

RENO DE MEDICI

NEUTRAL

Price (Eu): **0.23**
Target Price (Eu): **0.27**

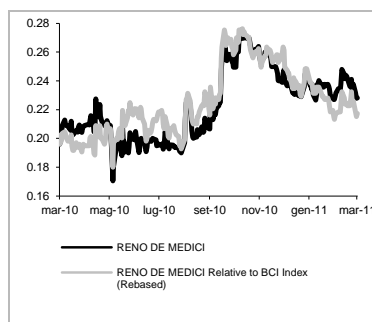
SECTOR: *Industrials*

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A Strong Quarter, Boosted by Price Increases

- Cardboard prices boost quarterly EBITDA.** Reno De Medici closed the last quarter of the year with sales of Eu136.8mn (our estimate Eu134mn) +25% YoY. Volumes sold came to 245.000 tons, +8% YoY, with an average sale price of Eu558 per ton (+17% YoY). The price hike contributed around an additional Eu20mn in EBITDA. Notably, prices also improved slightly on a quarterly basis, going up by around Eu7 per ton. EBITDA came in at Eu12mn +76% YoY (our estimate Eu11.6mn) or Eu5.2mn more than in 2009; considering the Eu20mn boost from price increases and a further Eu2mn from operating leverage, we can see that cost inflation had a negative impact of around Eu13mn. EBIT came in at Eu3.6mn (our estimate Eu4.7mn). The company posted a net profit of Eu300,000 (our estimate Eu1.5mn) vs. a loss of Eu3.3mn last year. FY sales came to Eu504mn (our estimate Eu500mn) +17.6%, EBITDA amounted to Eu40mn, +29% (our estimate Eu3.6mn), and net profit came in at Eu1.4mn (our estimate Eu2.5mn).
- NFP lowered by Eu25mn in 2010.** Reno De Medici is continuing its de-leverage process, closing with a net financial position of Eu-106.5mn, a great improvement on the 2009 level of Eu-130.8mn and the figure posted last quarter (Eu-110mn). This has been achieved through operating improvements and working capital management, with the latter going down by Eu6.5mn despite the increase in sales.
- 2011 and 2012 estimates raised slightly.** Even though raw material and energy costs should increase in 2011, we expect Reno De Medici to more than offset the impact by increasing its final sale price, as it did in 2010. We estimate a further 8% increase in average cardboard prices in 2010 to Eu575 per ton. We have fine-tuned our EBITDA estimate from Eu43.7mn to Eu44.1mn for 2011 and from Eu45.5mn to Eu45.9mn in 2012.
- Turnaround almost complete.** Reno De Medici has almost completed its financial turnaround. NFP is expected to reach a safe ratio of 2.2x forecast EBITDA in 2011. Market valuations are not demanding, and looking at the balance sheet Reno De Medici is actually trading at 0.6x its tangible book value. Nevertheless, the sector is still suffering from overcapacity and it could take some time before the ROE comes in line with the cost of capital. Overcapacity in the sector has been reduced, but cardboard producers have not yet obtained sufficient pricing power to raise prices in order to trigger a structural improvement in profitability.

RENO DE MEDICI - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): Unchanged

Change in EPS est:	2010A	2011E
	nm	2.6%

STOCK DATA

Reuters code: RDM.MI
 Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	0.5%	-7.9%	16.4%
Relative	2.0%	-18.4%	11.2%
12 months H/L:	0.27/0.17		

SHAREHOLDER DATA

No. of Ord. shares (mn): 378
 Total No. of shares (mn): 378
 Mkt Cap Ord (Eu mn): 86
 Total Mkt Cap (Eu mn): 86
 Mkt Float - ord (Eu mn): 34
 Mkt Float (in %): 39.8%
 Main shareholder:
 Cascades 40.2%

