.8%**	**+3.1%**	**+3.4%**
Tangible assets	555	585	897	970	1,005	1,017
Intangible assets	110	104	539	552	558	560
o/w goodwill	*62*	*60*	*300*	300	300	300
Financial assets	16	17	70	70	70	70
Employee indemnity	(65)	(71)	(60)	(63)	(66)	(69)
Other	(50)	(40)	(14)	(15)	(17)	(19)
Total fixed assets	566	595	1,432	1,514	1,550	1,559
Capital employed	725	498	1,365	1,627	1,699	1,742
Equity	934	940	968	1,360	1,434	1,548
Minorities	17	17	242	263	296	337
Total equity	951	957	1,210	1,623	1,730	1,885
o/w tangible equity	889	897	910	1,323	1,430	1,585
Net financial position	(226)	(459)	155	4	(31)	(143)
o/w cash and equivalents	(432)	(692)	(385)	(536)	(571)	(683)
o/w current financial receivables	(44)	(45)	(52)	(52)	(52)	(52)
o/w non-current financial receivables	(17)	(17)	(41)	(41)	(41)	(41)
o/w short-term liabilities	187	149	70	70	70	70
o/w long-term liabilities	80	146	563	563	563	563

Source: Fincantieri, Kepler Cheuvreux

We project net capital employed to increase to EUR1,742m in 2016, driven by: 1) capex still higher than D&A, particularly in 2014 and 2015 (EUR185m and EUR145m respectively); 2) working capital absorption, particularly in 2014, due to the growth of work in progress related to a higher backlog. As such, we expect net debt close to breakeven in 2014, following EUR351m gross proceeds from the capital increase (450m new shares issued at EUR0.78 per share; we flag that management has provided guidance of net debt at end-2014 broadly in line with the EUR417m at end-Q1, excluding the capital increase), turning into a EUR143m net cash position in 2016.

We project higher net debt in 2014 (capex plus working capital absorption)

Projections on working capital are critical in this respect, also in light of the wide swings experienced in the past. Working capital can experience strong swings in relation to the backlog mix at any given time. In fact, in Cruise and Offshore, typically 20% of payments are collected during the construction phase, with the remaining 80% being paid on delivery. This implies a material working capital build-up during the job execution and a decrease at the end.

Working capital build-up during the construction phase: 80% of orders to be paid at completion in Cruise and Offshore

In contrast, in Naval, the company is paid upon completion of the order, which makes for a smooth working capital profile throughout the projects execution. As such, a backlog mix with a higher proportion of projects at an advanced stage of completion (typically two to three years after periods of backlog acceleration) can mean greater working capital absorption. Conversely, a "young" backlog with a higher proportion of Naval over Cruise and Offshore yields lower working capital absorption. Our estimates for working capital and its composition are detailed in Table 33. Overall, we project a deterioration in the working capital/sales ratio from -1.8% in 2013 to +3.4% in 2016.

As for the company's reclassification, material construction loans at Vard are included in working capital and not in the net financial positions. Construction loans are credit facilities granted by financial institutions to fund specific vessels under construction. They have a guarantee on the vessel being built and are fully repaid upon delivery of the vessel, with proceeds coming from the sale and final payment by the clients. Construction loans are not a commercial loan like a payable, but a truly financial loan. In 2013, construction loans generated financial charges of EUR24m (c. 4% average cost), which we expect to increase to EUR46m in 2016, driven by higher workload at Vard. Construction loans might be expanded to Fincantieri's parent company in future, probably by the beginning of 2015 as per management's statement.

Table 35: Fincantieri - payment schedule by business segment and completion step

Segment	Construction phase	Delivery	Comment	Project development	Hull assembly	Outfitting and sea trials
Cruise	20%	80%	Working capital build-up during construction	3-5%	50-55%	40-45%
Naval	According to completion		Smooth working capital during construction	3-5%	65-75%	20-30%
Offshore	20%	80%	Working capital build-up financed through construction loans	3-5%	35-40%	55-60%

Source: Fincantieri, Kepler Cheuvreux

Backlog (end-H1 2014) delivery schedule

The following table shows delivery times for the backlog at end-H1 2014. Of 80 ships in the backlog, 13 (16%) are set to be delivered in H2 2014, 28 (35%) in both 2015 and 2016, with the rest in the following years. We highlight that delivery times are longer in Cruise and Naval and shorter in Offshore.

Table 36: Backlog (end H1 2014) – delivery schedule

Ships	H2 2014	2015	2016	2017	2018	2019	Total
Cruise	1	3	7	2	1	0	14
Naval	1	7	8	3	3	1	23
Offshore	11	18	13	1	0	0	43
Total	13	28	28	6	4	1	80
% on total	16%	35%	35%	7%	5%	1%	100%

Source: Fincantieri, Kepler Cheuvreux

Reported net debt excludes Vard's construction loans

Net debt composition

At the end of 2013, the EUR155m net debt was broken down into EUR385m cash and cash equivalents and EUR93m financial receivables, while the liabilities side included EUR70m of short-term and EUR563m of long-term debt. The latter amount includes the 2013-18 EUR300m bond issued on 19 November 2013, listed in Luxembourg, with a 3.75% yield, as part of the financing for the Vard acquisition.

Reported net debt excludes Vard's construction loans: material gap

The following table shows the reconciliation between the reported net financial debt in 2013 (EUR155m) and the amount according to ESMA's (European Securities and Markets Authority) definition, which amounts to EUR759m. This includes the construction loans, which are treated as financial loans, plus EUR41m non-current financial receivables.

Table 37: Fincantieri - net financial position (EURm)

	December 2013
Net financial position as reported	155
Non-current financial receivables	41
Construction loans	563
Net financial position according to ESMA	759

Source: Fincantieri, Kepler Cheuvreux

We project working capital and capex to penalise FCF

We project slightly negative cumulated FCF for 2014-16, due to high capex and working capital absorption

We project EUR18m negative cash flow over 2014-16 for the group, pre minorities.

Our estimates include capex still well above D&A in 2014 (EUR185m) and 2015 (EUR145m), particularly in light of the completion of the expansion of the Brazilian shipyards. The very high capex level in 2013 (EUR263m) included c. EUR100m for the construction of the new Promar shipyard. We also project cumulative working capital absorption of EUR249m, due to the financing of a growing backlog, with the bulk of payments from clients (c. 80% of the order value) in Cruise and Offshore to be cashed on delivery.

We assume zero dividends over the period

Our net debt estimates assume that Fincantieri will not distribute any dividends over the period.

Table 38: Cash flow statement

	2011	2012	2013	2014E	2015E	2016E	Average 13/16
Total net profit	9	15	85	62	107	155	
Depreciation	66	60	89	99	104	111	
Other	19	13	(20)	4	5	5	
Working capital	56	287	(249)	(181)	(35)	(33)	
Operating cash flow	150	375	(95)	(15)	181	237	
Capex	(78)	(94)	(263)	(185)	(145)	(125)	
Free cash flow	72	281	(358)	(200)	36	112	(18)
Acquisitions	0	0	(169)	0	0	0	
Disposals	10	12	8	0	0	0	
Rights issue	0	0	0	351	0	0	
Dividends	0	0	(4)	0	0	0	
Other	(16)	(60)	(91)	0	0	0	
Change of net debt	66	233	(614)	151	36	112	

Source: Fincantieri, Kepler Cheuvreux

Vard's delisting would boost net profit: our sensitivity

Our simulation

While merely a theoretical exercise, we have simulated the potential impact on Fincantieri's net profit coming from the delisting of the 44.37% stake in Vard not owned by Fincantieri.

We assume:

Voluntary offer: price paid for the previous 55.63% stake is not binding

- **A delisting price of SGD1.22 per share**, equal to the price paid for the 55.63% stake and implying a 22% premium to Vard's current market price. This would equate to a EUR400m cash-out. However, according to the "*Singapore Code on Takeovers and Mergers*" issued by the Monetary Authority of Singapore, this would be a voluntary offer and the price previously paid is not binding, as the acquisition of the 55.63% stake was made more than three months before.
- **Interest charges**: 5% on incremental net debt.
- **Tax shield** on interest charges: 38%.

