

RENO DE MEDICI

NEUTRAL

Price (Eu): 0.25
Target Price (Eu): 0.27

SECTOR: Industrial

Carlo Barracchia

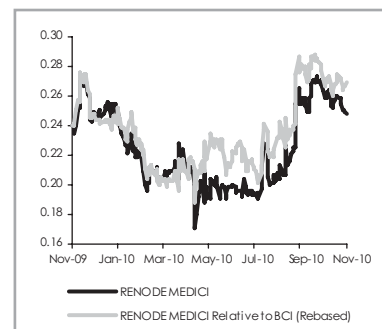
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Sound Cash Production

- **Good margins confirmed in 3Q.** Reno De Medici's third quarter sales stood at Eu125.2mn, +19.8% YoY (9M: Eu366.8mn, +15.1% YoY). Volumes increased by 5.6% YoY in the quarter, reaching 701,000 tonnes (+10.6% YoY) in 9M. Thanks to positive operating leverage and an average increase of 13.5% in product prices, Reno De Medici obtained a sound recovery in profitability, replicating the good result obtained in 2Q. EBITDA stood at Eu10.0mn, or 8% of sales (from 8.7% in 2Q and 6.2% in 1Q), showing 53% YoY growth. 9M EBITDA stood at Eu28.0mn (+14% YoY). EBIT was Eu3.9mn in 3Q as depreciations were stable at Eu6mn. The company reported a positive net result of Eu0.6mn, compared to a net loss of Eu2.8mn in 3Q09.
- **Sale price increases are working well, but raw material prices remain an issue.** In the first 9 months, Reno e Medici was able to pass on sizeable price increases. Since the beginning of the year, the average selling price has gone from Eu492 in Q1 to Eu552 per tonne (the 9M average is Eu523). We estimate that 2011 will begin with an average price of Eu560/tonne, which assuming volumes remain stable, would theoretically translate into Eu25mn of extra EBITDA. This effect will be almost entirely offset by the sharp rise which started in 2Q and has continued. We estimate an overall negative effect of Eu15mn, which combined with further energy inflation, will bring the actual EBITDA improvement down to Eu4mn in 2011.
- **Estimates revised upwards estimates 2010/2011.** All in all, we have revised slightly upwards our EBITDA from 39.1 to 39.6 mn in 2010 and from 43 to 43.7mn in 2011 (EPS +6.2%). For 2011, we have raised our EBITDA forecast by Eu1mn and EPS by 3%.
- **Recovery underway.** Reno De Medici is moving forward with a solid turnaround, although visibility is still low due to the risk of further sharp increases in raw material and energy prices. Market valuations are quite safe, with P/BV at 0.6x, especially given that the debt/EBITDA ratio is expected to go down to 2.5x in 2011. We have raised our target price to Eu0.27 per share, based on an EV/ROACE valuation on 2012 estimates. We confirm our NEUTRAL rating on the stock.

Reno de Medici- 12m Performance



Source: FactSet Partners

RATING: Unchanged

TARGET PRICE (Eu): from 0.25 to 0.27

Change in EPS est:	2010E	2011E
	6.2%	3.0%

STOCK DATA

Reuters code: RDM.MI
Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	-6.1%	19.2%	3.3%
Relative	-1.0%	16.4%	11.2%
12 months H/L:	0.28/0.17		

SHAREHOLDER DATA

No. of Ord. shares (mn):	378
Total No. of shares (mn):	378
Mkt Cap Ord (Eu mn):	94
Total Mkt Cap (Eu mn):	94
Mkt Float - ord (Eu mn):	42
Mkt Float (in %):	41.6%
Main shareholder:	
Cascades	38.4%

BALANCE SHEET DATA

	2010
Book value (Eu mn):	157
BVPS (Eu):	0.42
P/BV:	0.6
Net Financial Position (Eu mn):	-115
Enterprise value (Eu mn):	208