BALANCE SHEET DATA

	2011
Book value (Eu mn):	163
BVPS (Eu):	0.43
P/BV:	0.5
Net Financial Position (Eu mn):	-97
Enterprise value (Eu mn):	183

Key Figures	2008A	2009A	2010A	2011E	2012E
Sales (Eu mn)	451	428	504	561	572
Ebitda (Eu mn)	40	32	40	44	46
Net profit (Eu mn)	-6	-7	1	6	7
EPS - New (Eu)	0.00	-0.03	0.00	0.01	0.02
EPS - Old (Eu)	0.00	-0.03	0.01	0.01	0.02
DPS (Eu)	0.00	0.00	0.00	0.00	0.00

Ratios & Multiples	2008A	2009A	2010A	2011E	2012E
P/E	nm	nm	61.3	15.4	12.1
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	11.2	6.7	4.8	4.2	3.8
ROCE	5.2%	1.7%	4.4%	6.3%	6.8%

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Cardboard Prices Boosted Quarterly EBITDA

Reno De Medici closed the last quarter of the year with sales of Eu136.8mn (our estimate Eu134mn) +25% YoY. Volumes sold came to 245.000 tons, +8% YoY, with an average sale price of Eu558 per ton (+17% YoY). The price hike contributed around an additional Eu20mn in EBITDA. Notably, prices also improved slightly on a quarterly basis, going up by around Eu7 per ton. EBITDA came in at Eu12mn +76% YoY (our estimate Eu11.6mn) or Eu5.2mn more than in 2009; considering the Eu20mn boost from price increases and a further Eu2mn from operating leverage, we can see that cost inflation had a negative impact of around Eu13mn (or Eu50 per ton). EBIT came in at Eu3.6mn (our estimate Eu4.7mn). The company posted a net profit of Eu300,000 (our estimate Eu1.5mn) vs. a loss of Eu3.3mn last year. FY sales came to Eu504mn (our estimate Eu500mn) +17.6%, EBITDA amounted to Eu40mn, +29% (our estimate Eu3.6mn), and net profit came in at Eu1.4mn (our estimate Eu2.5mn).

Reno de Medici Quarterly Results

(€ mn)	Q1'09 A	Q2'09 A	Q3'09 A	Q4'09 A	FY'09 A	Q1'10 A	Q2'10 A	Q3'10 A	Q4'10 A	FY'10A
Sales	108.4	105.7	104.5	109.5	428.1	115.1	126.5	125.2	136.8	503.6
Yoy Growth	4.7%	-22.4%	-12.4%	19.0%	-5.1%	6.2%	19.7%	19.8%	24.9%	17.6%
Volumes ('000)	210	209	215	230	864	234	240	227	245	946
Yoy Growth	na	na	na	na	-2.8%	11.4%	14.8%	5.6%	7.9%	9.5%
Average Prices (Eu)	516	506	486	476	495	492	527	552	558	532
Yoy Growth						-4.7%	4.2%	13.5%	17.3%	7.4%
Other Revenues	4.2	5.1	5.1	5.0	19.3	4.5	3.1	2.8	4.6	15.0
Cost of Raw Materials	-84.3	-80.6	-83.2	-85.5	-333.6	-91.8	-97.2	-97.2	-107.0	-393.1
Margin %	-78%	-76%	-80%	-78%	-78%	-80%	-77%	-78%	-78%	-78%
Labour Costs	-18.4	-19.6	20.7	-20.6	-75.6	-19.3	-20.3	-19.7	-20.0	-79.3
Other Operating	-1.2	-1.1	-1.6	-1.9	-5.8	-1.4	-1.1	-1.2	-1.4	-5.2
EBITDA	8.9	9.7	6.8	6.8	32.2	7.1	11.0	10.0	12.0	40.0
Margin %	8%	9%	-6%	6%	8%	6%	9%	8%	9%	8%
Depreciations	-6.4	-6.4	-7.1	-6.7	-26.7	-6.7	-6.7	-6.1	-7.0	-26.5
Right offs	0.0	-0.5	0.0	-0.1	-0.6	0.0	0.0	-1.5	0.0	-1.5
EBIT	2.6	2.8	-0.3	0.0	4.9	0.3	4.3	3.9	3.6	12.1
Financials	-2.8	-2.2	-2.4	-2.9	-10.2	-1.9	-0.8	-2.7	-1.6	-7.1
Pre Tax	-0.2	0.6	-2.7	-3.0	-5.3	-1.6	3.5	1.2	1.9	5.0
Taxes	-0.8	-0.3	0.0	-0.2	-1.3	-0.3	-0.7	-0.5	-1.4	-2.9
Minorities	-0.1	-0.1	-0.1	-0.1	-0.4	-0.2	-0.2	-0.1	-0.2	-0.7
Net Result	-1.1	0.2	-2.8	-3.3	-6.9	-2.1	2.6	0.6	0.3	1.4

