

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.

Tecnicas Reunidas (TRE.MC;TRE SM)

FYE Dec	2011A	2012A	2013E (Prev)	2013E (Curr)	2014E (Prev)	2014E (Curr)	2015E (Prev)	2015E (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.

Neutral

TRE.MC, TRE SM

Price: €33.46

▼ Price Target: €38.20

Previous: €44.30

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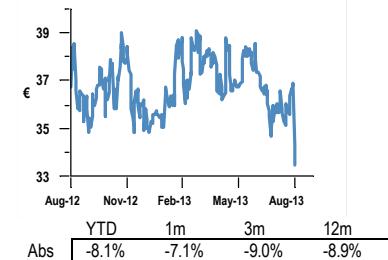
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Price Performance



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.

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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.

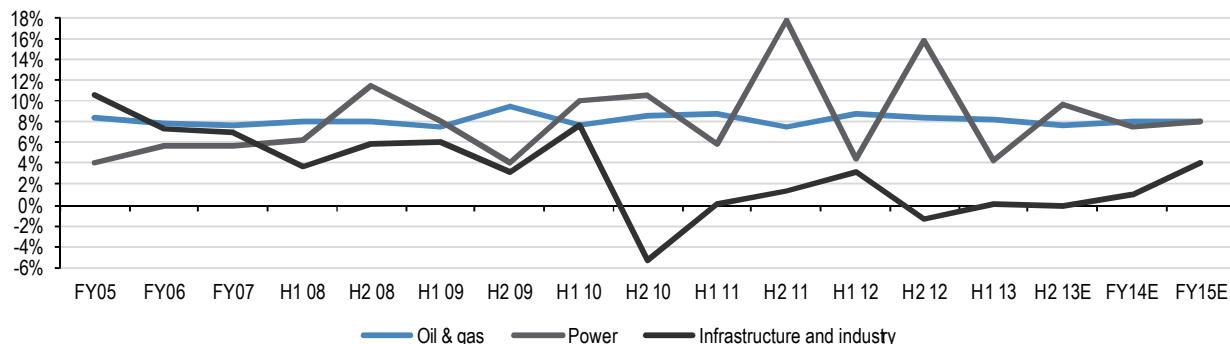
Table 1: current projects in Jubail, Saudi Arabia

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

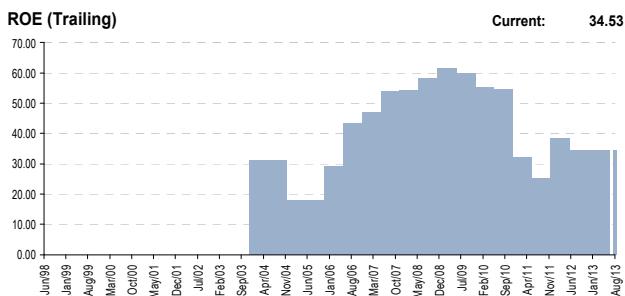
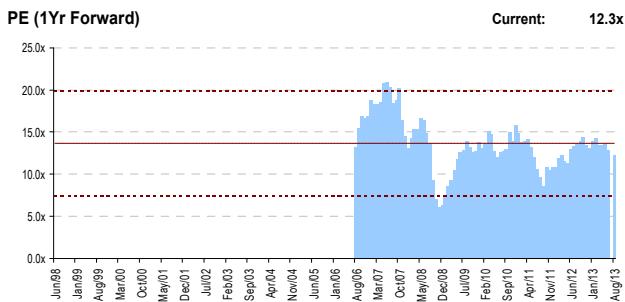
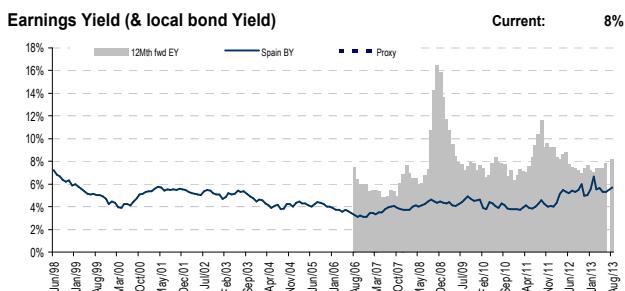
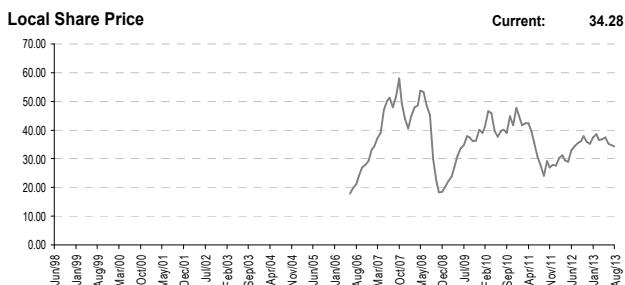
Tecnicas Reunidas: Summary of Financials