Key Figures	2008A	2009A	2010E	2011E	2012E
Sales (Eu mn)	451	428	501	541	552
Ebitda (Eu mn)	41	31	40	44	46
Net profit (Eu mn)	-6	-7	3	5	7
EPS - New (Eu)	0.00	-0.03	0.01	0.01	0.02
EPS - Old (Eu)	0.01	-0.03	0.00	0.01	0.02
DPS (Eu)	0.00	0.00	0.00	0.00	0.00
Ratios & Multiples	2008A	2009A	2010E	2011E	2012E
P/E	nm	nm	36.8	17.2	13.8
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	11.3	7.2	5.3	4.7	4.2
ROCE	5.5%	1.3%	4.7%	5.9%	6.2%

RENO DE MEDICI - KEY FIGURES

		2008A	2009A	2010E	2011E	2012E
	Fiscal year end	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012
PROFIT & LOSS (Eu mn)	Sales	451	428	501	541	552
	EBITDA	40	31	40	44	46
	EBIT	14	4	13	16	17
	Financial income (charges)	(10)	(9)	(8)	(7)	(6)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	(18)	(5)	5	9	11
	Taxes	(2)	(1)	(2)	(3)	(3)
	Tax rate (%)	11.9%	24.6%	-40.4%	-29.5%	-25.3%
	Minorities & discontinue activities	(0)	(0)	(1)	(1)	(2)
	Net profit	-6	-7	3	5	7
	Total extraordinary items	(7)	0	0	0	0
	Ebitda excl. extraordinary items	40	31	40	44	46
PER SHARE DATA (Eu)	Ebit excl. extraordinary items	14	4	13	16	17
	Net profit restated	(0)	(7)	3	5	7
	Total shares out (mn) - average fd	377	377	378	378	378
	EPS stated fd	-0.02	-0.03	0.01	0.01	0.02
	EPS restated fd	0.00	-0.03	0.01	0.01	0.02
	BVPS fd	0.60	0.58	0.42	0.43	0.45
	Dividend per share (ord)	0.00	0.00	0.00	0.00	0.00
CASH FLOW (Eu mn)	Dividend per share (sav)	0.00	0.00	0.00	0.00	0.00
	Dividend pay out ratio (%)					
	Gross cash flow	19	20	29	33	35
	Change in NWC	(18)	6	(0)	(10)	(3)
	Capital expenditure	(17)	(22)	(13)	(20)	(23)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	0	21	29	23	32
	Acquisitions, divestments & others	4	(5)	0	0	0
BALANCE SHEET (Eu mn)	Dividend	0	0	0	0	0
	Equity financing/Buy-back	0	0	0	0	0
	Change in Net Financial Position	(14)	(2)	17	4	11
	Total fixed assets	271	266	253	247	246
	Net working capital	88	82	82	92	96
	Long term liabilities	(68)	(63)	(64)	(66)	(73)
	Net capital employed	290	286	272	273	269
	Net financial position	(129)	(131)	(115)	(111)	(99)
ENTERPRISE VALUE (Eu mn)	Group equity	161	155	157	163	170
	Minorities	0	0	0	0	1
	Net equity	161	155	157	163	171
	Average mkt cap - current	93	93	93	93	93
RATIOS(%)	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(129)	(131)	(115)	(111)	(99)
	Enterprise value	222	223	207	203	192
GROWTH RATES (%)	EBITDA margin*	8.9%	7.2%	7.9%	8.1%	8.2%
	EBIT margin*	3.0%	0.9%	2.6%	3.0%	3.1%
	Gearing - Debt/equity	80.3%	84.5%	73.0%	67.9%	58.6%
	Interest cover on EBIT	1.4	0.4	1.7	2.3	2.9
	Debt/Ebitda	3.21	4.22	2.90	2.53	2.18
	ROCE*	5.2%	1.3%	4.7%	6.0%	6.4%
	ROE*	-4.6%	-4.4%	1.6%	3.4%	4.1%
	EV/CE	0.9	0.8	0.7	0.7	0.7
	EV/Sales	0.5	0.5	0.4	0.4	0.3
	EV/Ebit	nm	nm	15.8	12.4	10.5
	Free Cash Flow Yield	0.3%	22.3%	31.1%	24.8%	34.3%
GROWTH RATES (%)	Sales	31.7%	-5.1%	17.0%	8.1%	2.0%
	EBITDA*	36.1%	-23.1%	27.8%	10.3%	4.1%
	EBIT*	28.4%	-72.1%	245.9%	25.0%	4.9%
	Net profit	nm	nm	nm	114.2%	24.6%
	EPS restated	nm	nm	nm	114.2%	24.6%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Good margins confirmed in 3Q thanks to cardboard price increase