Source: Intermonte Sim

Net Financial Position Improved To Eu106.5mn From Eu130.8mn At YE09

Reno De Medici is continuing its de-leverage process, closing with a net financial position of Eu-106.5mn, a great improvement on the 2009 level of Eu-130.8mn and the figure posted last quarter (Eu-110mn). This has been achieved through operating improvements and working capital management, with the latter going down by Eu6.5mn despite the increase in sales.

Outlook From Press Release

"In terms of order numbers and sale prices, the beginning of 2011 appears substantively in line with the last months of 2010. From a financial perspective, production factors such as energy and recycled fiber costs continue to rise, also in correlation to the political instability in North Africa and the Middle East. It is reasonable to believe that these increased costs will have to be recuperated on the revenues front. In conclusion, in a European macroeconomic scenario that shows signs of recovery, albeit slow and differing from country to country, a certain degree of volatility persists, making it hard to make financial and market projections that are completely reliable".

Rising Raw Material And Energy Costs Should Be Offset By Better Prices

The main concern for the current year is a further increase in operating costs, which increased by between 15% and 30% YoY in 2010.

We estimate that in 2011 raw material purchases (mainly recovered paper), which account for around 40% of sales, will rise by 15% on average, and that energy costs (around 14% of sales) will go up by a further 12%.

On the positive side this year RDM managed to lift its average cartonboard sale price by more than 7% to Eu532 per ton, with a 2010 exit price of Eu558 per ton, 5% up on the average 2010 sale price.

We have raised our assumptions for 2011, with prices now forecast at Eu575 per ton (+8%) and volumes at 974,000 tons. We are now estimating sales to come to Eu560mn, +11% YoY (vs. a previous estimate of Eu541mn). We have also slightly improved our EBITDA estimates to Eu44.1mn vs. the previous Eu43.7mn, which will translate into an EPS improvement in our estimates by 2.6% in 2010 and by 5% in 2011.

Reno de Medici P&L

(€ mn)	2007A	2008A	2009A	2010A	2011E	2012E
Sales	342.5	451.1	428.1	503.6	560.5	571.7
YoY growth %	9.1%	31.7%	-5.1%	17.6%	11.3%	2.0%
EBITDA	29.6	19.1	32.2	40.0	44.1	45.9
Ebitda margin %	8.7%	4.2%	7.5%	7.9%	7.9%	8.0%
Total D&A	(19.0)	(26.7)	(27.3)	(28.0)	(27.5)	(28.3)
EBIT	10.6	-7.6	4.9	12.0	16.6	17.6
Ebit margin	3.1%	-1.7%	1.1%	2.4%	3.0%	3.1%
Net financials & Participations	(7.6)	(11.7)	(10.2)	(7.1)	(7.0)	(6.0)
Pre tax profit	3.0	1.9	-5.3	5.0	9.6	11.6
Taxes	0.8	(2.1)	(1.3)	(2.9)	(2.8)	(2.9)
Minorities	(2.4)	(7.0)	(0.4)	(0.7)	(1.2)	(1.6)
Group Net Profit	1.4	-6.4	-6.9	1.4	5.6	7.1

Source: Intermonte Sim

As for cash flow generation, RDM should continue its de-leverage process, albeit at a slower rate than in the last two years, as the company should return to a normalized replacement CAPEX level of around 4% of sales.

