

# RENO DE MEDICI

# BUY

Price (Eu):

0.60

Target Price (Eu):

0.90

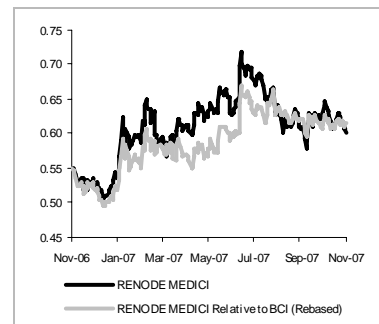
SECTOR: Industrials

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## The New Reno de Medici on Track

- 2Q07: impressive volume increases offset by raw materials.** Reno de Medici closed 2Q with sales of Eu90.7mn (+16% YoY). Volumes were up sharply (+11.2%) and sale prices recovered (+4.5%). Raw material price increases (of cardboard) penalised EBITDA, which stood at Eu8.4mn vs. Eu8.9mn in 2006. EBIT was at Eu3.5mn (+12% YoY) thanks to lower amortisations. Pre-tax profit of Eu1.8mn vs. a Eu0.5mn loss in 2006, while net profit was Eu1mn, vs. a Eu3.6mn loss last year. There was a strong improvement in the NFP: from -Eu127mn on 31/12/06 to -Eu115mn.
- More details on the Cascades European business.** The boards of directors of RdM and Cascades confirmed the agreement to aggregate the European recycled cardboard business of Cascades into RdM. 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.
- 1H07 pro-forma data.** With the publication of the merger prospectus, Reno de Medici showed pro-forma data for the first 6 months of the year. Unfortunately, there are no figures for 2006 as the assets conferred were constituted into a newco only in 2007. At top line, Cascades contributed Eu97mn. EBITDA stood at Eu4.9mn, showing lower profitability than Reno de Medici (5.1% vs. 8.8%). EBIT was at Eu1.2mn and pre-tax profit Eu1.4mn. On a pro-forma basis, the new Reno de Medici 1H07 earnings would have been: sales at Eu273.4mn, EBITDA Eu20.7mn and EBIT Eu7.4mn.
- BUY recommendation confirmed.** We have kept our estimates for 2008-2009 unchanged and added Cascade's European EBITDA and Eu15mn of synergies in 2008, with this figure rising to Eu20mn for 2009. The deal is expected to be closed by the end of 2007. The new RdM could achieve EBITDA of Eu70mn as of 2009. Applying sector multiples (EV/EBITDA 6.5x in 2009) yields a valuation of Eu1.0 per share. We have applied a 10% discount, reaching a fair value of Eu0.9 per share.

### RENO DE MEDICI - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): Unchanged

 Change in EPS est: 2007E 2008E  
 nm 0.0%

#### STOCK DATA

 Reuters code: RDM.MI  
 Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	-3.1%	-6.3%	9.4%
Relative	1.7%	-2.5%	12.0%
12 months H/L:	0.72/0.51		

#### SHAREHOLDER DATA

No. of Ord. shares (mn):	270
Total No. of shares (mn):	270
Mkt Cap Ord (Eu mn):	162
Total Mkt Cap (Eu mn):	162
Mkt Float - ord (Eu mn):	117
Mkt Float (in %):	72.2%
Main shareholder:	
Alerion	12.6%

#### BALANCE SHEET DATA

	2007
Book value (Eu mn):	156
BVPS (Eu):	0.58
P/BV:	1.0
Net Financial Position (Eu mn):	-114
Enterprise value (Eu mn):	276

#### SAVING

Price:	1.31
No. of shares (mn):	1
Mkt Cap Sav (Eu mn):	1
DVPS:	0.00

Key Figures	2005A	2006A	2007E	2008E	2009E
Sales (Eu mn)	295	314	352	368	377
Ebitda (Eu mn)	28	29	32	40	41
Net profit (Eu mn)	-12	-19	0	9	12
EPS - New (Eu)	-0.01	-0.05	0.00	0.03	0.05
EPS - Old (Eu)	-0.01	-0.05	0.02	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	17.8	13.3
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	12.0	10.0	8.7	6.8	6.2
ROCE	0.5%	1.9%	4.1%	7.4%	8.3%