Reno De Medici's third quarter sales stood at Eu125.2mn, +19.7% YoY (9M: Eu366.8mn, +15.1% YoY). Volumes increased by 5.6% YoY in the quarter, reaching 701,000 tonnes (+10.6% YoY) in 9M. Order volumes were above expectations: the slight growth in industrial demand in Europe appears to have been caused by a rebuilding of stocks and, in certain countries, also by a pick-up in consumption. Average cardboard sale prices rose 13.5% to Eu552/tonne; these sale price increases have enabled the company to recuperate the considerable rise in the price of recycled fibre registered in the first few months of the year.

Energy prices showed a slightly upward tendency, driven by higher oil prices and, moreover, the appreciation of the dollar, despite the fact that demand remains low. On the raw material front on the other hand, recycled pulp prices have shown a strong inflationary trend since 1Q, due to strong demand from the Far East.

Thanks to positive operating leverage and an average increase in product prices, Reno De Medici obtained a sound recovery in profitability, replicating the good result obtained in 2Q. EBITDA stood at Eu10.0mn, or 8% of sales (from 8.7% in 2Q and 6.2% in 1Q), showing 53% YoY growth. 9M EBITDA stood at Eu28.0mn (+14% YoY). EBIT was Eu4mn in 3Q as depreciations were stable at Eu6mn. The company reported a positive net result of Eu0.6mn, compared to a net loss of Eu2.8mn in 3Q09.

Reno De Medici - Q3 2010 Results

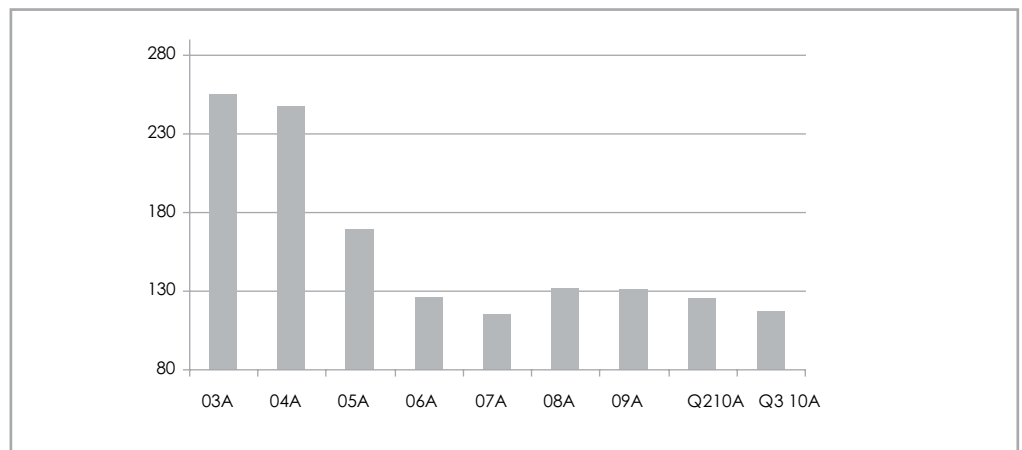
(Eu mn)	Q1 09 A	Q2 09 A	Q3 09 A	Q4 09 A	09 A	Q1 10 A	Q2 2010 A	Q3 10 A	Q4 10 E	10E
Sales	108.4	105.7	104.5	109.5	428.1	115.1	126.5	125.2	134.1	500.9
Yoy Growth	4.7%	-22.4%	-12.4%	19.0%	-5.1%	6.2%	19.7%	19.8%	22.4%	17.0%
Volumes	210.0	209.0	215.0	230.0	864.0	234.0	240.0	227.0	240.8	941.8
Yoy Growth					-2.8%	11.4%	14.8%	5.6%	6.1%	9.0%
Average Selling Price	0.516	0.506	0.486	0.476	0.5	0.492	0.527	0.552	0.557	0.532
Other Revenues	4.2	5.1	5.1	5.0	19.3	4.5	3.1	2.8	2.9	13.3
Cost of Raw Materials & Services	-84.3	-80.6	-83.2	-85.5	-333.6	-91.8	-97.2	-97.2	-103.9	-390.0
	-77.8%	-76.2%	-79.6%	-78.1%	-77.9%	-79.8%	-76.8%	-77.6%	-77.5%	-77.9%
Labour Costs	-18.4	-19.6	20.7	-20.6	-76.9	-19.3	-20.3	-19.7	-20.0	-79.3
Other Operating	-1.2	-1.1	1.9	-1.9	-5.8	-1.4	-1.1	-1.2	-1.4	-5.2
EBITDA ADJ	8.6	9.4	6.5	6.5	31.0	7.1	11.0	10.0	11.6	39.6
Margin %	8.0%	8.9%	-6.2%	5.9%	7.2%	6.2%	8.7%	8.0%	8.7%	7.9%
Yoy Growth					-22.5%	-18.0%	16.8%	53.1%	78.8%	27.8%
Depreciations	-6.4	-6.4	-7.1	-6.7	-26.7	-6.7	-6.7	-6.1	-7.0	-26.5
Right offs	0.0	-0.5	0.0	-0.1	-0.6	0.0	0.0	0.0	0.0	0.0
EBIT	2.3	2.5	-0.6	-0.3	3.8	0.3	4.3	3.9	4.7	13.1
Financials	-2.5	-1.9	-2.1	-2.6	-9.1	-1.9	-0.8	-2.7	-2.3	-7.7
Pre Tax	-0.2	0.6	-2.7	-3.0	-5.3	-1.6	3.5	1.2	2.4	5.4
Taxes	-0.8	-0.3	0.0	-0.2	-1.3	-0.3	-0.7	-0.5	-0.7	-2.2
Minorities	-0.1	-0.1	-0.1	-0.1	-0.4	-0.2	-0.2	-0.1	-0.2	-0.7
Net Result	-1.1	0.3	-2.8	-3.3	-6.9	-2.1	2.6	0.6	1.5	2.5