Reno de Medici Cash Flow

(€ mn)	2007A	2008A	2009A	2010A	2011E	2012E
Net Income	1.7	-6.2	-6.5	2.1	6.8	8.7
Depreciation and Amortization	18.4	25.0	26.7	26.5	27.0	28.3
Other non-cash items	0.0	1.7	0.6	1.5	0.0	0.0
Gross Operating Cash Flow	20.1	20.5	20.8	30.1	33.8	37.0
Change in NWC	8.5	(18.4)	5.5	6.5	(4.7)	(8.0)
Capex	(17.8)	(16.9)	(19.7)	(16.9)	(20.7)	(24.0)
Change in financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	(4.7)	0.0	0.0	0.0
Share Capital Increase	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	(0.9)	(4.2)	4.0	0.0	0.0
Net Cash Flow	10.8	(12.7)	(2.3)	24.3	9.5	7.6
Initial Net Financial Position	(126.6)	(115.8)	(128.5)	(130.8)	(106.5)	(96.9)
Final Net Financial Position	(115.8)	(128.5)	(130.8)	(106.5)	(96.9)	(89.3)

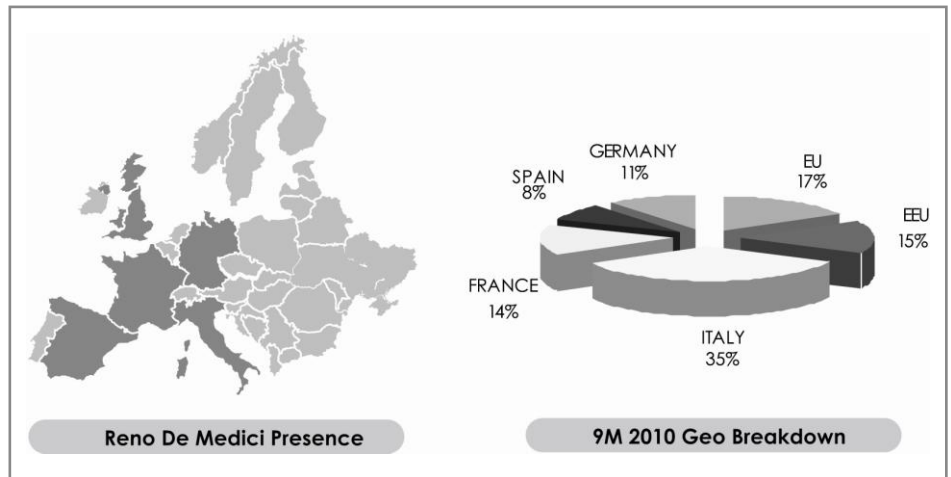
Source: Intermonte Sim

Company in Brief

Reno De Medici is the leading Italian and second-ranked European producer of cardboard based on recycled materials. Its production capacity is split between several mills in Italy, Spain, France and Germany. The different types of cardboard that Reno De Medici produces target all packaging and binding applications. The Reno De Medici products are offered through different brands to meet customers' requirements and achieve a widespread presence in Italy, as well as abroad.

In 2008 RDM's merger with Cascades' European assets was definitively approved. Following the deal, Cascades became the leading shareholder, and currently has a 35% stake in the capital. The transaction involved the integration of two production facilities into the RDM Group, one in France and one in Germany, as well as a cutting and distribution center in England. The Canadian company transferred its facilities in Blendecques (France), Wednesbury (UK) and Arnsberg (Germany) for a total output of around 350,000 tons per year. Today Reno De Medici has Europe-wide exposure, with Italy accounting for just 35% of sales.

