

RENO DE MEDICI

BUY

Price (Eu):

0.47

Target Price (Eu):

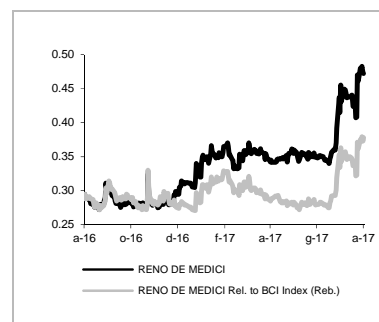
0.55

SECTOR: *Industrials*Carlo Maritano +39-02-77115.358
e-mail: carlo.maritano@intermonte.itJacopo Tagliaferri +39-02-77115.230
e-mail: jacopo.tagliaferri@intermonte.it

New Corporate Strategy Already Paying Off, Positive Outlook Ahead

- Quarterly results well above our expectations.** In 2Q17 revenues came in at Eu142.8mn, up 36.4% YoY or 6.8% at constant consolidation scope. The plant at La Rochette (Folding Box Board segment) contributed Eu31mn in the quarter. The Whitelined Chipboard segment reported volume growth of 4.9% (to 214k tons) and average selling prices up 1.8% (to Eu522/ton). EBITDA came to Eu14.2mn, 12.6% above our forecast, while the EBITDA margin improved by 220bps to 10.0% in 2Q17: the strategy review and management reorganization implemented at the beginning of the year more than compensated for the headwinds from higher fibre raw material prices (due to high exports to China) and slightly higher energy prices. La Rochette contributed Eu2.4mn to quarterly EBITDA. Net profit rose from Eu2.0mn in 2Q16 to Eu7.2mn in 2Q17; this figure was 52.1% above our forecast. Net debt of Eu52.0mn as at end-June 2017 was worse than forecast, up from Eu42.7mn as at end-March 2017, due to extraordinary outflows for share buybacks, M&A, restructuring costs, and a tax claim totalling Eu6.6mn.
- Positive outlook: order flows and backlog at a satisfactory level.** CEO Bianchi said that the company was positive on the growth prospects for the rest of the year in light of the satisfactory backlog in the two business segments. He added that the company would maintain its focus on strengthening the business model by optimizing the commercial and operational performance, and by managing input costs to mitigate the trend of rising raw material prices. To this end, Reno De Medici announced a new price increase at the beginning of July (following the one in February), which will be applied to deliveries from September in order to neutralize fibre price rises.
- Estimates revised upward.** In view of 2Q results and the outlook provided by management, we have raised our estimates; we have increased 2017 revenues, EBITDA and net profit by 2.3%, 4.1% and 10.8% respectively. In 2H17 we expect EBITDA to come to Eu18.7mn, from Eu13.1mn in 2H16.
- BUY reiterated; target lifted to Eu0.55.** We confirm our positive view of the stock: the new corporate strategy, with a renewed focus on production efficiency, supply chain integration, and improved revenue mix, is starting to pay off. In addition, recent results have demonstrated the strong rationale behind the acquisition of La Rochette, both from a financial point of view (the company continues to deliver solid results) and a strategic one (Reno De Medici is now in a position to offer an expanded product range comprising board made from both recycled and virgin fibres). Finally, an ungeared balance sheet provides leeway for additional, value-accretive M&A. Our valuation, the simple average of an EV/ROACE model and a peer comparison yields a new target price of Eu0.55 per share, from Eu0.40 previously.

RENO DE MEDICI - 12m Performance

RATING: **Unchanged**TARGET PRICE (Eu): **from 0.40 to 0.55**

Change in EPS est:	2017E	2018E
	10.8%	7.3%

STOCK DATA

Reuters code: RDM.MI
Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	13.8%	33.1%	60.1%
Relative	13.1%	34.9%	35.0%
12 months H/L:	0.48/0.27		

SHAREHOLDER DATA

No. of Ord. shares (mn):	378
Total No. of shares (mn):	378
Mkt Cap Ord (Eu mn):	178
Total Mkt Cap (Eu mn):	178
Mkt Float - ord (Eu mn):	56
Mkt Float (in %):	31.2%
Main shareholder:	
Cascades	57.6%