Vard's delisting would boost EPS 2014-16 by 13-23%

According to our simulation, the net impact from higher interest charges and the disappearance of minorities would boost 2014/16 EPS by 13-23%. On top of this, the delisting would pave the way for industrial synergies (mostly G&A, procurement). As a point of clarification, there is no guidance that this transaction might happen at all.

Table 39: Potential impact of Vard's delisting – our simulation

EURm	**2014E**	**2015E**	**2016E**
Total net profit pre extraordinaries	86	124	165
Net profit to Fincantieri shareholders pre delisting (A)	65	91	124
Minorities	21	33	41
Total net profit	86	124	165
Interest charges @5%	-20	-20	-20
Tax shield	8	8	8
Net profit to Fincantieri shareholders post delisting (B)	74	111	153
Impact (B vs A)	+13%	+23%	+23%

Source: Kepler Cheuvreux

H1 2014 results: sound backlog, flattish EBITDA

The key points from the H1 2014 results release were: sound order intake and backlog evolution, growing revenues but declining margins and higher net debt.

H1 2014: solid book to bill (1.74x)

In H1, new orders were up strongly (+87% YOY) at EUR3,4bn, a good 1.74x book to bill (vs. 0.97x in H1 2013), with the following breakdown:

- **Shipbuilding**: new orders were up by 91% YOY at EUR2.4bn. These include 14 units, of which 4 cruise ships and 10 naval vessels. In Cruse, intake included one extra-luxury cruise ship for Seabourn (Carnival Group) with delivery in H2 2016, one extra-luxury cruise ship for an undisclosed client, two news cruise ships for MSC (EUR1.4bn overall), a large transformation programme of four cruise ships for MSC Crociere ("Renaissance program"). In Naval, we flag two Littoral Combat Ships (LCS) for the US Navy, the seventh and the eighth under the contract signed in 2010 for the ten units, plus four Response Boats for the US Coast Guard.
- **Offshore:** orders were up strongly (+87%YOY), with thirteen new vessels awarded.
- **Equipment, systems & Services**: new orders were up strongly (+92% YOY).

Table 40: Fincantieri - order intake – H1 2014

EURm	Q1 2013	Q2 2013	H1 2013	Q1 2014	Q2 2014	H1 2014
Total Order Intake	1,714	129	1,843	1,707	1,740	3,447
ow Shipbuilding	1304	(46)	1258	1004	1392	2396
ow Offshore	374	158	532	662	331	993
ow Equipment, Systems, Services	37	25	62	79	40	119
Eliminations	(1)	(8)	(9)	(38)	(23)	(61)
YoY						+87%
Shipbuilding						+91%
Offshore						+87%
Equipment, Systems, Services						+92%
Book to bill (x)	1.95	0.13	0.97	1.85	1.64	1.74
Shipbuilding	2.23	-0.07	1.05	1.76	2.08	1.93
Offshore	1.33	0.41	0.80	2.06	0.92	1.46
Equipment, Systems, Services	1.03	0.83	0.94	2.14	0.82	1.38

Source: Fincantieri, Kepler Cheuvreux

Backlog up 39%YO:

At the end of H1 2014, the order backlog was up 39% YOY. By segment, the backlog was up by 39% in Shipbuilding, driven by Cruise, up 40% in Offshore and by 66% in the smaller Equipment, Systems & Services segment. Overall, the backlog was up by 8% sequentially (vs. end-Q1 2014).

Table 41: Fincantieri – order backlog – H1 2014

EURm	Q1 2013	Q2 2013	H1 2013	Q1 2014	Q2 2014	H1 2014
Total Backlog	7,765	6,830	6,830	8,809	9,515	9,515
ow Shipbuilding	5568	4803	4803	5935	6664	6664
ow Offshore	2079	1860	1,860	2616	2608	2,608
ow Equipment, Systems, Services	135	183	183	315	304	304
Eliminations	(17)	-16	(16)	(57)	(61)	(61)
YoY				+13%	+39%	+39%
Shipbuilding				+7%	+39%	+39%
Offshore				+26%	+40%	+40%
Equipment, Sytems, Services YOY				+133%	+66%	+66%

Source: Fincantieri, Kepler Cheuvreux

In H1 2014 revenues were up 5% YOY, with wide dispersion among the different segments: Cruise revenues increased 13% YOY, on the back of solid backlog recovery; in Naval, the decline was quite sharp (-13%YOY), as the programme for the renewal on the Italian Navy fleet has not yet kicked in. Other shipbuilding also recovered nicely (+33% YOY.) Offshore benefited only in part from solid backlog growth with revenues up 3% YOY, partly penalised by the weaker NOK/EUR exchange rate. Finally, revenues in the smaller equipment, systems and services segment were up 30%, driven by after-sales services.

Revenues: +5% YOY, led by Cruise. Naval down sharply

Table 42: Fincantieri – revenues by segment – H1 2014

EURm	Q1 2013	Q2 2013	H1 2013	Q1 2014	Q2 2014	H1 2014
Total revenues	878	1,016	1,894	923	1,060	1,983
Cruise	229	315	544	275	341	616
Naval	301	240	541	233	239	472
Other Shipbuilding	55	59	114	63	89	152
Total Shipbuilding	585	614	1199	571	669	1240
Offshore	282	381	663	322	359	681
Equipment, Systems, Services	36	30	66	37	49	86
Eliminations	(25)	(9)	(34)	(7)	(17)	(24)
YoY				+5%	+4%	+5%
Cruise				20%	8%	13%
Naval				-23%	0%	-13%
Other shipbuilduing				15%	51%	33%
Total Shipbuilding				-2%	9%	3%
Offshore				14%	-6%	3%
Equipment, Systems, Services				3%	63%	30%

Source: Fincantieri, Kepler Cheuvreux

The pressure on the P&L seen in Q2 (EBITDA -12% YOY) reversed in Q2 (EBITDA +15% YOY). All in all, in H1 14 EBITDA was up 1% YOY with margin down 30bps to 7.1%. EBITDA was still helped by the release of PPA provision related to Offshore (+EUR15m in H1 14 vs. EUR23m in H1 13), with a further EUR28m to be released in H2 2014 and 2015 against losses on construction contracts in progress in Brazil. In H1 2014, EBIT declined by 3% YOY which, coupled with higher financial charges, pushed pre-tax profit down by 13%. Net profit pertaining to Fincantieri shareholders pre extraordinary charges was down 7% YOY at EUR39m while reported net profit pertaining to Fincantieri shareholders benefited from declining extraordinary charges and was up by 20% YOY at EUR24m.

P&L: pressure on profitability seen in Q1 reversed in Q2

EBITDA +1% in H1

Table 43: Fincantieri – P&L – H1 2014

EURm	Q1 2013	Q2 2013	H1 2013	Q1 2014	Q2 2014	H1 2014
Revenues	878	1016	1894	923	1060	1983
YOY				5%	4%	5%
Purchases	(616)	(770)	(1,386)	(656)	(769)	(1,425)
% on sales	(70.2%)	(75.8%)	(73.2%)	(71.1%)	(72.5%)	(71.9%)
Labour	(176)	(193)	(369)	(197)	(209)	(406)
% on sales	(20.0%)	(19.0%)	(19.5%)	(21.3%)	(19.7%)	(20.5%)
Provisions	(12)	13	1	(4)	(6)	(10)
EBITDA adj.	74	66	140	66	76	142
% margin	8.4%	6.5%	7.4%	7.2%	7.1%	7.1%
YOY				(12%)	+15	+1%
D&A	(22)	(22)	(44)	(24)	(25)	(49)
EBIT adj	52	44	96	42	51	93
% margin	5.9%	4.3%	5.1%	4.6%	4.8%	4.7%
Financial charges	(8)	(12)	(20)	(17)	(10)	(27)
Profit before tax/extraord.	44	32	76	25	41	66
Tax	(14)	(7)	(21)	(9)	(9)	(18)
Tax rate (%)	32%	22%	28%	36%	22%	27%
Net Income before extraord.	30	25	55	16	32	48
% margin	3.4%	2.5%	2.9%	1.7%	3.0%	2.4%
YOY				(47%)	+28%	(13%)
of which group	21	21	42	11	28	39
of which minorities	9	4	13	5	4	9
Extraordinaries	(9)	(23)	(33)	(8)	(13)	(21)
Tax impact on extraordinaries	3	7	10	2	4	6
Total Net profit	24	9	32	10	23	33
% margin	2.7%	0.9%	1.7%	1.1%	2.2%	1.7%
YOY				(58%)	+156%	+3%
of which group	15	5	20	5	19	24
of which minorities	9	4	13	5	4	9

Source: Fincantieri, Kepler Cheuvreux

Profitability up in Shipbuilding, down in Offshore

The EBITDA breakdown by segment shows a growing contribution from Shipbuilding with margin up 40bps YOY, despite the adverse mix (to our understanding, Naval typically enjoys higher margins than Cruise). This benefited from better capacity utilisation and improving pricing. EBITDA in Offshore fell (-14% YOY), with margin down 200bps, driven by operational issues at Vard's Niteroi and Promar Brazilian shipyards plus adverse forex.

