

# RENO DE MEDICI

# BUY

Price (Eu):

0.69

Target Price (Eu):

0.90

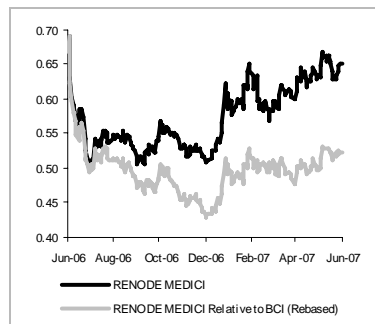
SECTOR: Ind. - Cyclical

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## New Company to Form

- RDM to merge with the European business of Cascades.** RdM and Cascades announced the signing of a preliminary contract 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 115.6mn new shares (around 43% of the current share capital) to Cascades, which will become the new majority shareholder with a stake of over 30%. This transaction will not imply any mandatory offer. The deal will bring RdM's capacity up to 1.1mn tonnes, closer to Mayr Melnhof (capacity around 1.5mn tonnes). No debt is to be transferred to RDM. The second step, starting from '09, would be to make the acquisition of virgin fibre cardboard assets: two in France and one in Sweden. RdM will have a call option in '09 at a price equivalent to 6.5x '09 EBITDA and a put option for Cascades at 6x.
- We estimate Eu145mn in sales and Eu7mn in EBITDA in '06.** There are no details on the numbers for Cascades' assets. Starting from the production of the two mills, we have estimated sales and EBITDA. With a capacity of around 350,000 tonnes, we believe that Cascades assets could generate sales of Eu146mn. We have prudently assumed an EBITDA margin of 5% (half of Reno de Medici's profitability), which implies an EBITDA of Eu7.5mn. Assuming these figures are correct, RdM paid 10.5x '06 EV/EBITDA for the Cascades European business, in line with '06 multiples for RdM.
- 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 annualised synergies, beginning in 2008, from the optimisation of value chain processes resulting in lower operating costs and reduced logistics and procurement costs.
- New company to get around Eu70mn in 2009.** On the following page we show the combined entity according to our estimates from 2006 and the potential EBITDA that, thanks to the synergies, the new RdM could achieve in 2008 and 2009. 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.
- We like the deal, and raise our recommendation to BUY; target price Eu0.90.** 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: from OUTPERFORM to BUY

TARGET PRICE (Eu): from 0.70 to 0.90

Change in EPS est: 2007E 2008E

#### STOCK DATA

Reuters code: RDM.MI  
Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	2.7%	12.1%	-2.5%
Relative	5.2%	5.6%	-26.8%
12 months H/L:	0.69/0.50		

#### SHAREHOLDER DATA

No. of Ord. shares (mn):	270
Total No. of shares (mn):	270
Mkt Cap Ord (Eu mn):	176
Total Mkt Cap (Eu mn):	176
Mkt Float - ord (Eu mn):	127
Mkt Float (in %):	72.2%
Main shareholder:	
Alerion	12.6%

#### BALANCE SHEET DATA 2007

Book value (Eu mn):	160
BVPS (Eu):	0.59
P/BV:	1.1
Net Financial Position (Eu mn):	-117
Enterprise value (Eu mn):	293

#### 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	333	343	352
Ebitda (Eu mn)	28	29	37	40	41
Net profit (Eu mn)	-12	-19	4	9	13
EPS - New (Eu)	-0.01	-0.05	0.02	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	41.1	19.9	13.2
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	12.4	10.5	7.9	7.2	6.5
ROCE	0.5%	1.9%	5.5%	7.0%	8.2%

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<b>Intermote Assumptions of Cascades Assets</b>		<b>2006E</b>
Capacity '000 (Tonnes)		300.0
price per Tonn (€)		0.49
Sales (€ mn)		146
Ebitda (€ mn)		7.5
	Margin %	5.1%
New Shares to be issued (mn)		115.6
Price per share pre Operation (€)		0.65
Implied Price Paid (€ mn)		75.1
Implied Ev/Ebitda paid		10.0
Reno de Medici '06 Ev/Ebitda		10.4

Source Intermote SIM

<b>Simulation on Combined Entity (Price &amp; Multiple paid)</b>			
	<b>Reno de Medici</b>	<b>Cascades</b>	<b>Combined</b>
Sales (€ mn)	313.9	146	459.9
Ebitda (€ mn)	29.0	7.5	36.5
	Margin %	5.1%	7.9%
N. Shares (mn)	269.7	115.6	385.3
Price (€)	0.652	0.652	0.652
Mkt Cap (€ mn)	175.8	75.4	251.2
Debt at end '06 (€ mn)	(127.0)	0.0	(127.0)
EV (€ mn)	302.9	75.4	378.2
Ev/Ebitda '06	10.4	10.0	10.4

