

Tecnicas Reunidas

Fixing numbers post Q2 - small downgrades, but margin contraction should be short lived

TR's Q2 report has raised concerns that deteriorating profitability is a trend that will continue – triggered by more aggressive pricing and weaker execution, as has been the case for Saipem. On the contrary, it appears that some of this weakness can be attributed to a lack of contingency release in Q2 – we do not expect this to be a recurring issue; much of the rest can be attributed to a reduction in the benefits historically derived from the deflationary environment for onshore E&C projects, and less efficient engineering and procurement due to the phasing of projects in Saudi Arabia. We cautiously reduce our 2013-15E group operating margins from 5.6%/5.8%/5.8% to 5.1%/5.4%/5.5% to account for a possible continuation of this trend, but at this stage further downside pressure appears limited.

- Further backlog growth in '13.** We retain our positive near term view on the onshore construction sector – particularly for companies like TR with good technical capabilities and a defensive exposure to IOCs and particularly NOCs where investments are less geared to short term oil and gas price volatility. This view is supported by an attractive bid pipeline – we expect the award of the \$1bn Touat gas processing plant in Algeria, the conversion of the Talara contract in Peru (will add c. €1bn), and \$200m for the two projects in Bolivia announced in the Q2 report (total order intake of €1,923m). These contracts alone are sufficient to drive further backlog upside this year (JPMe revenue of €1,485m in H2). Assuming these contracts and a further €750m in H2 we estimate a YE13 backlog of €8,263bn, up 33% from the €6,205m at YE12 and up 18% from the €7,005m at 30-June. Based on our estimate of the backlog recognition of individual projects (Table 1), 96%, 89% and 70% of our 2013-15 Oil & Gas revenue is now accounted for – providing strong support for growth in 2014-15.
- Target price cut.** While we see TR's near term outlook as attractive, we prefer stocks that are earlier in the backlog growth trajectory we forecast – it is here that sentiment has the best opportunity to improve, and earnings have the best opportunity to surprise on the upside, in our view. We downgrade our Dec-13 target price for TR from €44.3 to €38.2, based on a target PER multiple of 12x (unchanged), a 2014E cash adjusted EPS of €2.64 (was €2.81) and a forecast net cash balance of €6.5/share.

Neutral

TRE.MC, TRE SM

Price: €33.46

▼ **Price Target: €38.20**
Previous: €44.30

European Oil & Gas

Andrew Dobbing ^{AC}

(44-20) 7134-5944

andrew.dobbing@jpmorgan.com

Bloomberg JPMA DOBBING <GO>

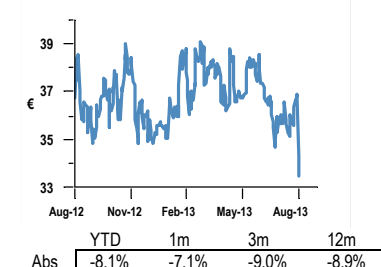
Thomas F Freije

(44-20) 7742-6350

thomas.f.freije@jpmorgan.com

J.P. Morgan Securities plc

Price Performance



Tecnicas Reunidas (TRE.MC; TRE SM)

FYE Dec	2011A	2012A	2013E	2013E	2014E	2014E	2015E	2015E
			(Prev)	(Curr)	(Prev)	(Curr)	(Prev)	(Curr)
Adj. EPS FY (€)	2.42	2.44	2.68	2.42	3.10	2.81	3.30	3.24
Bloomberg EPS FY (€)	2.43	2.47	-	2.57	-	2.83	-	3.03
Revenue FY (€ mn)	2,617	2,657	2,954	2,885	3,310	3,200	3,360	3,475
EBITDA FY (€ mn)	160	157	173	157	199	180	202	198
EBITDA Margin FY	6.1%	5.9%	5.9%	5.4%	6.0%	5.6%	6.0%	5.7%
Adj P/E FY	13.8	13.7	12.5	13.8	10.8	11.9	10.1	10.3
EV/EBITDA (x) FY	7.6	8.3	8.1	7.8	6.4	6.2	5.9	5.0
ROE FY	39.7%	35.3%	32.0%	29.4%	31.8%	29.7%	29.2%	29.3%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

Price (€)	33.46
Date Of Price	02 Aug 13
Price Target (€)	38.20
Price Target End Date	31-Dec-13
52-week Range (€)	39.61-32.93
Market Cap (€ bn)	1.87
Shares O/S (mn)	56

See page 10 for analyst certification and important disclosures, including non-US analyst disclosures.

J.P. Morgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Bid list

We note the following projects where TR is pre-qualified and/or bidding, and which we expect to be awarded over the next 12 months: (i) the \$18bn New Refinery Project in Kuwait, (ii) the \$18bn Clean Fuels Project in Kuwait, (iii) the \$4bn Khazzan gas plant in Oman, (iv) the \$3bn Ras Tanura refinery upgrade in Saudi, and (v) the \$4bn Jizan gas project in Saudi.

Margin analysis

TR attributes the lower margin in Q2 to three projects in Jubail (Saudi Arabia) – which have lower profitability than the average. With completion on these projects scheduled for 2014 (Petrokemya) and 2015 (Kemya, Sadara) this could impact group profitability through 2015.

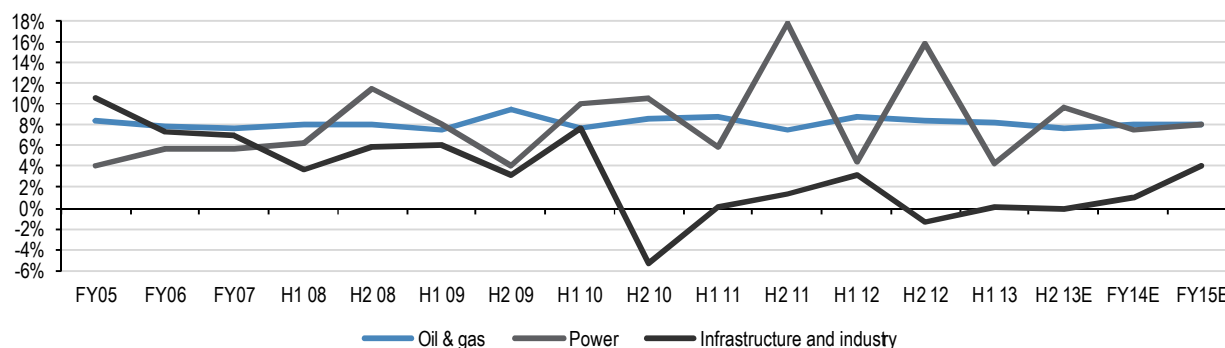
Table 1: current projects in Jubail, Saudi Arabia

Contract	Client	Date signed	Value	Scheduled completion
Petrokemy ABS plant	Sabic	11 June 2012	\$400m	2014
Kemya elastomer project	Sabic/Exxon	25 June 2012	\$400m	2015
Sadara Chem-III project	Aramco/Dow	30 July 2012	\$800m	2015

Source: J.P. Morgan estimates, Company data.