Table 44: Fincantieri, EBITDA by segment – H1 2014

EURm	Q1 2013	Q2 2013	H1 2013	Q1 2014	Q2 2014	H1 2014
EBITDA adj.	74	66	140	66	76	142
% margin	8.4%	6.5%	7.4%	7.1%	7.1%	7.1%
YOY				(12%)	+15%	+1
Shipbuilding	36	36	72	36	44	80
% margin	6.1%	5.9%	6.0%	6.3%	6.6%	6.4%
YOY				+0%	+22%	+11%
Offshore	41	36	77	32	34	66
% margin	14.6%	9.4%	11.6%	9.8%	9.5%	9.6%
YOY				(22%)	(6%)	(14%)
Equipment, Systems, Services	3	2	5	4	5	9
% margin	8.8%	6.6%	8.4%	9.5%	10.2%	10.3%
YOY				+33%	+150%	+80%
Elimination	(6)	(8)	(14)	(6)	(7)	(13)

Source: Fincantieri, Kepler Cheuvreux

In terms of growth of the key P&L indicators, H1 accounted for slightly below 50% of our FY 2014 estimates, above pre-tax profit and 50-60% at net income level. We flag that

H2 2013 benefited from a very low tax rate (deferred taxes), which we expect to normalise in H2 2014.

Table 45: P&L trend (YOY change) in H1 2014 vs. FY2014E (KECH)

%	H1 14	FY14E	H1 as a proportion of 2014E (KECH)
Revenues	5%	8%	48%
EBITDA	1%	-1%	48%
EBIT	-3%	-6%	47%
Pre tax	-13%	-14%	49%
Net income pre- extraordinaries	-7%	-37%	60%
Net incope post- extraordinaries	20%	-29%	59%

Source: Kepler Cheuvreux

An analysis of the balance sheet highlights a sequential decrease in net financial debt (excluding construction loans) to EUR184m, versus EUR417m at end-Q1. Net working capital decreased in Q2, largely due to cash collected upon delivery of a large ship in Cruise (Regal Princess) in May. We expect some working capital build-up in H2 2014, but more than offset by the EUR351m cash-in related to the capital increase, leading to an estimate of EUR4m net debt for year-end 2014.

Net debt down sequentially in Q2 to EUR184m

Table 46: Fincantieri – balance sheet – H1 2014

EURm	FY 2013	Q1 2014	H1 2014
Accounts receivables	344	374	421
days	33	36	36
WIP net of advances	757	1,060	733
days	73	103	62
Inventories	400	444	475
days of sales	38	43	40
Other current assets	57	56	56
days of sales	5	5	5
Payables	(911)	(907)	(997)
days of sales	(87)	(88)	(85)
Construction loans	(563)	(701)	(607)
days of sales	(54)	(68)	(52)
Provisions for risks/charges	(151)	(132)	(133)
days of sales	(14)	(13)	(11)
Net working capital	(67)	194	(52)
days	(6)	19	(4)
Working Capital / Sales	(1.8%)	+10.5%	(2.5%)
Tangible assets	897	907	926
Intangible assets	539	540	548
ow goodwill	300	300	300
Financial assets	70	73	76
Employee indemnity	(60)	(60)	(60)
Other	(14)	(12)	(17)
Total fixed assets	1,432	1,448	1,473
Capital employed	1,365	1,642	1,421
Equity	968	976	985
Minorities	242	249	252
Total equity	1,210	1,225	1,237
ow tangible equity	910	925	937
Net Financial Position	155	417	184
ow cash and equivalents	(385)	(282)	(472)
ow current financial receivables	(52)	(69)	(75)
ow non current financial receivables	(41)	(17)	(15)
ow short term liabilities	70	230	179
ow long term liabilities	563	555	567

Source: Fincantieri, Kepler Cheuvreux

After EUR70m in H1, we expect the capex to accelerate in H2 leading to EUR185m in FY 2014.

Table 47: Fincantieri - cash flow – H1 2014

EURm	Q1 2014	Q2 2014	H1 2014
Total net profit	10	23	33
D&A	24	25	49
Other	(4)	(48)	(48)
Working capital	(263)	278	15
Capex	(27)	(43)	(70)
Free cash flow	(260)	235	(25)
Acquisitions	(2)	(2)	(4)
Disposals	0	0	0
Change of net debt	262	(233)	29
Initial net debt	155	417	155
Ending net debt	417	184	184

Source: Kepler Cheuvreux

Valuation

Key considerations

Working capital and construction loans

In the Offshore business, mainly represented by Vard, and also in the Cruise segment (Fincantieri) only 20% of the contract value is paid during the construction phase. The remaining 80% is paid upon vessel delivery. This generates a significant working capital build-up during the vessel construction phase.

Vard: significant working capital build-up during the construction phase...

Vard finances this working capital build-up through construction loans, which are not commercial loans, but truly financial loans. These loans are then repaid from the proceeds coming from the delivery of the vessel. Normally, Vard enters construction loans at floating rates in Norway, Singapore and Vietnam, and at fixed rates in Brazil. In 2013, interest payments on construction loans amounted to EUR24m, while the outstanding amount at year-end was EUR563m, with an average cost of c. 4%.

...financed through construction loans, with an average cost of 4%

Given the company's working capital cycle, during periods of backlog increase construction loans grow materially: we expect them to grow to EUR1.144m in 2016. This amount could be higher as this financing mechanism is progressively extended to the Cruise segment.

Amount set to grow materially until 2016

In its reporting, Fincantieri includes construction loans in working capital as a commercial payable, thus neutralising the negative impact on net debt coming from working capital build-up. However, the ESMA (European Securities and Markets Authority) classifies them as financial loans (Table 36). According to the ESMA, net financial debt at end-2013 was EUR756m.

Included in net working capital in Fincantieri's reclassification, considered financial loans by ESMA

We would maintain the company's classification of construction loans, including them in the working capital. However, consistently with Vard's accounting methodology, we would adjust Fincantieri's EBITDA and EBIT in both the peer group comparison and in the DCF calculations, subtracting the interest charges on construction loans.

We stick to the company's classification, but we adjust EBITDA and EBIT for valuation purposes

Table 48: Calculation of the equity value – bridge

	EURm
Net debt (2014 YE estimate)	(4)
Minorities (at market price)	(315)
Peripheral assets (book value)	70
Severance payment provisions (book value)	(60)
To be subtracted from EV	**(309)**

Source: Fincantieri, Kepler Cheuvreux

Table 49: EBITDA and EBIT: adjustments for construction loans charges for valuation purposes

	2014E	2015E	2016E
EBITDA	295	358	426
EBIT	196	254	316
Charges on construction loans	(33)	(39)	(46)
EBITDA adj	**262**	**319**	**380**
EBIT adj	**163**	**215**	**270**

Source: Kepler Cheuvreux

P&L: extraordinary charges and adjustments

Several negative one-offs included in extraordinary charges

As we analysed in depth in the *Financials* section, reported EBITDA and EBIT are before extraordinary charges, which were quite material in 2011-12-13, amounting to EUR51m, EUR41m and EUR80m respectively. This includes costs for the temporary layoff scheme in Italy, restructuring costs, asbestos claims and other charges.