Source: Intermonte SIM

Deleveraging: Eu7.6mn cash generated in the quarter helped reduce debt

Reno De Medici generated Eu7.6mn cash in the quarter (Eu20.9mn in 9M) to bring net debt down to Eu110mn. The cash was produced thanks a sound improvement in working capital management, which moved from Eu80.5mn to Eu77.4mn (a Eu3mn improvement).

NFP Evolution



Source: Intermonte SIM Estimates

Outlook for operations

Reno De Medici announced a new price increase. The company made the following statement regarding the market outlook in its financial statements:

"Trends in sales prices and the main cost items, but above all the high order backlog held by Group companies, allow us to expect to see a positive fourth quarter and one that is in line with the previous quarters. The recently announced increase in sales prices for deliveries from 15 October should neutralise any additional increases in the cost of certain types of recycled fibre, while energy costs appear stable. As a consequence, projected results for the whole of 2010 appear positive in terms of both revenues and earnings and represent a considerable improvement over the previous year. It is though complex to make a forecast for the long term as this is closely linked to the level of demand at European level".

Sale prices increases are working well, but raw material prices remain an issue

In the first 9 months, Reno De Medici was able to pass substantial price increase onto clients. As shown in the table below, the average selling price of cardboard went from Eu476/tonne in 4Q09 to Eu552 last quarter, a Eu35 or 9% increase. RdM achieved a Eu70/tonne improvement YoY and a Eu25/tonne QoQ improvement.

The effect of higher selling prices on EBITDA was about Eu15mn on year-on-year basis in 3Q. This effect will be even stronger in 4Q, as the comparison will be easier: the average selling price should be Eu80 higher, leading to Eu18.6mn of extra EBITDA. The entry point in 2011 will be above Eu560 per tonne (without factoring in any new increases), compared to an expected 2010 average of Eu530.

