

RENO DE MEDICI

NEUTRAL

Price (Eu): 0.22
Target Price (Eu): 0.25

SECTOR: Industrial

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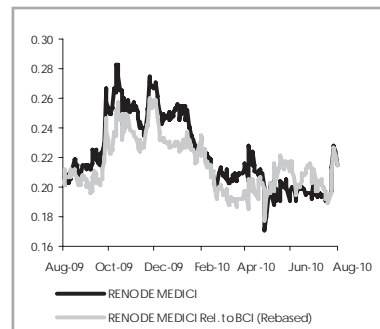
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Results Showed Sound Volumes Recovery

- **1H results: solid volumes growth.** Reno de Medici closed the first part of the year with sales of Eu241.5mn, up 12.6% YoY. This recovery was mainly driven by volumes, 474,000 tons of cardboard were shipped, up 13% YoY. The average price for cardboard showed a marked improvement vs. 2H09, thanks to the price increases introduced in October 2009. Increased manufacturing efficiency and a general reduction in costs helped to offset rising raw material prices (recycled pulp) and a new upward trend in energy costs. 1H EBITDA stood at Eu18.1mn, flat compared to last year, with almost the entire result delivered in 2Q, with EBITDA of Eu10.9mn, +18% YoY. EBIT stood at Eu4.6mn (Eu4.75mn in 1H09) after Eu13.4mn of depreciation. Net financials improved from a negative Eu4.4mn to Eu-2.7mn, driving a pre tax profit of Eu1.9mn (Eu0.4mn in 1H09). Net profit stood at Eu0.5mn vs. a loss of Eu0.9mn in 1H09.
- **Positive news from cash generation: around Eu13.3mn.** Reno de Medici showed sound cash generation, bringing the 1H total to Eu13.3mn and taking the NFP down to Eu-117.5mn, the second quarter contributed with cash generation of Eu7.7mn. Cash generation was driven by a tight grip on working capital and a reduction in CAPEX. RdM's management has been able to continue to reduce the debt, despite the tough environment.
- **Outlook and our assumptions on 2010.** The company provided an outlook in line with 1H, claiming that variable cost increases have probably peaked: "the outlook for the remaining part of 2010 appears to be in line with the Group's performance during the first six months of 2010..... Regarding movements in the price on raw material mixture, RDM Group evaluates that both the prices of cellulose and waste are considered to have reached their highest levels.."
- **We are slightly lowering our 2010-2011 estimates.** We are reducing our EBITDA estimates from Eu42mn to Eu39mn for the current year, as we are no longer incorporating an increase in cardboard prices, which now seems more likely to come about next year. As for 2011 our EBITDA forecast remains unchanged at Eu43.0mn.
- **NEUTRAL confirmed.** In our opinion, the stock is trading at rock bottom valuations based on balance sheet multiples: P/BV of 0.4x and P/TBV of 0.5x. Operating leverage is huge, but the sector is still suffering from overcapacity. Our valuation of Eu0.25 per share remains unchanged, based on a 2011 EV/ROACE.

Key Figures	2008A	2009A	2010E	2011E	2012E
Sales (Eu mn)	451	428	467	485	495
Ebitda (Eu mn)	40	31	39	43	46
Net profit (Eu mn)	-6	-7	2	5	5
EPS - New (Eu)	0.00	-0.03	0.01	0.01	0.01
EPS - Old (Eu)	0.00	-0.03	0.02	0.02	
DPS (Eu)	0.00	0.00	0.00	0.00	0.00
Ratios & Multiples	2008A	2009A	2010E	2011E	2012E
P/E	nm	nm	43.0	18.0	15.6
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	11.4	6.9	5.1	4.5	3.9
ROCE	5.5%	1.4%	4.1%	5.5%	6.8%

Reno de Medici- 12m Performance



Source: FactSet Partners

RATING: Unchanged

TARGET PRICE (Eu): Unchanged

Change in EPS est:	2010E	2011E
	nm	-36.2%

STOCK DATA

Reuters code:	RDM.MI
Bloomberg code:	RM IM

Performance	1m	3m	12m
Absolute	50%	11.9%	5.2%
Relative	1.6%	9.9%	4.8%
12 months H/L:	0.28/0.17		