In addition, according to TR, Q2 did not benefit from the usual level of contingency release that typically offers support but is quite lumpy and almost impossible for us to predict. Rather than being attributable to more aggressive pricing and poor execution (as per Saipem) TR blames these lower margins on reduced impact from cost saving synergies from purchasing and construction. In particular we have noted a trend since 2009 for some turnkey contractors to derive procurement and construction cost savings from the deflationary environment. Prior to submitting bids turnkey contractors fix costs by establishing price guarantees from all their suppliers and subcontractors – this does not stop them using lower cost options if they become available at a later stage during the project. The end to this opportunity identifies an end to the deflationary cost environment. This is not just a negative trend – project cost inflation was an important revenue growth driver for E&C contractors during 2005-08.

Figure 1: Segmental operating margins - Tecnicas Reunidas



Source: J.P. Morgan estimates, Company data.

It is perhaps more logical to assume that the general increase in activity for TR in Saudi Arabia has increased the opportunity for economies of scale in engineering and even procurement. However, and particularly evident for engineering, the phasing of projects has meant the end of the engineering phase on one project has not coincided with the start of work on another. Thus the efficiency benefits that have in the past benefited from high regional activity levels (particularly in Saudi Arabia) have not offered the same margin benefit as has been the case historically. While we acknowledge the positive benefits of TR's more diversified regional exposure, this is probably also having a negative impact on project synergies.

Much of the small group margin decline trend can be attributed to the Infrastructure & Industry segment, which barely broke even in 2011 (0.7% operating margin) and 2012 (0.9%). Margins in the Oil & Gas segment have not really shown any meaningful decline trend – Q2 13 must have been low (we only get half year segmental margin information), but the H1 13 margin of 8.2% compares to 8.2%, 8.2% and 8.6% in FY10-12.

Table 2: Backlog recognition schedule by contract - Tecnicas Reunidas (€m)

