

RENO DE MEDICI OUTPERFORM

Price (Eu): **0.63**
 Target Price (Eu): **0.70**

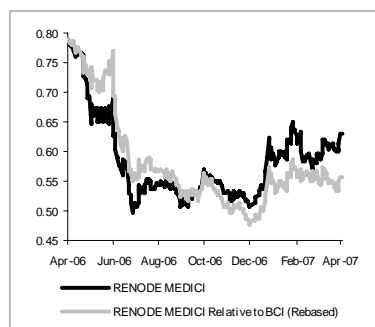
SECTOR: *Cyclicals*

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2006: Restructuring Phase Completed

- **Restructuring phase completed.** Reno de Medici has completed the restructuring process that started in 2003. The biggest effort has been made on the reduction of the company debt. When it was acquired, RdM was close to bankruptcy. Thanks to ordinary and extraordinary deals, the debt was cut from around Eu365mn to Eu127mn. The restructuring phase also had a considerable impact on profitability. Management had been able to increase profitability from 6% to 9.3% in the last three years, in a very negative environment.
- **2006 saw strong volumes. First recovery in prices in 2H...** Reno de Medici closed FY06 with sales up 6.3% YoY to Eu313.9mn. This growth was mainly obtained thanks to a strong increase in volumes. Unit prices for cardboard were mixed, as the comparison on 2005 was quite tough in the first six months. Trends showed a continued improvement throughout the year.
- **... partially offset by rise in energy costs.** Profitability was affected by a sharp increase in energy prices (around +35% in absolute terms). EBITDA closed at Eu29.3mn for the year compared to Eu27.8mn in 2005 (up by 5% yoy). The trend improved quarter by quarter, with the last quarter reaching Eu7.5mn compared to Eu4.5mn recorded the year before, with an increase of 68%.
- **We expect further improvement in average unit price.** 2007 will have a higher average price compared to last year, even without considering further improvements in the next few quarters.
- **2007 EBITDA should rise to Eu38mn, Eu40mn in 2008.** With the restructuring phase complete the company has significant operating leverage. All in all we have lowered our 2007 EBITDA estimates from Eu44mn to Eu38mn, to incorporate a more conservative scenario. We believe that the company will reach over Eu40mn in EBITDA only starting from 2008.
- **Limited upside, stock downgraded to OUTPERFORM.** RdM has performed quite well, up 22% year to date. We confirm our target price at Eu0.70 per share, a valuation in line with what paid by Euroinvest, which bought half of Alerion stake for Eu0.68 per share. We are downgrading our recommendation to OUTPERFORM due to the limited upside. Newsflow will improve in the second part of the year, when the company will attempt a further price increase.

RENO DE MEDICI - 12m Performance



RATING: **Unchanged**

TARGET PRICE (Eu): **Unchanged**

Change in EPS est: **2007E 2008E**

STOCK DATA

Reuters code: RDM.MI
 Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	5.7%	5.1%	-19.6%
Relative	-1.7%	0.3%	-33.1%
12 months H/L:	0.79/0.50		

SHAREHOLDER DATA

No. of Ord. shares (mn): 270
 Total No. of shares (mn): 270
 Mkt Cap Ord (Eu mn): 170
 Total Mkt Cap (Eu mn): 171
 Mkt Float - ord (Eu mn): 123
 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): -116
 Enterprise value (Eu mn): 287

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	341	350
Ebitda (Eu mn)	28	29	38	40	42
Net profit (Eu mn)	-12	-19	5	9	14
EPS - New (Eu)	-0.01	-0.05	0.02	0.03	0.05
EPS - Old (Eu)	0.01	0.00	0.04	0.06	0.08
DPS (Eu)	0.00	0.00	0.00	0.00	0.00
Ratios & Multiples	2005A	2006A	2007E	2008E	2009E
P/E	nm	nm	35.6	18.4	12.4
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	12.3	10.3	7.6	6.9	6.3
ROCE	0.5%	1.9%	5.8%	7.2%	8.4%

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FY06 Results, strong improvement recorded in 4Q

Reno de Medici closed FY06 with sales up 6.3% YoY to Eu313.9mn, with the fourth quarter particularly strong, amounting to Eu81.6mn, with an increase of 6.8% YoY.