SHAREHOLDER DATA

No. of Ord. shares (mn):	379
Total No. of shares (mn):	379
Mkt Cap Ord (Eu mn):	83
Total Mkt Cap (Eu mn):	83
Mkt Float - ord (Eu mn):	36
Mkt Float (in %):	43.7%
Main shareholder:	
Cascades	36.4%

BALANCE SHEET DATA

Book value (Eu mn):	2010
BVPS (Eu):	159
P/BV:	0.42
Net Financial Position (Eu mn):	0.6
Enterprise value (Eu mn):	-115
	198

RENO DE MEDICI - KEY FIGURES

		2008A	2009A	2010E	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	467	485	495
	EBITDA	40	31	39	43	46
	EBIT	14	4	12	15	19
	Financial income (charges)	(10)	(9)	(8)	(7)	(6)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	(17)	(5)	4	8	13
	Taxes	(2)	(2)	(2)	(3)	(6)
	Tax rate (%)	12.5%	35.7%	-38.5%	-34.0%	-47.2%
	Minorities & discontinue activities	(0)	(0)	(1)	(1)	(2)
	Net profit	-6	-7	2	5	5
	Total extraordinary items	(7)	0	0	0	0
	Ebitda excl. extraordinary items	40	31	39	43	46
	Ebit excl. extraordinary items	14	4	12	15	19
	Net profit restated	0	(7)	2	5	5
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	377	377	379	379	379
	EPS stated fd	-0.02	-0.03	0.01	0.01	0.01
	EPS restated fd	0.00	-0.03	0.01	0.01	0.01
	BVPS fd	0.60	0.58	0.42	0.44	0.47
	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	18	19	29	33	33
	Change in NWC	(18)	6	(0)	(10)	(6)
	Capital expenditure	(17)	(20)	(13)	(18)	(21)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(1)	20	29	23	27
	Acquisitions, divestments & others	2	(5)	0	0	0
	Dividend	0	0	0	0	0
	Equity financing/Buy-back	0	0	0	0	0
	Change in Net Financial Position	(16)	1	16	6	9
BALANCE SHEET (Eu mn)	Total fixed assets	271	264	250	241	239
	Net working capital	88	82	83	92	98
	Long term liabilities	(65)	(60)	(60)	(58)	(58)
	Net capital employed	293	286	273	276	279
	Net financial position	(132)	(131)	(115)	(109)	(99)
	Group equity	161	155	159	167	180
	Minorities	0	0	0	0	1
	Net equity	161	155	159	167	181
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	83	83	83	83	83
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(132)	(131)	(115)	(109)	(99)
	Enterprise value	215	213	198	192	182
RATIOS(%)	EBITDA margin*	8.9%	7.3%	8.4%	8.9%	9.3%
	EBIT margin*	3.2%	0.9%	2.5%	3.1%	3.8%
	Gearing - Debt/equity	82.1%	84.5%	72.2%	65.3%	55.3%
	Interest cover on EBIT	1.4	0.5	1.5	2.1	3.2
	Debt/Ebitda	3.30	4.21	2.93	2.53	2.15
	ROCE*	5.5%	1.4%	4.1%	5.5%	6.8%
	ROE*	-4.5%	-4.5%	1.2%	2.9%	3.1%
	EV/CE	0.9	0.8	0.8	0.8	0.7
	EV/Sales	0.5	0.5	0.5	0.4	0.4
	EV/Ebit	nm	nm	18.3	13.8	9.8
	Free Cash Flow Yield	-0.7%	20.9%	29.6%	23.7%	27.7%
GROWTH RATES (%)	Sales	31.7%	-5.1%	9.0%	4.0%	2.0%
	EBITDA*	35.2%	-22.5%	25.9%	9.9%	7.6%
	EBIT*	36.1%	-72.2%	189.7%	29.0%	26.6%
	Net profit	nm	nm	nm	145.3%	14.6%
	EPS restated	-83.5%	nm	nm	145.3%	14.6%

* Excluding extraordinary items

Source: Intermonte SIM estimates

1H results: solid volumes growth. Reno de Medici closed the first part of the year with sales of Eu241.5mn, up 12.6% YoY.

