

RENO DE MEDICI

NEUTRAL

Price (Eu): **0.21**
 Target Price (Eu): **0.20**

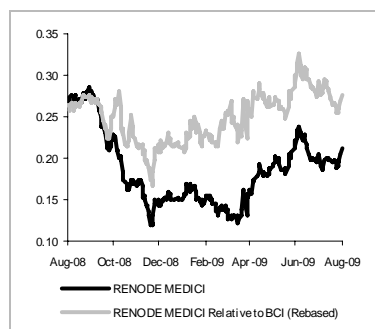
SECTOR: Industrials

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Debt Renegotiation Relieves Capital Structure

- 2H results showed good profitability.** In a tough environment, 1H results showed a recovery in cardboard demand from 2H08. Sales stood at Eu214mn, -10.7% YoY. EBITDA closed at Eu18mn, +6.4% YoY compared to an adjusted 2008 EBITDA of Eu16.9mn that did not include Eu21.2mn of badwill. EBIT stood at Eu4.7mn, vs. an adjusted EBIT of Eu5.9mn last year. The net result was slightly negative (Eu-0.7mn), compared to Eu17.3mn in 1H08. NFP came in at Eu-135.6mn vs. Eu-128.5mn at the end of 2008: the main reason for this cash burn was higher working capital.
- The key issues from results.** The volumes sold was approximately 429k tons, -4% YoY, but data are not comparable as ex-Cascades mills were consolidated only in March '08. Prices were down 7% YoY, but overall were better than in 2H08. Profitability improved notwithstanding negative operating leverage, thanks to higher efficiency to lower prices of raw materials and energy.
- Debt renegotiated: no more risk of breaching covenants.** Reno de Medici renegotiated part of its debt (Eu65mn with Intesa and Unicredit). The new agreement adds confidence in the medium term, as the new agreement includes a 2-year reimbursement grace period and a modification in the covenants. More importantly, the put options (from 2011 to 2013) for the acquisition of two of Cascades' plants (virgin fibre mills in France and Sweden) have been postponed by 2 years. We think that is positive news, allowing RdM time to focus on making its business structure more efficient.
- Estimates confirmed for 2009.** Volumes and prices were both resilient, but the outlook is still somewhat uncertain for 2H. Nevertheless, we are confident about a cost recovery thanks to lower energy costs. We expect a further contribution from the cost cutting and efficiency measures that have been implemented. All in all, we have confirmed our EBITDA estimates for 2009, while we have revised 2010 EPS upwards by 7%.
- NEUTRAL, target price raised to Eu0.20.** Volume resilience in the second half must be verified; by September, there will be better visibility on full year figures. The cardboard market is still experiencing overcapacity, but thanks to improved efficiency and to synergies, operating leverage could gain substantial ground. We have revised our target price from Eu0.16 at Eu0.20, shifting our EV/ROACE from an average of 09/10 numbers to 09/11.

RENO DE MEDICI - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 0.16 to 0.20

Change in EPS est: 2009E 2010E
 nm 7.1%

STOCK DATA

Reuters code: RDM.MI
 Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	3.1%	10.8%	-20.0%
Relative	-5.4%	5.1%	3.9%
12 months H/L:	0.29/0.12		

SHAREHOLDER DATA

No. of Ord. shares (mn):	378
Total No. of shares (mn):	378
Mkt Cap Ord (Eu mn):	80
Total Mkt Cap (Eu mn):	80
Mkt Float - ord (Eu mn):	47
Mkt Float (in %):	59.3%
Main shareholder:	
Cascades	31.6%

BALANCE SHEET DATA

	2009
Book value (Eu mn):	163
BVPS (Eu):	0.55
P/BV:	0.4
Net Financial Position (Eu mn):	-119
Enterprise value (Eu mn):	199

Key Figures	2007A	2008A	2009E	2010E	2011E
Sales (Eu mn)	343	455	424	437	453
Ebitda (Eu mn)	29	41	36	42	45
Net profit (Eu mn)	1	-5	1	8	10
EPS - New (Eu)	0.01	-0.05	0.00	0.02	0.03
EPS - Old (Eu)	0.01	-0.05	0.01	0.02	0.03
DPS (Eu)	0.00	0.00	0.00	0.00	0.00