The recovery in sales was led by increased volumes, which went up by approximately 6% on 2005. Average unit sales prices were slightly higher than those of the corresponding period of 2005, but the announced price increase was only effective in the second half of the year, while the first two quarters suffered a tough year on year comparison.

Considering the trends in prices in 2005, average unit sales prices in the fourth quarter of 2006 were notably higher than those for the corresponding period of the previous year. The increase in net revenues in the quarter reflects the improvement in prices and the rise in despatched volumes, which reached approximately 170,000 tonnes in the fourth quarter of 2006, an increase of roughly 5% compared to the same quarter of 2005.

EBITDA closed at Eu29.3mn compared to Eu27.8mn in 2005 (up by 5%), with profitability bang in line with year before. The quarter by quarter trend improved, with the last quarter reaching Eu7.5mn compared to Eu4.5mn recorded the year before, an increase of 68%!

Profitability was affected by a sharp increase in energy prices, which underwent an increase of around 30% in unit terms (around +35% in absolute terms).

Management was also able to obtain further efficiencies and contain fixed costs this year. The restructuring process is now almost complete.

EBIT stood at Eu5.9mn compared to Eu1.8mn (Eu4mn more than in 2006). Net loss (before discontinued operations) was at Eu6.5mn compared to a net loss of Eu23.9mn recorded in '05.

Discontinued operations incurred losses of Eu8.3mn compared to a profit of Eu11.2mn in 2005. The 2005 figure included non-recurring gains, generated by the disposals of Europoligrafico and Aticarta (both operating in packaging sector). In 2006, discontinued operations include results of the Prat facility and the Magenta MC1 line (which ceased activities in 2005).

Reno de Medici Results FY'06

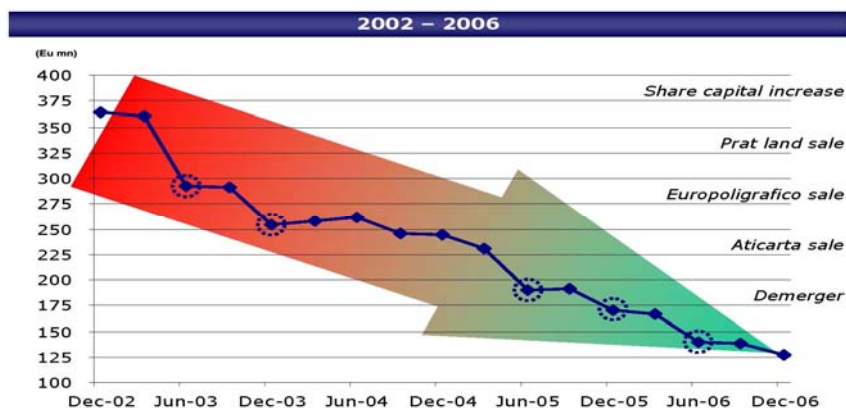
<i>(Eu mn)</i>	<i>Q4'05A</i>	<i>Q4'06A</i>	<i>YoY %</i>	<i>FY'05A</i>	<i>FY'06A</i>	<i>YoY %</i>
Sales	76.4	81.6	6.8%	295.3	313.9	6.3%
Ebitda	4.5	7.5	66.2%	27.8	29.0	4.3%
<i>margin %</i>	<i>5.9%</i>	<i>9.2%</i>		<i>9.4%</i>	<i>9.2%</i>	
Ebit	(1.2)	1.5	<i>nm</i>	1.8	5.6	218.0%
<i>margin %</i>	<i>-1.5%</i>	<i>1.8%</i>		<i>0.6%</i>	<i>1.8%</i>	
Net Financial Gain (Losses)	(2.6)	(2.5)	-5.4%	(11.8)	(10.7)	-9.6%
Other Income (Losses)	0.8	0.5		(13.7)	(1.7)	
Extraord. and discontinued Op.	(5.2)	(3.3)	<i>nm</i>	11.2	(8.9)	<i>nm</i>
Pre-tax	(8.2)	(3.8)	<i>nm</i>	(12.6)	(15.7)	156.6%
<i>Taxes</i>	<i>2.4</i>	<i>0.2</i>	<i>nm</i>	<i>(0.2)</i>	<i>(3.2)</i>	<i>nm</i>
Net profit	(5.7)	(3.6)	<i>nm</i>	(12.8)	(18.9)	<i>nm</i>