RdM enjoyed a more favourable scenario driven by an increase in European industrial demand that was geared towards rebuilding inventories and powered by the economic recovery. The group's production reached 469,000 tons during the first half of 2010, compared with 429,000 tons last year. In terms of volumes sold, the company shipped 474,000 tons, +13% YoY.

Trends in sale prices for cardboard were also positive compared to 2H09, but almost flat YoY.

Increased manufacturing efficiency and a general reduction in costs helped to offset rising raw material prices (recycled pulp) and a new upward trend in energy costs. 1H EBITDA stood at Eu18.1mn, flat compared to last year, with almost the entire result delivered in 2Q, with EBITDA of Eu10.9mn, +18% YoY. EBIT stood at Eu4.6mn (Eu4.75mn in 1H09) after Eu13.4mn of depreciation. Net financials improved from a negative Eu4.4mn to Eu-2.7mn, driving a pre tax profit of Eu1.9mn (Eu0.4mn in 1H09). Net profit stood at Eu0.5mn vs. a loss of Eu0.9mn in 1H09.

Reno de Medici H1 2010 Results

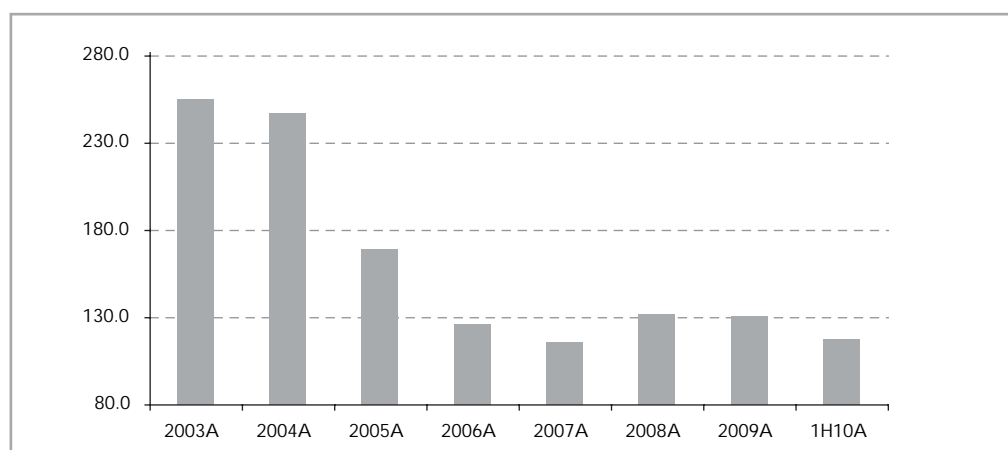
(€ mn)	H1 2009 A	H1 2010 A	H2 2009 A	H2 2010 E	2009 A	2010E
Sales	214.6	241.5	213.5	225.1	428.1	466.7
Yoy Growth		12.6%		5.4%	-5.1%	9.0%
Volumes	419.0	474.0	445.0	450.5	864.0	924.5
Yoy Growth		13.1%		1.2%	-2.8%	7.0%
Other Revenues	9.3	14.3	1.5	5.0	10.8	19.3
Cost of Raw Materials & Services	-164.9	-171.4	-163.5	-193.2	-328.4	-364.6
	-79.9%	-77.9%	-76.6%	-85.8%	-76.7%	-78.1%
Labour Costs	-38.1	-39.7	-38.9	-38.8	-76.9	-78.5
Other Operating	-2.4	-2.5	-3.5	-3.0	-5.8	-5.5
EBITDA ADJ	18.0	18.1	13.0	21.0	31.1	39.1
Margin %	5.1%	7.7%	6.1%	9.3%	7.3%	8.4%
Extra items	21.2	0.0	0.0	0.0	0.0	0.0
EBITDA Recurring	18.0	18.1	13.0	21.0	31.1	39.1
Margin %	11.0%	7.7%	6.1%	9.3%	4.4%	8.4%
Yoy Growth		0.1%		61.4%	64.9%	25.9%
Depreciations	-12.8	-13.4	-13.7	-14.1	-26.5	-27.5
Right offs	-0.5	0.0	-0.1	0.1	-0.6	0.0
EBIT	4.8	4.6	-0.7	7.0	4.0	11.6
Financials	-4.4	-2.7	-4.7	-5.0	-9.1	-7.7
Pre Tax	0.4	1.9	-5.4	2.0	-5.1	3.9
Taxes	-1.1	-1.0	-0.6	-0.5	-1.7	-1.5
Minorities	-0.1	-0.4	-0.2	-0.1	-0.4	-0.5
Net Result	-0.9	0.5	-6.2	1.4	-7.1	1.9

