

# RENO DE MEDICI

## NEUTRAL

Price (Eu):

0.21

Target Price (Eu):

0.25

SECTOR: Industrial

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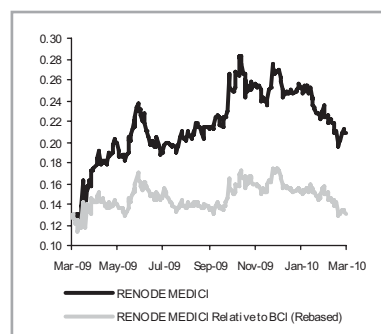
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### Margin Improvement confirmed, Visibility still Low

- **2009 confirmed promised Ebitda recovery.** Reno de Medici closed the year with sales of Eu428mn, -5.1%. Volumes sold were down 4% to 864,000 tons, with average sales prices worsening by 1%. All in all, Reno de Medici managed to improve its adjusted EBITDA significantly to Eu31mn, +64% YoY. Profitability returned to 7%, vs. the 4.2% posted in 2008. Results were pretty much in line with our estimates of Eu31.3mn.
- **NFP almost stable yoy, after increased capex.** The net financial position closed at Eu-132.5mn, slightly worse than the Eu-130.8mn recorded in 2008 and our forecast of Eu-129mn. Reno de Medici achieved a solid improvement in working capital, which led to the generation of around Eu5mn in cash in 2009. CAPEX rose from Eu17mn to Eu20mn, while the company invested Eu4.5mn for the acquisition of a minority stake in Manucor (22.7%), a company that specialises in the production of plastic packaging.
- **Outlook and our assumptions on 2010.** Company's guidance points to volumes basically unchanged, while has been announced a price increase to offset further raw materials hikes expected this year. We assume that volumes will remain basically flat at 834k tons, while we incorporate a 7.5% increase in the price mix. Overall, we confirm our estimates for EBITDA of Eu41.6mn, Eu10mn more than this year (+34% YoY). We estimate a further rise in depreciation, which will bring EBIT to Eu14mn, which will lead to a lower net profit of Eu4.7mn, vs. our previous estimate of Eu6.6mn (-20%).
- **NEUTRAL confirmed, target price at Eu0.25.** The company is still experiencing a difficult situation in a sector in which structural overcapacity continues to be a problem. Visibility on a further recovery in profitability therefore remains low, and in 2010 any improvement in this area will basically depend on the price increase in cardboard being passed through to customers. The reduction in the fixed costs structure and the ongoing optimisation of capacity will help to create strong operating leverage for RdM in the coming years. We confirm our target price, which is based on an average 2010/2011 EV/ROACE of Eu0.25 per share.

Key Figures	2007A	2008A	2009A	2010E	2011E
Sales (Eu mn)	343	451	428	462	486
Ebitda (Eu mn)	30	40	31	42	43
Net profit (Eu mn)	1	-6	-7	5	5
EPS - New (Eu)	0.01	0.00	-0.03	0.02	0.02
EPS - Old (Eu)	0.01	-0.05	0.00	0.02	0.02
DPS (Eu)	0.00	0.00	0.00	0.00	0.00
Ratios & Multiples	2007A	2008A	2009A	2010E	2011E
P/E	21.7	nm	nm	12.0	10.9
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	5.8	10.0	6.0	4.5	4.1
ROCE	4.5%	5.5%	1.4%	4.9%	5.1%

### Reno de Medici - 12m Performance



Source: FactSet Partners

RATING: Unchanged

TARGET PRICE (Eu): Unchanged

Change in EPS est:	2009A	2010E
	nm	-20.0%

#### STOCK DATA

Reuters code:	RDM.MI
Bloomberg code:	RM IM

Performance	1m	3m	12m
Absolute	-6.3%	-22.6%	64.7%
Relative	-12.6%	-24.4%	5.7%
12 months H/L:	0.28/0.12		

#### SHAREHOLDER DATA

No. of Ord. shares (mn):	269
Total No. of shares (mn):	269
Mkt Cap Ord (Eu mn):	56
Total Mkt Cap (Eu mn):	56
Mkt Float - ord (Eu mn):	31
Mkt Float (in %):	56.0%
Main shareholder:	
Cascades	35.0%