Reno De Medici - Sensitivity

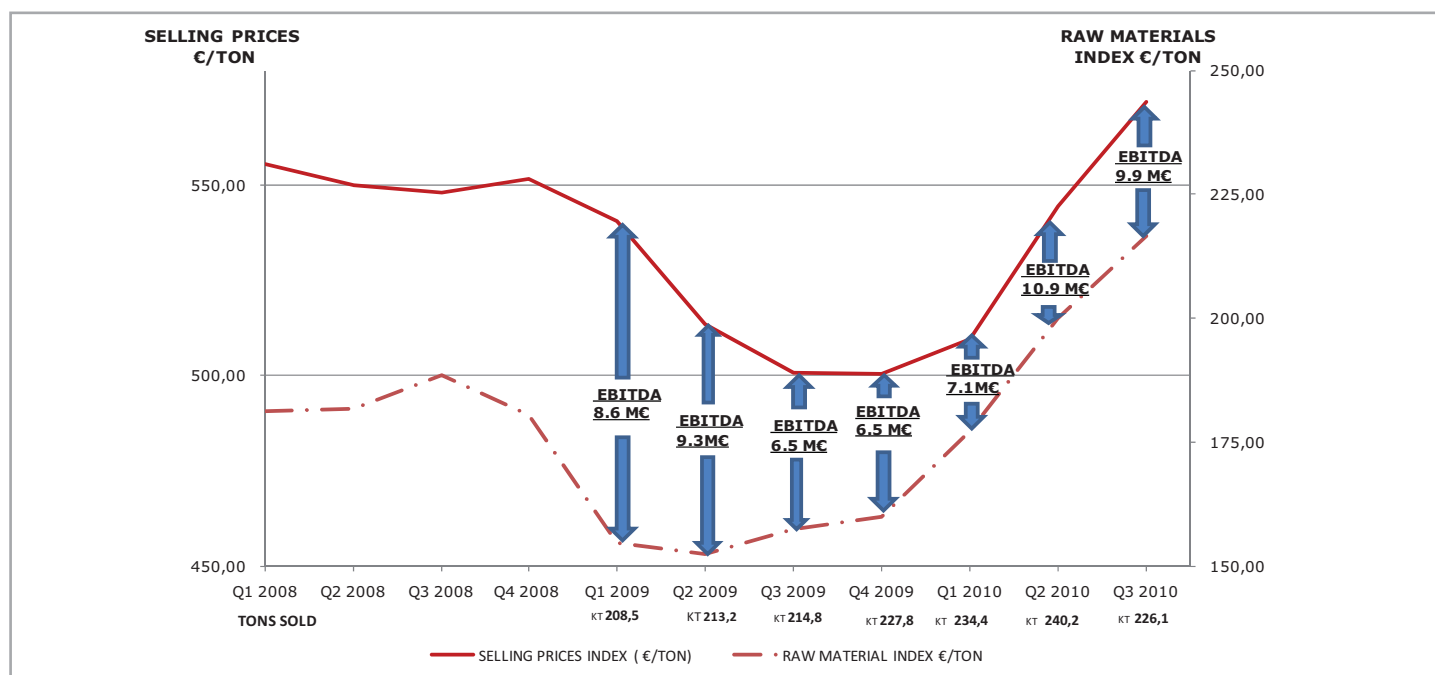
	Q1 09 A	Q2 09 A	Q3 09 A	Q4 09A	Q1 10 A	Q2 10 A	Q3 10 A	Q4 10 E
Avg. selling price (Eu per tonn.)	516	506	486	476	492	527	552	557
Delta Price (Eu per Tonnes)	-20	-32	-35	50	-24	21	66	81
Impact on Ebitda (mn Eu)	-4.2	-6.7	-7.5	11.5	-20.9	4.9	15.7	18.4

Source: Intermonte SIM

Part of the price increases have been set by all the main players in the industry in order to offset a new wave of strong raw material price increases this year. The main raw material used by Reno De Medici is recycled cardboard. In 2010, recycled paper materials started to rise due to new demand from the Far East, with continued sequential increases through 3Q.

Therefore, as we have seen in the case of the selling price of finished cardboard products, the entry point of raw material costs will be much higher in 2011 than the average price in 2010.

