

RENO DE MEDICI OUTPERFORM

Price (Eu): **0.72**

Target Price (Eu): **0.85**

SECTOR: *Industrials*

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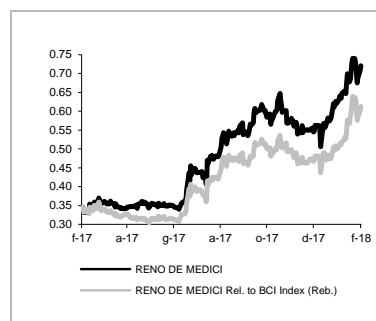
2017 Closes on a High Note, More to Come in 2018

- 4Q above expectations...** The company closed 4Q with turnover of Eu139.4mn, up +5.8% YoY thanks to both volume growth and price rises in WLC, and almost in line with our forecast. Profitability was the main surprise: EBITDA of Eu12.8mn was far better than our Eu9.4mn estimate, showing an increase in the margin of around 380bps YoY. This was partly due to the more supportive market compared to the previous year, but mainly thanks to the measures adopted internally since the start of the reorganization program launched by CEO Bianchi following his appointment in November 2016. Amongst others, we would highlight efficient management of sale price increases to offset rising input costs, better product positioning and mix, greater customer selectivity, and improved planning of production and sales. This led the company to close 4Q with net profit of Eu2.5mn, a clear improvement on the Eu0.4mn loss recorded in 4Q16 and above our expectation of Eu0.9mn. Finally, net debt came down to Eu44.1mn vs Eu44.4mn as at end-December 2016 despite the Eu10.4mn cash-out for the acquisition of the remaining 66.67% of Pac Service, which was more than offset by the generation of operating cash flow.
- ...more to come in 2018.** Although the improvements seen in 2017 were already impressive, we think that these are just the first step in a more comprehensive process. In 2018, the company will focus on further enhancing the CEO's "One-company" vision, which encompasses the promotion of group-wide best-practice and know-how sharing, as well as the benchmarking of internal and external activities. Supply chain integration is set to continue, targeting continuous improvement and broadening of the service offering to clients (the recent acquisition of Pac Service goes in this direction) also thanks to optimized volume allocation at company plants. Finally, the new ERP system, after a prototyping phase, will go live in the Italian mills in 2018, with remaining assets in France and Germany following in 2019.
- Estimates lifted again.** We are substantially lifting our estimates to reflect: 1) stronger-than-expected 4Q results; 2) the solid qualitative outlook provided by management; and 3) the full consolidation of PAC Service from the beginning of 2018 (we note that the company closed 2016 with revenues of Eu20.5mn, EBITDA of Eu1.9mn, EBIT of Eu1.7mn and net profit of Eu1.1mn). Overall, we are increasing our 2018 EBITDA by 11% and net profit by 15.6%. In 2018, we expect EBITDA to come to Eu52.5mn from Eu45.8mn in 2017. Positive changes to EPS in 2018 and 2019 stand at 15.6% and 11.1% respectively.
- OUTPERFORM reiterated; target lifted to Eu0.85.** 4Q results showed that the new corporate strategy, with a renewed focus on production efficiency, supply chain integration, and improved revenue mix, is starting to pay off. Moreover, 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 target price of Eu0.85 per share, from Eu0.73 previously, as we factored in the new higher estimates. We believe that if the measures adopted by management continue to prove effective and further shrink the performance gap on Mayr Melnhof, the stock rating may continue.

Key Figures	2015A	2016A	2017P	2018E	2019E
Sales (Eu mn)	438	478	569	607	626
Ebitda (Eu mn)	42	30	46	52	56
Net profit (Eu mn)	10	3	15	19	22
EPS - New (Eu)	0.026	0.008	0.039	0.052	0.058
EPS - Old (Eu)		0.008	0.034	0.045	0.052
DPS (Eu)	0.005	0.003	0.004	0.005	0.006

Ratios & Multiples	2015A	2016A	2017A	2018E	2019E
P/E	27.7	86.7	18.7	13.9	12.3
Div. Yield	0.7%	0.4%	0.5%	0.7%	0.8%
EV/Ebitda	7.7	10.3	6.8	5.6	5.0
ROCE	8.4%	4.4%	11.4%	13.9%	15.0%

RENO DE MEDICI - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 0.73 to 0.85

Change in EPS est:	2018E	2019E
	15.6%	11.1%

STOCK DATA

Reuters code: RDM.MI
Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	16.1%	25.1%	108.2%
Relative	21.4%	23.4%	90.6%
12 months H/L:	0.74/0.33		