#### BALANCE SHEET DATA

	2010
Book value (Eu mn):	160
BVPS (Eu):	0.60
P/BV:	0.4
Net Financial Position (Eu mn):	-132
Enterprise value (Eu mn):	188

**RENO DE MEDICI - KEY FIGURES**

		2007A	2008A	2009A	2010E	2011E
	Fiscal year end	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	343	451	428	462	486
	EBITDA	30	40	31	42	43
	EBIT	11	14	4	14	15
	Financial income (charges)	(8)	(10)	(9)	(8)	(8)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	3	(17)	(5)	6	7
	Taxes	1	(2)	(2)	(2)	(2)
	Tax rate (%)	-14.5%	-12.7%			
	Minorities & discontinue activities	(0)	(0)	0	0	0
	Net profit	1	-6	-7	5	5
	Total extraordinary items	(2)	(7)	0	0	0
	Ebitda excl. extraordinary items	30	40	31	42	43
<b>PER SHARE DATA (Eu)</b>	Ebit excl. extraordinary items	11	14	4	14	15
	Net profit restated	3	0	(7)	5	5
	Total shares out (mn) - average fd	270	269	269	269	269
	EPS stated fd	0.01	-0.02	-0.03	0.02	0.02
	EPS restated fd	0.01	0.00	-0.03	0.02	0.02
	BVPS fd	0.43	0.60	0.57	0.60	0.62
<b>CASH FLOW (Eu mn)</b>	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 (%)					
	Gross cash flow	20	18	19	32	33
	Change in NWC	9	(18)	6	(9)	(5)
	Capital expenditure	(18)	(17)	(20)	(25)	(19)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	28	(1)	20	23	28
<b>BALANCE SHEET (Eu mn)</b>	Acquisitions, divestments & others	0	2	(5)	0	0
	Dividend	0	0	0	0	0
	Equity financing/Buy-back	0	0	0	0	0
	Change in Net Financial Position	11	(16)	1	(1)	10
	Total fixed assets	191	271	260	251	243
	Net working capital	69	88	82	91	96
	Long term liabilities	(30)	(65)	(57)	(50)	(49)
	Net capital employed	231	293	285	293	290
<b>ENTERPRISE VALUE (Eu mn)</b>	Net financial position	(116)	(132)	(131)	(132)	(122)
	Group equity	115	161	154	160	168
	Minorities	0	0	0	0	0
	Net equity	115	161	154	160	168
<b>RATIOS(%)</b>	Average mkt cap - current	56	56	56	56	56
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(116)	(132)	(131)	(132)	(122)
	Enterprise value	172	188	187	188	179
<b>GROWTH RATES (%)</b>	EBITDA margin*	8.7%	8.9%	7.2%	9.0%	8.9%
	EBIT margin*	3.1%	3.2%	0.9%	3.1%	3.0%
	Gearing - Debt/equity	100.7%	82.1%	84.9%	82.4%	73.0%
	Interest cover on EBIT	1.4	1.4	0.5	1.8	2.0
	Debt/Ebitda	3.91	3.30	4.22	3.17	2.84
	ROCE*	4.5%	5.5%	1.4%	4.9%	5.1%
	ROE*	1.2%	-4.5%	-4.6%	3.0%	3.2%
	EV/CE	0.7	0.7	0.6	0.7	0.6
	EV/Sales	0.5	0.4	0.4	0.4	0.4
	EV/Ebit	16.2	nm	nm	13.3	12.1
	Free Cash Flow Yield	50.3%	-1.1%	36.2%	41.3%	50.3%
	Sales	9.1%	31.7%	-5.1%	8.0%	5.0%
<b>GROWTH RATES (%)</b>	EBITDA*	2.2%	35.2%	-22.7%	34.5%	3.4%
	EBIT*	88.6%	36.1%	-72.7%	260.5%	4.3%
	Net profit	nm	nm	nm	nm	10.7%
	EPS restated	nm	-83.5%	nm	nm	10.7%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

## FY09 results confirm promised EBITDA recovery

Reno de Medici closed the year with sales of Eu428mn, -5.1%. Volumes sold were down 4% to 864,000 tons, with average sales prices worsening by 1%.

Sales and volumes figures did not use the same consolidation base: the Cascades assets were consolidated in March 2008. Furthermore, Reno de Medici downsized its production capacity, concentrating manufacturing activities in the more efficient factories.