Ratios & Multiples	2007A	2008A	2009E	2010E	2011E
P/E	27.3	nm	82.0	9.7	7.7
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	6.7	10.6	5.6	4.5	3.8
ROCE	4.3%	5.9%	3.9%	7.0%	8.7%

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Good Profitability In 1H

The 2Q09 demand trend was good, confirming the moderate recovery already noticed in the first quarter after the decline recorded in late 2008. Reno de Medici sold around 429,000 tons, down 4% YoY but 3% better than in 2H08. However, the YoY figures are not completely comparable, as: 1) the consolidation of the ex-Cascades companies started only in March 2008; 2) the closing of a production line in the Blendecques (France) mill at the end of 2008 and the standstill at the Marzabotto (Italy) plant for the whole first-half of 2009 led to a reduction in volumes produced in 2009.

Demand is still down YoY, which brought prices down by 7%. Total sales stood at Eu214mn (-10.7% YoY). EBITDA closed at Eu18mn, +6.4% YoY if compared to 2008 EBITDA adjusted for Eu21.2mn of badwill (Eu16.9mn). The EBITDA margin improved, notwithstanding negative operating leverage, thanks to higher efficiency and to falling raw material and energy prices.

EBIT stood at Eu4.7mn, vs. adjusted EBIT of Eu5.9mn last year. The net result was slightly negative at Eu-0.7mn, compared to Eu17.3mn in 1H08. The net financial position was Eu-135.6mn vs. Eu-128.5mn at the end of 2008: the main reason for this cash burn was related to higher working capital.

The decrease in revenues is attributable to both price pressure and the standstills (both permanent and temporary) at some production lines aiming to protect efficiency. This decrease was more than offset by higher efficiency and by lower raw material and energy prices, hence the EBITDA improvement from last year.

First Half 2009 Results

		H1 2007A	H1 2008A	H1 2009 A	H2 2007A	H2 2008A	H2 2009E	2007	2008	2009
Sales		181.1	239.8	214.1	161.4	215.2	209.5	342.5	455.0	423.6
	Yoy Growth		32.4%	-10.7%		33.3%	-2.6%		32.8%	-6.9%
EBITDA		17.4	38.1	18.0	11.7	2.9	17.8	29.1	41.0	35.8
	Margin %	9.6%	15.9%	8.4%	7.3%	1.4%	8.5%			
EBITDA adj		17.4	16.9	18.0	11.7	2.9	17.8	29.1	19.8	35.8
	Margin %	9.6%	7.1%	8.4%	7.3%	1.3%	8.5%	8.5%	4.4%	8.4%
	Yoy Growth		-2.7%	6.4%		-75.5%	nm		-32.0%	80.7%
Depreciations		-9.5	-9.3	-12.8	-8.9	-14.6	-11.2	-18.4	-23.9	-24.0
Right offs		-1.7	-1.7	-0.5	-0.6	0.0	0.0	-0.6	-1.7	-0.5
EBIT		7.9	27.1	4.7	2.2	-2.2	6.6	10.1	24.9	11.3
	Margin %	4.3%	11.3%	2.2%						
	Yoy Growth		244.1%	nm						
EBIT adj		7.9	5.9	4.7	2.2	9.5	6.6	10.1	15.4	11.3
	Margin %	4.3%	2.5%	2.2%	1.4%	4.4%	3.1%	2.9%	3.4%	2.7%
	Yoy Growth		-25.1%	-20.3%		329.5%	-30.6%		52.4%	-26.7%
Financials		-4.3	-5.3	-4.4	-3.3	-5.9	-4.2	-7.6	-11.2	-8.6
Pre Tax		3.6	19.7	0.4				2.5	14.9	2.7
	Yoy Growth		nm	nm						
Pre Tax adj		3.6	0.8	0.4	-1.1	-2.0	2.7	2.5	-1.2	2.7
	Yoy Growth		0.3%							
Net Result		2.0	12.6	-0.7	-1.2	-18.0	2.0	0.8	-5.4	1.3
	Yoy Growth		-77.6%							
NP adj		2.0	n.a.	-0.7	-1.2	0.7	2.0	0.8	-2.5	1.3
	Yoy Growth		-3.2%							
			n.a.							