Some positive non-recurring items above EBITDA

However, Fincantieri reports several positive items above EBITDA, notably PPA fund releases (EUR53m in 2013, and we expect a further EUR43m to be released in 2014-15, of which EUR15m should be released in H1 2014).

Given the expected decrease in extraordinary charges over the coming years, we would not make any adjustments going forward.

Focus on normalised earnings

Normalised earnings power: 2015-16

We believe 2014 does not represent normalised earning power, as it is set to be penalised by: 1) the sluggish performance of the Naval segment; and 2) ongoing operating issues at its Brazilian shipyards, which could hurt Offshore profitability. In addition, the backlog recovery underway in Cruise, plus the strong growth in the smaller Equipment, Systems & Services segment, are like to show their full effects in 2015 and 2016. As such, we would focus more on 2015 and 2016 earnings to derive our valuation.

Value of Vard's minorities

Value of Vard's minorities

We estimate minorities, coming from the 44.37% stake in Vard not owned, to absorb c.30% of the group's cumulated net profit over 2014-16. Minorities are worth EUR315m based on Vard's current share price (SGD1). If minorities are paid SGD/1.22 per share (the price paid to buy the 55.63% stake), their value would be EUR385m.

Peripheral assets and severance pay

Peripheral assets and severance pay

To calculate the equity value, it is necessary to consider peripheral assets (2013: EUR70m book value) and deduct severance payment provisions (2013: EUR60m, book value).

Comparative analysis

Peer group selection

We base our valuation on a panel that includes:

- **Shipbuilders**: we include Mitsui Engineering and Shipbuilding and Daewoo Shipbuilding, with a business mix skewed towards large-scale production of standard vessels with mass production in single locations. We also include some specialised players: Sembcorp (active in marine and offshore engineering, ship repair, shipbuilding and conversion), Keppel Offshore & Marine (active in the repair, conversion and upgrade of a diverse range of vessels), and Austal (a prime defence contractor also involved in the LCS program (US) and active in the high-speed ferry market).

Peer group a mix of 1) shipbuilders, 2) A&D and most comparable capital goods companies

- **A&D and capital goods companies**, whose drivers are similar to Fincantieri's Naval division. We include a number of listed A&D players. In our view, the most similar to Fincantieri in terms of business mix and drivers are: BAE Systems (whose Maritime division is involved in the design and manufacture of naval ships and submarines), General Dynamics (active in the design and construction of a diverse portfolio of ships for the US Navy and commercial customers, including nuclear-powered submarines, surface combatants and combat-logistic ships), and Huntington Ingalls (which designs, builds and maintains nuclear and non-nuclear ships for the US Navy and coast Guard and provides after-market services for military ships). Finmeccanica also has similar drivers to Fincantieri's Naval division, as it is highly exposed to Italy and the US. It is currently undergoing restructuring and should be considered a special situation.

Growth and margins: comparative analysis

We have calculated:

- CAGRs 2013-16E for revenues, EBITDA and EBIT.
- EBITDA and EBIT margin for 2013-16E.

Fincantieri's margins aligned with shipbuilders, below A&D and capital goods peers

In terms of growth, Fincantieri is in line with its shipbuilding peers on sales but below on EBITDA and EBIT growth. We believe this is due to: 1) material one-offs above EBITDA which boost metrics in the target year (2013), notably PPA fund releases, which depress the CAGR; and 2) below-average growth in its Naval division (a drop in 2014 followed by some recovery in 2015-16), as per our projections. Fincantieri's revenues growth is however significantly higher than its A&D/capital goods peers, while more in line for EBITDA and EBIT growth.

In terms of margins, Fincantieri scores pretty much in line with its shipbuilding peers and materially below its A&D and capital goods peers.

Table 50: Fincantieri - peers selection – key metrics

	CAGR 2013/16E			EBITDA margin				EBIT margin			
	Revenues	EBITDA	EBIT	2013	2014E	2015E	2016E	2013	2014E	2015E	2016E
SHIPBUILDING											
Mitsui Eng.Shipbuilding	11.5%	5.1%	6.1%	6.9%	5.2%	4.6%	5.9%	4.2%	3.0%	2.5%	3.6%
Sembcorp	9.7%	12.5%	11.5%	12.6%	13.7%	13.8%	13.6%	10.8%	11.3%	11.3%	11.4%
Keppel Offshore	7.9%	10.2%	10.4%	15.1%	16.2%	16.5%	16.1%	13.2%	14.0%	14.3%	14.1%
Austal	10.4%	37.0%	77.4%	4.2%	8.0%	8.1%	8.0%	1.5%	5.8%	6.0%	6.2%
Daewoo Shipbuilding	6.0%	32.1%	35.6%	4.6%	5.7%	6.8%	7.9%	2.9%	3.4%	4.7%	6.3%
Average - shipbuilding	9.2%	21.6%	30.8%	8.1%	9.4%	9.8%	10.3%	6.1%	7.2%	7.7%	8.4%
Median - shipbuilding	9.6%	22.3%	23.6%	6.4%	7.8%	8.5%	9.1%	4.0%	5.9%	6.7%	7.6%
A&D, CAPITAL GOODS											
BAE Systems	-1.5%	-0.9%	-3.1%	12.4%	12.4%	12.4%	12.6%	10.6%	9.9%	10.1%	10.1%
Airbus	3.2%	19.5%	25.1%	7.8%	11.1%	11.9%	12.1%	3.6%	4.5%	6.3%	6.4%
Boeing	3.1%	8.7%	9.3%	9.6%	10.3%	10.9%	11.3%	8.2%	8.7%	9.4%	9.9%
Babcock	17.5%	23.3%	n.m.	11.0%	12.9%	13.1%	13.0%	7.8%	10.7%	10.8%	10.6%
SAAB	4.2%	9.9%	17.4%	10.0%	11.9%	12.3%	11.7%	5.7%	7.3%	8.0%	8.1%
Rolls Royce	3.6%	9.4%	8.1%	14.0%	16.1%	16.5%	16.5%	10.8%	11.7%	11.9%	12.3%
General Dynamics	-0.2%	2.5%	3.0%	13.6%	14.0%	14.4%	14.7%	11.8%	12.2%	12.0%	13.0%
MTU	4.8%	4.4%	2.5%	12.6%	13.0%	13.0%	12.5%	10.1%	9.4%	9.4%	9.4%
Wärtsilä	4.8%	9.4%	12.0%	13.0%	13.4%	14.4%	14.7%	10.3%	10.9%	12.3%	12.6%
Huntington Ingalls	-0.4%	10.4%	14.1%	10.8%	13.3%	14.1%	14.7%	7.5%	9.9%	10.7%	11.3%
Average - A&D, cap goods	3.6%	10.2%	12.4%	10.7%	11.9%	12.5%	12.1%	7.5%	8.6%	9.1%	9.4%
Median - A&D, cap goods	3.8%	10.6%	10.9%	11.3%	11.5%	11.9%	12.3%	8.6%	8.6%	8.8%	8.9%
Fincantieri	12.0%	12.7%	14.7%	7.8%	7.2%	7.5%	8.0%	5.5%	4.8%	5.3%	5.9%

Source: Thomson Reuters, Bloomberg, Kepler Cheuvreux,

Peer group valuation multiples

We show trading multiples (EV/EBITDA, EV/EBIT, P/E) over 2014-16E for the selected sample of peers.

We would focus on 2015-16 multiples. As clarified in *Key considerations*, we believe 2014 is not representative of normalised earnings power, as it is likely to be penalised by the decline in the Naval business segment and ongoing operating issues at its Brazilian shipyards, which could hurt Offshore profitability. In addition, the backlog recovery underway in Cruise, plus the strong growth in the smaller Equipment, Systems & Services segment are like to show their full effects in 2015-16.