Source: Intermonte Sim

Positive news from cash generation: around Eu13.3mn. Reno de Medici showed sound cash generation in 2Q, bringing the 1H total to Eu13.3mn and taking the NFP down to Eu-117.5mn, a Eu7.7mn improvement in 2Q09.

Cash generation was driven by a tight grip on working capital and a reduction in CAPEX. RdM's management has been able to continue to reduce the debt, despite the tough environment

NFP Evolution



Source: Intermonte SIM Estimates

Company guidance in the press release. "In a macro-economic situation in Europe, where clear strong signals of a recovery in terms of end consumption have yet to be seen, the outlook for the remaining part of 2010 appears to be in line with the Group's performance during the first six months of 2010, excluding any seasonal phenomena and, in particular, production stoppages, which, as usual, are planned for the summer period and at year end at the southern European factories. Trends in the market and orders confirm the positive tendency of first half 2010: a slight pick up in the economy and end consumption should offset the effects linked to the replenishment of stocks disappear. Regarding movements in the price on raw material mixture, RDM Group evaluates that both the prices of cellulose and waste are considered to have reached their highest levels, further increases are still possible."

We slightly reduce our estimate for 2010-2011. We are reducing our EBITDA estimates from Eu42mn to Eu39mn for the current year, as we are no longer incorporating an increase in cardboard prices, which now seems more likely to come about next year. As for 2011 our EBITDA forecast remains unchanged at Eu43.0mn.

Reno de Medici P&L

(€ mn)	2007A	2008A	2009A	2010E	2011E	2012E
Sales	342.5	451.1	428.1	466.7	485.3	495.0
YoY growth	9.1%	31.7%	-5.1%	9.0%	4.0%	2.0%
EBITDA Adj	29.6	18.8	31.1	39.1	43.0	45.2
Ebitda margin	8.7%	4.2%	7.3%	8.4%	8.9%	9.1%
Total D&A	(19.0)	(25.7)	(27.1)	(27.5)	(28.0)	(27.3)
EBIT	10.6	-6.8	4.0	11.6	15.0	18.9
Ebit margin	3.1%	-1.5%	0.9%	2.5%	3.1%	3.8%
Net financials & Participations	(7.6)	(11.7)	(9.1)	(7.7)	(7.0)	(6.0)
Pre tax profit	3.0	2.7	-5.1	3.9	8.0	12.9
Taxes	0.8	(2.1)	(1.7)	(1.5)	(2.7)	(6.1)
Tax Rate	nm	-76.9%	33.3%	-38.5%	-34.0%	-47.2%
Minorities & Discontinued Operations	(2.1)	(6.8)	0.0	0.0	0.0	0.0
Group Net Profit	1.7	-6.1	-6.7	2.4	5.3	6.8