SHAREHOLDER DATA

No. of Ord. shares (mn):	378
Total No. of shares (mn):	378
Mkt Cap Ord (Eu mn):	272
Total Mkt Cap (Eu mn):	272
Mkt Float - ord (Eu mn):	85
Mkt Float (in %):	31.2%
Main shareholder:	
Cascades	57.6%

BALANCE SHEET DATA

	2018
Book value (Eu mn):	189
BVPS (Eu):	0.50
P/BV:	1.4
Net Financial Position (Eu mn):	-29
Enterprise value (Eu mn):	296

Please see important disclaimer on the last page of this report

RENO DE MEDICI - KEY FIGURES

		2015A	2016A	2017A	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	569	607	626
	EBITDA	42	30	46	52	56
	EBIT	17	9	23	30	33
	Financial income (charges)	(4)	(3)	(3)	(2)	(2)
	Associates & Others	1	1	(0)	(0)	(0)
	Pre-tax profit (Loss)	15	6	21	28	31
	Taxes	(4)	(3)	(6)	(8)	(9)
	Tax rate (%)	-25.1%	-47.3%	-29.1%	-28.9%	-28.9%
	Minorities & discontinue activities	1	0	0	0	0
	Net profit	10	3	15	19	22
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	42	30	46	52	56
	Ebit excl. extraordinary items	17	9	23	30	33
	Net profit restated	10	3	15	19	22
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	378	378	378	378	378
	EPS stated fd	0.026	0.008	0.039	0.052	0.058
	EPS restated fd	0.026	0.008	0.039	0.052	0.058
	BVPS fd	0.404	0.411	0.446	0.501	0.563
	Dividend per share (ord)	0.005	0.003	0.004	0.005	0.006
	Dividend per share (sav)	0.074	0.025	0.025	0.025	0.025
	Dividend pay out ratio (%)					
CASH FLOW (Eu mn)	Gross cash flow	33	25	37	42	45
	Change in NWC	1	1	(4)	(2)	(2)
	Capital expenditure	(13)	(18)	(21)	(22)	(23)
	Other cash items	(5)	13	(0)	(0)	(0)
	Free cash flow (FCF)	16	21	12	17	19
	Acquisitions, divestments & others	0	(13)	(10)	0	0
	Dividend	0	(2)	(1)	(1)	(2)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	16	6	0	16	17	
BALANCE SHEET (Eu mn)	Total fixed assets	198	206	206	212	217
	Net working capital	42	46	49	51	53
	Long term liabilities	(38)	(52)	(42)	(45)	(46)
	Net capital employed	203	200	213	218	224
	Net financial position	(50)	(44)	(44)	(29)	(11)
	Group equity	152	155	168	189	212
	Minorities	0	0	0	0	0
Net equity	153	155	168	189	212	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	272	272	272	272	272
	Adjustments (associate & minorities)	2	3	5	5	5
	Net financial position	(50)	(44)	(44)	(29)	(11)
	Enterprise value	321	314	312	296	279
RATIOS(%)	EBITDA margin*	9.5%	6.4%	8.1%	8.6%	8.9%
	EBIT margin*	3.9%	1.8%	4.1%	4.9%	5.3%
	Gearing - Debt/equity	33.0%	28.6%	26.2%	15.1%	5.4%
	Interest cover on EBIT	4.8	2.7	9.3	12.5	15.8
	Debt/Ebitda	1.20	1.46	0.96	0.54	0.21
	ROCE*	8.4%	4.4%	11.4%	13.9%	15.0%
	ROE*	6.6%	2.0%	9.0%	10.9%	11.0%
	EV/CE	1.6	1.6	1.5	1.4	1.3
	EV/Sales	0.7	0.7	0.5	0.5	0.4
	EV/Ebit	18.6	35.9	13.3	9.9	8.4
Free Cash Flow Yield	5.8%	7.7%	4.4%	6.4%	7.1%	
GROWTH RATES (%)	Sales	2.8%	9.0%	19.1%	6.6%	3.1%
	EBITDA*	15.5%	-27.2%	50.5%	14.6%	6.2%
	EBIT*	-6.4%	-49.2%	168.2%	27.6%	10.9%
	Net profit	82.9%	-68.0%	364.8%	33.8%	12.9%
	EPS restated	82.9%	-68.0%	364.8%	33.8%	12.9%

