

RENO DE MEDICI

BUY

Price (Eu):

0.34

Target Price (Eu):

0.40

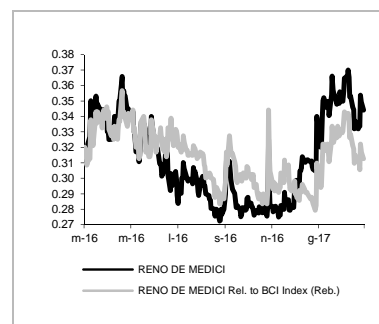
SECTOR: Industrials

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2016 Will Prove To Be The Low Point, Recovery Option Not Priced In

- FY16 results hit by high input costs and soft demand; upbeat cash generation.** In 2016 revenues came to Eu423.1mn at constant scope, hit by a fall in average selling prices (-3.2% YoY) and, to a lesser extent, slightly lower production (-0.3% YoY to 821k tons). Cascades SAS, which was only consolidated in 2H16, contributed Eu54.7mn and 69k tons to consolidated figures. Profitability was hit by higher costs on non-energy raw materials and some longer than anticipated plant standstills (notably at Arnsberg, in Germany). EBITDA came to Eu30.4mn, down from Eu41.8mn in 2015; Cascade SAS contributed Eu3.0mn to group EBITDA. Bottom line, group net profit stood at Eu3.2mn, down from Eu9.9mn in 2015. Net debt closed at Eu44.4mn, well below our Eu53.9mn forecast. FCF after CAPEX was Eu18.3mn (up from Eu13.0mn in 2015) and before extraordinary operations it stood at Eu16.3mn in the year.
- Constructive 2017 outlook.** European demand in Whitelined Chipboard has been satisfactory and backlog seems to be improving, but visibility remains low in the near future. Raw material prices are rising, but this is expected to be offset by the recently announced price hikes. In the European Folding Box Board segment, the order intake and backlog are satisfactory. The prices of mechanical pulp are stable. In both sectors the cost of energy, and natural gas in particular, is expected to remain low.
- Estimates fine-tuned downwards.** In light of 4Q results, we have revised our assumptions on 2017 revenues marginally upwards by 1.8% to Eu558.9mn. In contrast, we have lowered our 2017 EBITDA estimate by 5.4% to Eu40.4mn to take into account higher-than-expected costs for recycled fibers. The growth in EBITDA forecast for 2017 is expected to come from a greater contribution from Cascades SAS (we estimate Eu7.0mn) and more efficient management of plant maintenance shutdowns. The recent price hike should support our forecast. Based on unchanged depreciation, net financial charges, and tax rate, we have cut our group net profit forecast by 10.2% to Eu11.1mn. Finally, we assume a net debt of Eu32.7mn at YE17 from Eu47.2mn previously. In 2018 we assume a further recovery in EBITDA, up to Eu45.5mn.
- BUY reiterated; target price from Eu0.36 to Eu0.40.** We confirm our positive view on the stock as we think 2016 will prove to be a low point, as the company has been affected by both company-specific issues (change in CEO, important investments in its main plant) and sector-wide issues (increasing raw material prices, softening order flows). On the bright side, 2016 results highlighted the validity of the Cascades SAS acquisition both economically (very solid results achieved in 2016) and strategically (the French plant will enable Reno De Medici to enter the virgin fibre market and thus diversify its product mix). Our target price, based on an EV/ROACE model, has been lifted to Eu0.40 per share from Eu0.36, as we have rolled our models over and factored in a lower net debt. Lastly, the valuation provides strong support, as at the current share price, the FCF yield comes to 13% on average in the 2017-18 period.

RENO DE MEDICI - 12m Performance

Eu/USD: 1.05 2017; 1.05 2018
Oil: 55USD 2017; 60USD 2018

RATING: Unchanged

TARGET PRICE (Eu): From 0.36 to 0.40

Change in EPS est: 2017E 2018E
-10.2% -13.1%

STOCK DATA

Reuters code: RDM.MI
Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	-1.7%	17.3%	5.2%
Relative	-5.1%	5.5%	-3.6%
12 months H/L:	0.37/0.27		

SHAREHOLDER DATA

No. of Ord. shares (mn):	378
Total No. of shares (mn):	378
Mkt Cap Ord (Eu mn):	130
Total Mkt Cap (Eu mn):	130
Mkt Float - ord (Eu mn):	41
Mkt Float (in %):	31.2%
Main shareholder:	
Cascades	57.6%