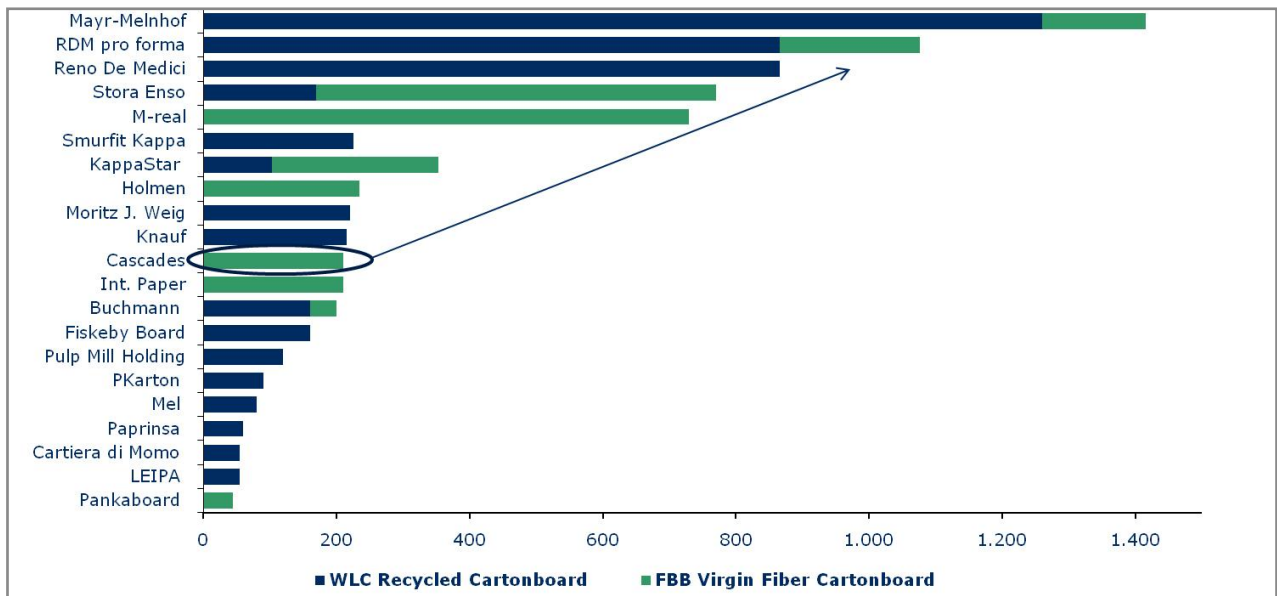
Reno de Medici – A Pan-European Player



Source: Company Presentation

As things stand RDM has become the second largest cartonboard operator in Europe after Mayr Melnhof, with an overall capacity of over 800,000 tons. On a "pro forma basis" (the blue + green part) total production capacity would be around 1.1mn, when the put or call option to acquire the European FBB assets of Cascades is exercised by either Cascades or RDM. The option exercise period is 2012 for RDM and 2013 for Cascades.