* Excluding extraordinary items

Source: Intermonte SIM estimates

4Q above expectations. The company closed 4Q with turnover of Eu139.4mn, up +5.8% YoY thanks to both volume growth and price rises in WLC, and almost in line with our forecast. Profitability was the main surprise: EBITDA of Eu12.8mn was far better than our Eu9.4mn estimate, showing an increase in the margin of around 380bps YoY. This was partly due to the more supportive market compared to the previous year, but mainly thanks to the measures adopted internally since the start of the reorganization program launched by CEO Bianchi following his appointment in November 2016. Amongst others, we would highlight efficient management of sale price increases to offset rising input costs, better product positioning and mix, greater customer selectivity, and improved planning of production and sales. This led the company to close 4Q with net profit of Eu2.5mn, a clear improvement on the Eu0.4mn loss recorded in 4Q16 and above our expectation of Eu0.9mn. Finally, net debt came down to Eu44.1mn vs Eu44.4mn as at end-December 2016 despite the Eu10.4mn cash-out for the acquisition of the remaining 66.67% of Pac Service, which was more than offset by the generation of operating cash flow of Eu17.3mn in 2017.

Reno De Medici – 4Q results

(Eu mn)	4Q16A	4Q17A	YoY	4Q17E	A vs E	FY16A	FY17A	YoY	FY17E	A vs E
Revenues	131.8	139.4	5.8%	139.9	-0.4%	477.8	569.1	19.1%	569.6	-0.1%
Other Revenues	3.4	3.3		3.2		6.9	8.9		8.8	
Δ Finished Goods	3.1	1.6		3.1		0.5	(3.5)		(2.0)	
COGS	(105.9)	(108.8)		(111.8)		(373.7)	(438.1)		(441.2)	
% on sales	-80.3%	-78.0%		-79.9%		-78.2%	-77.0%		-77.4%	
Personnel Costs	(23.0)	(21.5)		(23.0)		(76.1)	(87.3)		(88.8)	
% on sales	-17.5%	-15.4%		-16.4%		-15.9%	-15.3%		-15.6%	
Other Operating Costs	(2.3)	(1.3)		(2.0)		(5.0)	(3.3)		(4.0)	
% on sales	-1.8%	-0.9%		-1.4%		-1.0%	-0.6%		-0.7%	
EBITDA	7.1	12.8	81.2%	9.4	35.7%	30.4	45.8	50.5%	42.4	7.9%
% on sales	5.4%	9.2%		6.7%		6.4%	8.1%		7.5%	
Depreciations	(5.4)	(5.4)		(5.4)		(21.7)	(22.3)		(22.3)	
Write offs	0.0	0.0		0.0		0.0	0.0		0.0	
EBIT	1.7	7.4	nm	4.0	83.0%	8.8	23.5	168.2%	20.1	16.6%
% on sales	1.6%	5.3%		2.9%		1.8%	5.2%		4.4%	
Financials and associates	(0.5)	(0.7)		(0.7)		(2.3)	(2.7)		(2.6)	
Pre Tax Profit	1.1	6.6		3.4		6.4	20.8		17.5	
Taxes	(1.5)	(4.2)		(2.5)		(3.0)	(6.2)		(4.6)	
Discontinued	0.4	0.2		0.2		0.2	0.2		0.2	
Minorities	0.3	0.0		0.0		0.2	0.0		0.0	
Group Net Profit	(0.4)	2.5	nm	0.9	179.5%	3.1	14.6	nm	13.0	12.2%

Source: Company data (A) and Intermonte SIM estimates (E)

Outlook remains constructive. In both WLC and FBB the current outlook remains positive and is marked by strong demand and backlog. As for raw materials, a downward adjustment is envisaged in paper for recycling as a consequence of the reduction of exports to China. The future trend is uncertain and is strictly related to Chinese Government decisions in the coming months. As regards pulp, the imbalance between supply and demand, and the consequent upward pressure on prices, should also prevail for most of 2018. RDM Group announced a price increase for FBB at the end of 2017 to offset the pressure on margins; the positive effect will start to be seen in 1Q18. The upturn in the general macroeconomic scenario and in the sectors in which the Group operates is taking place alongside the continuation of the reorganization launched at the start of 2017 aimed at implementing the 'Partner of Choice' Vision in a 'One Company' integrated business approach.

More to come in 2018. Although the improvements seen in 2017 were already impressive, we think that these are just the first step in a more comprehensive process. In 2018, the company will focus on further enhancing the CEO's "One-company" vision, which encompasses the promotion of group-wide best-practice and know-how sharing, as well as the benchmarking of internal and external activities. Supply chain integration is set to continue, targeting continuous improvement and broadening of the service offering to clients (the recent acquisition of Pac Service goes in this direction) also thanks to optimized volume allocation at company plants. Finally, the new ERP system, after a prototyping phase, will go live in the Italian mills in 2018, with remaining assets in France and Germany following in 2019.