Source: Intermonte Sim

Rendo de Medici Cash Flow

(€ mn)	2007A	2008A	2009E	2010E	2011E	2012E
Net Income	1.7	-6.0	-6.7	2.4	5.3	6.8
Depreciation and Amortization	18.4	23.9	26.5	27.5	28.0	27.3
Other non-cash items	0.0	0.0	0.0	0.0	0.0	1.0
Gross Operating Cash Flow	20.1	17.9	19.7	29.9	33.3	34.1
Change in NWC	8.5	(18.4)	5.5	(0.5)	(9.5)	(5.8)
Capex	(17.8)	(16.9)	(19.6)	(13.0)	(18.0)	(20.8)
Change in financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	(4.5)	0.0	0.0	1.0
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	1.0
Others	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flow	10.8	(16.4)	1.2	16.4	5.8	9.5
Initial Net Financial Position	(126.6)	(115.8)	(132.2)	(131.0)	(114.6)	(108.9)
Final Net Financial Position	(115.8)	(132.2)	(131.0)	(114.6)	(108.9)	(99.4)

Source: Intermonte Sim

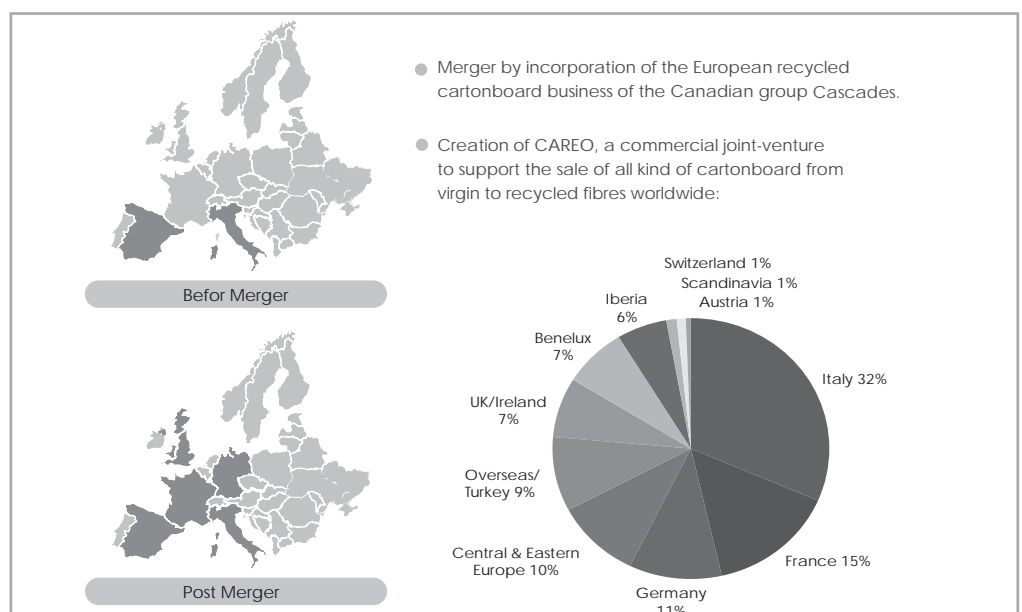
NEUTRAL Confirmed. In our opinion, the stock is trading at rock bottom valuations based on balance sheet multiples: P/BV of 0.4x and P/TBV of 0.5x. Operating leverage is huge, but the sector is still suffering from overcapacity. Our valuation of Eu0.25 per share remains unchanged, based on a 2011 EV/ROACE.

Company in Pills.

Reno De Medici is the leading Italian and second-ranked European producer of cartonboard based on recycled material. It has a production capacity splitted among several mills in Italy, Spain, France and Germany. The different types of cartonboard that Reno De Medici produce targets all packaging and binding applications. The Reno De Medici products are offered through different brands to meet the customers requirements and to achieve a widespread presence in Italy, as well as abroad.

In 2008 RdM merged with Cascades European assets definitively approved. Following the deal, Cascades became the leading shareholder with 30.6% of 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 centre in England. The Canadian company transferred its facilities in Blendecques (France), in Wednesbury (UK) and in Arnsberg (Germany) for a total output of around 350,000 tonnes per year.