BALANCE SHEET DATA

	2017
Book value (Eu mn):	169
BVPS (Eu):	0.45
P/BV:	1.1
Net Financial Position (Eu mn):	-40
Enterprise value (Eu mn):	216

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Key Figures	2015A	2016A	2017E	2018E	2019E
Sales (Eu mn)	438	478	572	588	605
Ebitda (Eu mn)	42	30	42	47	51
Net profit (Eu mn)	10	3	12	16	19
EPS - New (Eu)	0.026	0.008	0.033	0.043	0.050
EPS - Old (Eu)		0.008	0.029	0.040	0.047
DPS (Eu)	0.005	0.002	0.007	0.009	0.010

Ratios & Multiples	2015A	2016A	2017E	2018E	2019E
P/E	18.2	56.9	14.5	11.0	9.4
Div. Yield	1.1%	0.4%	1.4%	1.8%	2.2%
EV/Ebitda	5.4	7.2	5.1	4.2	3.5
ROCE	8.4%	4.4%	9.7%	11.8%	13.6%

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RENO DE MEDICI - KEY FIGURES

		2015A	2016A	2017E	2018E	2019E
	Fiscal year end	31/12/2015	31/12/2016	31/12/2017	31/12/2018	31/12/2019
PROFIT & LOSS (Eu mn)	Sales	438	478	572	588	605
	EBITDA	42	30	42	47	51
	EBIT	17	9	20	25	28
	Financial income (charges)	(4)	(3)	(3)	(2)	(2)
	Associates & Others	1	1	0	0	0
	Pre-tax profit (Loss)	15	6	17	22	26
	Taxes	(4)	(3)	(5)	(6)	(7)
	Tax rate (%)	-25.1%	-47.3%	-28.0%	-28.0%	-28.0%
	Minorities & discontinue activities	1	0	0	0	0
	Net profit	10	3	12	16	19
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	42	30	42	47	51
	Ebit excl. extraordinary items	17	9	20	25	28
Net profit restated	10	3	12	16	19	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	378	378	378	378	378
	EPS stated fd	0.026	0.008	0.033	0.043	0.050
	EPS restated fd	0.026	0.008	0.033	0.043	0.050
	BVPS fd	0.404	0.411	0.449	0.493	0.551
	Dividend per share (ord)	0.005	0.002	0.007	0.009	0.010
	Dividend per share (sav)	0.074	0.074	0.074	0.074	0.074
	Dividend pay out ratio (%)					
CASH FLOW (Eu mn)	Gross cash flow	33	25	35	38	41
	Change in NWC	(1)	(4)	(5)	(2)	(1)
	Capital expenditure	(16)	(16)	(19)	(17)	(18)
	Other cash items	(1)	1	1	1	1
	Free cash flow (FCF)	16	6	12	20	24
	Acquisitions, divestments & others	0	(13)	0	0	0
	Dividend	0	(2)	(1)	(3)	(3)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	16	6	4	18	20	
BALANCE SHEET (Eu mn)	Total fixed assets	198	206	205	204	203
	Net working capital	42	46	51	53	54
	Long term liabilities	(38)	(52)	(46)	(48)	(47)
	Net capital employed	203	200	209	209	210
	Net financial position	(50)	(44)	(40)	(22)	(2)
	Group equity	152	155	169	186	208
	Minorities	0	0	0	0	0
Net equity	153	155	169	186	208	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	178	178	178	178	178
	Adjustments (associate & minorities)	2	3	3	3	3
	Net financial position	(50)	(44)	(40)	(22)	(2)
	Enterprise value	227	220	216	198	178
RATIOS(%)	EBITDA margin*	9.5%	6.4%	7.4%	8.0%	8.4%
	EBIT margin*	3.9%	1.8%	3.5%	4.2%	4.7%
	Gearing - Debt/equity	33.0%	28.6%	23.5%	12.0%	1.0%
	Interest cover on EBIT	4.8	2.7	7.3	10.7	14.2
	Debt/Ebitda	1.20	1.46	0.95	0.48	0.04
	ROCE*	8.4%	4.4%	9.7%	11.8%	13.6%
	ROE*	6.6%	2.0%	7.6%	9.1%	9.6%
	EV/CE	1.1	1.1	1.1	0.9	0.9
	EV/Sales	0.5	0.5	0.4	0.3	0.3
	EV/Ebit	13.2	25.2	10.9	8.0	6.3
Free Cash Flow Yield	8.8%	3.4%	6.7%	11.4%	13.5%	
GROWTH RATES (%)	Sales	2.8%	9.0%	19.7%	2.9%	2.9%
	EBITDA*	15.5%	-27.2%	38.3%	11.7%	7.8%
	EBIT*	-6.5%	-49.2%	125.9%	25.0%	14.9%
	Net profit	82.6%	-68.0%	292.3%	31.3%	17.8%
	EPS restated	82.6%	-68.0%	292.3%	31.3%	17.8%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Results

