

RENO DE MEDICI

NEUTRAL

Price (Eu): **0.12**
 Target Price (Eu): **0.16**

SECTOR: Industrials

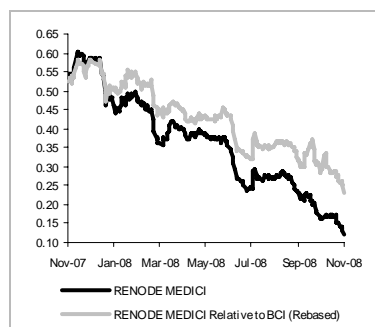
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Economic downturn is the issue, but...

- **Volumes down as expected; prices in a slump as well.** The economic crisis has brought Reno de Medici's volumes down from last year, as we had already been estimating (-11% for FY2008). However, there was also a price war on the market in 3Q started by smaller competitors, which brought gross prices down by 2.5% from 1H08. We have therefore revised our 2008 estimate on the price per ton to Eu536 (1% less than our prior estimate).
- **Margins falling.** An increase in production costs, mainly linked to rising energy prices and to operating leverage effects, has led to a significant decrease in margins: net of Eu17.5mn in one-off components, the EBITDA margin went from 7% in 1H08 to just 1% in 3Q08. Our forecast for 2008 has been revised downwards: we now expect adjusted EBITDA of Eu21.6mn.
- **The company's net debt** rose in Q3 to Eu128mn, mainly due to an increase in working capital. However, this does not present a real risk because indebtedness is expected to decrease over the next couple of years thanks to high cash generation.
- **Sector consolidation: an opportunity not to miss out on.** The recessionary scenario does, however, present an opportunity in the paper sector. In a market where overcapacity has traditionally been a problem, as smaller players exit the scene supply and demand should finally balance out. Furthermore, improved production efficiency is likely to increase profitability in 2009.
- **2009 Outlook.** Visibility for 2009 is very low and the worldwide economic crisis prevents us from espousing a rosy forecast. We project that volumes will decrease by 2% YoY in 2009, but we believe that consolidation in the sector should favour an increase in prices (we estimate +3.2%). In terms of EBITDA, the company will benefit from a reduction in raw material prices, especially energy costs, which have come down from the peaks reached in 3Q08. In addition, the company should reap the benefits of price increases and of the closure of some production lines in order to raise production efficiency. We estimate the overall effect on 2009 margins to be an improvement of around 200bps.
- **NEUTRAL, target price Eu0.16.** We have changed our recommendation as a consequence of the economic downturn. Margins have eroded and working capital has gotten worse, while there is not much visibility on 2009, which is shaping up to be a very difficult year even if it could be ripe with potential. These factors have compelled us to take a cautious view on the stock.

RENO DE MEDICI - 12m Performance



RATING: from OUTPERFORM to NEUTRAL

TARGET PRICE (Eu): from 0.33 to 0.16

Change in EPS est: 2008E 2009E
 0.0% 0.0%

STOCK DATA

Reuters code: RDM.MI
 Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	-29.0%	-55.1%	-77.2%
Relative	-16.4%	-24.2%	-28.8%
12 months H/L:	0.60/0.12		

SHAREHOLDER DATA

No. of Ord. shares (mn): 378
 Total No. of shares (mn): 378
 Mkt Cap Ord (Eu mn): 45
 Total Mkt Cap (Eu mn): 45
 Mkt Float - ord (Eu mn): 27
 Mkt Float (in %): 60.4%
 Main shareholder:
 Cascades 30.6%

BALANCE SHEET DATA

2008
 Book value (Eu mn): 199
 BVPS (Eu): 0.53
 P/BV: 0.2
 Net Financial Position (Eu mn): -128
 Enterprise value (Eu mn): 173

Key Figures	2006A	2007A	2008E	2009E	2010E
Sales (Eu mn)	314	343	478	492	506
Ebitda (Eu mn)	29	29	39	32	40
Net profit (Eu mn)	-18	1	8	0	10
EPS - New (Eu)	-0.05	0.01	-0.02	0.00	0.03
EPS - Old (Eu)	-0.05	0.01	-0.02	0.00	0.03
DPS (Eu)	0.00	0.00	0.00	0.00	0.00