2009 has once again been characterised by improvements in the company's profitability. The main actions taken to reduce fixed costs included closing a production line in the Blendecques facility in France at the end of 2008 and suspending production at the Marzabotto facility in Italy for the whole of 2009; in addition, production was also brought to a temporary halt in certain other factories.

Raw materials prices declined in the first part of the year, but increased rapidly as of the summer. For the full year, there was a significant drop compared to the previous year. Energy prices, especially for natural gas and electricity, fell significantly YoY. All in all, Reno de Medici managed to improve its adjusted EBITDA significantly to Eu31mn, +64% YoY. Profitability returned to 7%, vs. the 4.2% posted in 2008. Results were pretty much in line with our estimates of Eu31.3mn. EBIT stood at Eu4mn, compared to the Eu-6.8mn (before badwill) recorded in 2008, but below our estimate of Eu4.8mn due to higher depreciation. The company posted a net loss of Eu-7.2mn.

The net financial position closed at Eu-132.5mn, slightly worse than the Eu-130.8mn recorded in 2008 and our forecast of Eu-129mn. Reno de Medici achieved a solid improvement in working capital, which led to the generation of around Eu5mn in cash in 2009. CAPEX rose from Eu17mn to Eu20mn, while the company invested Eu4.5mn for the acquisition of a minority stake in Manucor (22.7%), a company that specialises in the production of plastic packaging.

Looking at Q4 sales stood at 109.6mn, +19.2% yoy, Ebitda closed at 6.5mn vs 0.7mn in Q4 '08 and Ebit was slightly negative at -0.7mn vs a loss in 2008 of 8.7mn.

### Reno de Medici FY 2009 Results

(€ mn)	9M 08 A	9M 09 A	Q4 2008 A	Q4 2009 A	2008	2009
<b>Sales</b>	<b>359.0</b>	<b>318.6</b>	<b>92.1</b>	<b>109.6</b>	<b>451.1</b>	<b>428.2</b>
Volumes	675.0	637.0	214.0	227.0	889.0	864.0
	0.532	0.500	0.430	0.483		
Yoy Growth		-11.3%		19.1%		-5.1%
Other Revenues	4.2	14.3	6.6	6.1	10.8	20.4
Cost of Raw Materials & Services	-286.9	-248.1	-70.3	-82.0	-357.2	-330.1
	-79.9%	-77.9%	-76.4%	-74.8%	-79.2%	-77.1%
Labour Costs	-55.5	-56.3	-12.4	-20.7	-67.9	-77.0
Other Operating	-2.7	-4.0	-2.7	-1.4	-5.4	-5.3
<b>EBITDA ADJ</b>	<b>18.2</b>	<b>24.5</b>	<b>0.7</b>	<b>6.5</b>	<b>18.8</b>	<b>31.0</b>
Margin %	5.1%	7.7%	0.7%	5.9%	4.2%	7.2%
Badwill	21.2	0.0	0.0	0.0	21.2	0.0
		34.8%				
EBITDA Recurring	39.4	24.5	0.7	6.5	40.1	31.0
Margin %	11.0%	7.7%	0.8%	5.9%	4.4%	7.2%
Yoy Growth				815.1%	-32.0%	-22.7%
Depreciations	-14.5	-19.9	-9.4	-6.6	-23.9	-26.5
Right offs	-1.7	-0.5	0.0	-0.6	-1.7	-0.6
<b>EBIT</b>	<b>23.1</b>	<b>4.1</b>	<b>-8.7</b>	<b>-0.7</b>	<b>14.4</b>	<b>3.9</b>
Financials	-7.7	-6.4	-3.9	-2.6	-11.7	-9.1
Pre Tax	15.4	-2.3	-12.6	-2.8	2.7	-5.1
Other Items	-2.1	0.0				
Taxes	-3.3	-1.1	1.2	-0.6	-2.1	-1.7
Yoy Growth						
Net Result	9.9	-3.4	-11.4	-3.4	-5.4	-7.2

Source: Intermonte SIM estimates

## Outlook for 2010, Price Announced to Offset Raw Materials Inflation.

In the press release, the company's guidance pointed to volumes remaining basically unchanged. RdM has announced a price increase which is needed to offset further raw materials hikes expected this year.