Project	Country	Client	Date	Est compl.	Value in backlog	Est value		ER	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
								(€m)	(€m)	(€m)	(€m)	(€m)	(€m)	(€m)	(€m)	(€m)
USD/EUR exchange rate								1.471	1.394	1.328	1.380	1.274	1.300	1.300	1.300	
Refining & petrochemicals																
Phenolics plant - Kayan	Saudi	Sabic	1Q07	1Q10	\$720m	\$1,150m	1150	\$	313	371	0	0	0	0	0	0
Borouge	UAE	ADNOC/Borealis	2Q07	2010	\$1,234m	\$1,400m	1400	\$	286	301	316	0	0	0	0	0
Khabarovsk refinery	Russia	Alliance	3Q07	2011	\$800m	\$800m	800	\$	109	143	181	145	0	0	0	0
Sines refinery extension	Portugal	Galp Energy	3Q07	2011	€700m	€1,050m	1050	€	158	263	315	315	0	0	0	0
Hydrocracker	Hungary	MOL	2Q08	2010	\$400m	\$400m	400	\$	54	100	136	0	0	0	0	0
Elefsina	Greece	Hellenic	2Q08	2011	€150m	€150m	150	€	38	45	45	23	0	0	0	0
Algeciras	Spain	Alpetrol	1Q09	2011	€100m	€100m	100	€	0	20	40	40	0	0	0	0
Satorp refinery (Jubail)	Saudi	Saudi Aramco	2Q09	2013	€1,200m	€1,200m	1200	€	0	120	240	360	360	120	0	0
Izmit refinery upgrade	Turkey	Tupras	1Q10	2014	\$2,400m	\$2,400m	2400	\$	0	0	181	261	565	554	277	0
Talara refinery upgrade	Peru	Petroperu	1Q10	2013	\$1,177m	\$1,120m	1300	\$	0	0	49	47	51	0	350	350
Yanbu coker package	Saudi	Saudi Aramco	3Q10	2013	\$770m	\$770m	770	\$	0	0	58	167	181	178	0	0
LNG tanks and terminal	China	CNOOC	3Q10	2013	\$140m	\$140m	140	\$	0	0	0	30	44	32	0	0
FEED for Volgograd refinery	Russia	Lukoil	2Q11	2012	\$100m	\$100m	100	\$	0	0	0	33	43	0	0	0
Normany refinery project	France	Total	2Q11	2013	€100m	€100m	100	€	0	0	0	20	50	30	0	0
Gran Chaco NGL separation	Bolivia	YPBF	4Q11	2014	\$500m	\$500m	500	\$	0	0	0	0	157	154	77	0
Petrochemical plant	Peru	NdP	4Q11		€400m	€400m	400	€	0	0	0	0	40	180	180	0
Nitric acid plant FEED	Australia	Incitec	1Q12	2Q12	€20m	€20m	20	€	0	0	0	0	20	0	0	0
Ammonium nitrate plant	Australia	Yara	2Q12	3Q15	\$600m	\$600m	600	\$	0	0	0	0	47	138	138	138
Jubail petrochemical plant	Saudi	Sabic	2Q12	2014	\$400m	\$400m	400	\$	0	0	0	0	31	138	138	0
Jubail petrochemical plant	Saudi	Sabic/ExxonMobil	2Q12	2015	\$400m	\$400m	400	\$	0	0	0	0	31	92	92	92
Sadara Chem-3	Saudi	Sadara	3Q12	2015	\$800m	\$800m	800	\$	0	0	0	0	31	154	246	185
Jazan refinery	Saudi	Saudi Aramco	4Q12	2016	\$900m	\$900m	900	\$	0	0	0	0	0	104	173	173
Volgograd refinery	Russia	Lukoil	1Q13	2015	€1,100m	€1,100m	1100	€	0	0	0	0	0	220	385	495
Aegean refinery	Turkey	SOCAR	2Q13	2017	\$1,100m	\$1,100m	1100	\$	0	0	0	0	0	85	169	212
Antwerp refinery upgrade	Belgium	Total	2Q13	2015	€300m	€300m	300	€	0	0	0	0	0	45	120	135
Refinery upgrades	Bolivia	YPFB Refinacion	3Q13	na	\$200m	\$200m	200	\$	0	0	0	0	0	15	46	46
Total refining & petrochemicals								1,588	1,726	1,841	1,703	1,653	2,240	2,393	1,826	
Upstream & natural gas																
Mejillones LNG tank	Chile	Codelco/GDF	3Q07	2009	\$300m	\$300m	300	€	120	180	0	0	0	0	0	0
LNG Terminals	G Canaria	Gascan	1Q09	2012	€100m	€100m	100	€	0	15	25	30	30	0	0	0
Maritime terminal	Spain	Alpetrol	1Q09	2011	€100m	€100m	100	€	0	30	50	20	0	0	0	0
SAS	UAE	Adco	1Q09	2012	\$780m	\$780m	780	\$	0	56	147	198	184	0	0	0
Shah gathering centre	UAE	Adco	1Q10	2014	\$370m	\$370m	370	\$	0	0	28	80	87	85	0	0
Margarita gas plant	Bolivia	Repsol	2Q10	2013	\$220m	\$220m	220	\$	0	0	17	72	78	0	0	0
LNG storage tanks	Chile	Codelco/GDF	3Q10	3Q13	\$140m	\$140m	140	\$	0	0	5	30	44	27	0	0
Zhuhai LNG terminal	China	CNOOC	3Q10	2013	\$140m	\$140m	140	\$	0	0	0	30	33	43	0	0
Botas gas compression station	Turkey	Botas	2Q11	2012	\$100m	\$100m	100	\$	0	0	0	22	55	0	0	0
Campo Maragarita gas plant	Bolivia	Repsol/YPFB	1Q12	4Q13	\$100m	\$100m	100	\$	0	0	0	0	0	0	0	0
Bitumen upgrade facility	Canada	Undisclosed	2Q12	2016	\$800m	\$800m	800	\$	0	0	0	0	63	185	185	185
Perla Offshore Project	Venezuela	Repsol/Eni	1Q13	na	€150m	€150m	150	€	0	0	0	0	0	15	60	75
Total upstream & natural gas								507	360	272	483	573	355	245	260	
Total Oil & Gas								2,094	2,086	2,113	2,186	2,226	2,595	2,637	2,086	
JPM revenue forecast (€m)								2,045	2,105	2,154	2,285	2,298	2,707	2,950	3,000	
Revenue growth (%)								24	3	2	6	1	18	9	2	
Backlog realisation % of revenue forecast								102	99	98	96	97	96	89	70	
Calculated YE backlog								3,964	3,862	4,808	4,289	5,345	4,631			
Actual YE backlog								3,769	4,097	5,369	4,633	5,833				

Source: J.P. Morgan estimates, Company data.

Table 3: FY earnings estimates - Tecnicas Reunidas (€m)

Year end Dec	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Oil & gas	445	487	940	1,647	2,045	2,105	2,154	2,285	2,298	2,652	3,000	3,200
Power	52	124	201	253	326	343	395	203	132	80	100	150
Infrastructure & industry	59	75	93	106	107	187	223	124	222	148	100	125
Other operating income	9	5	5	2	8	1	3	4	4	5	0	0
Total revenues	565	690	1,239	2,008	2,487	2,635	2,774	2,617	2,657	2,885	3,200	3,475
Revenue growth (%)		+22	+80	+62	+24	+6	+5	-6	+2	+9	+11	+9
Operating costs	-544	-659	-1,176	-1,894	-2,339	-2,479	-2,611	-2,457	-2,500	-2,728	-3,020	-3,277
EBITDA	21.0	31.2	63.6	113.3	148.3	155.9	163.0	159.5	157.0	157.0	180.3	198.3
EBITDA margin (%)	3.7	4.5	5.1	5.6	6.0	5.9	5.9	6.1	5.9	5.4	5.6	5.7
EBITDA growth (%)		+48	+104	+78	+31	+5	+5	-2	-2	-0	+15	+10
Impairment loss amort. & charges	-2.5	-2.7	-3.9	-5.3	-6.0	-6.9	-7.4	-8.2	-8.3	-8.5	-8.6	-8.7
Fixed asset depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit	18.6	28.5	59.7	108.0	142.3	149.0	155.6	151.3	148.7	148.5	171.7	189.6
Operating profit margin (%)	3.3	4.1	4.8	5.4	5.7	5.7	5.6	5.8	5.6	5.1	5.4	5.5
Net financial income	1.6	4.6	10.7	8.6	12.1	6.4	8.4	6.2	8.4	8.1	10.7	20.8
Foreigns currency gains/losses	-2.2	2.3	-5.5	-2.5	-7.4	6.4	2.0	0.5	-0.1	0.3	0.0	0.0
Delayed interest costs	0.0	0.0	0.0	0.0	0.0	0.0	-3.6	0.0	0.0	0.0	0.0	0.0
Net financials	-0.6	6.9	5.2	6.1	4.7	12.8	6.8	6.7	8.3	8.4	10.7	20.8
Associated income	-0.6	1.2	0.5	0.6	0.5	-1.1	-2.5	-2.8	0.8	0.2	0.0	0.0
Profit from ordinary activities	17.4	36.6	65.4	114.7	147.5	160.7	159.9	155.2	157.8	157.1	182.4	210.4
Margin from ordinary activities (%)	3.1	5.3	5.3	5.7	5.9	6.1	5.8	5.9	5.9	5.4	5.7	6.1
Extraordinary items	0.0	0.0	12.9	0.0	0.0	0.0	-35.7	0.0	0.0	0.0	0.0	0.0
Profit before taxes	17.4	36.6	78.3	114.7	147.5	160.7	124.2	155.2	157.8	157.1	182.4	210.4
Tax payable	0.3	2.1	-6.4	-6.7	-7.2	-15.4	-26.2	-19.9	-21.5	-21.7	-25.5	-29.5
Deferred tax	5.7	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total tax expense	6.0	5.0	-6.4	-6.7	-7.2	-15.4	-26.2	-19.9	-21.5	-21.7	-25.5	-29.5
% of PBT	-34.3	-13.8	8.2	5.8	4.9	9.6	21.1	12.8	13.6	13.8	14.0	14.0
Profit after tax	23.4	41.6	71.9	108.0	140.3	145.3	98.0	135.3	136.3	135.4	156.9	180.9
Minority interests	-0.2	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	23.2	41.1	71.9	108.0	140.3	145.3	98.0	135.3	136.3	135.4	156.9	180.9
Net profit margin	4.1	6.0	5.8	5.4	5.6	5.5	3.5	5.2	5.1	4.7	4.9	5.2
Net profit growth (%)		+45	-3	-7	+5	-2	-36	+46	-1	-9	+4	+6