Raw Materials Increase



Source: Company Presentation

We are estimating a further increase in raw material prices of around 8% to Eu230/tonne in 2011. As for energy costs, we are only incorporating a slight increase. As a result, our FY10 EBITDA estimate is now Eu39.6mn, implying Eu11.6mn in 4Q. For 2011, we estimate sales will grow 6%, thanks mainly to a 4% increase in the average cardboard product sale price to Eu560 per tonne. We assume that depreciations and interest charges will be flat in 2011, allowing operating leverage to bring net profit up from Eu2.5mn to Eu5.5mn.

Reno De Medici - P&L

(Eu mn)	2007A	2008A	2009A	2010E	2011E	2012E
Sales	342.5	451.1	428.1	500.9	541.4	552.3
YoY growth	9.1%	31.7%	-5.1%	17.0%	8.1%	2.0%
EBITDA Adj	29.6	19.1	31.0	39.6	43.7	45.5
Ebitda margin	8.7%	4.2%	7.2%	7.9%	8.1%	8.2%
Total D&A	(19.0)	(26.7)	(27.3)	(26.5)	(27.3)	(28.3)
EBIT Adj.	10.6	-7.6	3.8	13.1	16.4	17.2
Ebit margin	3.1%	-1.7%	0.9%	2.6%	3.0%	3.1%
Net financ. & Particip.	(7.6)	(11.7)	(9.1)	(7.7)	(7.0)	(6.0)
Pre tax profit	3.0	1.9	-5.3	5.4	9.4	11.2
Taxes	0.8	(2.1)	(1.3)	(2.2)	(2.8)	(2.8)
Tax Rate	nm	-81.0%	24.6%	-40.4%	-29.5%	-25.3%
Minorities & Discontinued Operations	(2.4)	(7.0)	(0.4)	(0.7)	(1.2)	(1.6)
Group Net Profit	1.4	-6.4	-6.9	2.5	5.5	6.8

Source: Intermonte SIM

Deleverage on the way

Thanks a constant improvement in working capital management, Reno De Medici has been able to continue to reduce its debt. We expect a net financial position of Eu-114 mn at the end of this year and Eu-110mn for YE2011. The debt/EBITDA ratio is now estimated at a safer 2.8x in 2010 and 2.5x in 2011.

Reno De Medici - Cash Flow

(Eu mn)	2007A	2008A	2009A	2010E	2011E	2012E
Net Income	1.7	-6.2	-6.5	3.2	6.7	8.4
Depreciation and Amortization	18.4	25.0	26.7	26.5	27.3	28.3
Other non-cash items	0.0	0.0	0.0	0.0	0.0	1.0
Gross Operating Cash Flow	20.1	18.8	20.2	29.7	34.0	36.7
Change in NWC	8.5	(18.4)	5.5	(0.2)	(9.8)	(3.4)
Capex	(17.8)	(16.9)	(22.0)	(13.0)	(20.0)	(23.1)
Change in financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	(4.7)	0.0	0.0	0.0
Share Capital Increase	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	(1.0)	0.0	0.0	0.0
Net Cash Flow	10.8	(13.5)	(2.0)	16.5	4.2	12.2
Initial Net Financial Position	(126.6)	(115.8)	(129.3)	(131.3)	(114.8)	(110.6)
Final Net Financial Position	(115.8)	(129.3)	(131.3)	(114.8)	(110.6)	(98.3)