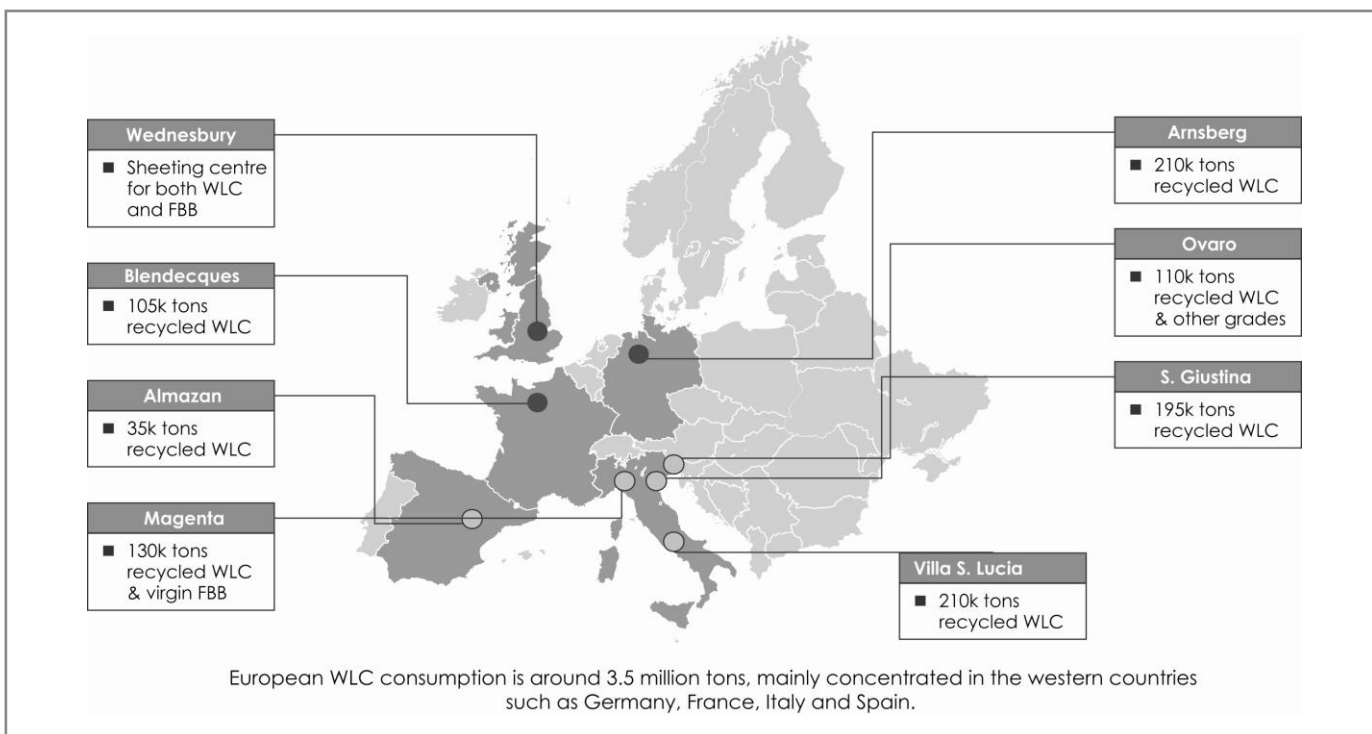
European Players



Source: Company Presentation

The integration has allowed RDM to improve its competitive position and achieve a better geographical breakdown of sales: the weight of Italy dropped from 52% to 35%. The geographical risk diversification with the two new mills at Blendecques (165k tons of recycled WLC) and Arnsberg (185k tons recycled WLC) should allow RDM to reduce the lead-in time (according to the company 2 days less due to the positioning of mills closer to customers). The improved service to customers will also allow strong savings.

Reno de Medici – Production Facilities



Source: Company Presentation

History in Brief

Reno de Medici – Section I Milestones

1967	1967	Establishment of the Company Cartiera del Reno, based in Milan with production unit in Marzabotto (Bologna). Output capacity of 8,000 tons.
	1985	Acquisition of Ovaro, capacity 32,000 tons.
	1986	Acquisition from Cartiera Binda de Medici of the Ciriè (Turin) plant, output 60,000 tons. The Company changed name to Reno de Medici.
	1992	Equity holding in Grafiche Capretta, a converting firm with a potential output capacity of 15,000 tons.
1996	1995	Ovaro merged into Reno de Medici. Equity holding in Grafiche Capretta raised to 70%.
	1996	Reno de Medici listed on the Milan stock exchange. Global output capacity up to 270,000 tons.
1998	1997	Reno de Medici and Saffa merge. The Company take the name Reno De Medici, acquiring the Bianchi Saffapack converting division, Saffa Immobiliare, Italmatch, a number of smaller holdings and a controlling interest in Sarrio (Spain).
	1998	Reno De Medici merged with Sarrio, the main holding of the former Saffa, becoming Europe's second largest maker of mainly recycled cardboard with an output capacity of over 950,000 tons and a market share in Europe of around 20%.
	1999	The company Grafiche Capretta merged with Bianchi Saffapack, changing name to Europoligrafico and becoming Italy's leading paper-transformation firm with 4 production units and an output capacity of 60,000 tons.
2005	2001	Acquisition of Aticarta with a paper mill in Pompei and a converting mill in Rovereto.
	2005	Non-core assets disposal and sale of the share capital owned in Europoligrafico and Aticarta.
2006	2006	Demerger of some real estate assets, through the creation and simultaneous listing of RDM Realty.
2008	2008	Merger by incorporation of the European recycled cartonboard business of the Cascades Group. Creation of a commercial joint-venture (Careo) for the sale of all kind of cartonboard both from virgin and recycled fibres.
2009	2009	Acquisition of a minority stake in Manucor, the leading Italian plastic film producer.