Source: J.P. Morgan estimates, Company data.

Table 4: FY EPS estimates - Tecnicas Reunidas (€m)

Year end Dec	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Net profit	23.2	41.1	71.9	108.0	140.3	145.3	98.0	135.3	136.3	135.4	156.9	180.9
IPO costs	0.0	0.0	-2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Delayed interest costs	0.0	0.0	0.0	0.0	0.0	0.0	-3.6	0.0	0.0	0.0	0.0	0.0
Other extraordinary items	0.0	0.0	12.9	0.0	0.0	0.0	-35.7	0.0	0.0	0.0	0.0	0.0
Tax assumption extraordinaries (%)	40.0	40.0	40.0	40.0	39.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Tax on extraordinary items	0.0	0.0	3.9	0.0	0.0	0.0	-15.7	0.0	0.0	0.0	0.0	0.0
Adjusted net profit	23.2	41.1	65.7	108.0	140.3	145.3	118.0	135.3	136.3	135.4	156.9	180.9
Adjusted net profit growth (%)		+77	+60	+64	+30	+4	-19	+15	+1	-1	+16	+15
# shares (m)	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9
EPS (€)	0.42	0.74	1.29	1.93	2.51	2.60	1.75	2.42	2.44	2.42	2.81	3.24
Adjusted EPS (€)	0.42	0.74	1.18	1.93	2.51	2.60	2.11	2.42	2.44	2.42	2.81	3.24
Adjusted EPS growth (%)		+77	+60	+64	+30	+4	-19	+15	+1	-1	+16	+15

Source: J.P. Morgan estimates, Company data.

Table 5: FY segmental earnings estimates - Tecnicas Reunidas (€m)

Year end Dec	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Revenue												
Oil & gas	445	487	940	1,647	2,045	2,105	2,154	2,285	2,298	2,652	3,000	3,200
Power	52	124	201	253	326	343	395	203	132	80	100	150
Infrastructure & industry	59	75	93	106	107	187	223	124	222	148	100	125
Other operating income	9	5	5	2	8	1	3	4	4	5	0	0
Total revenue	565	690	1,239	2,008	2,487	2,635	2,774	2,617	2,657	2,885	3,200	3,475
Revenue growth (%)												
Oil & gas		+9	+93	+75	+24	+3	+2	+6	+1	+15	+13	+7
Power		+140	+63	+26	+29	+5	+15	-49	-35	-40	+25	+50
Infrastructure & industry		+27	+25	+13	+2	+74	+19	-44	+79	-33	-33	+25
Total revenue		+22	+80	+62	+24	+6	+5	-6	+2	+9	+11	+9
Operating profit												
Oil & gas		41	73	128	165	179	176	187	198	212	240	256
Power		5	11	14	28	19	41	25	12	6	8	12
Infrastructure & industry		8	8	7	5	7	0	1	2	0	1	5
Unallocated		-25	-32	-42	-56	-56	-61	-62	-63	-69	-77	-83
Total operating profit		29	60	108	142	149	156	151	149	148	172	190
Operating margin (%)												
Oil & gas		8.5	7.8	7.8	8.1	8.5	8.2	8.2	8.6	8.0	8.0	8.0
Power		4.0	5.7	5.7	8.7	5.6	10.3	12.2	8.9	7.0	7.5	8.0
Infrastructure & industry		10.6	8.3	7.0	5.0	3.8	0.0	0.7	0.9	0.0	1.0	4.0
Total operating profit		4.1	4.8	5.4	5.7	5.7	5.6	5.8	5.6	5.1	5.4	5.5

Source: J.P. Morgan estimates, Company data.

Investment Thesis, Valuation and Risks

Tecnicas Reunidas (Neutral; Price Target: €38.20)

Investment Thesis

In our view, Tecnicas offers a value-orientated way to play the onshore engineering and construction market. The company has an excellent track record of execution on Refinery and Petrochemical construction projects. Since 2010, South Korean competition in the Middle East has impacted Tecnicas's project success rate, depressing the company's valuation and has impressed upon Tecnicas the need to expand into new geographies. We see Tecnicas as being relatively successful in gaining access to new countries (such as Turkey, Canada and parts of South America), and we look to this expansion continuing in the future.

Valuation

Our December-31 2013 price target of €38.2 is based on a cash neutral target 2014 PER of 12.0x and a YE13 net cash balance of €6.50 per share. Our target PER is primarily dictated by our estimate of earnings revision risk – the 12.0x for Tecnicas is in line the base case 12.0x for the sector – based on a low level of operational gearing for Tecnicas and, with the backlog now very close to a record high, we see inferior opportunity for positive earnings momentum this year.

