

RENO DE MEDICI

BUY

Price (Eu):

0.54

Target Price (Eu):

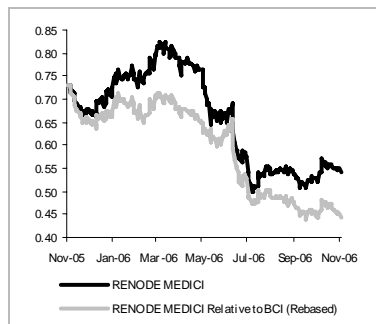
0.70

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3Q06 Results Worse than Expected

- Results lower than expected due to higher impact of energy costs.** Reno de Medici closed 3Q06 with sales at Eu69.0mn, +2% YoY (lower than our estimate of Eu74mn). This was due to reduced volumes (-2% YoY vs. our expectation of +1.5% yoy) and to a lower average selling price per ton in the quarter. EBITDA came out at Eu5mn vs. Eu7.2mn last year (which enjoyed a non recurring item of Eu2.5mn), below our expectation of Eu7.9mn. The difference was mainly due to higher energy costs and to a slower increase in cardboard prices. EBIT amounted to -Eu0.7mn vs. Eu1.2mn in Q3'05 and our estimate of 3.3mn. Net profit was at -Eu4.7mn vs. -Eu6.7mn, recorded in Q3'05. Net financial position was at -Eu137.8mn vs. Eu-140.1mn in 1H06.
- Outlook for 2007.** The increase in cardboard prices did not meet our expectations. Nevertheless, 2007 will have a better price mix for the full year, even without considering further improvements in the next few quarters. On the other hand, the energy cost scenario should improve on 2006 (Brent price down in the last few weeks from 67\$ per barrel to around 60\$).
- Estimates revised downwards: 2006 EBITDA from Eu36mn to Eu32mn and '07 from Eu50mn to Eu44mn.** Overall we have cut our EBITDA estimates to Eu32mn in '06 (from Eu36mn expected) and to Eu44mn in '07 (from Eu50mn expected).
- Conclusion: target price revised downwards from Eu0.83 to Eu0.70. BUY confirmed.** Results were much lower than expected and we have made significant changes to our expectations. Nevertheless, the company has reached its goals to improve NFP (from -Eu169.3mn at the end of 2006 to -Eu137.8mn) and to complete the restructuring of the industrial activities. The next few quarters will enjoy an easy comparison (especially the 4th quarter of the year)

RENO DE MEDICI - 12m Performance

RATING: **Unchanged**TARGET PRICE (Eu): **from 0.83 to 0.70**Change in EPS est: 2007E 2008E
-36.7% -30.38%

STOCK DATA

Reuters code: RDM.MI
Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	3.9%	1.2%	-25.9%
Relative	0.5%	-10.2%	-48.1%
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):	146
Total Mkt Cap (Eu mn):	147
Mkt Float - ord (Eu mn):	107
Mkt Float (in %):	74.0%
Main shareholder:	
Alerion	26.0%

BALANCE SHEET DATA

	2006
Book value (Eu mn):	120
BVPS (Eu):	0.45
P/BV:	1.2
Net Financial Position (Eu mn):	-139
Enterprise value (Eu mn):	286

SAVING

Price:	0.64
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	317	330	338
Ebitda (Eu mn)	31	27	32	44	46
Net profit (Eu mn)	-8	-13	-7	11	15
EPS - New (Eu)	-0.03	0.01	0.00	0.04	0.06
EPS - Old (Eu)	-0.03	0.01	0.02	0.07	0.08
DPS (Eu)	0.00	0.00	0.00	0.00	0.00
Ratios & Multiples	2004A	2005A	2006E	2007E	2008E
P/E	nm	59.0	nm	13.0	9.4
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	12.6	11.6	9.0	6.3	5.7
ROCE	1.2%	0.4%	4.0%	9.5%	10.6%