Reno De Medici - Quarterly Results

(Eu mn)	2Q16A	2Q17A	YoY	2Q17E	A vs E
Revenues	104.7	142.8	36.4%	147.0	-2.9%
Other Revenues	1.1	2.1		1.0	
"White Certificates"	0.0	0.0		0.0	
Δ Finished Goods	5.9	5.8		5.1	
COGS	(86.5)	(114.4)		(115.6)	
<i>% on sales</i>	<i>-82.6%</i>	<i>-80.1%</i>		<i>-78.6%</i>	
Personnel Costs	(16.3)	(22.0)		(23.5)	
<i>% on sales</i>	<i>-15.6%</i>	<i>-15.4%</i>		<i>-16.0%</i>	
Other Operating Costs	(0.8)	0.0		(1.5)	
<i>% on sales</i>	<i>-0.7%</i>	<i>0.0%</i>		<i>-1.0%</i>	
EBITDA	8.1	14.2	75.0%	12.6	12.6%
<i>% on sales</i>	<i>7.8%</i>	<i>10.0%</i>		<i>8.6%</i>	
Depreciations	(5.5)	(5.7)		(5.5)	
Write offs	0.0	0.0		0.0	
EBIT	2.6	8.5	223.2%	7.1	18.8%
<i>% on sales</i>	<i>2.5%</i>	<i>5.9%</i>		<i>4.9%</i>	
Financials and associates	(0.7)	(0.8)		(0.8)	
Pre Tax Profit	1.9	7.7	302.4%	6.4	20.2%
Taxes	0.1	(0.5)		(1.6)	
Discontinued	0.0	0.0		0.0	
Minorities	0.0	0.0		0.0	
Group Net Profit	2.0	7.2	262.5%	4.7	52.1%
Net Debt	(60.3)	(52.0)		(40.0)	nm

Source: Company data and Intermonte Sim

Estimates

Reno De Medici - Change in estimates

Eu mn	2017 new	2017 old	% change	2018 new	2018 old	% change	2019 new	2019 old	% change
Revenues	571.7	558.9	2.3%	588.3	575.1	2.3%	605.4		new
EBITDA	42.1	40.4	4.1%	47.0	45.5	3.3%	50.7		new
<i>EBITDA margin %</i>	<i>7.4%</i>	<i>7.2%</i>		<i>8.0%</i>	<i>7.9%</i>		<i>8.4%</i>		
EBIT	19.8	18.2	8.6%	24.7	23.3	6.1%	28.4		new
<i>EBIT margin %</i>	<i>3.5%</i>	<i>3.3%</i>		<i>4.2%</i>	<i>4.1%</i>		<i>4.7%</i>		
Group Net Profit	12.3	11.1	10.8%	16.1	15.0	7.3%	19.0		new
Net Debt	(39.9)	(32.7)	21.8%	(22.4)	(15.7)	42.5%	(2.0)		new

Source: Company data and Intermonte Sim

Valuation

Reno De Medici Ev/Roace

	2017E	2018E	2019E
Capital Employed - year average	209.4	208.7	209.8
Ebit	19.8	24.7	28.4
ROACE	9.7%	11.8%	13.6%
Tax load ratio (%)	28.0%	28.0%	28.0%
ROACEAT	7.0%	8.5%	9.8%
WACC	7.4%	7.4%	7.4%
TG	0.5%	0.5%	0.5%
Required return	6.9%	6.9%	6.9%
EV / CE	1.0	1.2	1.4
Enterprise Value (Eu mn)	211.2	257.4	297.0
NFP (+)	(39.9)	(22.4)	(2.0)
(Minorities) /Associates (+)	0.0	0.0	0.0
Fair Value (Eu mn)	171.3	235.0	295.1
Fair value per share (Eu)	0.45	0.62	0.78
Number of shares	377.8	377.8	377.8
Actualized Value	0.42	0.54	0.63
2017 - 2019 Average Fair Value		0.53	