Source: Intermonte Sim

Strong improvement in NFP: from -Eu170mn to -Eu127mn

The biggest effort in the restructuring process in the last few years was focused on reducing company debt. When it was acquired by the Alerion Group (led by Mr. Garofano) Reno de Medici was close to bankruptcy. Thanks to ordinary and extraordinary operations (reorganisation of production, disposal of packaging activities, and the spin-off of non-core real estate assets), RdM management was able to reduce the NFP from a debt of around Eu360mn to just Eu127mn.

Looking at 2006, Reno de Medici recorded an improvement of around Eu42mn, net of an extraordinary cash-out related to layoffs of staff in Spain and spin off of real estate activity. Working capital improved impressively, from Eu127mn to Eu104mn.

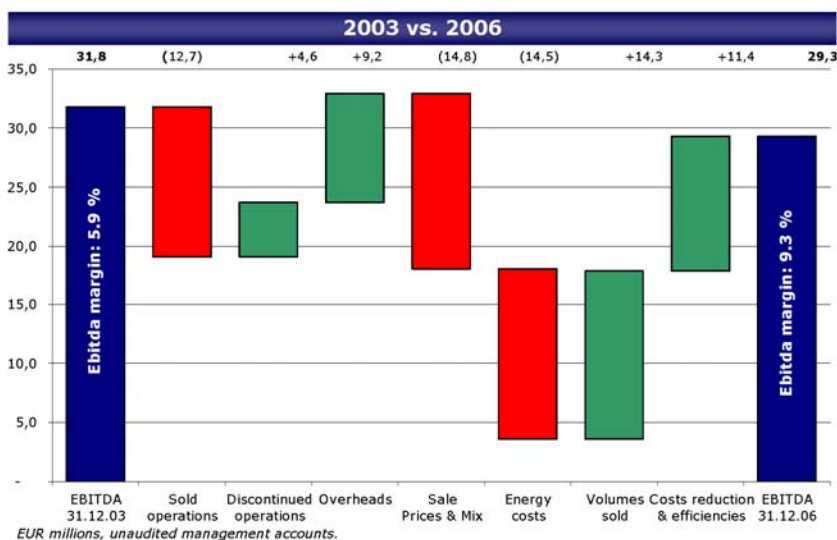


Source: Company Presentation

Restructuring phase complete: EBITDA margin from 5.9% to 9.3%.

The restructuring phase also brought an important effect from a profitability point of view. Management was able to raise profitability from 6% up to 9.3% over the last three years in a very negative environment.

It should be noted that energy costs for RdM rose by almost Eu14mn in 3 years, at a CAGR of 10%. At the same time, the European cardboard sector has faced a worsening net unit sales price, at a rate of -10% in 3 years. Without this price erosion, company EBITDA would have been Eu44mn in 2006.



Source: Company Presentation

Rosier outlook on cardboard prices for 2007

2007 will have a better price mix for the full year, even without considering further improvements in the next few quarters. The average price in 2007 will be much higher than in 2006, which was heavily penalised in the first 2 quarters.

A further price increase should be attempted in the second half of this year.



What we expect for the next two years: EBITDA up to Eu42mn from Eu29mn

Now that the restructuring phase has been completed, we believe that the company still operates at a high level. We do not expect new shocking surprises in energy costs, but we have included a worse scenario in our estimates on raw material costs, which we expect will increase by 7%.