Risks to Rating and Price Target

We note two downside risks to our target price: 1) a reduction in the EPC contract win rate for Tecnicas (following continued aggressive bidding by South Korean contractors) or delays in the award of new contracts, which could drive a continued contraction in the order backlog in 2012, and 2) execution problems on one of TR's turnkey EPC contracts – history has shown that this can drive a collapse in a stock's valuation multiples and significant earnings downgrades. The main upside risk is that the order backlog continues to rise – a trend that would likely drive upgrades to earnings forecasts for 2013 and 2014.

Tecnicas Reunidas: Summary of Financials

Profit and Loss Statement						Ratio Analysis					
€ in millions, except per share data						€ in millions, except per share data					
	FY11	FY12	FY13E	FY14E	FY15E		FY11	FY12	FY13E	FY14E	FY15E
Revenues	2,617	2,657	2,885	3,200	3,475	Shares in issue (mn)	56	56	56	56	56
% Change Y/Y	(5.7%)	1.5%	8.6%	10.9%	8.6%	DPS (cents)	1.36	1.40	1.40	1.50	1.60
EBITDA (adjusted)	160	157	157	180	198	Dividend payout ratio	56.0%	57.2%	57.8%	53.4%	49.4%
						Valuation					
EBITDA Margin (%)	6.1%	5.9%	5.4%	5.6%	5.7%	P/E adjusted	13.8	13.7	13.8	11.9	10.3
						P/BV	5.5	4.3	3.8	3.3	2.8
						P/CF	70.8	6.9	15.4	13.9	11.5
Depreciation	(8)	(8)	(9)	(9)	(9)	EV/CE	NM	NM	NM	NM	NM
EBIT (reported)	151	149	148	172	190	EV/DACF	4.8	486.6	8.0	6.2	4.8
EBIT (adjusted)	151	149	148	172	190	EV/Sales	0.5	0.5	0.4	0.3	0.3
Adjusted EBIT Margin (%)	5.8%	5.6%	5.1%	5.4%	5.5%	EV/EBITDA	7.6	8.3	7.8	6.2	5.0
Net financial items	4	9	9	11	21	FCF Yield	0.9%	14.0%	5.9%	6.7%	8.2%
Other gains/losses (Fx)	-	-	-	-	-	Dividend Yield	4.1%	4.2%	4.2%	4.5%	4.8%
Earnings before tax	155	158	157	182	210	Buyback Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Tax	(20)	(22)	(22)	(26)	(29)						
as a % of EBT	12.8%	13.6%	13.8%	14.0%	14.0%	Ratios					
Net Income (Reported)	135	136	135	157	181	Net Debt (Cash) / Equity	(190.6%)	(129.8%)	(130.5%)	(131.5%)	(130.8%)
Net Income (Adjusted)	135	136	135	157	181	Net Debt / EBITDA	(4.2)	(3.7)	(4.2)	(4.2)	(4.5)
% Change Y/Y	11.3%	0.7%	(0.7%)	15.9%	15.3%	ROE	39.7%	35.3%	29.4%	29.7%	29.3%
EPS (reported), basic	2.42	2.44	2.42	2.81	3.24	ROCE	(53.5%)	(54.8%)	(83.0%)	(82.3%)	(78.7%)
EPS (adjusted, diluted)	2.42	2.44	2.42	2.81	3.24						
% Change Y/Y	11.3%	0.7%	(0.7%)	15.9%	15.3%	Market Cap	1,870				
Balance sheet						Cash flow statement					
€ in millions, except per share data						€ in millions, except per share data					
	FY11	FY12	FY13E	FY14E	FY15E		FY11	FY12	FY13E	FY14E	FY15E
Total non-current assets	121	162	164	165	167	EBIT	151	149	148	172	190
Goodwill	1	1	1	1	1	Income Tax Paid	(13)	(13)	(13)	(15)	(9)
PPE	32	34	35	37	38	Depreciation & impairment	8	8	9	9	9
Other non-current assets	88	127	127	127	127	(Increase)/Decrease in WC	(120)	128	(22)	(31)	(27)
Total Current Assets	2,586	2,484	2,754	3,084	3,400	Others	(1)	(1)	(1)	(1)	(1)
Cash and cash equivalent	707	617	727	835	958	Cash flow from operations	26	272	121	134	163
Other current assets	1,879	1,867	2,028	2,249	2,442	Capex	(10)	(10)	(10)	(10)	(10)
Total assets	2,707	2,646	2,918	3,250	3,567	Other CFI	(1)	(1)	(1)	(1)	(1)
						Cash flow from Investing activities	(11)	(11)	(11)	(11)	(11)
Total Current Liabilities	2,274	2,132	2,346	2,599	2,819	Capital Increase / (Share Buyback)	0	0	0	0	0
						Debt raised / (Debt repaid)	0	0	0	0	0
Non-current liabilities	84	71	71	71	71	Dividends paid	76	78	78	84	89
						Other CFF	0	0	0	0	0
Total Liabilities	2,358	2,203	2,417	2,670	2,890	Cash flow from Financing Activities	76	78	78	84	89
Shareholders' equity	341	432	490	568	665	Net Change in Cash	91	339	188	207	241
Minority Interests	9	12	12	12	12	DACF	253	3	153	182	208
Total liabilities & SE	2,707	2,646	2,918	3,250	3,567	FCF	16	262	111	124	153
Net debt / (Net Cash)	(666)	(576)	(654)	(762)	(885)	Operating CFPS	0.47	4.86	2.17	2.41	2.91
Capital Employed	(325)	(144)	(165)	(194)	(220)	FCF per share	0.29	4.68	1.99	2.23	2.73

Source: Company reports and J.P. Morgan estimates.