Source: Intermonte Sim

Debt renegotiated, no more risk of breaching covenants

Reno de Medici renegotiated part of its debt (Eu65mn with Intesa and Unicredit, from credit granted in an April 2006 deal). The new agreement adds confidence in the medium term, as the new agreement includes a 2-year reimbursement grace period and a modification in the covenants.

More importantly, the put options (from 2011 to 2013) for the acquisition of two of Cascades' plants (virgin fibre mills in France and Sweden) have been postponed by 2 years. We think that is positive news, allowing RdM time to focus on making its business structure more efficient.

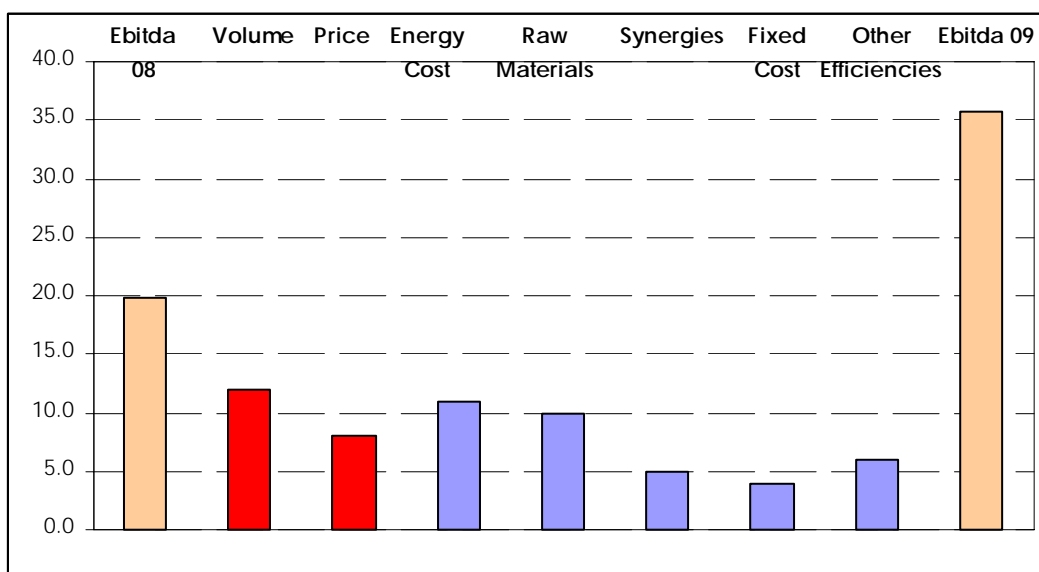
Outlook: Visibility On Volumes Still Low. Estimates Confirmed

Volumes and even prices remained relatively resilient in 1H, but the outlook is somewhat uncertain for 2H. We expect sales volumes to fall by 8%, while we also forecast a -5% pricing effect. Yet total sales should increase (+6.1%) thanks to the consolidation of ex-Cascades factories (effective 1st March 2008).

The recent reduction in production capacity (one line in Blendecques, 50 tonnes/year, was shut down and the Marzabotto factory got some down time) will allow Eu5mn in efficiencies cut Eu4mn in costs. An estimated Eu11mn drop in energy costs and another Eu10mn in savings thanks to lower raw material costs should give EBITDA a boost. Operating leverage will be negative to the tune of Eu20mn, however, due to lower volumes and prices.

All in all we, have confirmed our EBITDA estimates for 2009, while we have revised 2010 EPS upwards by 7%.