We subtract interest charges on construction loans from EBITDA and EBIT, as construction loans are excluded from NFP

While we would exclude construction loans from NFP (as per Fincantieri's reporting), at the same time we believe it is fair to subtract interest charges on construction loans from EBITDA and EBIT to derive EV, as in Vard's accounting methodology (different from Fincantieri's methodology). This is clearly neutral on a P/E-based valuation.

Outcome: high dispersion

Valuation on P/E is the most conservative, as it captures high taxes and financial charges

The outcome of the valuation exercise based on peer multiples shows a high dispersion when comparing EV-based multiples and P/E multiples. Based on average 2014-16E EV/EBITDA and EV/EBIT multiples, the fair value would be EUR1.31 and EUR1.14 per share respectively. Based on average P/E applied to Fincantieri's adjusted net profit (pre extraordinary charges), the fair value is substantially below, and equal to EUR0.65 per share. We believe valuation based on P/E better captures the high financial charges (largely related to construction loans) and tax rates compared with peers

Table 51: Fincantieri – valuation based on peers multiples

	Country (listing)	EV/EBITDA 2014E	EV/EBITDA 2015E	EV/EBITDA 2016E	EV/EBIT 2014E	EV/EBIT 2015E	EV/EBIT 2016E	P/E 2014E	P/E 2015E	P/E 2016E
Shipbuilding										
Vard Holdings	Singapore	11.1	7.9	6.6	14.2	9.8	8.0	11.0	7.9	6.3
Mitsui Engineering	Japan	9.7	8.4	7.7	n.a.	n.a.	n.a.	14.5	11.8	9.6
Sembcorp	Singapore	9.1	8.3	7.7	11.0	10.2	9.5	14.3	13.2	12.3
Keppel Offshore	Singapore	11.9	10.9	10.6	14.0	12.7	12.3	12.5	11.5	11.0
Austal	Australia	6.0	5.5	5.1	8.3	7.3	6.6	11.1	9.3	8.3
Daewoo Shipbuilding	Korea	11.9	9.6	7.9	20.2	13.7	10	10.9	8.3	6.1
Average - Shipbuilding		10.0	8.4	7.6	13.5	10.7	9.3	12.4	10.3	8.9
Median - Shipbuilding		10.4	8.4	7.7	14.0	10.2	9.5	11.8	10.4	9.0
A&D, Capital Goods										
Finmeccanica	Italy	6.2	5.5	4.9	11	9.4	8.1	n.m.	15.0	11.7
BAE Systems	UK	7.1	6.9	6.7	8.8	8.5	8.4	11.3	10.8	10.0
Airbus Group	France	6.1	5.7	5.1	10.0	9.0	7.7	14.3	12.5	10.9
Boeing	US	9.1	8.1	7.9	11.3	10.1	9.9	15.2	14.6	13.7
Babcock	UK	10.4	9.0	8.5	12.5	10.8	9.2	15.8	13.6	12.2
SAAB	Sweden	6.6	5.7	5.8	10.7	7.9	7.8	16.7	12.6	13.3
Rolls Royce	UK	7.7	7.4	7.1	10.8	10.0	9.3	16.2	14.8	13.7
General Dynamics	US	9.1	8.9	8.5	10.5	10.6	10.4	15.7	14.7	13.4
MTU Engines	Germany	7.8	7.2	6.6	10.8	10.2	9.6	14.2	13.4	12.5
Wärtsilä	Finland	11.3	10.1	9.5	13.8	12.1	11.1	18.1	15.1	13.9
Huntington Ingalls	US	6.4	6.2	6.0	8.5	8.0	7.7	12.2	11.3	10.3
Average - A&D, Cap goods		8.0	7.3	7.0	10.8	9.7	9.0	15.0	13.5	12.4
Median - A&D, Cap goods		7.7	7.2	6.7	10.8	10.0	9.2	15.5	13.6	12.5
Total median		9.1	7.8	7.2	12.4	10.1	9.4	13.6	12.0	10.7
Fincantieri EBITDA adj for CL		262	319	380						
Fincantieri EBIT adj for CL					163	215	270			
Fincantieri Net Profit adj								65	91	124
EV - median panel		2373	2483	2739	2024	2175	2522			
NFP (2014E)		(4)	(4)	(4)	(4)	(4)	(4)			
Minorities		(315)	(315)	(315)	(315)	(315)	(315)			
Peripheral assets		70	70	70	70	70	70			
Pensions		(60)	(60)	(60)	(60)	(60)	(60)			
Equity value - median panel		2064	2174	2430	1714	1866	2213	892	1087	1332
nuber of shares		1692	1692	1692	1692	1692	1692	1692	1692	1692
Equity value per share		**1.22**	**1.28**	**1.44**	**1.01**	**1.10**	**1.30**	**0.53**	**0.64**	**0.79**
Average equity value p.s.			1.31			1.14			0.65	

Source: Bloomberg, Thomson Reuters, Kepler Cheuvreux

Absolute valuation approach: DCF

Main variables and assumptions

DCF assumptions

DCF is useful in as much as it is based on long-term expected future cash flows, rather than on more volatile near-term P&L figures. In our opinion, a DCF valuation for Fincantieri should be based on the following main assumptions:

Our key assumptions are:

- **A WACC** of 8.1%, based on a 3.5% risk-free rate, 4.5% market risk premium, 1.15x beta and 10% leverage (debt/equity) over the long term.
- **Terminal growth**: 1%, which coupled with our WACC, implies 6.1x EV/EBITDA in the terminal year.

- **Top-line growth:** after our analytical period (2014-16), we assume a fading period from 11.6% top-line growth in 2016E to 3% top-line growth in 2020-23, with 8% in 2017, 6% in 2018 and 5% in 2019.
- **EBIT margin**: we assume 5% over the long term (terminal year), below our 2016 projection (5.8%) and which we believe represents a reasonable mid-cycle EBIT margin for Fincantieri. Given our assumption of 2.2% D&A/revenues over the long term, this corresponds to a normalised 7.2% EBITDA margin.
- **Adjustment to incorporate charges on construction loans**: as we exclude construction loans from NFP, in calculating free cash flows we also we adjust EBIT by subtracting construction loan interest charges.
- **Capex and D&A/sales ratio**: we assume convergence at 2.2% over the long term.

Under these assumptions, our DCF returns a fair value of EUR1.03 per share.

Table 52: Fincantieri – DCF valuation

EURm	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	Terminal value
Sales	4,109	4,797	5,355	5,784	6,131	6,437	6,630	6,829	7,034	7,245	
% growth		16.8%	11.6%	8.0%	6.0%	5.0%	3.0%	3.0%	3.0%	3.0%	
EBIT reported	196.3	254.3	315.5	335.4	355.6	366.9	364.7	361.9	358.7	359.4	
EBIT Margin	4.8%	5.3%	5.9%	5.8%	5.8%	5.7%	5.5%	5.3%	5.1%	5.0%	
Interests on C.L.	(33.1)	(38.9)	(45.8)	(45.3)	(44.4)	(46.6)	(48.0)	(49.5)	(51.0)	(52.5)	
EBIT adjusted for C.L.	163.2	215.4	269.8	290.1	311.2	320.3	316.6	312.5	307.8	306.9	306.9
Cash Taxes on EBIT	(62.0)	(81.8)	(102.5)	(110.2)	(118.2)	(121.7)	(120.3)	(118.7)	(117.0)	(116.6)	(116.6)
NOPAT	101.2	133.5	167.3	179.9	192.9	198.6	196.3	193.7	190.8	190.3	190.3
D&A	99.0	104.0	110.7	118.6	125.7	135.2	139.2	150.2	154.7	159.4	
on sales	2.4%	2.2%	2.1%	2.1%	2.1%	2.1%	2.1%	2.2%	2.2%	2.2%	
Capex	(185.0)	(145.0)	(125.0)	(127.2)	(134.9)	(141.6)	(145.9)	(150.2)	(154.7)	(159.4)	
Capex on sales	-4.5%	-3.0%	-2.3%	-2.2%	-2.2%	-2.2%	-2.2%	-2.2%	-2.2%	-2.2%	
Delta NWC	(180.5)	(35.4)	(33.5)	(17.1)	(13.9)	(12.3)	(7.7)	(8.0)	(8.2)	(8.4)	
Cash flow	(165.4)	57.2	119.4	154.1	169.8	179.9	182.0	185.8	182.6	181.8	2,661.5
year	1	2	3	4	5	6	7	8	9	10	
Present value	(152.9)	48.9	94.4	112.6	114.8	112.4	105.2	99.3	90.2	83.1	