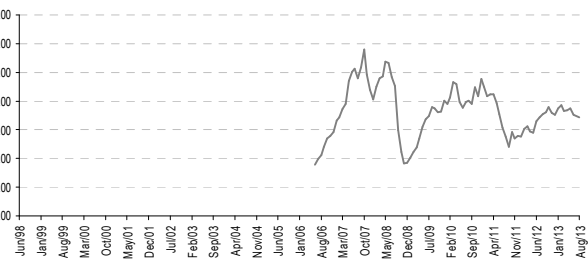
JPM Q-Profile

Tecnicas Reunidas S.A. (SPAIN / Energy)

As Of: 02-Aug-2013

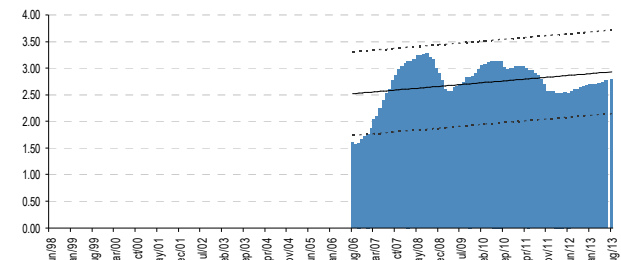
Local Share Price

Current: 34.28



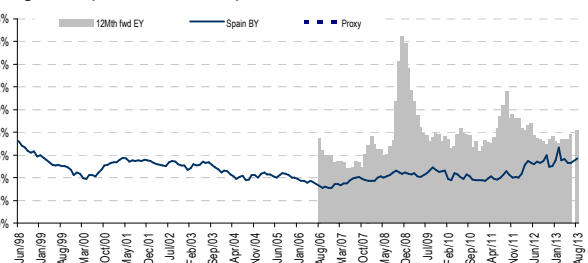
12 Mth Forward EPS

Current: 2.78



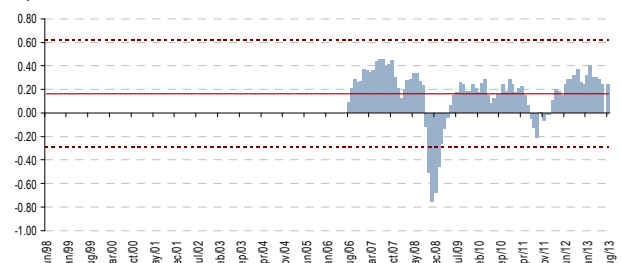
Earnings Yield (& local bond Yield)

Current: 8%



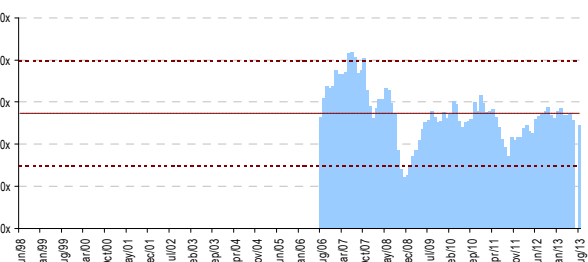
Implied Value Of Growth*

Current: 24.10%



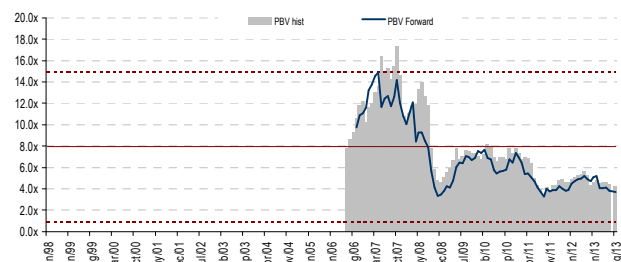
PE (1Yr Forward)

Current: 12.3x



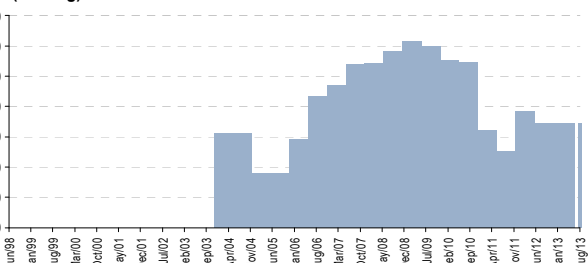
Price/Book Value

Current: 4.3x



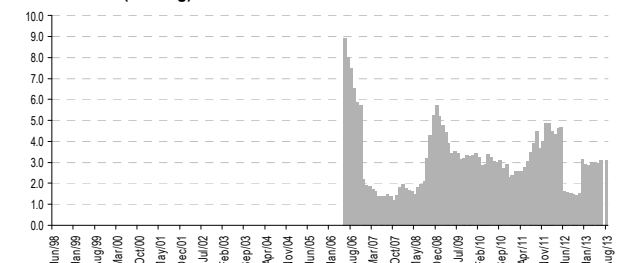
ROE (Trailing)

Current: 34.53



Dividend Yield (Trailing)

Current: 3.12



Summary

Tecnicas Reunidas S.A.		SEDOL		B16FTB9		As Of:		2-Aug-13	
SPAIN						Local Price:		34.28	
Energy						EPS:		2.78	
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max
12mth Forward PE	12.33x	6.08	20.94	13.54	13.66	19.89	7.44	-51%	70%
P/BV (Trailing)	4.26x	3.42	17.32	6.96	7.94	14.99	0.89	-20%	306%
Dividend Yield (Trailing)	3.12	1.22	8.95	3.04	3.19	6.30	0.07	-61%	186%
ROE (Trailing)	34.53	17.78	61.67	38.42	40.92	68.66	13.19	-49%	79%
Implied Value of Growth	24.1%	-0.76	0.46	0.23	0.17	0.62	-0.29	-414%	90%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

* Implied Value Of Growth = $(1 - \text{EY}/\text{Cost of equity})$ where cost of equity = Bond Yield + 5.0% (ERP)

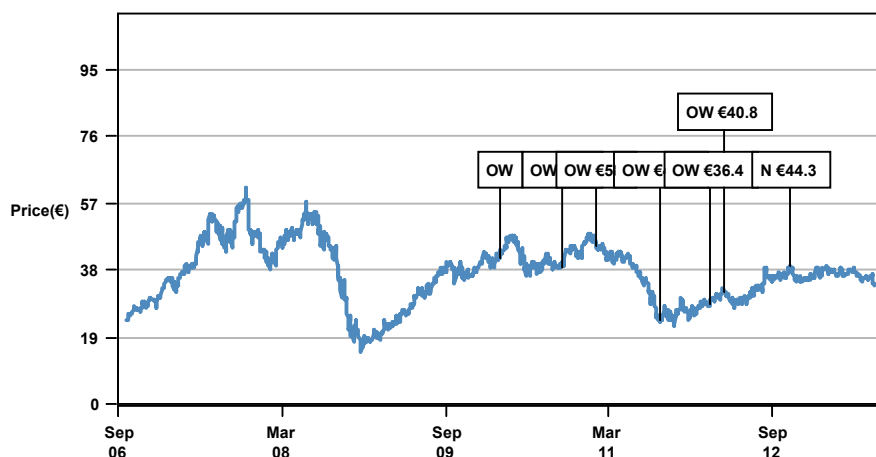
Analyst Certification: The research analyst(s) denoted by an “AC” on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analyst denoted by an “AC” on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers; and (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

Important Disclosures

● **Market Maker/ Liquidity Provider:** J.P. Morgan Securities plc and/or an affiliate is a market maker and/or liquidity provider in Técnicas Reunidas.