BALANCE SHEET DATA

	2017
Book value (Eu mn):	168
BVPS (Eu):	0.45
P/BV:	0.8
Net Financial Position (Eu mn):	-33
Enterprise value (Eu mn):	160

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on the last page of this report

Key Figures	2014A	2015A	2016A	2017E	2018E
Sales (Eu mn)	426	438	478	559	575
Ebitda (Eu mn)	41	42	30	40	45
Net profit (Eu mn)	5	10	3	11	15
EPS - New (Eu)	0.014	0.026	0.008	0.029	0.040
EPS - Old (Eu)			0.015	0.033	0.046
DPS (Eu)	0.000	0.005	0.002	0.006	0.008
Ratios & Multiples	2014A	2015A	2016A	2017E	2018E
P/E	24.2	13.3	41.5	11.7	8.6
Div. Yield	0.0%	1.5%	0.5%	1.7%	2.3%
EV/Ebitda	5.4	4.3	5.6	4.0	3.1
ROCE	8.8%	8.4%	4.4%	9.1%	11.6%

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RENO DE MEDICI - KEY FIGURES

		2014A	2015A	2016A	2017E	2018E
	Fiscal year end	31/12/2014	31/12/2015	31/12/2016	31/12/2017	31/12/2018
PROFIT & LOSS (Eu mn)	Sales	426	438	478	559	575
	EBITDA	41	42	30	40	45
	EBIT	18	17	9	18	23
	Financial income (charges)	(5)	(4)	(3)	(3)	(2)
	Associates & Others	1	1	1	0	0
	Pre-tax profit (Loss)	14	15	6	15	21
	Taxes	(4)	(4)	(3)	(4)	(6)
	Tax rate (%)	-27.6%	-25.1%	-47.3%	-28.0%	-28.0%
	Minorities & discontinue activities	5	1	0	0	0
	Net profit	5	10	3	11	15
	Total extraordinary items	5	0	0	0	0
	Ebitda excl. extraordinary items	36	42	30	40	45
	Ebit excl. extraordinary items	18	17	9	18	23
Net profit restated	5	10	3	11	15	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	378	378	378	378	378
	EPS stated fd	0.014	0.026	0.008	0.029	0.040
	EPS restated fd	0.014	0.026	0.008	0.029	0.040
	BVPS fd	0.375	0.404	0.411	0.446	0.487
	Dividend per share (ord)	0.000	0.005	0.002	0.006	0.008
	Dividend per share (sav)	0.000	0.074	0.074	0.074	0.074
	Dividend pay out ratio (%)					
CASH FLOW (Eu mn)	Gross cash flow	23	33	25	33	37
	Change in NWC	(2)	(1)	(4)	(4)	(2)
	Capital expenditure	(20)	(16)	(16)	(18)	(17)
	Other cash items	6	(1)	1	1	1
	Free cash flow (FCF)	8	16	6	12	19
	Acquisitions, divestments & others	0	0	(13)	0	0
	Dividend	0	0	(2)	(1)	(2)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	8	16	6	12	17	
BALANCE SHEET (Eu mn)	Total fixed assets	210	198	206	204	203
	Net working capital	42	42	46	50	52
	Long term liabilities	(45)	(38)	(52)	(53)	(55)
	Net capital employed	207	203	200	201	200
	Net financial position	(66)	(50)	(44)	(33)	(16)
	Group equity	142	152	155	168	184
	Minorities	0	0	0	0	0
Net equity	142	153	155	168	184	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	130	130	130	130	130
	Adjustments (associate & minorities)	1	2	3	3	3
	Net financial position	(66)	(50)	(44)	(33)	(16)
	Enterprise value	195	179	172	160	143
RATIOS(%)	EBITDA margin*	8.5%	9.5%	6.4%	7.2%	7.9%
	EBIT margin*	4.3%	3.9%	1.8%	3.3%	4.1%
	Gearing - Debt/equity	46.6%	33.0%	28.6%	19.5%	8.5%
	Interest cover on EBIT	3.5	4.8	2.7	6.5	9.7
	Debt/Ebitda	1.60	1.20	1.46	0.81	0.34
	ROCE*	8.8%	8.4%	4.4%	9.1%	11.6%
	ROE*	3.8%	6.6%	2.0%	6.9%	8.5%
	EV/CE	0.9	0.9	0.9	0.8	0.7
	EV/Sales	0.5	0.4	0.4	0.3	0.2
	EV/Ebit	10.6	10.4	19.6	8.3	5.9
Free Cash Flow Yield	5.9%	12.1%	4.6%	9.7%	15.2%	
GROWTH RATES (%)	Sales	-0.5%	2.8%	9.0%	17.0%	2.9%
	EBITDA*	-1.1%	15.5%	-27.2%	32.8%	12.6%
	EBIT*	60.4%	-6.5%	-49.2%	108.0%	27.9%
	Net profit	202.1%	82.6%	-68.0%	254.1%	35.6%
	EPS restated	202.1%	82.6%	-68.0%	254.1%	35.6%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Results