"The market trend in early 2010 appears in line with that of 2009, with steady volumes even though the overall macroeconomic context remains uncertain, also due to the volatility caused by the continuing turbulence in financial markets. At the European level, the entire industry is marked by structural overcapacity, which leads one to predict additional industrial rationalisation operations. The Company has announced price increases, the effects of which should be fully effective starting in the spring. On the other hand, prices of raw materials for pulp continue to rise. Energy prices do not show significant changes. Despite reductions recorded in 2009, current average prices could still be high in relation to the level of manufacturing activities for the main industrialized economies.

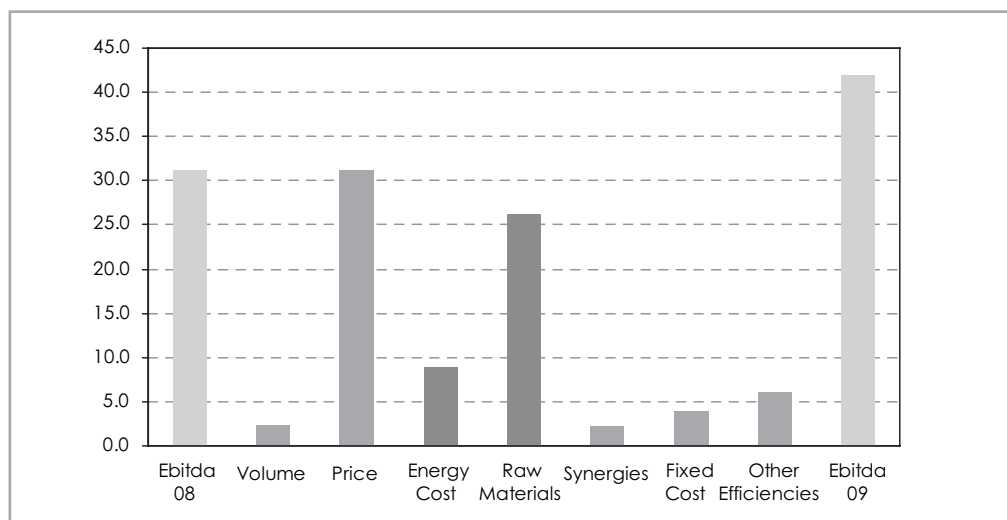
Operators will tend to reduce inventories and, in the short term, this will expose the industry to the negative impact of possible sudden increases. The outlook for 2010 is affected by high volatility due to the general macroeconomic situation, the contraction on final consumption determined by reduction of household disposable income, and the price of cellulosic materials, both virgin and recycled."

## Our Estimates for 2010 are Confirmed, we Forecast EBITDA of Eu41mn

Following results we confirm our estimates for 2010. We assume that volumes will remain basically flat at 834k tons, while we incorporate a 7.5% increase in the price mix (assuming that the company will be able to pass the announced increase in cardboard prices on to customers), with an average price of Eu554 per ton for the full year. The price increase will generate around Eu30mn of additional EBITDA, which will be partially offset by the sharp increase in raw materials.

As for energy costs, we do not expect any major increases, due to the fact that the company has already acquired its needs for 2010. Overall, we confirm our estimates for EBITDA of Eu41.6mn, Eu10mn more than this year (+34% YoY).

### Ebitda Bridge



Source: based on RDM and Cascades 1H09 turnover

We expect a further rise in depreciation, which will bring EBIT to Eu14mn. We estimate financial charges will remain more or less flat, and taxes (the company should only pay Italian IRAP thanks to carry-forward losses) should stay at the same level as in 2009. All in all, we estimate net profit of Eu4.7mn, vs. our previous estimate of Eu6.6mn (-20%).