Company-Specific Disclosures: Important disclosures, including price charts, are available for compendium reports and all J.P. Morgan-covered companies by visiting <https://mm.jpmorgan.com/disclosures/company>, calling 1-800-477-0406, or e-mailing research.disclosure.inquiries@jpmorgan.com with your request. J.P. Morgan's Strategy, Technical, and Quantitative Research teams may screen companies not covered by J.P. Morgan. For important disclosures for these companies, please call 1-800-477-0406 or e-mail research.disclosure.inquiries@jpmorgan.com.

Técnicas Reunidas (TRE.MC, TRE SM) Price Chart



Date	Rating	Share Price (€)	Price Target (€)
01-Mar-10	OW	41.81	-
23-Sep-10	OW	38.90	51.00
19-Jan-11	OW	44.85	58.00
19-Aug-11	OW	23.64	40.40
01-Feb-12	OW	28.39	36.40
22-Mar-12	OW	31.66	40.80
25-Oct-12	N	39.00	44.30

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Mar 01, 2010.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

Explanation of Equity Research Ratings, Designations and Analyst(s) Coverage Universe:

J.P. Morgan uses the following rating system: Overweight [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Neutral [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Underweight [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Not Rated (NR): J.P. Morgan has removed the rating and, if applicable, the price target, for this stock because of either a lack of a sufficient fundamental basis or for legal, regulatory or policy reasons. The previous rating and, if applicable, the price target, no longer should be relied upon. An NR designation is not a recommendation or a rating. In our Asia (ex-Australia) and U.K. small- and mid-cap equity research, each stock's expected total return is compared to the expected total return of a benchmark country market index, not to those analysts' coverage universe. If it does not appear in the Important Disclosures section of this report, the certifying analyst's coverage universe can be found on J.P. Morgan's research website, www.jpmorganmarkets.com.

Coverage Universe: Dobbing, Andrew: Aker Solutions (AKSO.OL), Amec (AMEC.L), CGG Veritas (GEPH.PA), Cape (CIU.L), Fugro (FUGRc.AS), Hunting (HTG.L), John Wood Group (WG.L), Lamprell PLC (LAM.L), PGS (PGS.OL), Petrofac (PFC.L), Saipem (SPMI.MI), Seadrill (SDRL.OL), Subsea 7 SA (SUBC.OL), TGS (TGS.OL), Technip (TECF.PA), Técnicas Reunidas (TRE.MC)

J.P. Morgan Equity Research Ratings Distribution, as of June 28, 2013

	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	44%	44%	12%
IB clients*	56%	50%	40%
JPMS Equity Research Coverage	42%	50%	8%
IB clients*	76%	66%	55%

*Percentage of investment banking clients in each rating category.

For purposes only of FINRA/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category. Please note that stocks with an NR designation are not included in the table above.

Equity Valuation and Risks: For valuation methodology and risks associated with covered companies or price targets for covered companies, please see the most recent company-specific research report at <http://www.jpmorganmarkets.com>, contact the primary analyst or your J.P. Morgan representative, or email research.disclosure.inquiries@jpmorgan.com.

Equity Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues.

Registration of non-US Analysts: Unless otherwise noted, the non-US analysts listed on the front of this report are employees of non-US affiliates of JPMS, are not registered/qualified as research analysts under NASD/NYSE rules, may not be associated persons of JPMS, and may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Other Disclosures

J.P. Morgan ("JPM") is the global brand name for J.P. Morgan Securities LLC ("JPMS") and its affiliates worldwide. J.P. Morgan Cazenove is a marketing name for the U.K. investment banking businesses and EMEA cash equities and equity research businesses of JPMorgan Chase & Co. and its subsidiaries.

All research reports made available to clients are simultaneously available on our client website, J.P. Morgan Markets. Not all research content is redistributed, e-mailed or made available to third-party aggregators. For all research reports available on a particular stock, please contact your sales representative.

Options related research: If the information contained herein regards options related research, such information is available only to persons who have received the proper option risk disclosure documents. For a copy of the Option Clearing Corporation's Characteristics and Risks of Standardized Options, please contact your J.P. Morgan Representative or visit the OCC's website at <http://www.optionsclearing.com/publications/risks/riskstoc.pdf>