Risk free rate	3.5%
Equity Risk Premium	4.5%
Beta	1.15
Cost of equity	8.7%
Gross cost of debt	5.5%
Cost of debt	3.4%
tax rate	33.0%
leverage	10.0%
WACC	**8.1%**
Long term growth	**1.0%**

DCF valuation		
PV of cash flows 14-23E	708	38%
PV of Terminal value	1136	62%
Enterprise value	**1844**	**100%**
Net debt 2013A	-155	
Financial investments	70	
Pension funds	(60)	
Minorities	(315)	
Capital increase	351	
Equity Value	**1735**	
number of shares	1692.1	
Equity value per share	1.03	

Source: Kepler Cheuvreux

EV/CE versus ROCE/WACC

EV/CE vs. ROCE/WACC on 2015E returns EUR0.92 per share

We have also run a valuation based on EV/CE versus ROCE/WACC on 2014/16E. We project ROCE post tax to increase from 7.7% in 2014 to 11.8%. This approach, based on 2015, which we believe represents fairly normalised earnings, yield a fair value of EUR0.92 per share.

Stock is now trading at 0.81x P/BV 2014E

The 18% share price decline since the IPO has left the stock trading at 0.81x P/BV 2014E, which we believe is becoming moderately attractive, given the expected ROE progression of up to 8% in 2016.

Table 53: Fincantieri – valuation based on EV/CE vs. ROCE /WACC

	2014E	2015E	2016E
ROCE pre tax	12.1%	15.0%	18.1%
A.ROCE post tax	7.7%	9.6%	11.8%
B.WACC	8.1%	8.1%	8.1%
Ratio ROCE/WACC	0.95	1.18	1.45
EV	1542	1997	2517
Capital employed	1627	1699	1742
Ratio EV/CE	0.95	1.18	1.45
EV equilibrium (no growth)	1542	1997	2517
Minorities	(315)	(315)	(315)
Net Debt	(4)	31	143
Equity value - equilibrium	1224	1715	2347
Equity value actualised	1224	1559	1940
Fair equity value per share	0.72	0.92	1.15
Upside	11%	42%	76%
Stock price	0.65	0.65	0.65
P/BV	**0.81**	**0.77**	**0.71**
ROE adj	**4.8%**	**6.3%**	**8.0%**

Source: Kepler Cheuvreux

Valuation conclusion: Buy, with a TP of EUR0.85

At its current price, the stock is trading in line with the fair value derived from P/E (EUR0.65ps), which is by far the most conservative valuation method as it takes into account higher than average tax rate and financial charges. On the other hand, upside based on all the other valuation methods is quite attractive. We believe that at the current price, which follows an 18% decline since the IPO, the stock is not pricing in the attractive growth that we project (13% EBITDA CAGR 13/16). We initiate coverage with Buy and a TP of EUR0.85.

Table 54: Fincantieri – valuation conclusions

Peers EV/EBITDA	1.31
Peers EV/EBIT	1.14
Peers P/E	0.65
EV/CE vs. ROCE WACC	0.92
DCF	1.03
KECH TP	0.85

Source: Kepler Cheuvreux

Valuation

FY to 31/12 (EUR)	2009	2010	2011	2012	2013	2014E	2015E	2016E
Per share data								
EPS adjusted			0.03	0.04	0.09	0.04	0.05	0.07
% Change				2.3%	147.7%	-49.2%	20.0%	37.1%
EPS adjusted and fully diluted			0.03	0.04	0.09	0.04	0.05	0.07
% Change				2.3%	147.7%	-49.2%	20.0%	37.1%
EPS reported			0.01	0.01	0.05	0.03	0.04	0.07
% Change				87.5%	280.0%	-39.5%	58.2%	53.1%
EPS Consensus								
Cash flow per share			0.12	0.30	-0.08	-0.01	0.11	0.14
Book value per share			0.75	0.76	0.78	0.93	0.85	0.91
DPS			0.00	0.00	0.00	0.00	0.00	0.00
Number of shares, YE (m)			1,242.1	1,242.1	1,242.1	1,692.1	1,692.1	1,692.1
Number of shares, fully diluted, YE (m)			1,242.1	1,242.1	1,242.1	1,692.1	1,692.1	1,692.1
Share price								
Latest price / year end						0.6	0.6	0.6
52 week high (Year high)						0.8		
52 week low (Year low)						0.6		
Average price (Year)						0.6		
Enterprise value (EURm)								
Market capitalisation						1,097.3	1,097.3	1,097.3
Net financial debt			-226.0	-459.0	155.0	4.4	-31.2	-143.2
Pension provisions			65.0	71.0	60.0	63.0	66.2	69.5
Market value of minorities	0.0	0.0	0.0	0.0	0.0	315.0	315.0	315.0
Market value of equity affiliates (net of tax)	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Others			226.0	459.0	-155.0	-70.0	-70.0	-70.0
Enterprise value						1,409.7	1,377.2	1,268.6
Valuation								
P/E adjusted						14.5	12.1	8.8
P/E adjusted and fully diluted						14.5	12.1	8.8
P/E consensus								
P/BV						0.7	0.8	0.7
P/CF						na	6.1	4.6
Dividend yield (%)						0.0%	0.0%	0.0%
FCF yield (%)						-12.1%	2.2%	7.5%
ROE (%)				4.6%	10.1%	4.6%	5.4%	6.9%
ROIC (%)				7.7%	13.1%	8.0%	9.3%	11.2%
EV/Sales						0.34	0.29	0.24
EV/EBITDA						4.8	3.8	3.0
EV/EBIT						7.2	5.4	4.0

Income statement

FY to 31/12 (EURm)	2011	2012	2013	2014E	2015E	2016E
Sales	**2,380.0**	**2,381.0**	**3,811.0**	**4,108.7**	**4,797.0**	**5,355.2**
% Change	na	0.0%	60.1%	7.8%	16.8%	11.6%
EBITDA reported	**141.0**	**147.0**	**298.0**	**295.3**	**358.3**	**426.2**
% Change	na	4.3%	102.7%	-0.9%	21.3%	19.0%
Depreciation and amortisation	-66.0	-60.0	-89.0	-99.0	-104.0	-110.7
Goodwill impairment	0.0	0.0	0.0	0.0	0.0	0.0
Other financial result and associates	0.0	0.0	0.0	0.0	0.0	0.0
EBIT reported	**75.0**	**87.0**	**209.0**	**196.3**	**254.3**	**315.5**
% Change	na	16.0%	140.2%	-6.1%	29.5%	24.1%
Net financial items	-1.0	-12.0	-55.0	-63.2	-63.2	-64.4
Associates	0.0	1.0	2.0	2.0	2.0	3.0
Others	-35.0	-29.0	-52.0	-24.7	-16.3	-10.4
Earnings before tax	**39.0**	**47.0**	**104.0**	**110.4**	**176.9**	**243.8**
% Change	na	20.5%	121.3%	6.1%	60.3%	37.8%
Tax	-30.0	-32.0	-19.0	-48.6	-69.5	-89.0
Net profit from continuing operations	**9.0**	**15.0**	**85.0**	**61.7**	**107.3**	**154.8**
% Change	na	66.7%	466.7%	-27.4%	73.9%	44.2%
Net profit from discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	**9.0**	**15.0**	**85.0**	**61.7**	**107.3**	**154.8**
Minorities	-1.0	0.0	-28.0	-21.0	-33.0	-41.0
Net profit reported	**8.0**	**15.0**	**57.0**	**40.7**	**74.3**	**113.8**
% Change	na	87.5%	280.0%	-28.5%	82.5%	53.1%
Adjustments	35.0	29.0	52.0	24.7	16.3	10.4
Net profit adjusted	**43.0**	**44.0**	**109.0**	**65.4**	**90.6**	**124.2**
% Change	na	2.3%	147.7%	-40.0%	38.4%	37.1%
Gross profit	612.0	654.0	1,066.0	1,126.1	1,250.4	1,383.0
EBITDA adjusted	141.0	147.0	298.0	295.3	358.3	426.2
EBIT adjusted	75.0	87.0	209.0	196.3	254.3	315.5
Gross profit margin (%)	25.7%	27.5%	28.0%	27.4%	26.1%	25.8%
EBITDA margin (%)	5.9%	6.2%	7.8%	7.2%	7.5%	8.0%
EBIT margin (%)	3.2%	3.7%	5.5%	4.8%	5.3%	5.9%
Net profit margin (%)	1.8%	1.8%	2.9%	1.6%	1.9%	2.3%
Tax rate (%)	40.5%	42.1%	12.2%	36.0%	36.0%	35.0%
Payout ratio (%)	na	0.0%	26.7%	0.0%	0.0%	0.0%
EPS reported (EUR)	0.01	0.01	0.05	0.03	0.04	0.07
% change	na	87.5%	280.0%	-39.5%	58.2%	53.1%
EPS adjusted (EUR)	0.03	0.04	0.09	0.04	0.05	0.07
% change	na	2.3%	147.7%	-49.2%	20.0%	37.1%
EPS adj and fully diluted(EUR)	0.03	0.04	0.09	0.04	0.05	0.07
% change	na	2.3%	147.7%	-49.2%	20.0%	37.1%
DPS (EUR)	0.00	0.00	0.00	0.00	0.00	0.00
% change	na	na	na	na	na	na
Consensus Sales (EURm)				na	na	na
Consensus EBITDA (EURm)				na	na	na
Consensus EBIT (EURm)				na	na	na
Consensus EPS (EUR)				na	na	na
Consensus DPS (EUR)				na	na	na