All in all, we have lowered our estimates at EBITDA level for 2007 from Eu44mn to Eu38mn, to incorporate a more conservative scenario. We believe that the company will reach over Eu40mn in EBITDA the year after.

Thanks to carry forward losses, RdM will only pay IRAP taxes, with an effective tax rate under 20% in 2008 and 2009. Net profit should rise to Eu5mn in 2007 and then nearly double (thanks to a strong leverage effect) next year.

Cash generation will be strong. We expect an average free cash flow of around Eu11mn, which means a free cash flow yield of over 6%.

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
PROFIT & LOSS (Eu mn)	Sales	295	314	333	341	350
	EBITDA	28	29	38	40	42
	EBIT	2	6	16	20	23
	Financial income (charges)	(12)	(11)	(8)	(7)	(6)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	(10)	(5)	8	13	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	5	9	14
	Total extraordinary items	(5)	(9)	0	0	0
	Ebitda excl. extraordinary items	28	29	38	40	42
Ebit excl. extraordinary items	2	6	16	20	23	
Net profit restated	(3)	(14)	5	9	14	
PER SHARE DATA (Eu)	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 (%)						
CASH FLOW (Eu mn)	Gross cash flow	14	5	26	29	32
	Change in NWC	26	23	(3)	(3)	(3)
	Capital expenditure	(10)	(11)	(13)	(16)	(16)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	40	28	24	26	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	11	11	13	
BALANCE SHEET (Eu mn)	Total fixed assets	232	216	208	203	201
	Net working capital	127	104	107	110	113
	Long term liabilities	(47)	(38)	(38)	(38)	(38)
	Net capital employed	313	283	277	275	276
	Net financial position	(170)	(127)	(116)	(106)	(92)
	Group equity	143	156	160	170	183
	Minorities	0	0	0	0	0
Net equity	143	156	160	170	183	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	171	171	171	171	171
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(170)	(127)	(116)	(106)	(92)
	Enterprise value	341	298	287	277	263
RATIOS(%)	EBITDA margin*	9.4%	9.2%	11.4%	11.7%	11.9%
	EBIT margin*	0.6%	1.8%	4.9%	5.8%	6.6%
	Gearing - Debt/equity	118.7%	81.7%	72.6%	62.3%	50.4%
	Interest cover on EBIT	0.1	0.5	2.0	2.8	4.1
	Debt/Ebitda	6.11	4.38	3.06	2.64	2.21
	ROCE*	0.5%	1.9%	5.8%	7.2%	8.4%
	ROE*	-8.2%	-12.5%	3.0%	5.6%	7.8%
	EV/CE	1.0	1.0	1.0	1.0	1.0
	EV/Sales	1.2	0.9	0.9	0.8	0.8
	EV/Ebit	nm	nm	17.6	14.0	11.4
Free Cash Flow Yield	23.2%	16.5%	13.9%	15.4%	17.2%	
GROWTH RATES (%)	Sales	-2.2%	6.3%	6.1%	2.5%	2.5%
	EBITDA*	-10.9%	4.3%	31.3%	5.0%	4.4%
	EBIT*	-64.0%	218.0%	191.7%	21.2%	16.2%
	Net profit	nm	nm	nm	93.1%	48.7%
	EPS restated	nm	nm	nm	93.0%	48.7%

* 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 ;
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20.69%	29.89%	38.51%	10.34%	0.57%

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (15 in total) is as follows:

BUY	OUTPERFORM	NEUTRAL	UNDERPERFORM	SELL
33.33%	20.00%	46.67%	0.0%	0.0%

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DETAILS ON STOCK RECOMMENDATION

Stock NAME	RENO DE MEDICI		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	0.70	Previous Target (Eu):	0.70
Current Price (Eu):	0.63	Previous Price (Eu):	0.54
Date of report:	24/04/2007	Date of last report:	14/11/06

Further information is available