Legal Entities Disclosures

U.S.: JPMS is a member of NYSE, FINRA, SIPC and the NFA. JPMorgan Chase Bank, N.A. is a member of FDIC and is authorized and regulated in the UK by the Financial Services Authority. **U.K.:** J.P. Morgan Securities plc (JPMS plc) is a member of the London Stock Exchange and is authorized and regulated by the Financial Services Authority. Registered in England & Wales No. 2711006. Registered Office 25 Bank Street, London, E14 5JP. **South Africa:** J.P. Morgan Equities South Africa Proprietary Limited is a member of the Johannesburg Securities Exchange and is regulated by the Financial Services Board. **Hong Kong:** J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission in Hong Kong. **Korea:** J.P. Morgan Securities (Far East) Ltd, Seoul Branch, is regulated by the Korea Financial Supervisory Service. **Australia:** J.P. Morgan Australia Limited (JPMAL) (ABN 52 002 888 011/AFS Licence No: 238188) is regulated by ASIC and J.P. Morgan Securities Australia Limited (JPMSAL) (ABN 61 003 245 234/AFS Licence No: 238066) is regulated by ASIC and is a Market, Clearing and Settlement Participant of ASX Limited and CHI-X. **Taiwan:** J.P. Morgan Securities (Taiwan) Limited is a participant of the Taiwan Stock Exchange (company-type) and regulated by the Taiwan Securities and Futures Bureau. **India:** J.P. Morgan India Private Limited, having its registered office at J.P. Morgan Tower, Off. C.S.T. Road, Kalina, Santacruz East, Mumbai - 400098, is a member of the National Stock Exchange of India Limited (SEBI Registration Number - INB 230675231/INF 230675231/INE 230675231) and Bombay Stock Exchange Limited (SEBI Registration Number - INB 010675237/INF 010675237) and is regulated by Securities and Exchange Board of India. **Thailand:** JPMorgan Securities (Thailand) Limited is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission. **Indonesia:** PT J.P. Morgan Securities Indonesia is a member of the Indonesia Stock Exchange and is regulated by the BAPEPAM LK. **Philippines:** J.P. Morgan Securities Philippines Inc. is a Trading Participant of the Philippine Stock Exchange and a member of the Securities Clearing Corporation of the Philippines and the Securities Investor Protection Fund. It is regulated by the Securities and Exchange Commission. **Brazil:** Banco J.P. Morgan S.A. is regulated by the Comissao de Valores Mobiliarios (CVM) and by the Central Bank of Brazil. **Mexico:** J.P. Morgan Casa de Bolsa, S.A. de C.V., J.P. Morgan Grupo Financiero is a member of the Mexican Stock Exchange and authorized to act as a broker dealer by the National Banking and Securities Exchange Commission. **Singapore:** This material is issued and distributed in Singapore by J.P. Morgan Securities Singapore Private Limited (JPMSS) [MIC (P) 049/04/2013 and Co. Reg. No.: 199405335R] which is a member of the Singapore Exchange Securities Trading Limited and is regulated by the Monetary Authority of Singapore (MAS) and/or JPMorgan Chase Bank, N.A., Singapore branch (JPMCB Singapore) which is regulated by the MAS. **Japan:** JPMorgan Securities Japan Co., Ltd. is regulated by the Financial Services Agency in Japan. **Malaysia:** This material is issued and distributed in Malaysia by JPMorgan Securities (Malaysia) Sdn Bhd (18146-X) which is a Participating Organization of Bursa Malaysia Berhad and a holder of Capital Markets Services License issued by the Securities Commission in Malaysia. **Pakistan:** J. P. Morgan Pakistan Broking (Pvt.) Ltd is a member of the Karachi Stock Exchange and regulated by the Securities and Exchange Commission of Pakistan. **Saudi Arabia:** J.P. Morgan Saudi Arabia Ltd. is authorized by the Capital Market Authority of the Kingdom of Saudi Arabia (CMA) to carry out dealing as an agent, arranging, advising and custody, with respect to securities business under licence number 35-07079 and its registered address is at 8th Floor, Al-Faisaliyah Tower, King Fahad Road, P.O. Box 51907,

Riyadh 11553, Kingdom of Saudi Arabia. **Dubai:** JPMorgan Chase Bank, N.A., Dubai Branch is regulated by the Dubai Financial Services Authority (DFSA) and its registered address is Dubai International Financial Centre - Building 3, Level 7, PO Box 506551, Dubai, UAE.

Country and Region Specific Disclosures

U.K. and European Economic Area (EEA): Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by JPMS plc. Investment research issued by JPMS plc has been prepared in accordance with JPMS plc's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require a firm to establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Australia:** This material is issued and distributed by JPMSAL in Australia to "wholesale clients" only. This material does not take into account the specific investment objectives, financial situation or particular needs of the recipient. The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of JPMSAL. For the purposes of this paragraph the term "wholesale client" has the meaning given in section 761G of the Corporations Act 2001. **Germany:** This material is distributed in Germany by J.P. Morgan Securities plc, Frankfurt Branch and J.P.Morgan Chase Bank, N.A., Frankfurt Branch which are regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months prior.) J.P. Morgan Broking (Hong Kong) Limited is the liquidity provider/market maker for derivative warrants, callable bull bear contracts and stock options listed on the Stock Exchange of Hong Kong Limited. An updated list can be found on HKEx website: <http://www.hkex.com.hk>. **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, JPMorgan Securities Japan Co., Ltd., will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between JPMorgan Securities Japan Co., Ltd., and the customer in advance. Financial Instruments Firms: JPMorgan Securities Japan Co., Ltd., Kanto Local Finance Bureau (kinsho) No. 82 Participating Association / Japan Securities Dealers Association, The Financial Futures Association of Japan, Type II Financial Instruments Firms Association and Japan Investment Advisers Association. **Korea:** This report may have been edited or contributed to from time to time by affiliates of J.P. Morgan Securities (Far East) Ltd, Seoul Branch. **Singapore:** JPMS and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Important Disclosures section above. **India:** For private circulation only, not for sale. **Pakistan:** For private circulation only, not for sale. **New Zealand:** This material is issued and distributed by JPMSAL in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. JPMSAL does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of JPMSAL. **Canada:** The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities must be conducted through a dealer registered in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offence. **Dubai:** This report has been issued to persons regarded as professional clients as defined under the DFSA rules. **Brazil:** Ombudsman J.P. Morgan: 0800-7700847 / ouvidoria.jp.morgan@jpmorgan.com.

General: Additional information is available upon request. Information has been obtained from sources believed to be reliable but JPMorgan Chase & Co. or its affiliates and/or subsidiaries (collectively J.P. Morgan) do not warrant its completeness or accuracy except with respect to any disclosures relative to JPMS and/or its affiliates and the analyst's involvement with the issuer that is the subject of the research. All pricing is as of the close of market for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein. JPMS distributes in the U.S. research published by non-U.S. affiliates and accepts responsibility for its contents. Periodic updates may be provided on companies/industries based on company specific developments or announcements, market conditions or any other publicly available information. Clients should contact analysts and execute transactions through a J.P. Morgan subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

"Other Disclosures" last revised May 4, 2013.

Copyright 2013 JPMorgan Chase & Co. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of J.P. Morgan.