Cash flow statement

FY to 31/12 (EURm)	2011	2012	2013	2014E	2015E	2016E
Net profit before minorities	9.0	15.0	85.0	61.7	107.3	154.8
Depreciation and amortisation	66.0	60.0	89.0	99.0	104.0	110.7
Goodwill impairment	0.0	0.0	0.0	0.0	0.0	0.0
Change in working capital	56.0	287.0	-249.0	-180.5	-35.4	-33.5
Others	19.0	13.0	-20.0	4.4	4.7	5.0
Cash Flow from operating activities	**150.0**	**375.0**	**-95.0**	**-15.4**	**180.6**	**237.0**
% Change	na	150.0%	na	na	na	31.2%
Capex	-78.0	-94.0	-263.0	-185.0	-145.0	-125.0
Free cash flow	**72.0**	**281.0**	**-358.0**	**-200.4**	**35.6**	**112.0**
% Change	na	290.3%	na	na	na	214.2%
Acquisitions	0.0	0.0	-169.0	0.0	0.0	0.0
Divestments	10.0	12.0	8.0	0.0	0.0	0.0
Dividend paid	0.0	0.0	-4.0	0.0	0.0	0.0
Share buy back	0.0	0.0	0.0	351.0	0.0	0.0
Capital increases	0.0	0.0	0.0	0.0	0.0	0.0
Others	-16.0	-60.0	-91.0	0.0	0.0	0.0
Change in net financial debt	**66.0**	**233.0**	**-614.0**	**150.6**	**35.6**	**112.0**
Change in cash and cash equivalents	na	261.0	-276.0	150.6	35.6	112.0
Attributable FCF	64.0	281.0	-240.1	-132.2	24.7	82.3
Cash flow per share (EUR)	0.12	0.30	-0.08	-0.01	0.11	0.14
% Change	na	150.0%	na	na	na	31.2%
FCF per share (EUR)	0.05	0.23	-0.19	-0.09	0.01	0.05
% Change	na	339.1%	na	na	na	233.5%
Capex / Sales (%)	3.3%	3.9%	6.9%	4.5%	3.0%	2.3%
Capex / D&A (%)	118.2%	156.7%	295.5%	186.9%	139.4%	113.0%
Cash flow / Sales (%)	6.3%	15.7%	-2.5%	-0.4%	3.8%	4.4%
FCF / Sales (%)	3.0%	11.8%	-9.4%	-4.9%	0.7%	2.1%
FCF Yield (%)	na	na	na	-12.1%	2.2%	7.5%
Unlevered FCF Yield (%)	na	na	na	-5.9%	5.4%	10.6%

Balance sheet

FY to 31/12 (EURm)	2011	2012	2013	2014E	2015E	2016E
Cash and cash equivalents	493.0	754.0	478.0	628.6	664.2	776.2
Inventories	425.0	217.0	1,157.0	1,519.6	1,747.9	1,980.7
Accounts receivable	318.0	268.0	344.0	506.5	657.1	762.9
Other current assets	107.0	116.0	57.0	34.8	43.8	50.4
Current assets	**1,343.0**	**1,355.0**	**2,036.0**	**2,689.5**	**3,113.1**	**3,570.2**
Tangible assets	555.0	585.0	897.0	970.1	1,005.0	1,017.1
Goodwill	62.0	60.0	300.0	300.0	300.0	300.0
Other Intangible assets	48.0	44.0	239.0	251.9	258.1	260.2
Financial assets	16.0	17.0	70.0	70.0	70.0	70.0
Other non-current assets	0.0	0.0	0.0	0.0	0.0	0.0
Non-current assets	**681.0**	**706.0**	**1,506.0**	**1,592.0**	**1,633.0**	**1,647.4**
Short term debt	187.0	149.0	70.0	70.0	70.0	70.0
Accounts payable	577.0	597.0	1,474.0	1,778.5	2,102.8	2,391.5
Other short term liabilities	114.0	101.0	151.0	168.8	197.1	220.1
Current liabilities	**878.0**	**847.0**	**1,695.0**	**2,017.4**	**2,369.9**	**2,681.6**
Long term debt	80.0	146.0	563.0	563.0	563.0	563.0
Pension provisions	65.0	71.0	60.0	63.0	66.2	69.5
Other long term provisions	50.0	40.0	14.0	15.4	16.9	18.6
Other long term liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**195.0**	**257.0**	**637.0**	**641.4**	**646.1**	**651.1**
Shareholders' equity	934.0	940.0	968.0	1,359.7	1,434.1	1,547.9
Minority interests	17.0	17.0	242.0	263.0	296.0	337.0
Total equity	**951.0**	**957.0**	**1,210.0**	**1,622.7**	**1,730.1**	**1,884.9**
Balance sheet total	**2,024.0**	**2,061.0**	**3,542.0**	**4,281.5**	**4,746.1**	**5,217.5**
% Change	na	1.8%	71.9%	20.9%	10.9%	9.9%
Book value per share (EUR)	0.75	0.76	0.78	0.93	0.85	0.91
% Change	na	0.6%	3.0%	18.9%	-8.6%	7.9%
Net debt	-161.0	-388.0	215.0	67.4	34.9	-73.8
Net financial debt	-226.0	-459.0	155.0	4.4	-31.2	-143.2
Trade working capital	166.0	-112.0	27.0	247.6	302.3	352.1
Working capital	159.0	-97.0	-67.0	113.5	148.9	182.4
Inventories/sales	17.9%	9.1%	30.4%	37.0%	36.4%	37.0%
Invested capital	840.0	609.0	1,439.0	1,705.5	1,781.9	1,829.8
Net debt / EBITDA (x)	-1.1	-2.6	0.7	0.2	0.1	-0.2
Net debt / FCF (x)	-2.2	-1.4	-0.6	-0.3	1.0	-0.7
Gearing (%)	-23.8%	-48.0%	12.8%	0.3%	-1.8%	-7.6%
Goodwill / Equity (%)	6.5%	6.3%	24.8%	18.5%	17.3%	15.9%