#### Reno de Medici P&L

(€ mn)	2007A	2008A	2009A	2010E	2011E
Sales	342.5	451.1	428.2	462.5	485.6
YoY growth	9.1%	31.7%	-5.1%	8.0%	5.0%
<b>EBITDA Adj</b>	<b>29.6</b>	<b>18.8</b>	<b>31.0</b>	<b>41.7</b>	<b>43.1</b>
Ebitda margin	8.7%	4.2%	7.2%	9.0%	8.9%
Total D&A	(19.0)	(25.7)	(27.1)	(27.5)	(28.3)
EBIT	10.6	-6.8	3.9	14.2	14.8
Ebit margin	3.1%	-1.5%	0.9%	3.1%	3.0%
Net financials & Participations	(7.6)	(11.7)	(9.1)	(7.7)	(7.5)
Pre tax profit	3.0	2.7	-5.1	6.5	7.3
Taxes	0.8	(2.1)	(1.7)	(1.5)	(1.8)
Tax Rate	nm	-76.9%	32.9%	-23.2%	-24.9%
Minorities & Discontinued Operations	(2.1)	(6.8)	0.0	0.0	0.0
<b>Group Net Profit</b>	<b>1.7</b>	<b>-6.1</b>	<b>-6.8</b>	<b>5.0</b>	<b>5.5</b>

Source: Intermonte Sim

We expect the NFP to remain basically unchanged this year, moving from Eu-132mn to Eu-130mn. We estimate an increase in CAPEX from Eu20mn to Eu25mn due to further investments to modernise the company's production capacity. As for working capital, we are only assuming slight absorption, at Eu-5mn.

#### Rendo de Medici Cash Flow

(€ mn)	2007A	2008A	2009E	2010E	2011E
Net Income	1.7	-6.0	-6.8	5.0	5.5
Depreciation and Amortization	18.4	23.9	26.5	27.5	28.3
Other non-cash items	0.0	0.0	0.0	0.0	0.0
<b>Gross Operating Cash Flow</b>	<b>20.1</b>	<b>17.9</b>	<b>19.7</b>	<b>32.5</b>	<b>33.8</b>
Change in NWC	8.5	(18.4)	5.5	(5.1)	(5.0)
Capex	(17.8)	(16.9)	(19.6)	(25.0)	(18.8)
Change in financial assets	0.0	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	(4.5)	0.0	0.0
Share Capital Increase	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	(1.3)	0.0	0.0
Net Cash Flow	10.8	(16.4)	(0.2)	2.4	10.0
Initial Net Financial Position	(126.6)	(115.8)	(132.2)	(132.5)	(130.1)
Final Net Financial Position	(115.8)	(132.2)	(132.5)	(130.1)	(120.1)

Source: Intermonte SIM estimates

## NEUTRAL confirmed, target price Eu0.25.

The company is still experiencing a difficult situation in a sector in which structural overcapacity continues to be a problem. Visibility on a further recovery in profitability therefore remains low, and in 2010 any improvement in this area will basically depend on the price increase in cardboard being passed through to customers. The reduction in the fixed costs structure and the ongoing optimisation of capacity will help to create strong operating leverage for RdM in the coming years.

We confirm our target price, which is based on an average 2010/2011 EV/ROACE of Eu0.25 per share.

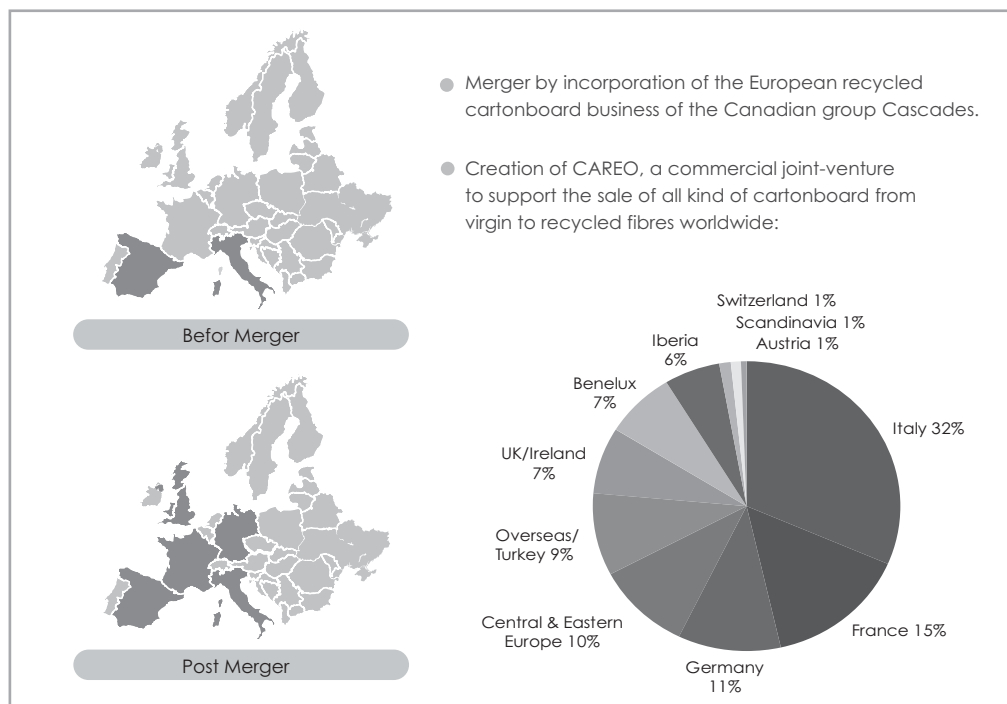
## Company in pills.