Reno De Medici - Quarterly Results

(Eu mn)	Q4'15A	Q4'16A	YoY	Q4'16E	A vs E	2015A	2016E	YoY
Sales	103.5	131.8	27.4%	121.7	8.3%	438.2	477.8	9.0%
Other Revenues	1.9	3.4		1.9		6.5	6.9	
"White Certificates"	0.0	0.0		0.0		0.0	0.0	
Δ Finished Goods	(0.5)	3.1		0.2		(2.4)	0.5	
COGS	(79.5)	(105.9)	33.1%	(90.5)		(331.4)	(373.7)	12.8%
<i>% on sales</i>	<i>-76.9%</i>	<i>-80.3%</i>		<i>-74.4%</i>		<i>-75.6%</i>	<i>-78.2%</i>	
Personnel Costs	(16.1)	(23.0)	43.4%	(21.4)		(63.7)	(76.1)	19.5%
<i>% on sales</i>	<i>-15.5%</i>	<i>-17.5%</i>		<i>-17.6%</i>		<i>-14.5%</i>	<i>-15.9%</i>	
Other Operating Costs	(1.5)	(2.3)		(1.8)		(5.5)	(5.0)	
<i>% on sales</i>	<i>-1.5%</i>	<i>-1.8%</i>		<i>-1.5%</i>		<i>-1.3%</i>	<i>-1.0%</i>	
EBITDA	7.7	7.1	-8.8%	10.1	-29.9%	41.8	30.4	-27.2%
<i>% on sales</i>	<i>7.5%</i>	<i>5.4%</i>		<i>8.3%</i>		<i>9.5%</i>	<i>6.4%</i>	
Depreciations	(5.5)	(5.4)		(5.9)		(22.3)	(21.7)	
Write offs	(0.9)	0.0		0.0		(2.2)	0.0	
EBIT	1.4	1.7	20.5%	4.2	-60.0%	17.2	8.8	-49.2%
<i>% on sales</i>	<i>1.3%</i>	<i>1.3%</i>		<i>3.4%</i>		<i>3.9%</i>	<i>1.8%</i>	
Financials and associates	(0.7)	(0.5)		(1.5)		(2.6)	(2.3)	
Pre Tax Profit	0.7	1.1	60.7%	2.7	-58.6%	14.7	6.4	-56.3%
Taxes	(0.7)	(1.5)		(0.7)		(3.7)	(3.0)	
Discontinued	2.0	0.4		0.2		1.2	0.2	
Minorities	1.1	0.3		0.1		1.2	0.2	
Group Net Profit	(0.2)	(0.4)	66.4%	2.3	n.m.	9.8	3.1	-68.0%
Net Debt	(50.3)	(44.4)		(53.9)	17.6%			

Source: Company data and Intermonte Sim

Estimates

Reno De Medici - Change in estimates

Eu mn	2016 new	2016 old	change %	2017 new	2017 old	change %	2018 new	2017 old	change %
Sales	477.8	467.6	2.2%	558.9	549.1	1.8%	575.1	565.1	1.8%
EBITDA	30.4	33.5	-9.0%	40.4	42.7	-5.4%	45.5	48.9	-7.0%
<i>EBITDA margin %</i>	<i>6.4%</i>	<i>7.2%</i>		<i>7.2%</i>	<i>7.8%</i>		<i>7.9%</i>	<i>8.7%</i>	
EBIT	8.8	11.3	-22.2%	18.2	20.2	-10.0%	23.3	26.4	-11.8%
<i>EBIT margin %</i>	<i>1.8%</i>	<i>2.4%</i>		<i>3.3%</i>	<i>3.7%</i>		<i>4.1%</i>	<i>4.7%</i>	
Group Net Profit	3.1	5.8	-45.6%	11.1	12.4	-10.2%	15.0	17.3	-13.1%
Net Debt	(44.4)	(57.0)	-22.1%	(32.7)	(47.2)	-30.6%	(15.7)	(33.8)	-53.6%