2009 EBITDA Chart



Source: Intermonte Sim

RENO DE MEDICI - KEY FIGURES

		2007A	2008A	2009E	2010E	2011E
	Fiscal year end	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011
PROFIT & LOSS (Eu mn)	Sales	343	455	424	437	453
	EBITDA	29	41	36	42	45
	EBIT	10	15	11	20	24
	Financial income (charges)	(8)	(10)	(9)	(9)	(7)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	2	4	3	11	17
	Taxes	1	(2)	(1)	(2)	(6)
	Tax rate (%)	-14.5%	-12.7%			
	Minorities & discontinue activities	(0)	(0)	0	0	0
	Net profit	1	-5	1	8	10
	Total extraordinary items	(2)	(8)	0	0	0
Ebitda excl. extraordinary items	29	20	36	42	45	
Ebit excl. extraordinary items	10	(6)	11	20	24	
Net profit restated	2	(19)	1	8	10	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	270	378	378	378	378
	EPS stated fd	0.00	-0.01	0.00	0.02	0.03
	EPS restated fd	0.01	-0.05	0.00	0.02	0.03
	BVPS fd	0.43	0.53	0.55	0.60	0.48
	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	19	18	25	31	33
	Change in NWC	9	(20)	1	(3)	(3)
	Capital expenditure	(15)	(20)	(16)	(17)	(18)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	28	(1)	26	29	30
	Acquisitions, divestments & others	0	7	0	1	1
	Dividend	0	0	0	0	0
Equity financing/Buy-back	0	0	0	0	0	
Change in Net Financial Position	11	(15)	12	13	13	
BALANCE SHEET (Eu mn)	Total fixed assets	191	273	265	261	258
	Net working capital	69	89	88	91	94
	Long term liabilities	(29)	(69)	(70)	(74)	(78)
	Net capital employed	231	293	282	277	274
	Net financial position	(115)	(131)	(119)	(106)	(93)
	Group equity	116	162	163	171	182
	Minorities	0	0	0	0	0
Net equity	116	162	163	171	182	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	80	80	80	80	80
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(115)	(131)	(119)	(106)	(93)
	Enterprise value	195	211	199	186	172
RATIOS(%)	EBITDA margin*	8.5%	4.4%	8.4%	9.5%	10.0%
	EBIT margin*	2.9%	nm	2.7%	4.5%	5.3%
	Gearing - Debt/equity	98.9%	80.7%	72.9%	61.8%	51.1%
	Interest cover on EBIT	1.3	1.6	1.3	2.2	3.2
	Debt/Ebitda	3.95	3.19	3.33	2.55	2.06
	ROCE*	4.3%	5.9%	3.9%	7.0%	8.7%
	ROE*	0.7%	-3.9%	0.6%	4.9%	5.9%
	EV/CE	0.8	0.8	0.7	0.7	0.6
	EV/Sales	0.6	0.5	0.5	0.4	0.4
	EV/Ebit	19.3	nm	17.6	9.5	7.2
Free Cash Flow Yield	34.9%	-1.7%	32.8%	36.9%	38.1%	
GROWTH RATES (%)	Sales	9.1%	32.8%	-6.9%	3.2%	3.5%
	EBITDA*	0.5%	-32.0%	80.7%	16.3%	8.3%
	EBIT*	79.5%	nm	nm	73.9%	21.8%
	Net profit	nm	nm	nm	744.2%	26.0%
	EPS restated	nm	nm	nm	744.3%	26.0%

* 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.

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OUTPERFORM: 25.18%

NEUTRAL: 40.16%

UNDERPERFORM: 12.95%

SELL: 2.88%

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OUTPERFORM: 14.29%

NEUTRAL: 47.61%

UNDERPERFORM: 0.00%

SELL: 0.00%

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DETAILS ON STOCK RECOMMENDATION

Stock NAME	RENO DE MEDICI		
Current Recomm:	NEUTRAL	Previous Recomm:	NEUTRAL
Current Target (Eu):	0.20	Previous Target (Eu):	0.16
Current Price (Eu):	0.21	Previous Price (Eu):	0.13
Date of report:	07/08/2009	Date of last report:	11/03/2009

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