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.

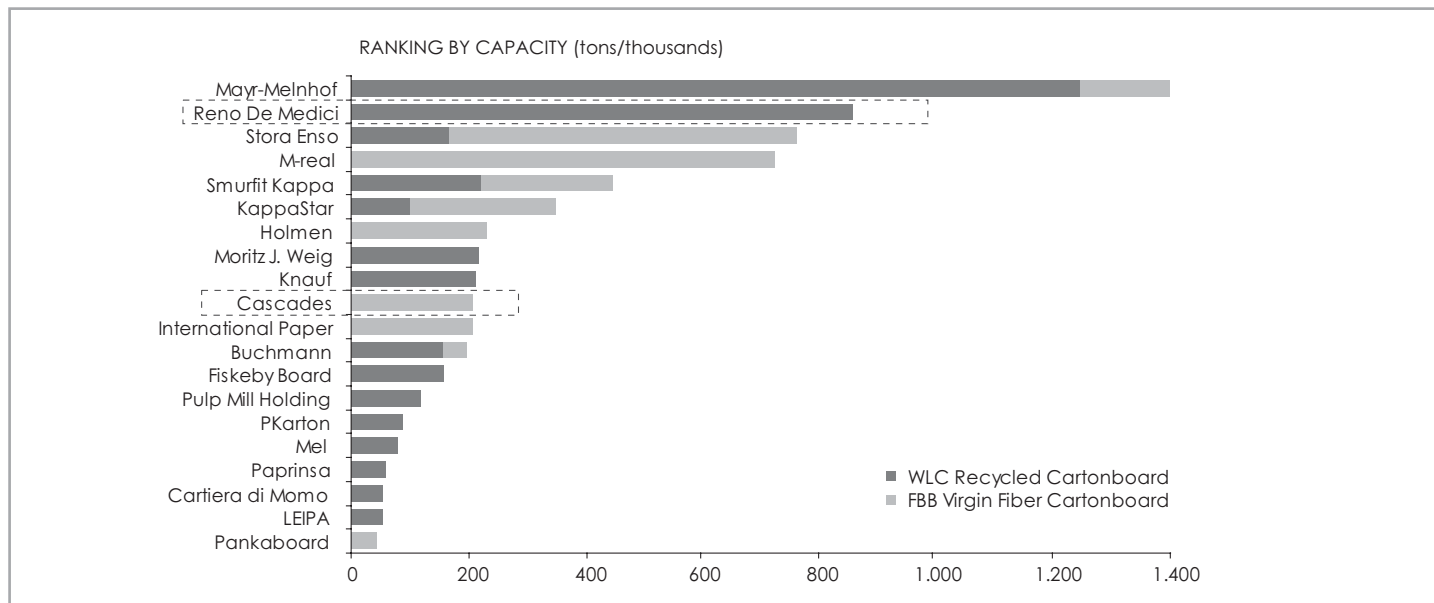
### Section I – Transforming into an European Player



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.