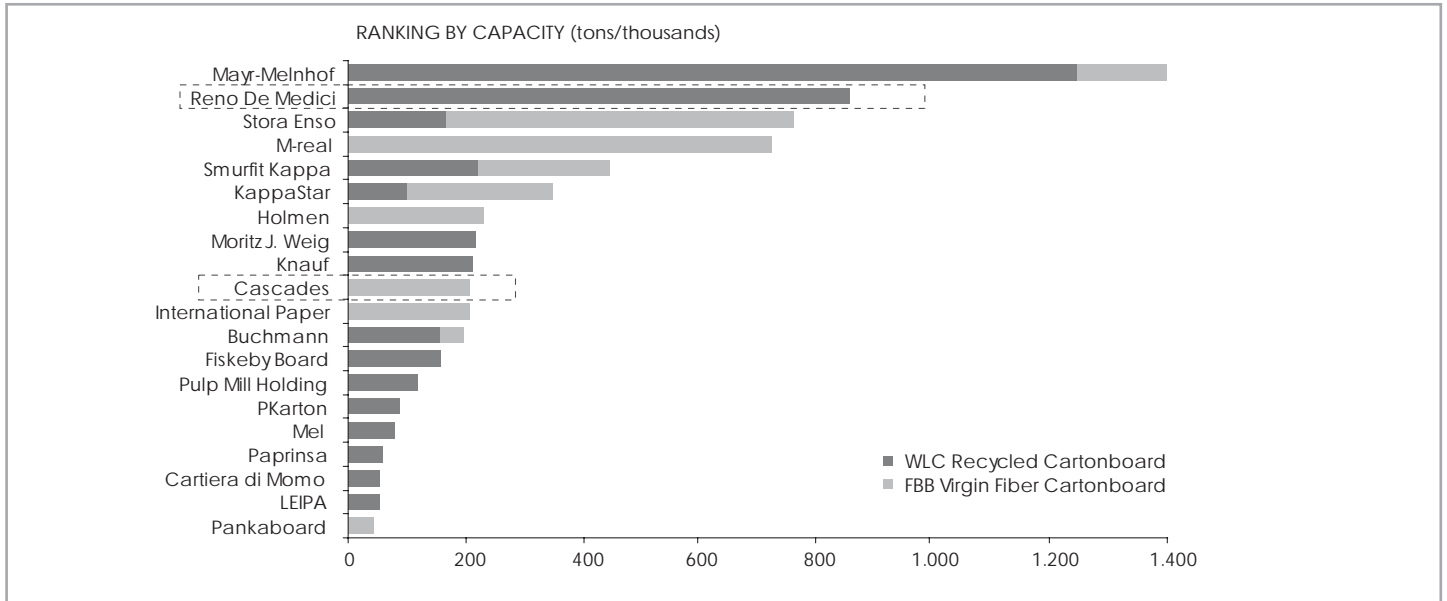
Section I – Transforming into an European Player



Source: based on RDM and Cascades 1H09 turnover

As of today Rdm has become the second largest cartonboard operator in Europe, after Mayr Melnhof with an overall capacity above 800k ton.

