

RENO DE MEDICI

BUY

Price (Eu): **0.55**
 Target Price (Eu): **0.83**

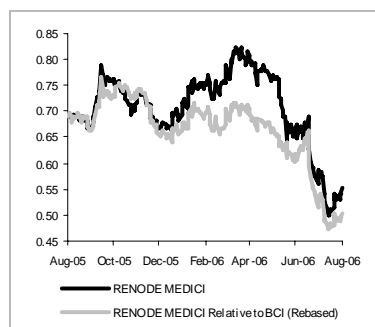
SECTOR: *Cyclicals*

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Worse Scenario, but the Correction Was Excessive

- 2Q Results: strong improvement at Ebitda level, but slightly under expectation**
 Operating results showed a marked improvement on last year's levels, but were slightly lower than expected: sales: Eu78mn, +2.3% YoY (estimate Eu85mn), EBITDA Eu8.9mn, +22% YoY (estimate Eu9.5mn), EBIT Eu3.1mn, down vs. last year (estimate Eu4.7mn), net profit post extraordinaries (above our estimate: -Eu3.1mn vs. -Eu1mn) for activities sold or closed at -Eu3.4m.
- Cut in estimates on higher energy costs: Ebitda to 37mn in '06 and 50mn in '07**
 Reno de Medici is quite heavily impacted by Energy related costs (transport and energy), which accounted roughly 22.7% of total sales: mainly related to methane, which follow a basket of oil refined products with a delay of 6 months. We have raised our assumptions on average brent price for 2006 from \$62 to 68\$, and from \$60 to \$72 for 2007. Higher energy costs translated into a cut in Ebitda estimates: from 44 to 37mn in '06 and from 60 to 50mn for '07-
- Second increase in cartonboard price in sight.**
 The average price in the first half has been very high by 6% compared with 2H'05 (or 25 Eu per tonne), but basically in line with ones recorded in 1H'05. Several producers unveiled planned to increase prices by Euro 40-50/tonne, in 2H'06. The second step of the price increase seems to be effective and the first deliveries climbed already in July. We expect an average price close to Eu 515/tonne in the second half of the year (an average price which includes a successful increase in the next few months).
- Actual prices could be appealing for an industrial player.**
 After the deep restructuring made in last 3 years and the actual level of debt (at year end the Debt/Ebitda ratio will go to from 6.2x to 3.2x) Reno de Medici could be an interesting target for an industrial player. Reno de Medici is one of the few public company listed on the Italian market (Alerion the main shareholder has a stake of 28%).
- Correction was too strong, a good opportunity: Buy tp 0.85.** We believe that Reno de Medici currently offers a very attractive story characterised by: 1) the fruits of the restructuring that was kicked off in 2003 being fully visible as of 2006 and 2) the recovery in cardboard prices (after two years of constant decline). Newsflow will maintain good as the comparison with last year will be very favourable in the next few quarters. At current prices Reno de Medici trades at very appealing multiples compared to its peers: 8x '07 earnings.

RENO DE MEDICI - 12m Performance



RATING: **Unchanged**

TARGET PRICE (Eu): **from 0.85 to 0.83**

Change in EPS est: **2007E 2008E**
0.0% -0.00%

STOCK DATA

Reuters code: RDM.MI
 Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	-5.7%	-27.5%	-19.5%
Relative	-6.1%	-22.8%	-29.3%
12 months H/L:	0.82/0.50		

SHAREHOLDER DATA

No. of Ord. shares (mn): 270
 Total No. of shares (mn): 270
 Mkt Cap Ord (Eu mn): 149
 Total Mkt Cap (Eu mn): 150
 Mkt Float - ord (Eu mn): 0
 Mkt Float (in %):
 Main shareholder:
 Alerion 29.0%

BALANCE SHEET DATA

2006
 Book value (Eu mn): 126
 BVPS (Eu): 0.47
 P/BV: 1.2
 Net Financial Position (Eu mn): -136
 Enterprise value (Eu mn): 285

SAVING

Price: 0.60
 No. of shares (mn): 1
 Mkt Cap Sav (Eu mn): 0
 DVPS: 0.04

Key Figures	2004A	2005A	2006E	2007E	2008E
Sales (Eu mn)	302	295	322	340	349
Ebitda (Eu mn)	31	27	37	50	52
Net profit (Eu mn)	-8	-13	-2	18	22
EPS - New (Eu)	-0.03	0.01	0.02	0.07	0.08
EPS - Old (Eu)	-0.03	0.01	0.04	0.10	0.12
DPS (Eu)	0.00	0.00	0.00	0.00	0.00

