

RENO DE MEDICI OUTPERFORM

Price (Eu): **0.46**
 Target Price (Eu): **0.60**

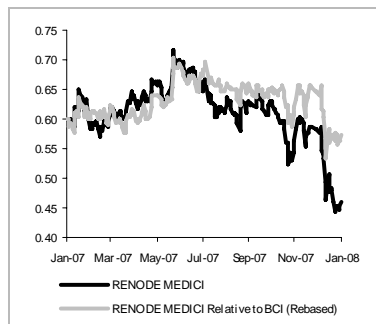
SECTOR: *Industrials*

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More Conservative Assumptions on 2008

- Outlook for 4Q.** A strong YoY recovery in margins this quarter is in doubt. In the last three months of the year, concerns continued over rises in waste paper prices, which hurt the first three quarters, as well as regarding increases in transport costs. These two factors cancel out the benefits from increases in manufactured cardboard prices. The recent truckers' strike may also have caused delivery delays. We have lowered FY2007 expectations from Eu32mn to Eu29mn in terms of EBITDA.
- Update on the merger with Cascades Europe.** The Canadian company will transfer its facilities in Blendecques (France), in Wednesbury (UK) and in Arnsberg (Germany) for a total output around 350,000 tonnes per year. Reno de Medici will issue 108.1mn new shares (around 40% of the current share capital) to Cascades, which will become the new majority shareholder with a stake of 30%. This transaction will not imply any mandatory offer. The deal will bring RdM's production capacity up to 1.1mn tonnes, close to Mayr Melnhof, whose capacity is around 1.5mn tonnes. No debt is to be transferred to RdM. Because the Antitrust has made further requests for additional information before giving its approval to the merger, the date for this operation has been postponed.
- Our 2008 estimates are still based on a standalone scenario.** In our estimates we are still not taking into account the merger between RdM and Cascades, awaiting the green light to the deal and greater details on expected synergies. On a standalone basis we have lowered our 2008 EBITDA expectations from Eu40mn to Eu34mn, the main factors behind the cut in estimates are: rising energy prices to continue in 2008 (increase in the price of gas), greater difficulties given the current macro-economic situation, and sharp rises in cardboard prices.
- From Buy to OUTPERFORM, valuation from Eu0.9 to Eu0.6.** In our new valuation we have stripped out any contribution from the integration with Cascades' European business. On a standalone basis the stock is trading at 7x 2008 EV/EBITDA, with the stock much more palatable on a P/BV '08 basis at 0.8x. We have lowered our target price from Eu0.9 to Eu0.6 per share, with the recommendation passing from Buy to OUTPERFORM.

RENO DE MEDICI - 12m Performance



RATING: from Buy to OUTPERFORM

TARGET PRICE (Eu): From 0.90 to 0.60

Change in EPS est: **2007E 2008E**
30326.9 -29.4%

STOCK DATA

Reuters code: RDM.MI
 Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	-22.2%	-27.7%	-22.9%
Relative	-11.5%	-11.3%	-3.6%
12 months H/L:	0.72/0.44		

SHAREHOLDER DATA

No. of Ord. shares (mn): 270
 Total No. of shares (mn): 270
 Mkt Cap Ord (Eu mn): 123
 Total Mkt Cap (Eu mn): 123
 Mkt Float - ord (Eu mn): 89
 Mkt Float (in %): 72.2%
 Main shareholder:
 Alerion 12.6%

BALANCE SHEET DATA

2008
 Book value (Eu mn): 160
 BVPS (Eu): 0.59
 P/BV: 0.8
 Net Financial Position (Eu mn): -113
 Enterprise value (Eu mn): 236

SAVING

Price:
 No. of shares (mn): 1
 Mkt Cap Sav (Eu mn):
 DVPS: 0.00

Key Figures	2005A	2006A	2007E	2008E	2009E
Sales (Eu mn)	295	314	352	369	382
Ebitda (Eu mn)	28	29	30	34	36
Net profit (Eu mn)	-12	-19	-2	7	10
EPS - New (Eu)	-0.01	-0.05	-0.01	0.02	0.04
EPS - Old (Eu)	-0.01	-0.05	0.00	0.03	0.05
DPS (Eu)	0.00	0.00	0.00	0.00	0.00
Ratios & Multiples	2005A	2006A	2007E	2008E	2009E
P/E	nm	nm	nm	18.6	12.0
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	10.5	8.6	8.0	7.0	6.5
ROCE	0.5%	1.9%	3.5%	6.3%	7.5%