Source: Company Presentation

RENO DE MEDICI - KEY FIGURES

		2008A	2009A	2010A	2011E	2012E
	Fiscal year end	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012
PROFIT & LOSS (Eu mn)	Sales	451	428	504	561	572
	EBITDA	40	32	40	44	46
	EBIT	14	5	12	17	18
	Financial income (charges)	(10)	(10)	(7)	(7)	(6)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	(18)	(5)	5	10	12
	Taxes	(2)	(1)	(3)	(3)	(3)
	Tax rate (%)	11.9%	24.3%	-58.0%	-29.1%	-24.6%
	Minorities & discontinue activities	(0)	(0)	(1)	(1)	(2)
	Net profit	-6	-7	1	6	7
	Total extraordinary items	(7)	0	0	0	0
	Ebitda excl. extraordinary items	40	32	40	44	46
Ebit excl. extraordinary items	14	5	12	17	18	
Net profit restated	(0)	(7)	1	6	7	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	377	377	378	378	378
	EPS stated fd	-0.02	-0.03	0.00	0.01	0.02
	EPS restated fd	0.00	-0.03	0.00	0.01	0.02
	BVPS fd	0.60	0.58	0.41	0.43	0.45
	Dividend per share (ord)	0.00	0.00	0.00	0.00	0.00
	Dividend per share (sav)	0.00	0.00	0.00	0.00	0.00
Dividend pay out ratio (%)						
CASH FLOW (Eu mn)	Gross cash flow	20	20	29	33	35
	Change in NWC	(18)	6	6	(5)	(8)
	Capital expenditure	(17)	(20)	(17)	(21)	(24)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	2	26	36	28	27
	Acquisitions, divestments & others	4	(5)	0	0	0
	Dividend	0	0	0	0	0
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	(13)	(2)	24	10	8	
BALANCE SHEET (Eu mn)	Total fixed assets	271	269	258	253	253
	Net working capital	88	82	76	80	88
	Long term liabilities	(69)	(66)	(71)	(74)	(83)
	Net capital employed	289	286	263	259	259
	Net financial position	(128)	(131)	(106)	(97)	(89)
	Group equity	161	155	157	162	169
	Minorities	1	1	1	1	1
Net equity	162	156	158	163	170	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	86	86	86	86	86
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(128)	(131)	(106)	(97)	(89)
	Enterprise value	215	217	193	183	175
RATIOS(%)	EBITDA margin*	8.9%	7.5%	7.9%	7.9%	8.0%
	EBIT margin*	3.0%	1.1%	2.4%	3.0%	3.1%
	Gearing - Debt/equity	79.8%	84.5%	68.0%	59.8%	52.7%
	Interest cover on EBIT	1.4	0.5	1.7	2.4	2.9
	Debt/Ebitda	3.19	4.06	2.66	2.20	1.95
	ROCE*	5.2%	1.7%	4.4%	6.3%	6.8%
	ROE*	-4.6%	-4.4%	0.9%	3.5%	4.3%
	EV/CE	0.8	0.8	0.7	0.7	0.7
	EV/Sales	0.5	0.5	0.4	0.3	0.3
	EV/Ebit	nm	nm	16.0	11.1	9.4
Free Cash Flow Yield	2.3%	30.1%	41.6%	32.3%	31.9%	
GROWTH RATES (%)	Sales	31.7%	-5.1%	17.6%	11.3%	2.0%
	EBITDA*	36.1%	-20.2%	24.3%	10.1%	4.1%
	EBIT*	28.4%	-63.9%	145.5%	37.7%	6.2%
	Net profit	nm	nm	nm	297.8%	27.6%
	EPS restated	nm	nm	nm	297.8%	27.6%

* Excluding extraordinary items

Source: Intermonte SIM estimates

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- Intermonte SIM SpA and its subsidiaries do not hold a stake of equal to or over 1% in any class of common equity securities of the subject company;
- Intermonte SIM SpA acts as Financial Advisor to the following companies: Cattolica Assicurazioni.

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	RENO DE MEDICI		
Current Recomm:	NEUTRAL	Previous Recomm:	NEUTRAL
Current Target (Eu):	0.27	Previous Target (Eu):	0.27
Current Price (Eu):	0.23	Previous Price (Eu):	0.25
Date of report:	04/03/2011	Date of last report:	25/11/2010

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