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**1H07: impressive volumes increases offset by raw materials.** Reno de Medici closed 2Q with sales of Eu90.7mn (+16% YoY). Volumes were up sharply (+11.2%) and sale prices recovered (+4.5%). Raw material price increases (of cardboard) penalised EBITDA, which stood at Eu8.4mn vs. Eu8.9mn in 2006. EBIT was at Eu3.5mn (+12% YoY) thanks to lower amortisations. Pre-tax profit was Eu1.8mn vs. a Eu0.5mn loss in 2006, while net profit was Eu1mn, vs. a Eu3.6mn loss last year.

Looking at the first six months Reno de Medici closed with sales at Eu181.1mn, an increase of 10.9%. Volumes increased from 338,000 tons up to 360,000 tons, an increase of 6.5%. There was also good news from prices, which increased by 4.4%. EBITDA stood at Eu15.9mn, recording a decrease of 4.7% YoY, penalised by raw materials increases: +12.6% YoY. Strong growth at EBIT level: +25.3% YoY, mainly due to a reduction in depreciation. Net profit was positive to the tune of Eu0.7mn vs. a loss of Eu6.6mn posted last year.

There was a strong improvement in the NFP: from -Eu127mn on 31/12/06 to -Eu115mn. The company improved further in July, with orders up strongly (+25% YoY) and sales prices 3% higher than in 1H on average. We expect a recovery in profitability in 2H, to reach an FY EBITDA in line with our expectations.

#### Reno de Medici Results 1H'06

(Eu mn)	2Q'06A	2Q'07A	YoY %	1H'06A	1H'07A	YoY %
Sales	78.1	90.7	16.2%	163.3	181.1	10.9%
Ebitda	8.9	8.3	-6.0%	16.7	15.9	-4.7%
margin %	11.3%	9.2%		10.3%	8.8%	
Ebit	3.1	3.5	12.0%	5.1	6.4	25.3%
margin %	4.0%	3.9%		3.1%	3.5%	
Net Financial Gain (Losses)	(2.8)	(2.3)		(5.8)	(4.6)	-20.3%
Other Income (Losses)	0.8	0.2		1.0	0.4	
Extraord. and discontinued Op.	(3.1)	(0.8)	nm	(4.2)	(0.8)	nm
Pre-tax	(2.0)	0.7	nm	(3.9)	1.4	156.6%
Taxes	(1.6)	0.4	nm	(2.7)	(0.6)	nm
Net profit	(3.6)	1.1	nm	(6.6)	0.7	nm

Source: Intermonte Sim

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**1H07 pro-forma data.** With the publication of the merger prospectus, Reno de Medici showed pro-forma data for the first 6 months of the year. Unfortunately, there are no figures for 2006 as the assets conferred were constituted into a newco only in 2007. At top line, Cascades contributed Eu97mn. EBITDA stood at Eu4.9mn, showing lower profitability than Reno de Medici (5.1% vs. 8.8%). EBIT was at Eu1.2mn and pre-tax profit Eu1.4mn. On a pro-forma basis, the new Reno de Medici 1H07 earnings would have been: sales at Eu273.4mn, EBITDA Eu20.7mn and EBIT Eu7.4mn.

#### Reno de Medici Results 1H'07 Pro Forma

(Eu mn)	1H'07A (Stand Alone)	1H'07A (Cascades)	(Eliminations)	1H'07PF (Consolidated)
Sales	181.9	97.4	(5.9)	273.4
Ebitda	15.9	4.9	(0.2)	20.7
margin %	8.8%	5.1%		7.6%
Ebit	6.4	1.2	(0.2)	7.4
margin %	3.5%	1.2%		2.7%
Pre-tax	1.5	1.4	(0.2)	2.8
Taxes	(0.9)	5.3		4.4
Net profit	0.6	6.7	(0.2)	7.1

Source: Intermonte Sim

**Synergies indicated between Eu15mn and Eu20mn per annum.** Strong indications have been provided on potential synergies. The new company would achieve approximately Eu15mn-Eu20mn in annual synergies, beginning in 2008, from the optimisation of value chain processes resulting in lower operating costs and reduced logistics and procurement costs.