Ratios & Multiples	2004A	2005A	2006E	2007E	2008E
P/E	nm	60.2	25.2	8.4	6.7
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	12.7	11.7	7.6	5.4	4.7
ROCE	1.2%	0.4%	5.9%	11.8%	13.0%

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2Q'06 Results: strong improvement at Ebitda level, but slightly under expectation

Operating results showed a marked improvement on last year's levels, but were slightly lower than expected: sales: Eu78mn, +2.3% YoY (estimate Eu85mn), EBITDA Eu8.9mn, +22% YoY (estimate Eu9.5mn), EBIT Eu3.1mn, down vs. last year (estimate Eu4.7mn), net profit post extraordinaires (above our estimate: -Eu3.1mn vs. -Eu1mn) for activities sold or closed at -Eu3.4m. Ebitda improvements reflects mostly the steps taken to contain costs and of the deep restructuring of the last years.

2Q'06 Reno de Medici

(Eu mn)	Q2'05A	Q2'06A	Q2'06E	1H'05A	1H'06A	FY'06E	FY'06E
						New	Old
Sales	76.3	78.0	85.1	151.2	163.3	322.1	324.1
<i>yoy growth</i>	<i>na</i>	<i>2.3%</i>	<i>11.6%</i>	<i>na</i>	<i>8.0%</i>	<i>9.1%</i>	<i>9.8%</i>
Ebitda	7.3	8.9	9.5	16.1	16.7	37.3	44.0
<i>margin</i>	<i>9.6%</i>	<i>11.4%</i>	<i>11.1%</i>	<i>10.6%</i>	<i>10.2%</i>	<i>11.6%</i>	<i>13.6%</i>
<i>yoy growth</i>	<i>na</i>	<i>21.9%</i>	<i>29.9%</i>	<i>na</i>	<i>3.8%</i>	<i>36.3%</i>	<i>60.8%</i>
Ebit	-0.6	3.1	4.7	1.7	5.1	16.8	22.0
<i>margin</i>	<i>-0.8%</i>	<i>4.0%</i>	<i>5.5%</i>	<i>1.2%</i>	<i>3.1%</i>	<i>5.2%</i>	<i>6.8%</i>
<i>yoy growth</i>	<i>na</i>	<i>nm</i>	<i>nm</i>	<i>na</i>	<i>193.9%</i>	<i>nm</i>	<i>nm</i>
Net Financial	-2.4	-1.8	-2.5	-4.7	-4.6	-9.9	-10.0
Extraord. and discontinued Op.	2.8	-3.1	-1.0	4.5	-4.2	-4.5	-3.4
Pre-tax	-0.2	-1.8	1.2	1.5	-3.6	2.4	8.6
<i>yoy growth</i>	<i>27.9%</i>	<i>nm</i>	<i>nm</i>	<i>na</i>	<i>na</i>	<i>nm</i>	<i>nm</i>
Net profit	-1.2	-3.4	0.3	-0.3	-6.3	-1.6	5.0
<i>yoy growth</i>	<i>na</i>	<i>nm</i>	<i>nm</i>	<i>na</i>	<i>na</i>	<i>nm</i>	<i>nm</i>

Source: Intermonte Sim

What happened on the cost side. Now we include a more conservative scenario

We have revised upwards our Energy costs assumptions for the year being and for 2007. Reno de Medici is quite heavily impacted by Energy related costs, which accounted roughly 22.7% of total sales: mainly Energy (13.3%) and transports (9.4%). Both of them are strongly related to the Oil prices, in particular Energy is mainly related to methane, which follow a basket of oil refined products with a delay of 6 months.

We have raised our assumptions on average Brent price for 2006 (6 months delayed) from \$62 to 68\$, and from \$60 to \$72 for 2007. We have assumed a much more conservative scenario for the next year, assuming the actual spot price for Brent (while Intermonte assumption on Eni has been raised from \$60 to \$65).