Source Intermote SIM

<b>2008 Estimates on Combined Entity (€ mn)</b>				
	<b>Reno de Medici</b>	<b>Cascades</b>	<b>Synergies</b>	<b>Combined</b>
Sales	343.1	146.0		489.1
Ebitda	39.6	8	15.0	62.6
	Margin%	11.5%	5.5%	12.8%

<b>2009 Estimates on Combined Entity (€ mn)</b>				
	<b>Reno de Medici</b>	<b>Cascades</b>	<b>Synergies</b>	<b>Combined</b>
Sales	351.7	146.0		497.7
Ebitda	41.3	9	20.0	70.3
	Margin%	11.8%	6.2%	14.1%

Source Intermote SIM

<b>New Reno de Medici Valuation on 2009</b>	
Ebitda Expected in 2009 (€ mn)	70.3
Multiple Applied (x)	6.5
Enterprise Value (€ mn)	457.1
2009 NFP (€ mn)	(70.0)
Fair Value (€ mn)	387.1
New Number of Shares (mn)	385.3
Fair Value per Share (€)	1.0
Discount 10%	
<b>Target Price (€)</b>	<b>0.9</b>

Source Intermote 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	333	343	352
	EBITDA	28	29	37	40	41
	EBIT	2	6	15	19	23
	Financial income (charges)	(12)	(11)	(8)	(7)	(6)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	(10)	(5)	7	12	17
	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	4	9	13
	Total extraordinary items	(5)	(9)	0	0	0
	Ebitda excl. extraordinary items	28	29	37	40	41
	Ebit excl. extraordinary items	2	6	15	19	23
Net profit restated	(3)	(14)	4	9	13	
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	270	270	270	270	270
	EPS stated fd	-0.05	-0.07	0.02	0.03	0.05
	EPS restated fd	-0.01	-0.05	0.02	0.03	0.05
	BVPS fd	0.53	0.58	0.59	0.63	0.68
	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	26	29	32
	Change in NWC	26	23	(2)	(4)	(3)
	Capital expenditure	(10)	(11)	(13)	(16)	(16)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	40	28	23	25	29
	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	10	10	13	
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	232	216	208	203	201
	Net working capital	127	104	106	110	113
	Long term liabilities	(47)	(38)	(38)	(38)	(38)
	Net capital employed	313	283	277	276	276
	Net financial position	(170)	(127)	(117)	(107)	(94)
	Group equity	143	156	160	169	182
	Minorities	0	0	0	0	0
Net equity	143	156	160	169	182	
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	176	176	176	176	176
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(170)	(127)	(117)	(107)	(94)
	Enterprise value	346	303	293	283	270
<b>RATIOS(%)</b>	EBITDA margin*	9.4%	9.2%	11.1%	11.5%	11.8%
	EBIT margin*	0.6%	1.8%	4.6%	5.7%	6.4%
	Gearing - Debt/equity	118.7%	81.7%	73.0%	63.5%	51.8%
	Interest cover on EBIT	0.1	0.5	1.9	2.7	4.0
	Debt/Ebitda	6.11	4.38	3.17	2.71	2.28
	ROCE*	0.5%	1.9%	5.5%	7.0%	8.2%
	ROE*	-8.2%	-12.5%	2.7%	5.4%	7.6%
	EV/CE	1.0	1.0	1.0	1.0	1.0
	EV/Sales	1.2	1.0	0.9	0.8	0.8
	EV/Ebit	nm	nm	19.1	14.6	12.0
Free Cash Flow Yield	22.5%	16.0%	13.3%	14.4%	16.5%	
<b>GROWTH RATES (%)</b>	Sales	-2.2%	6.3%	6.1%	3.0%	2.5%
	EBITDA*	-10.9%	4.3%	27.0%	7.5%	4.4%
	EBIT*	-64.0%	218.0%	173.2%	26.8%	16.4%
	Net profit	nm	nm	nm	106.7%	50.6%
	EPS restated	nm	nm	nm	106.7%	50.6%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

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#### DETAILS ON STOCK RECOMMENDATION

Stock NAME	RENO DE MEDICI		
Current Recomm:	BUY	Previous Recomm:	OUTPERFORM
Current Target (Eu):	0.90	Previous Target (Eu):	0.70
Current Price (Eu):	0.65	Previous Price (Eu):	0.63
Date of report:	21/06/2007	Date of last report:	24/04/2007

Further information is available