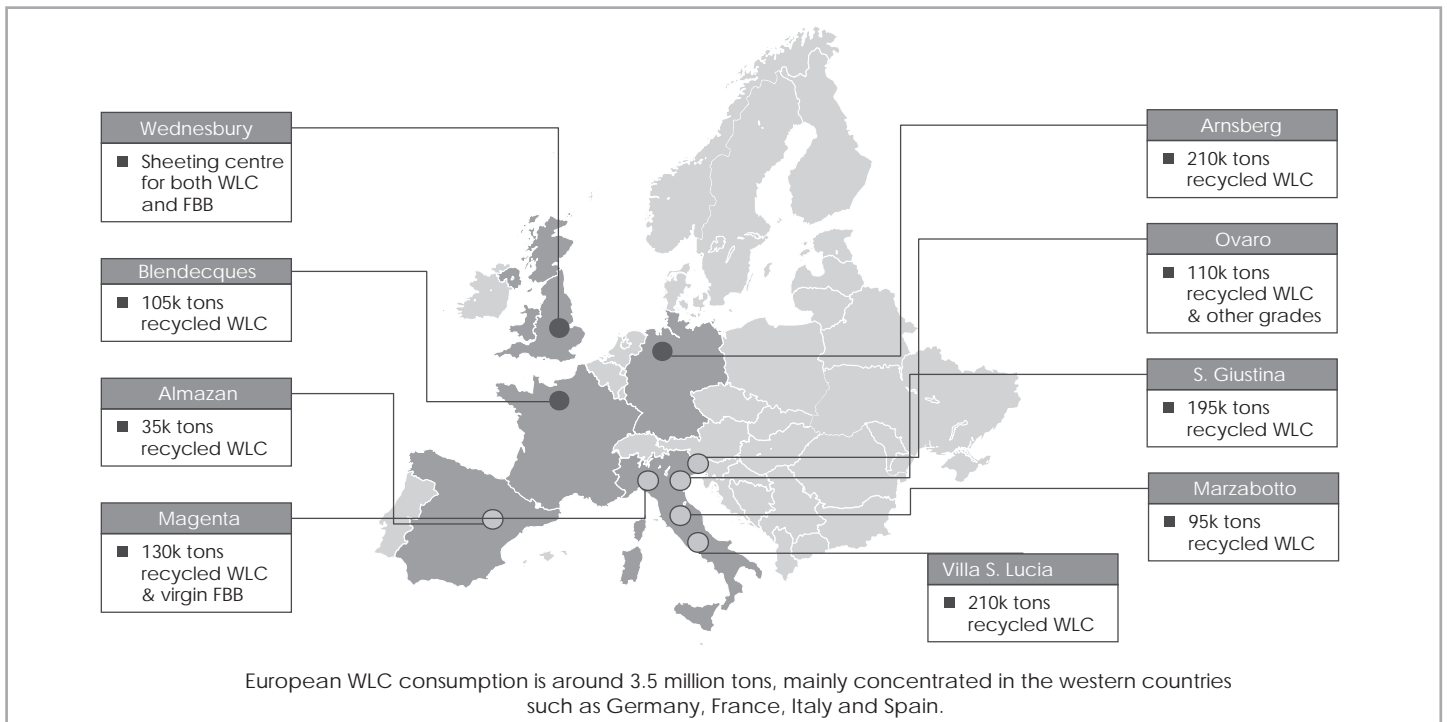
Section I–Pan-European Market Presence



Source: Company data

The integration has allowed RDM to improve its competitive position and to have a better geographical breakdown of sales: the weight of Italy dropped from 52% to 35%. The geographical risk diversification with the two new Blendecques mills (165k tons of recycled WLC) and Arnsberg (185k tons recycled WLC) should allow RDM to reduce the lead time (according to the company 2 days less due to the positioning of mills closer to clients). Clients will be better served, allowing strong savings.

Reno De Medici - Production Facilities



Source: CEPI Cartonboardstatistics and Company data.

History in Brief

Section I Milestones



Source: Company data

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With resolution no. 17 078 dated 26/11/09, the National Commission for Companies and the Stock Market (CONSOB) has maintained the ban on short selling effective 1st December 2009, for only those companies increasing their capital on or before 30th November 2009. For these companies, the sale of shares must still be supported by both the availability and the ownership of the relevant securities until the completion of the capital increase operation.

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Explanation of our ratings system:

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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Intermonte's distribution of stock ratings is as follows:

BUY: 16.81%

OUTPERFORM: 31.09%

NEUTRAL: 40.18%

UNDERPERFORM: 10.92%

SELL: 0.84%

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (30 in total) is as follows:

BUY: 30.0%

OUTPERFORM: 13.33%

NEUTRAL: 56.67%

UNDERPERFORM: 0.00%

SELL: 0.00%

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- Intermonte SIM SpA acts as Financial Advisor to the following companies: Cattolica Assicurazioni.

DETAILS ON STOCK RECOMMENDATION

Stock	RENO DE MEDICI		
Current Recomm:	NEUTRAL	Previous Recomm:	NEUTRAL
Current Target (Eu):	0.25	Previous Target (Eu):	0.25
Current Price (Eu):	0.22	Previous Price (Eu):	0.21
Date of Report:	11/08/10	Date of Last Report:	15/03/10

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