#### 2008 Estimates on Combined Entity (€ mn)

	Reno de Medici	Cascades	Synergies	Combined
Sales	368.1	190.0		558.1
Ebitda	39.5	11	15.0	65.5
Margin%	10.7%	5.8%		11.7%

#### 2009 Estimates on Combined Entity (€ mn)

	Reno de Medici	Cascades	Synergies	Combined
Sales	377.4	190.0		567.4
Ebitda	41.3	11.5	20.0	72.8
Margin%	10.9%	6.1%		12.8%

Source Intermonte SIM

**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
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	295	314	352	368	377
	EBITDA	28	29	32	40	41
	EBIT	2	6	11	20	23
	Financial income (charges)	(12)	(11)	(9)	(8)	(7)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	(10)	(5)	3	12	16
	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	0	9	12
	Total extraordinary items	(5)	(9)	0	0	0
	Ebitda excl. extraordinary items	28	29	32	40	41
Ebit excl. extraordinary items	2	6	11	20	23	
Net profit restated	(3)	(14)	(0)	9	12	
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	270	270	270	270	270
	EPS stated fd	-0.05	-0.07	0.00	0.03	0.05
	EPS restated fd	-0.01	-0.05	0.00	0.03	0.05
	BVPS fd	0.53	0.58	0.58	0.61	0.66
	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 (%)						
<b>CASH FLOW (Eu mn)</b>	Gross cash flow	14	5	20	29	31
	Change in NWC	26	23	3	(6)	(3)
	Capital expenditure	(10)	(11)	(10)	(15)	(17)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	40	28	23	22	28
	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	13	8	11	
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	232	216	205	199	198
	Net working capital	127	104	101	108	111
	Long term liabilities	(47)	(38)	(37)	(36)	(36)
	Net capital employed	313	283	270	271	273
	Net financial position	(170)	(127)	(114)	(106)	(96)
	Group equity	143	156	156	165	177
	Minorities	0	0	0	0	0
Net equity	143	156	156	165	177	
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	162	162	162	162	162
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(170)	(127)	(114)	(106)	(96)
	Enterprise value	332	289	276	269	258
<b>RATIOS(%)</b>	EBITDA margin*	9.4%	9.2%	9.0%	10.7%	10.9%
	EBIT margin*	0.6%	1.8%	3.2%	5.4%	6.0%
	Gearing - Debt/equity	118.7%	81.7%	73.4%	64.6%	54.2%
	Interest cover on EBIT	0.1	0.5	1.3	2.7	3.2
	Debt/Ebitda	6.11	4.38	3.60	2.69	2.32
	ROCE*	0.5%	1.9%	4.1%	7.4%	8.3%
	ROE*	-8.2%	-12.5%	0.0%	5.7%	7.1%
	EV/CE	0.9	1.0	1.0	1.0	0.9
	EV/Sales	1.1	0.9	0.8	0.7	0.7
	EV/Ebit	nm	nm	24.3	13.5	11.4
Free Cash Flow Yield	24.4%	17.3%	14.1%	13.8%	17.2%	
<b>GROWTH RATES (%)</b>	Sales	-2.2%	6.3%	12.2%	4.5%	2.5%
	EBITDA*	-10.9%	4.3%	9.2%	24.8%	4.6%
	EBIT*	-64.0%	218.0%	102.6%	75.4%	13.5%
	Net profit	nm	nm	nm	nm	33.8%
	EPS restated	nm	nm	nm	nm	33.8%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

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**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;  
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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
26.49%	27.81%	31.79%	13.25%	0.66%

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (19 in total) is as follows:

BUY	OUTPERFORM	NEUTRAL	UNDERPERFORM	SELL
63.19%	10.53%	26.31%	0.0%	0.0%

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#### DETAILS ON STOCK RECOMMENDATION

Stock NAME	RENO DE MEDICI		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (Eu):	0.90	Previous Target (Eu):	0.90
Current Price (Eu):	0.60	Previous Price (Eu):	0.69
Date of report:	09/11/2007	Date of last report:	21/06/2007

Further information is available