Divisions and regions

FY to 31/12 (EUR)	2009	2010	2011	2012	2013	2014E	2015E	2016E
Key assumptions								
EUR-USD	1.4	1.3	1.3	1.4	1.3	1.3	1.4	1.4
Sales by division								
Total Shipbuilding			2,288.0	2,292.0	2,394.0	2,547.9	3,031.1	3,403.9
Offshore			0.0	0.0	1,321.0	1,426.7	1,583.6	1,726.1
by division								
Total Shipbuilding			156.0	157.0	155.0	160.5	197.0	231.5
Offshore			0.0	0.0	155.0	139.8	161.5	189.9
Equipment, Systems, Services			10.0	15.0	14.0	20.0	26.7	34.9
Other/Elisions			-25.0	-25.0	-26.0	-25.0	-27.0	-30.0
Total Shipbuilding (%)			6.8%	6.8%	6.5%	6.3%	6.5%	6.8%
Offshore (%)					11.7%	9.8%	10.2%	11.0%
Geographic breakdown of sales, adjusted (%)								
Eurozone	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which Austria	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which Benelux	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which Benelux	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which Finland	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which France	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which Germany	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which Italy	0.0%	0.0%	35.0%	37.0%	24.0%	21.6%	21.3%	21.2%
of which Spain	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which Portugal	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which Others	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Europe ex Eurozone	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which Russia	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
North America	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Latam	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which Brazil	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Asia	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which China	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which India	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which Japan	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Middle East	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Currency exposure of sales (%)								
EUR	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CHF	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
DKK	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
NOK	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SEK	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
USD	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
GBP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
JPY	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Hedging policy	The company does not hedge currency exposure							

Research ratings and important disclosures

Disclosure checklist - Potential conflict of interests

Stock	ISIN	Disclosure (See Below)	Currency	Price
Airbus Group	NL0000235190	15, 17, 19	EUR	43.35
AUSTAL	AU000000ASB3	nothing to disclose	AUD	1.09
Babcock	GB0009697037	nothing to disclose	GBP	1,100.00
BAE Systems	GB0002634946	nothing to disclose	GBP	428.60
Boeing	US0970231058	nothing to disclose	USD	120.80
Bourbon	FR0004548873	nothing to disclose	EUR	20.97
DAEWOO SHIPBLDG.& MAR. ENGR.	KR7042660001	nothing to disclose	KRW	24100
DRESSER-RAND GROUP	US2616081038	nothing to disclose	USD	63.32
ENI	IT0003132476	14, 16, 18	EUR	18.39
ENSCO CLASS A	GB00B4VLR192	nothing to disclose	USD	49.58
Farstad Shipping	NO0003215303	nothing to disclose	NOK	113.00
Fincantieri	IT0001415246	14, 16, 18	EUR	0.65
Finmeccanica	IT0003856405	14, 16, 18	EUR	6.62
GENERAL DYNAMICS	US3695501086	nothing to disclose	USD	117.82
GENERAL ELECTRIC	US3696041033	nothing to disclose	USD	25.79
HNTGTN.INGALLS INDS.	US4464131063	nothing to disclose	USD	96.03
KEPPEL	SG1U68934629	nothing to disclose	SGD	10.84
Kongsberg Gruppen AS	NO0003043309	nothing to disclose	NOK	136.50
L3 COMMUNICATIONS HDG.	US5024241045	nothing to disclose	USD	104.12
MITSUBISHI	JP3898400001	nothing to disclose	JPY	2088.5
MITSUI ENGR.& SHIPBLDG.	JP3891600003	nothing to disclose	JPY	205
MTU Aero Engines	DE000A0D9PT0	nothing to disclose	EUR	63.45
NOBLE	GB00BFG3KF26	nothing to disclose	USD	27.16
Rolls Royce Holdings	GB00B63H8491	nothing to disclose	GBP	1,046.00
ROWAN COMPANIES CL.A	GB00B6SLMV12	nothing to disclose	USD	29.74
ROYAL IMTECH	NL0006055329	nothing to disclose	EUR	0.339
Saab	SE0000112385	nothing to disclose	SEK	181.70
Saipem	IT0000068525	nothing to disclose	EUR	17.32
SEMBCORP MARINE	SG1H97877952	nothing to disclose	SGD	4
SHIN-NIPPON AIR TECHS.	JP3380250005	nothing to disclose	JPY	787
SIEM OFFSHORE	KYG813131011	nothing to disclose	NOK	7.87
Siemens	DE0007236101	nothing to disclose	EUR	90.47
Solstad Offshore	NO0003080608	nothing to disclose	NOK	100.00
Subsea 7	LU0075646355	nothing to disclose	NOK	106.50
Technip	FR0000131708	6	EUR	68.27
Tidewater	US8864231027	nothing to disclose	USD	49.54
VARD HOLDINGS	SG2C47963963	nothing to disclose	SGD	1.005
Vinci	FR0000125486	nothing to disclose	EUR	47.96
Wärtsilä	FI0009003727	nothing to disclose	EUR	36.01

Source: Factset closing prices of 11/08/2014

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Buy	43.0%	0.0%
Hold	32.0%	0.0%
Reduce	21.0%	0.0%
Not Rated/Under Review/Accept Offer	4.0%	0.0%
Total	100.0%	0.0%

Source: Kepler Cheuvreux
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B: % of issuers to which Investment Banking Services are supplied

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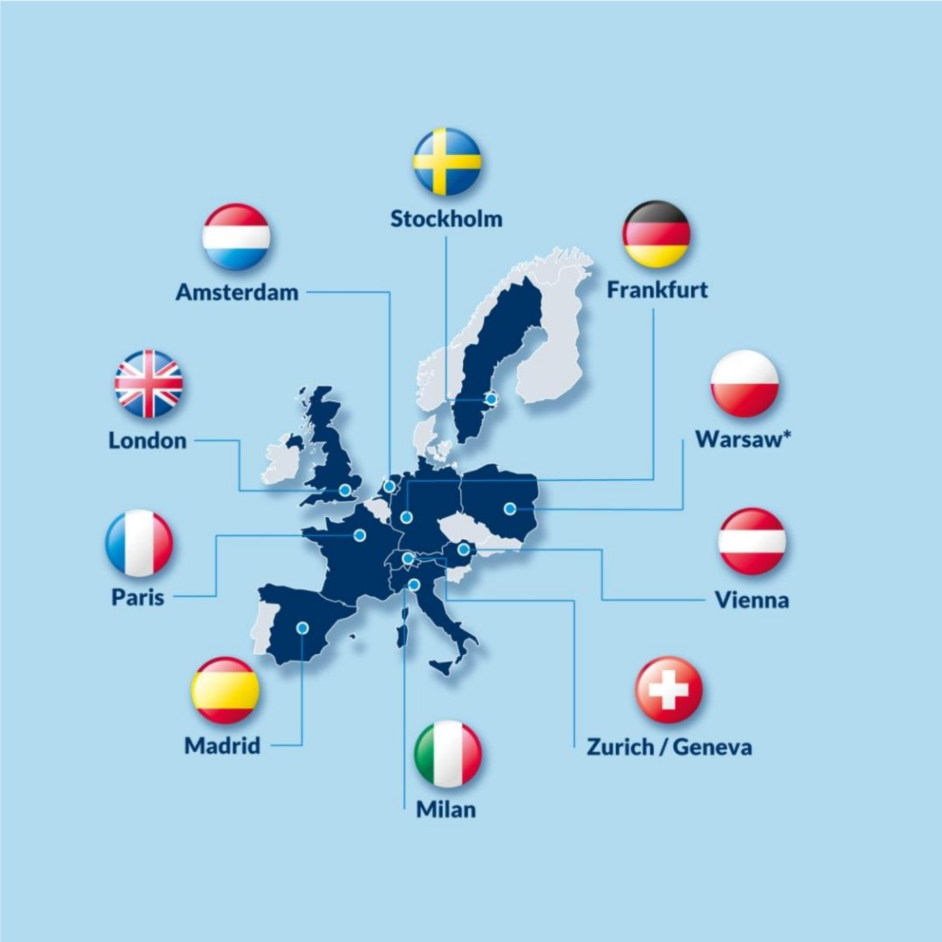

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