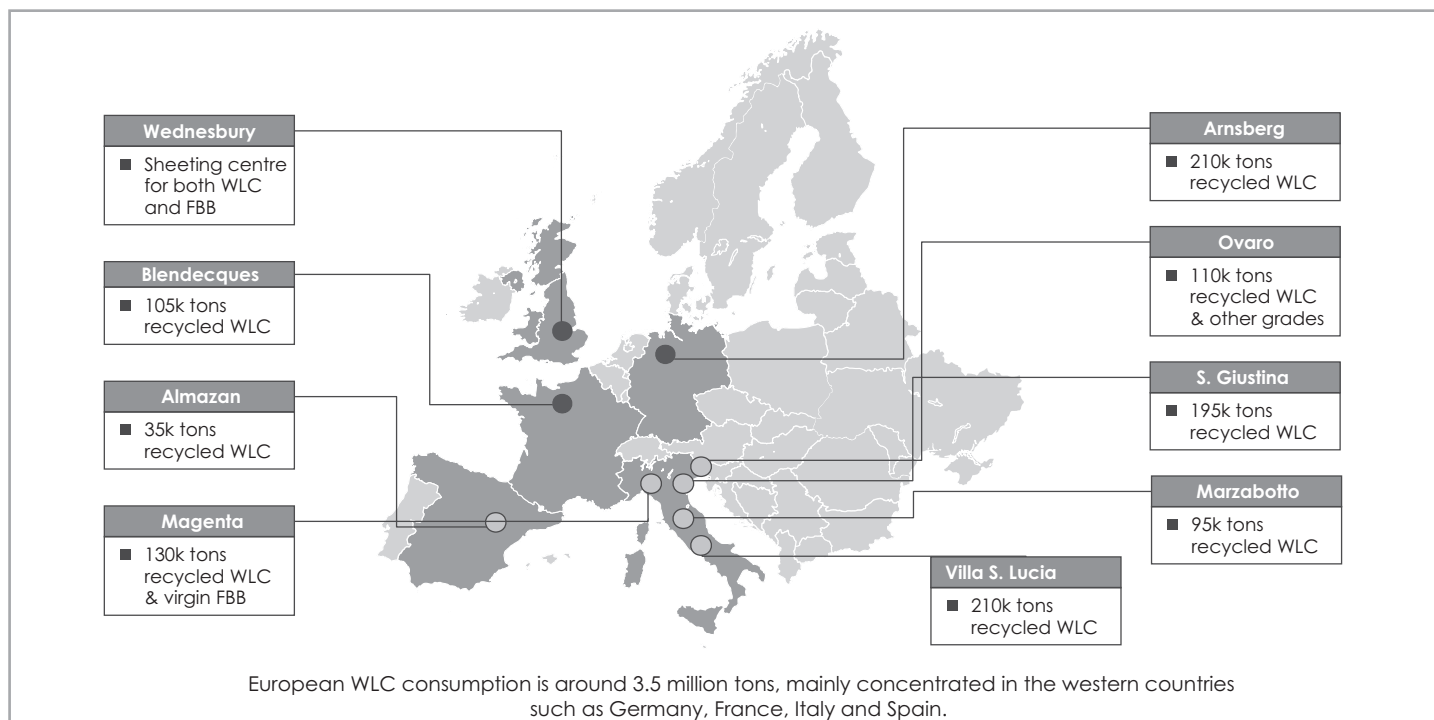
### Section I–Pan-European Market Presence



Source:

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.