Reno De Medici – 2018 top priorities



Source: Company presentation

Estimates lifted again. We are substantially lifting our estimates to reflect: 1) stronger-than-expected 4Q results; 2) the solid qualitative outlook provided by management; and 3) the full consolidation of PAC Service from the beginning of 2018 (we note that the company closed 2016 with revenues of Eu20.5mn, EBITDA of Eu1.9mn, EBIT of Eu1.7mn, and net profit of Eu1.1mn). Overall, we are increasing our 2018 EBITDA and net profit by 11% and 15.6% respectively. In 2018, we expect EBITDA to come to Eu52.5mn, from Eu45.8mn in 2017. Positive changes to EPS in 2018 and 2019 stand at 15.6% and 11.1% respectively.

Reno De Medici – 4Q results

	2017 A vs E	2018E	2019E
Revenues new	569	607	626
Revenues old	570	586	603
EBITDA new	45.8	52.5	55.7
EBITDA old	42.4	47.3	51.0
EBIT new	23.5	30.0	33.2
EBIT old	20.1	25.0	28.7
Net Profit new	14.6	19.5	22.0
Net Profit old	13.0	16.9	19.8
Net Debt (Cash) new	(44.1)	(28.5)	(11.5)
Net Debt (Cash) old	(35.3)	(17.3)	3.5

Source: Company data (A) and Intermonte SIM estimates (E)

Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
RENO DE MEDICI	0.72	EUR	272	16.1%	25.1%	49.1%	42.4%	108.2%	127.8%
HOLMEN	424.20	SEK	35,631	-5.7%	4.6%	17.4%	-2.7%	23.9%	71.8%
MAYR-MELNHOF	125.80	EUR	2,516	-1.7%	1.5%	12.8%	2.7%	18.9%	23.0%
METSA	7.40	EUR	2,629	-3.9%	13.3%	26.7%	3.5%	19.1%	32.4%
STORA ENSO	14.36	EUR	11,321	-1.2%	6.8%	24.5%	8.6%	39.8%	87.2%
UPM KYMMENE	---	EUR	---	---	---	---	---	---	---
Mean performance				0.7%	10.3%	26.1%	10.9%	42.0%	68.5%
Italy FTSE Mib	22,673.6	EUR		-4.5%	2.2%	3.9%	3.8%	19.3%	34.1%

Source: FactSet

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
				2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
RENO DE MEDICI	0.72	EUR	272	0.5	0.4	5.6	5.0	9.9	8.4	13.9	12.3	0.7%	0.8%
HOLMEN	424.20	SEK	35,631	2.3	2.2	11.3	11.2	15.3	15.4	18.7	18.9	3.3%	3.6%
MAYR-MELNHOF	125.80	EUR	2,516	1.0	1.0	7.4	7.0	10.7	10.1	15.2	14.7	2.6%	2.7%
METSA	7.40	EUR	2,629	1.4	1.3	8.7	8.1	12.1	10.9	14.5	13.5	3.4%	3.8%
STORA ENSO	14.36	EUR	11,321	1.3	1.3	7.9	7.6	11.6	10.9	13.7	13.3	3.3%	3.6%
UPM KYMMENE		EUR											
Median				1.4	1.3	8.3	7.9	11.8	10.9	14.9	14.1	3.3%	3.6%

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

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	RENO DE MEDICI		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	0.85	Previous Target (Eu):	0.73
Current Price (Eu):	0.72	Previous Price (Eu):	0.65
Date of report:	21/02/2018	Date of last report:	07/11/2017

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- 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)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&P/IB40 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

Explanation of our ratings system:

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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IntermonTE SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms. As at 29 December 2017 IntermonTE's Research Department covered 150 companies.

IntermonTE's distribution of stock ratings is as follows:

BUY:	12.99 %
OUTPERFORM:	42.86 %
NEUTRAL:	38.96 %
UNDERPERFORM	05.19 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from IntermonTE in the last 12 months (44 in total) is as follows:

BUY:	14.29 %
OUTPERFORM:	55.10 %
NEUTRAL:	30.61 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
CAPITAL FOR PROGRESS 2	1.06	LONG
COGEME SET SPA	1.6	SHORT
IKF	0.57	SHORT
OLIDATA	0.88	SHORT

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