Source: Company data and Intermonte Sim

RENO DE MEDICI Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
RENO DE MEDICI	0.34	EUR	130	-1.7%	17.3%	20.5%	12.6%	5.2%	-2.3%
HOLMEN	353.30	SEK	29,676	9.4%	16.0%	16.6%	8.1%	38.2%	24.5%
MAYR-MELNHOF	107.60	EUR	2,152	1.0%	13.2%	6.4%	6.9%	7.1%	13.2%
METSA	6.26	EUR	2,226	1.5%	0.7%	14.2%	-7.9%	9.0%	8.5%
STORA ENSO	10.39	EUR	8,194	5.0%	14.1%	28.2%	1.8%	31.5%	16.2%
UPM KYMMENE	22.90	EUR	12,217	4.0%	6.4%	23.1%	-1.9%	42.1%	31.4%
Mean performance				3.2%	11.3%	18.2%	3.3%	22.2%	15.3%
Italy FTSE Mib	19,449.9	EUR	296,476	4.0%	9.5%	14.1%	1.1%	6.4%	-13.3%

Source: FactSet

RENO DE MEDICI Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales		EV/Ebitda		EV/Ebit		P/E		Div Yield	
				2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
RENO DE MEDICI	0.34	EUR	130	0.3	0.2	4.0	3.1	8.3	5.9	11.7	8.6	1.7%	2.3%
HOLMEN	353.30	SEK	29,676	2.1	2.1	10.7	10.2	15.2	14.3	18.2	17.6	3.5%	3.6%
MAYR-MELNHOF	107.60	EUR	2,152	0.9	0.9	7.0	6.5	10.4	9.7	14.7	14.1	2.7%	2.8%
METSA	6.26	EUR	2,226	1.4	1.2	8.5	7.3	12.3	10.1	14.9	12.4	3.5%	4.0%
STORA ENSO	10.39	EUR	8,194	1.1	1.1	7.8	7.0	12.0	10.5	14.0	12.5	3.7%	4.0%
UPM KYMMENE	22.90	EUR	12,217	1.3	1.3	8.2	7.9	11.6	11.2	14.2	14.2	4.3%	4.4%
Median				1.3	1.2	8.2	7.3	12.0	10.5	14.7	14.1	3.5%	4.0%

Source: Intermonte SIM estimates for covered companies, FactSet consensus estimates for peer group

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	RENO DE MEDICI		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (Eu):	0.40	Previous Target (Eu):	0.36
Current Price (Eu):	0.34	Previous Price (Eu):	0.28
Date of report:	07/03/2017	Date of last report:	08/11/2016

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- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

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Frequency of research: quarterly.

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period ;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	09.18 %
OUTPERFORM:	53.06 %
NEUTRAL:	35.72 %
UNDERPERFORM	02.04 %
SELL:	00.00 %

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BUY:	26.09 %
OUTPERFORM:	45.65 %
NEUTRAL:	28.26 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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- o Intermonte SIM SpA performs as a liquidity provider for the following companies: A2a, Ansaldo STS, Atlantia, Atsm, Autogrill, Azimut Holding, Banca Generali, Banca Mediolanum, Banco Popolare, BCA Monte dei Paschi di Siena, BCA POP Emilia Romagna, BCA POP Milano, BCA POP Sondrio, Buzzi Unicem, Campani, Cir-Comp, Ind. Riunite, Credito Emiliano, Danieli & c., Danieli & c. Risp. Nc, Diasorin, Enel, Eni, Exor, Generali, Hera, Intesa Sanpaolo, Intesa Sanpaolo Rsp, Iren, Italcementi, Italmobiliare, Italmobiliare RNC, Leonardo-Finmeccanica, Luxottica Group, Maire Tecnimont, Mediaset, Mediobanca, Parmalat, Prysmian, Recordati, S.i.a.s., Saipem, Salmi Impiegato, Salvatore Ferragamo, Snam, Telecom Italia, Telecom Italia Risparmio, Tema, Tod's, Ubi Banca, Unicredit, Unipol, Unipolsai, Yoox Net A Porter.

Intermonte SIM SpA holds net long or short positions in excess of 0.5% of the overall share capital in the following issuers:

Emittente	%	Long/Short
ACOTEL GROUP	0.61	SHORT
CHL	1.68	SHORT
COGEME SET SPA	1.6	SHORT
GO INTERNET	0.73	SHORT
IKF	0.57	SHORT
OLIDATA	0.88	SHORT
PIERREL SPA	0.62	SHORT
PREMUDA	0.53	SHORT
PRIMI SUJ MOTORI S.P.A.	0.61	SHORT
STEFANEL	0.65	SHORT
WASTE ITALIA	1.12	SHORT
ZEPHYRO SPA	1.4	LONG

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