Change in Estimates (2006/2007)

Old Est.	2005A	2006E	2007E
Brent Price (\$ per Barrel)	55.0	62.0	60.5
<i>yoy Change %</i>	<i>11.0%</i>	<i>12.6%</i>	<i>-2.4%</i>
Energy Related Costs	-67.7	-75.6	-74.5
<i>yoy Change %</i>	<i>9.2%</i>	<i>11.6%</i>	<i>-1.4%</i>
Ebitda (Old Est)	27.4	44.0	61.0
New Est.	2005A	2006E	2007E
Brent Price (spot price) \$	55.0	68.0	72.5
<i>yoy Change %</i>	<i>11.0%</i>	<i>23.5%</i>	<i>6.6%</i>
Energy Related Costs	-67.7	-82.3	-85.5
<i>yoy Change %</i>	<i>9.2%</i>	<i>21.5%</i>	<i>3.9%</i>
Ebitda new. Est	27.4	37.3	50.0

Source: Intermonte Sim

What happened on the price increase side

At the end of last year, several major European producers announced plans to raise recycled containerboard prices by Eu 50/tonne from the start of January or February. Higher costs for raw materials, energy and transportation were cited as the main drivers behind the hikes.

A first part of this increase passed. The average price in the first half has been very high, 6% higher compared with 2H'05 (or 25 Eu per tonn), but in line with 1H'05.

According to PPI several producers unveiled plans to increase prices by Euro 40-50/tonne, with implementation dates ranging from mid-May to July. With the second increase forecasted Reno de Medici should bring successfully on the average selling price in the second half of the year.

The second step of the price increase seems to be effective and the first deliveries climbed already in July. We expect an average price close to Eu 515/tonn in the third quarter '06 and around Eu525/tonn in the last quarter. All the producers are pushing to bring another step in the second part of the year.

Overall the average selling that we include now in our estimates is Eu 503/tonn in 2006 and Eu 520/tonn in 2007. The average selling price that we include for the next year is results of the two steps brought on this year. We do not forecast any further price increase as '07, even if the actual scenario on the energy costs could lead the main producer to push again on this side.

Sensitivity on Energy cost and cartonboard price

The leverage on Ebitda of energy costs and cartonboard price is huge. Energy costs are mainly related to Gas. The price of the methane is strictly calculated to the average of the last six months of a panel related to oil. With a delay of 6 months the increase of the energy related is very close to the Oil evolution: every 10% of oil increase has an impact of 7mn at Ebitda level. If we assumed our current estimates on Oil used for Eni in 2007 (\$65 against the average of last month: \$72) we would have an Ebitda at Eu56.5mn.

Sensitivity on Energy costs (on Brent Intermonte est.)

Old Est	2005A	2006E	2007E
Brent Price (on Intermonte Ass on Eni)	55.0	68.0	65.0
yoy Change %	-	23.5%	-4.4%
Energy Related Costs	-67.7	-82.3	-79.0
yoy Change %	-	21.5%	-4.0%
Ebitda	27.4	37.9	56.5

Source: Intermonte Sim

On the actual output of cartonboard, which is around 640.000 tonn every Eu10 increase per tonn (which represents a +2%) the impact at Ebitda level is of +6mn Ebitda. Actually we are not considering any further increase of prices in 2007, apart a better average price coming from the movements made this year.

Sensitivity on Cartonboard price (Further increase in '07)

Act Est	2005	2006	2007
Act. Assumption on Prices	487.3	502.5	521.0
Carton Price increase (Eu per tonn)	-	15.2	18.5
Act Ebitda estimated	27.4	37.3	50.0
Further increase in 2H'07	0.0	0.0	10.0
New Assumption on Prices	487.3	502.5	531.0
Impact on Ebitda (Eu mn)	-	-	6.5
Ebitda with new increase in prices	27.4	37.3	56.5

Source: Intermonte Sim

Actual price could be interesting for an industrial player

After the deep restructuring made in last 3 years and the actual level of debt (at year end the Debt/Ebitda ratio will go to from 6.2x to 3.2x) Reno de Medici could be an interesting target for an industrial player. Reno de Medici is one of the few public company listed on the Italian market (Alerion the main shareholder has a stake of 28%).

More conservative scenario (tp da 1.1 Eu a 0.85), but the correction was to high.