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3Q'06 Reno de Medici

(Eu mn)	Q3'05A	Q3'06A	Q3'06E	9M'05A	9M'06A	FY'06E	FY'06E	Change%
						New	Old	
Sales	67.7	69.0	74.1	218.9	232.3	317.3	322.1	-1.5%
<i>yoy growth</i>	<i>na</i>	<i>1.9%</i>	<i>9.3%</i>	<i>na</i>	<i>6.1%</i>	<i>7.4%</i>	<i>9.1%</i>	
Volumes ('000 tons)	143.0	140.0	145.5	451.0	471.0	640.0	646.0	-0.9%
Ebitda	7.2	5.0	7.9	23.3	21.8	32.1	36.5	-12.2%
<i>margin</i>	<i>10.7%</i>	<i>7.3%</i>	<i>10.6%</i>	<i>10.6%</i>	<i>9.4%</i>	<i>10.1%</i>	<i>11.3%</i>	
<i>yoy growth</i>	<i>na</i>	<i>-30.7%</i>	<i>8.6%</i>	<i>na</i>	<i>-6.6%</i>	<i>17.2%</i>	<i>33.4%</i>	
Ebit	1.2	-0.7	3.3	3.0	4.4	11.6	16.0	-27.8%
<i>margin</i>	<i>1.8%</i>	<i>-1.0%</i>	<i>4.4%</i>	<i>1.4%</i>	<i>1.9%</i>	<i>3.6%</i>	<i>5.0%</i>	
<i>yoy growth</i>	<i>na</i>	<i>nm</i>	<i>nm</i>	<i>na</i>	<i>50.0%</i>	<i>nm</i>	<i>nm</i>	
Net Financial	-3.2	-2.4	-2.2	-9.2	-8.2	-9.9	-9.9	
Extraord. and discontinued Op.	-3.8	-0.8	-0.5	1.8	-4.0	-4.5	-4.5	
Pre-tax	-5.9	-3.9	0.6	-4.4	-7.8	-2.9	1.6	-283.8%
<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	-0.9	-0.8	-1.0	-2.7	-3.5			
<i>yoy growth</i>	<i>-6.7</i>	<i>-4.7</i>	<i>-0.4</i>	<i>-7.1</i>	<i>-11.3</i>	<i>-6.9</i>	<i>-2.4</i>	<i>nm</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

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	317	330	338
	EBITDA	31	27	32	44	46
	EBIT	5	2	11	25	28
	Financial income (charges)	(11)	(12)	(10)	(8)	(7)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	(6)	(10)	1	16	20
	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	-7	11	15
	Total extraordinary items	3	(15)	(5)	0	0
	Ebitda excl. extraordinary items	31	27	32	44	46
Ebit excl. extraordinary items	5	2	11	25	28	
Net profit restated	(9)	2	0	11	15	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	270	270	270	270	270
	EPS stated fd	-0.03	-0.05	-0.03	0.04	0.06
	EPS restated fd	-0.03	0.01	0.00	0.04	0.06
	BVPS fd	0.58	0.53	0.45	0.49	0.55
	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 (%)						
CASH FLOW (Eu mn)	Gross cash flow	18	13	13	30	34
	Change in NWC	(5)	26	1	(5)	(3)
	Capital expenditure	(15)	(10)	(12)	(13)	(16)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	13	38	14	25	30
	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	31	12	15	
BALANCE SHEET (Eu mn)	Total fixed assets	327	230	181	174	171
	Net working capital	153	128	127	132	135
	Long term liabilities	(77)	(45)	(49)	(48)	(46)
	Net capital employed	403	313	260	259	260
	Net financial position	(247)	(170)	(139)	(127)	(112)
	Group equity	156	143	120	132	147
	Minorities	0	0	0	0	0
Net equity	156	143	120	132	147	
ENTERPRISE VALUE & OPERATING FCF (%)	Average mkt cap - current	147	147	147	147	147
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(247)	(170)	(139)	(127)	(112)
	Enterprise value	394	317	286	274	259
RATIOS(%)	EBITDA margin*	10.3%	9.3%	10.1%	13.2%	13.5%
	EBIT margin*	1.6%	0.5%	3.6%	7.4%	8.2%
	Gearing - Debt/equity	158.6%	119.5%	115.5%	96.6%	76.4%
	Interest cover on EBIT	0.4	0.1	1.1	3.0	3.9
	Debt/Ebitda	7.94	6.22	4.36	2.92	2.46
	ROCE*	1.2%	0.4%	4.0%	9.5%	10.6%
	ROE*	-2.0%	-8.9%	-5.4%	8.9%	11.1%
	EV/CE	1.0	0.9	1.0	1.1	1.0
	EV/Sales	1.3	1.1	0.9	0.8	0.8
EV/Ebit	nm	nm	25.1	11.2	9.4	
Free Cash Flow Yield	8.9%	26.0%	9.7%	17.2%	20.6%	
GROWTH RATES (%)	Sales	-44.2%	-2.2%	7.4%	3.9%	2.5%
	EBITDA*		-12.2%	16.6%	36.4%	4.9%
	EBIT*		-68.1%	628.5%	115.1%	12.6%
	Net profit	nm	nm	nm	nm	38.2%
	EPS restated	nm	nm	-89.6%	4230.3%	38.2%

* 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;

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Intermonte's distribution of stock ratings is as follows:

BUY	OUTPERFORM	NEUTRAL	UNDERPERFORM	SELL
23.03%	22.42%	40.61%	13.94%	0.0%

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BUY	OUTPERFORM	NEUTRAL	UNDERPERFORM	SELL
53.85%	15.38%	30.77%	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):	0.70	Previous Target (Eu):	0.83
Current Price (Eu):	0.54	Previous Price (Eu):	0.55
Date of report:	14/11/2006	Date of last report:	07/08/2006

Further information is available