Source: Intermonte Sim

Reno de Medici - multiples comparison with Mayr Melnhof

	EV/Ebitda 2017	EV/Ebitda 2018	EV/Ebit 2017	EV/Ebit 2018	P/E 2017	P/E 2018
Reno De Medici	5.1	4.2	10.9	8.1	14.6	11.1
Mayr-Melnhof	7.0	6.6	10.1	9.4	14.4	13.7
premium/(discount)	-27.1%	-36.4%	7.9%	-13.8%	1.4%	-19.0%
average						-14.5%

Source: Factset & Intermonte SIM

Reno De Medici - Multiples @ current price

	2016A	2017E	2018E	2019E
P/E	53.0	14.6	11.1	9.4
EV/Sales	0.5	0.5	0.4	0.4
EV/EBITDA Adjusted	7.3	5.1	4.2	3.5
EV/EBIT	25.2	10.9	8.1	6.3
P/BV	1.2	1.1	1.0	0.9
EV/CE	1.1	1.0	1.0	0.9

Reno De Medici - Multiples @ target price

	2016A	2017E	2018E	2019E
P/E	61.5	16.9	12.9	10.9
EV/Sales	0.6	0.6	0.5	0.4
EV/EBITDA	8.4	5.9	4.9	4.2
EV/EBIT	29.1	12.7	9.4	7.5
P/BV	1.3	1.2	1.1	1.0
EV/CE	1.3	1.2	1.1	1.0

Source: IntermonTE Sim

RENO DE MEDICI Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
RENO DE MEDICI	0.47	EUR	178	13.8%	33.1%	29.4%	54.5%	60.1%	33.4%
HOLMEN	371.40	SEK	31,196	0.7%	-5.4%	9.0%	13.6%	24.8%	48.7%
MAYR-MELNHOF	113.00	EUR	2,260	-1.4%	-0.3%	5.3%	12.2%	13.6%	10.8%
METSA	5.78	EUR	2,055	-9.2%	-14.8%	-6.6%	-14.9%	12.6%	-2.0%
STORA ENSO	11.35	EUR	8,951	-0.4%	-0.5%	14.6%	11.2%	36.7%	32.7%
UPM KYMMENE	---	EUR	12,015	-11.9%	-8.8%	0.7%	-3.5%	18.9%	33.8%
Mean performance				-1.4%	0.5%	8.7%	12.2%	27.8%	26.2%
Italy FTSE Mib	21,354.0	EUR	332,318	1.1%	-0.6%	13.2%	11.0%	25.8%	-9.9%

Source: FactSet

RENO DE MEDICI Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales	EV/Sales	EV/Ebitda	EV/Ebitda	EV/Ebit	EV/Ebit	P/E	P/E	Div Yield	Div Yield
				2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
RENO DE MEDICI	0.47	EUR	178	0.4	0.3	5.1	4.2	10.9	8.0	14.5	11.0	1.4%	1.8%
HOLMEN	371.40	SEK	31,196	2.2	2.2	11.4	10.6	15.9	14.6	18.7	17.8	3.4%	3.5%
MAYR-MELNHOF	113.00	EUR	2,260	0.9	0.9	7.0	6.6	10.1	9.4	14.4	13.7	2.7%	2.8%
METSA	5.78	EUR	2,055	1.3	1.2	8.8	7.2	13.3	10.4	15.1	12.1	3.7%	4.2%
STORA ENSO	11.35	EUR	8,951	1.1	1.1	8.0	7.2	12.1	10.6	14.1	12.6	3.5%	3.9%
UPM KYMMENE	22.52	EUR	12,015	1.3	1.2	7.9	7.6	10.8	10.5	13.4	13.5	4.5%	4.6%
Median				1.3	1.2	8.0	7.2	12.1	10.5	14.4	13.5	3.5%	3.9%

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):	0.55	Previous Target (Eu):	0.40
Current Price (Eu):	0.47	Previous Price (Eu):	0.36
Date of report:	14/08/2017	Date of last report:	09/05/2017