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RENO DE MEDICI - KEY FIGURES

		2005A	2006A	2007E	2008E	2009E
	Fiscal year end	31/12/2005	31/12/2006	31/12/2007	31/12/2008	31/12/2009
PROFIT & LOSS (Eu mn)	Sales	295	314	352	369	382
	EBITDA	28	29	30	34	36
	EBIT	2	6	10	17	21
	Financial income (charges)	(12)	(11)	(9)	(8)	(7)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	(10)	(5)	1	10	14
	Taxes	(0)	(3)	(3)	(3)	(3)
	Tax rate (%)	4.5%	-18.6%	-14.5%	-12.7%	
	Minorities & discontinue activities	0	0	(0)	(0)	0
	Net profit	-12	-19	-2	7	10
	Total extraordinary items	(5)	(9)	0	0	0
	Ebitda excl. extraordinary items	28	29	30	34	36
Ebit excl. extraordinary items	2	6	10	17	21	
Net profit restated	(3)	(14)	(2)	7	10	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	270	270	270	270	270
	EPS stated fd	-0.05	-0.07	-0.01	0.02	0.04
	EPS restated fd	-0.01	-0.05	-0.01	0.02	0.04
	BVPS fd	0.53	0.58	0.57	0.59	0.63
	Dividend per share (ord)	0.00	0.00	0.00	0.00	0.00
	Dividend per share (sav)	0.00	0.04	0.00	0.00	0.00
Dividend pay out ratio (%)						
CASH FLOW (Eu mn)	Gross cash flow	14	5	18	23	25
	Change in NWC	26	23	4	(6)	(4)
	Capital expenditure	(10)	(11)	(10)	(15)	(17)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	40	28	22	17	21
	Acquisitions, divestments & others	49	40	0	0	0
	Dividend	0	0	0	0	0
Equity financing/Buy-back	0	0	0	0	0	
Change in Net Financial Position	78	43	12	2	4	
BALANCE SHEET (Eu mn)	Total fixed assets	232	216	205	199	198
	Net working capital	127	104	100	106	110
	Long term liabilities	(47)	(38)	(36)	(33)	(29)
	Net capital employed	313	283	269	273	279
	Net financial position	(170)	(127)	(115)	(113)	(109)
	Group equity	143	156	153	160	170
	Minorities	0	0	0	0	0
Net equity	143	156	153	160	170	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	123	123	123	123	123
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(170)	(127)	(115)	(113)	(109)
	Enterprise value	293	250	238	236	232
RATIOS(%)	EBITDA margin*	9.4%	9.2%	8.4%	9.1%	9.3%
	EBIT margin*	0.6%	1.8%	2.8%	4.7%	5.4%
	Gearing - Debt/equity	118.7%	81.7%	75.3%	70.6%	64.2%
	Interest cover on EBIT	0.1	0.5	1.1	2.3	2.9
	Debt/Ebitda	6.11	4.38	3.89	3.36	3.07
	ROCE*	0.5%	1.9%	3.5%	6.3%	7.5%
	ROE*	-8.2%	-12.5%	-1.4%	4.2%	6.2%
	EV/CE	0.8	0.8	0.9	0.9	0.8
	EV/Sales	1.0	0.8	0.7	0.6	0.6
	EV/Ebit	nm	nm	24.6	13.7	11.3
Free Cash Flow Yield	32.3%	22.9%	17.6%	14.0%	17.3%	
GROWTH RATES (%)	Sales	-2.2%	6.3%	12.0%	5.1%	3.5%
	EBITDA*	-10.9%	4.3%	2.4%	13.5%	5.7%
	EBIT*	-64.0%	218.0%	72.7%	77.5%	19.8%
	Net profit	nm	nm	nm	nm	54.8%
	EPS restated	nm	nm	nm	nm	54.8%

* Excluding extraordinary items

Source: Intermonte SIM estimates