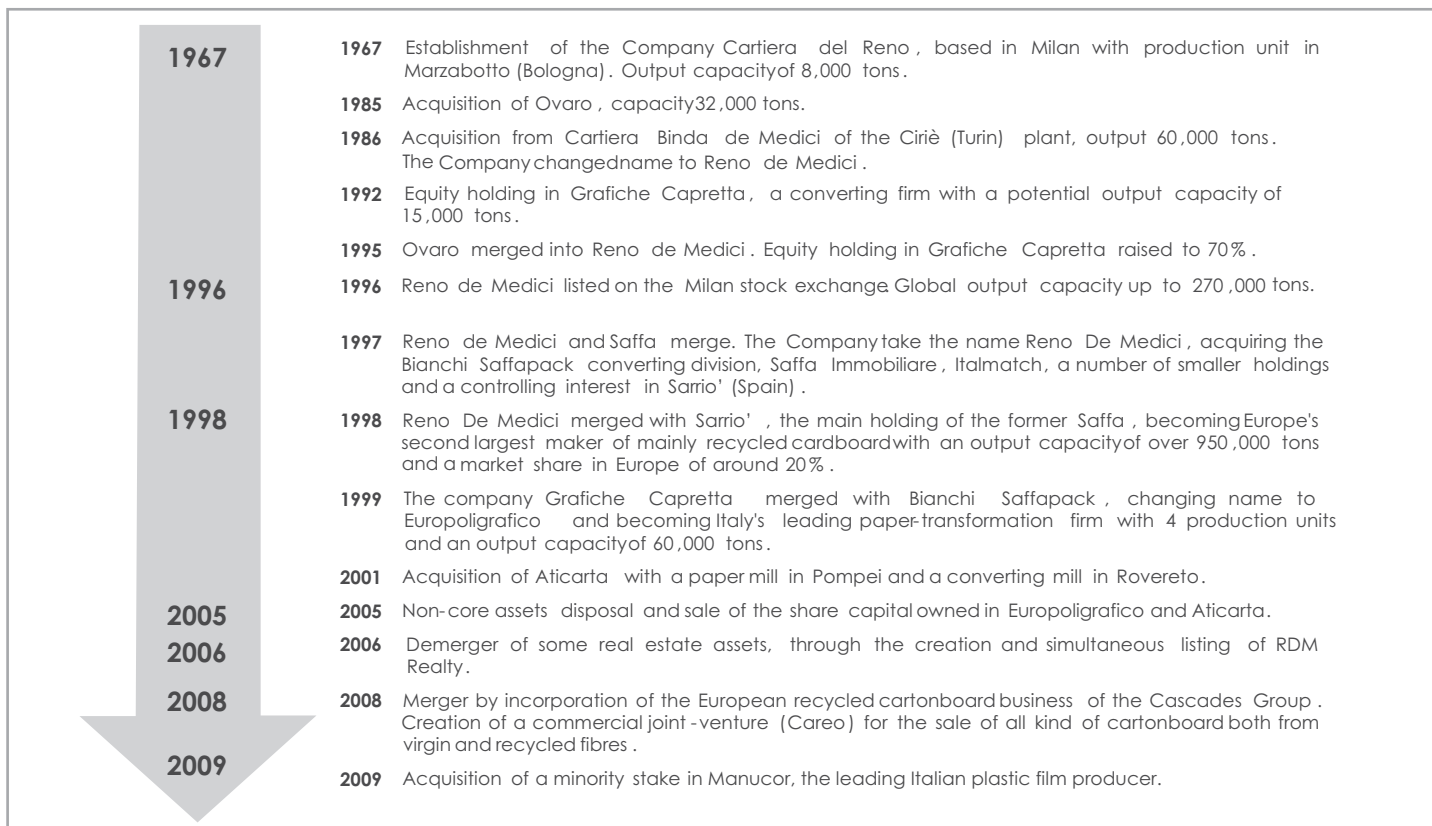
### Reno De Medici - Production Facilities



Source: CEPI Cartonboardstatistics and Company data.

## History in Brief

### Section I Milestones



Source:



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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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**OUTPERFORM: 29.23%**

**NEUTRAL: 32.38%**

**UNDERPERFORM: 13.85%**

**SELL: 3.08%**

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**BUY: 38.10%**

**OUTPERFORM: 14.29%**

**NEUTRAL: 47.61%**

**UNDERPERFORM: 0.00%**

**SELL: 0.00%**

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- Intermonte SIM is Sponsor in accordance with the Italian Securities Markets regulations, with the related obligation of coverage and distribution of research, of the following Companies: Arkimedica, Biancamano, Caleffi, Conafi, Omnia Network, Realty Vallog;
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- Intermonte SIM SpA and its subsidiaries do not hold a stake of equal to or over 1% in any class of common equity securities of the subject company;
- Intermonte SIM SpA acts as Financial Advisor to the following companies: Fondiaria-Sai.

#### **DETAILS ON STOCK RECOMMENDATION**

Stock	<b>RENO DE MEDICI</b>		
Current Recomm:	NEUTRAL	Previous Recomm:	NEUTRAL
Current Target (Eu):	0.25	Previous Target (Eu):	0.25
Current Price (Eu):	0.21	Previous Price (Eu):	0.24
Date of Report:	15/03/2010	Date of Last Report:	23/11/2009

INTERMONTE SIM is MIFID compliant - for our Best Execution Policy please check our Website [www.intermonte.it/mifid](http://www.intermonte.it/mifid)

Further information is available