Ratios & Multiples	2006A	2007A	2008E	2009E	2010E
P/E	nm	15.4	nm	nm	4.6
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	5.9	5.5	8.0	5.0	1.1
ROCE	2.0%	4.3%	7.2%	3.4%	6.1%

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RENO DE MEDICI - KEY FIGURES

		2006A	2007A	2008E	2009E	2010E
	Fiscal year end	31/12/2006	31/12/2007	31/12/2008	31/12/2009	31/12/2010
PROFIT & LOSS (Eu mn)	Sales	314	343	478	492	506
	EBITDA	29	29	39	32	40
	EBIT	6	10	20	11	19
	Financial income (charges)	(11)	(8)	(10)	(9)	(7)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	(5)	2	(7)	2	12
	Taxes	(3)	1	(0)	(2)	(2)
	Tax rate (%)	-18.6%	-14.5%	-12.7%		
	Minorities & discontinue activities	0	(0)	(0)	0	0
	Net profit	-18	1	8	0	10
	Total extraordinary items	(9)	(2)	(2)	0	0
	Ebitda excl. extraordinary items	29	29	22	32	40
	Ebit excl. extraordinary items	6	10	3	11	19
Net profit restated	(13)	2	(7)	(0)	10	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	270	270	378	378	378
	EPS stated fd	-0.07	0.00	0.02	0.00	0.03
	EPS restated fd	-0.05	0.01	-0.02	0.00	0.03
	BVPS fd	0.43	0.43	0.53	0.56	0.61
	Dividend per share (ord)	0.00	0.00	0.00	0.00	0.00
	Dividend per share (sav)	0.04	0.00	0.00	0.00	0.00
	Dividend pay out ratio (%)					
CASH FLOW (Eu mn)	Gross cash flow	5	20	26	21	32
	Change in NWC	23	9	(29)	(4)	(3)
	Capital expenditure	(11)	(15)	(17)	(18)	(19)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	28	28	(2)	17	30
	Acquisitions, divestments & others	40	0	7	0	1
	Dividend	0	0	0	0	0
	Equity financing/Buy-back	0	0	0	0	0
	Change in Net Financial Position	43	11	(13)	12	23
BALANCE SHEET (Eu mn)	Total fixed assets	191	190	274	271	271
	Net working capital	104	69	98	102	105
	Long term liabilities	(53)	(28)	(45)	(58)	(73)
	Net capital employed	242	231	327	315	302
	Net financial position	(127)	(115)	(128)	(116)	(93)
	Group equity	116	116	199	199	209
	Minorities	0	0	0	0	0
	Net equity	116	116	199	199	209
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	45	45	45	45	45
	Adjustments (associate & minorities)	0	0	0	0	209
	Net financial position	(127)	(115)	(128)	(116)	(93)
	Enterprise value	172	160	173	161	45
RATIOS(%)	EBITDA margin*	9.2%	8.5%	4.5%	6.5%	7.9%
	EBIT margin*	1.8%	2.9%	0.6%	2.2%	3.7%
	Gearing - Debt/equity	109.5%	98.9%	64.2%	58.1%	44.6%
	Interest cover on EBIT	0.5	1.3	2.0	1.2	2.8
	Debt/Ebitda	4.36	3.95	3.32	3.62	2.33
	ROCE*	2.0%	4.3%	7.2%	3.4%	6.1%
	ROE*	-14.2%	0.7%	5.0%	-0.1%	4.8%
	EV/CE	0.6	0.7	0.6	0.5	0.1
	EV/Sales	0.5	0.5	0.4	0.3	0.1
	EV/Ebit	30.6	15.9	nm	14.7	2.4
	Free Cash Flow Yield	63.0%	62.9%	-4.7%	36.6%	-18.3%
GROWTH RATES (%)	Sales	6.3%	9.1%	39.5%	3.0%	2.7%
	EBITDA*	4.4%	0.5%	-26.0%	48.2%	25.1%
	EBIT*	218.7%	79.5%	-69.7%	258.2%	73.1%
	Net profit	nm	nm	848.0%	nm	nm
	EPS restated	nm	nm	nm	nm	nm

* Excluding extraordinary items

Source: Intermonte SIM estimates

Implicit Estimates for the Last Three Months

The last three months of the year will remain difficult for Reno. Sales are forecast to decrease on a like-for-like basis by 16.8% as a consequence of a reduction in volumes.