We have assumed a much more conservative scenario because of the increase in energy costs. Nevertheless we believe that the correction after the successful listing of the Real estate Assets has been to high (-22%). We believe that Reno de Medici currently offers a very attractive story characterised by: 1) the fruits of the restructuring that was kicked off in 2003 being fully visible as of 2006 and 2) the recovery in cardboard prices (after two years of constant decline). Newsflow will maintain good as the comparison with last year will be very favourable in the next few quarters. At current prices Reno de Medici trades at very appealing multiples compared to its peers: 8x 2007 earnings

RENO DE MEDICI - KEY FIGURES

		2004A	2005A	2006E	2007E	2008E
	Fiscal year end	31/12/2004	31/12/2005	31/12/2006	31/12/2007	31/12/2008
PROFIT & LOSS (Eu mn)	Sales	302	295	322	340	349
	EBITDA	31	27	37	50	52
	EBIT	5	2	17	31	34
	Financial income (charges)	(11)	(12)	(10)	(8)	(7)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	(6)	(10)	7	23	27
	Taxes	(2)	(1)	(4)	(5)	(5)
	Tax rate (%)	39.8%	4.5%	-18.6%	-14.5%	-12.7%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	-8	-13	-2	18	22
	Total extraordinary items	3	(15)	(5)	0	0
	Ebitda excl. extraordinary items	31	27	37	50	52
	Ebit excl. extraordinary items	5	2	17	31	34
Net profit restated	(9)	2	6	18	22	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	270	270	270	270	270
	EPS stated fd	-0.03	-0.05	-0.01	0.07	0.08
	EPS restated fd	-0.03	0.01	0.02	0.07	0.08
	BVPS fd	0.58	0.53	0.47	0.53	0.61
	Dividend per share (ord)	0.00	0.00	0.00	0.00	0.00
	Dividend per share (sav)	0.00	0.00	0.04	0.00	0.00
	Dividend pay out ratio (%)	0.0%	0.0%	-1.4%	0.0%	0.0%
CASH FLOW (Eu mn)	Gross cash flow	18	13	19	37	40
	Change in NWC	(5)	26	(1)	(7)	(3)
	Capital expenditure	(15)	(10)	(12)	(13)	(16)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	13	38	18	29	37
	Acquisitions, divestments & others	0	49	40	0	0
	Dividend	0	0	0	0	0
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	7	77	35	16	21	
BALANCE SHEET (Eu mn)	Total fixed assets	327	230	181	175	171
	Net working capital	153	128	129	136	140
	Long term liabilities	(77)	(45)	(49)	(48)	(46)
	Net capital employed	403	313	261	263	265
	Net financial position	(247)	(170)	(136)	(120)	(99)
	Group equity	156	143	126	144	166
	Minorities	0	0	0	0	0
	Net equity	156	143	126	144	166
ENTERPRISE VALUE & OPERATING FCF (%)	Average mkt cap - current	150	150	150	150	150
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(247)	(170)	(136)	(120)	(99)
	Enterprise value	397	320	285	269	248
RATIOS(%)	EBITDA margin*	10.3%	9.3%	11.6%	14.7%	15.0%
	EBIT margin*	1.6%	0.5%	5.2%	9.1%	9.8%
	Gearing - Debt/equity	158.6%	119.5%	107.7%	83.3%	59.5%
	Interest cover on EBIT	0.4	0.1	1.7	3.7	4.8
	Debt/Ebitda	7.94	6.22	3.63	2.39	1.88
	ROCE*	1.2%	0.4%	5.9%	11.8%	13.0%
	ROE*	-2.0%	-8.9%	-1.2%	13.2%	14.4%
	EV/CE	1.0	0.9	1.0	1.0	0.9
	EV/Sales	1.3	1.1	0.9	0.8	0.7
	EV/Ebit	nm	nm	17.0	8.7	7.2
Free Cash Flow Yield	8.7%	25.5%	11.8%	19.7%	24.6%	
GROWTH RATES (%)	Sales	-44.2%	-2.2%	9.1%	5.6%	2.5%
	EBITDA*		-12.2%	36.3%	34.1%	4.8%
	EBIT*		-68.1%	974.7%	84.5%	10.8%
	Net profit	nm	nm	nm	nm	25.6%
	EPS restated	nm	nm	138.8%	199.4%	25.6%

* Excluding extraordinary items

Source: Intermonte SIM estimates

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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.

The stock price indicated is the reference price on the day prior to the publication of the report.

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BUY	OUTPERFORM	NEUTRAL	UNDERPERFORM	SELL
19.18%	26.16%	37.20%	17.44%	0.0%

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (13 in total) is as follows:

BUY	OUTPERFORM	NEUTRAL	UNDERPERFORM	SELL
38.46%	23.07%	38.46%	0.0%	0.0%

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DETAILS ON STOCK RECOMMENDATION

Stock	RENO DE MEDICI		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (Eu):	0.83	Previous Target (Eu):	0.85
Current Price (Eu):	0.55	Previous Price (Eu):	0.6
Date of Report:	07/08/06	Date of Last Report:	09/08/06

Further information is available