Profit and Loss Statement						Ratio Analysis					
€ in millions, except per share data						€ in millions, except per share data					
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					
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											
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



Summary

Tecnicas Reunidas S.A.
SPAIN
Energy

SEDOL B16FTB9

As Of: 2-Aug-13
Local Price: 34.28
EPS: 2.78

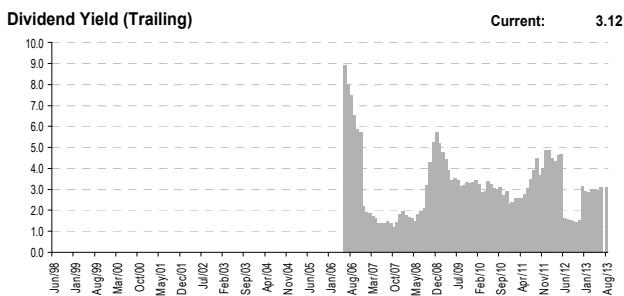
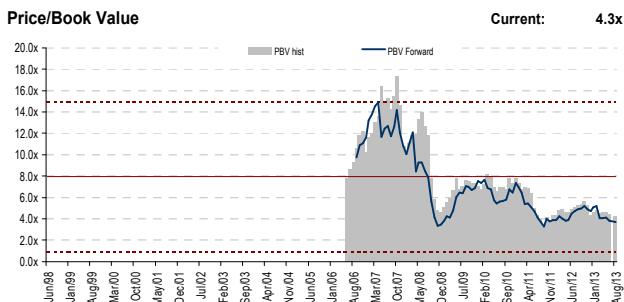
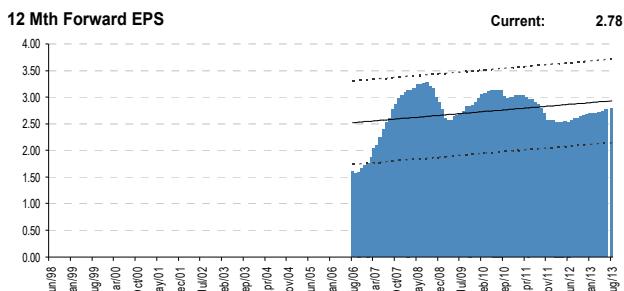
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	12.33x	6.08	20.94	13.54	13.66	19.89	7.44	-51%	70%	10%	11%
P/BV (Trailing)	4.26x	3.42	17.32	6.96	7.94	14.99	0.89	-20%	306%	63%	86%
Dividend Yield (Trailing)	3.12	1.22	8.95	3.04	3.19	6.30	0.07	-61%	186%	-3%	2%
ROE (Trailing)	34.53	17.78	61.67	38.42	40.92	68.66	13.19	-49%	79%	11%	19%
Implied Value of Growth	24.1%	-0.76	0.46	0.23	0.17	0.62	-0.29	-414%	90%	-5%	-31%

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

* Implied Value Of Growth = $(1 - EY/Cost of equity) \times (1 + Bond Yield + 5.0\% (ERP))$



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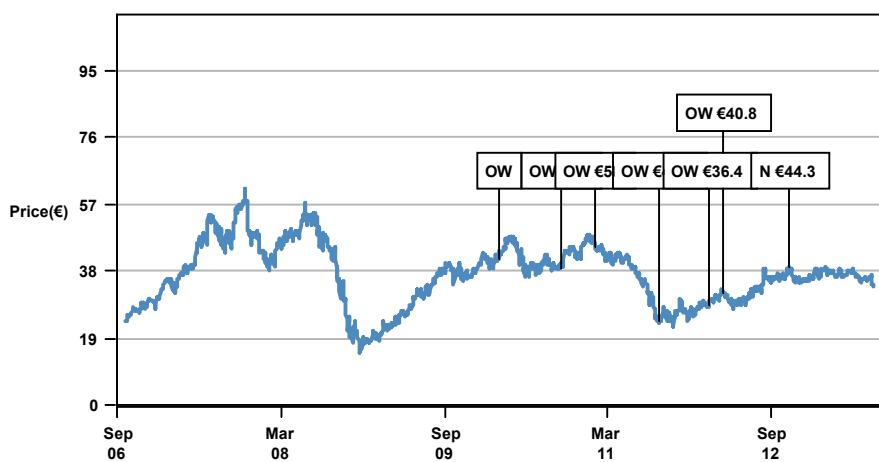
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Tecnicas Reunidas (TRE.MC, TRE SM) Price Chart



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.

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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.

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