As announced in the latest press release, the company is reducing production. This, in conjunction with a decrease in raw material costs (for energy and recycled paper) will guarantee lower total production costs and most likely lead to an improvement in profitability. The EBITDA margin is expected to be around 3% net of non-recurring items connected to the goodwill adjustment of around Eu17.5mn.

	9M (actual)				implicit 3 M (estimates)				Year end (estimates)			
	Total RdM		Cascades	RdM	Total RdM		Cascades	RdM	Total RdM		Cascades	RdM
	9M 2007 A	9M 2008 A	9M 2008 A	9M 2008 A	4QA 2007	4QE 2008	4QA 2007	4QE 2008	2007 A	2008 E	2008 E	2008 E
Sales	259.5	361.70	116.6	245.10	83.0	116.2	47.1	69.1	342.5	477.9	163.7	314.2
Yoy Growth				-6%		40.0%		-16.8%		39.5%		-8.3%
EBITDA	22.8	35.1			6.3	3.5			29.1	38.6		
EBITDA adj	22.8	18.1			6.3	3.5	4.3	0.4	29.1	21.6	7.6	14.0
Margin %	8.8%	5.0%			7.6%	3.0%	9.0%	0.6%	8.5%	4.5%	4.6%	4.5%
Yoy Growth		-21%						-93.8%		-26.0%		-52.0%
EBIT	8.614	20.6			1.5	-0.5			10.1	20.1		
EBIT adj	8.61	3.6			1.5	-0.5			10.1	3.1		
Margin %					1.8%	-0.4%			2.9%	0.6%		
Yoy Growth												
Pre Tax	1.9	11.256			0.6	-1.2			2.5	10.1		
Yoy Growth												
Pre Tax adj	1.90	-5.7			0.6	-1.2			2.5	-6.9		
Yoy Growth												
Tax	-1.4	-3.3			2.2	3.1			0.8	-0.2		
Disposed operations	-0.9	-1.7			-1.3	0.0			-2.1	-1.7		
Minorities					-0.3	-0.2			-0.3	-0.2		
NP	-0.4	6.2			1.2	1.7			0.8	8.0		
Yoy Growth												
NP adj	-0.4	-10.8			1.2	3.4			0.8	-7.3		
NFP									-115.1	-127.9		
	Total RdM		Cascades	RdM	Total RdM		Cascades	RdM	Total RdM		Cascades	RdM
	9M 2007 A	9M 2008 A	9M 2008 A	9M 2008 A	4QA 2007	4QE 2008	4QA 2007	4QE 2008	2007 A	2008 E	2008 E	2008 E
Volumi	508.0	675.0	209.0	466.0	156.0	215.6	96.0	119.6	664.0	890.6	305.0	585.6
		32.9%		-8.3%		38.2%		-23.3%		34.1%		-11.8%
Price per Tonn (eur)	510.8	535.9	557.9	526.0					515.8	536.6	546.7	536.4
		4.9%		3.0%						4.0%		4.0%

SHORT SALES: CONSOB EXTENDED THE PROHIBITION TO 31TH DECEMBER 2008 (PRESS RELEASE DATED 29TH OCTOBER 2008)

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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: 21.19%
NEUTRAL: 39.06%
UNDERPERFORM: 11.26%
SELL: 1.99%

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SELL: 0.0%

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DETAILS ON STOCK RECOMMENDATION

Stock NAME	RENO DE MEDICI		
Current Recomm:	NEUTRAL	Previous Recomm:	OUTPERFORM
Current Target (Eu):	0.16	Previous Target (Eu):	0.33
Current Price (Eu):	0.12	Previous Price (Eu):	0.22
Date of report:	24/11/2008	Date of last report:	26/09/08

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Further information is available