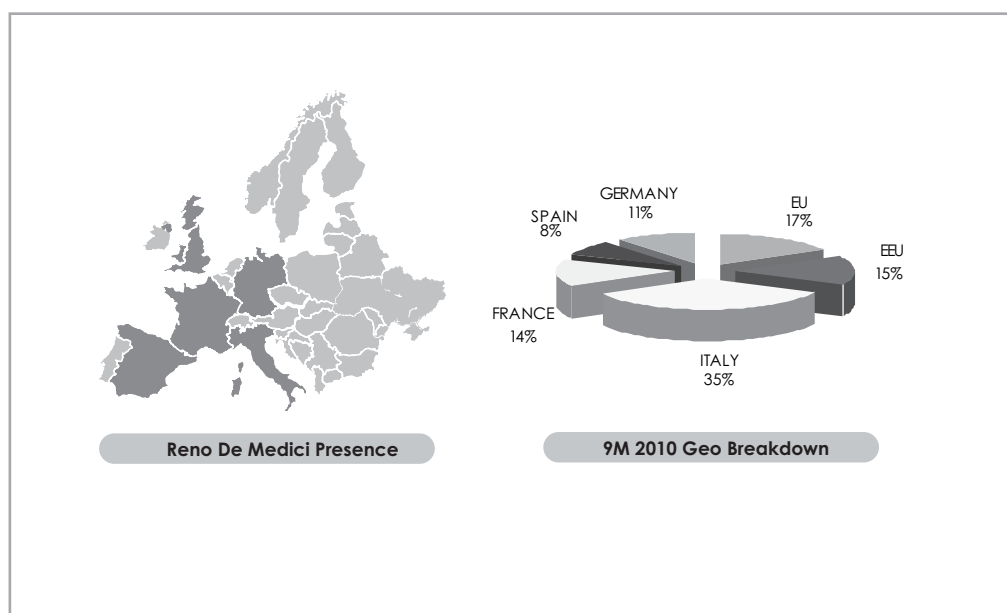
Source: Intermonte SIM

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 today with 35% 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. Today Reno De Medici has an European exposure, with Italy accounting for just 35% of sales.

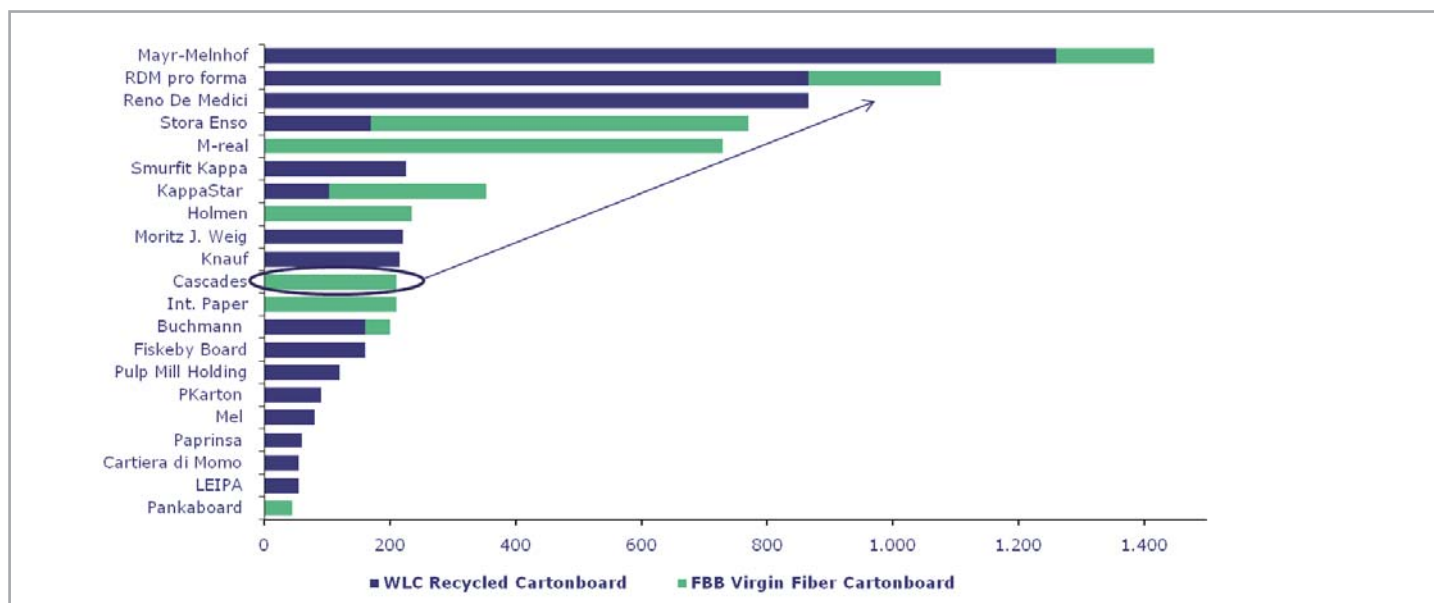
A Pan-eEuropean Player



Source: Company data

As of today RdM has become the second largest cartonboard operator in Europe, after Mayr Melnhof with an overall capacity above 800k ton.

European Players

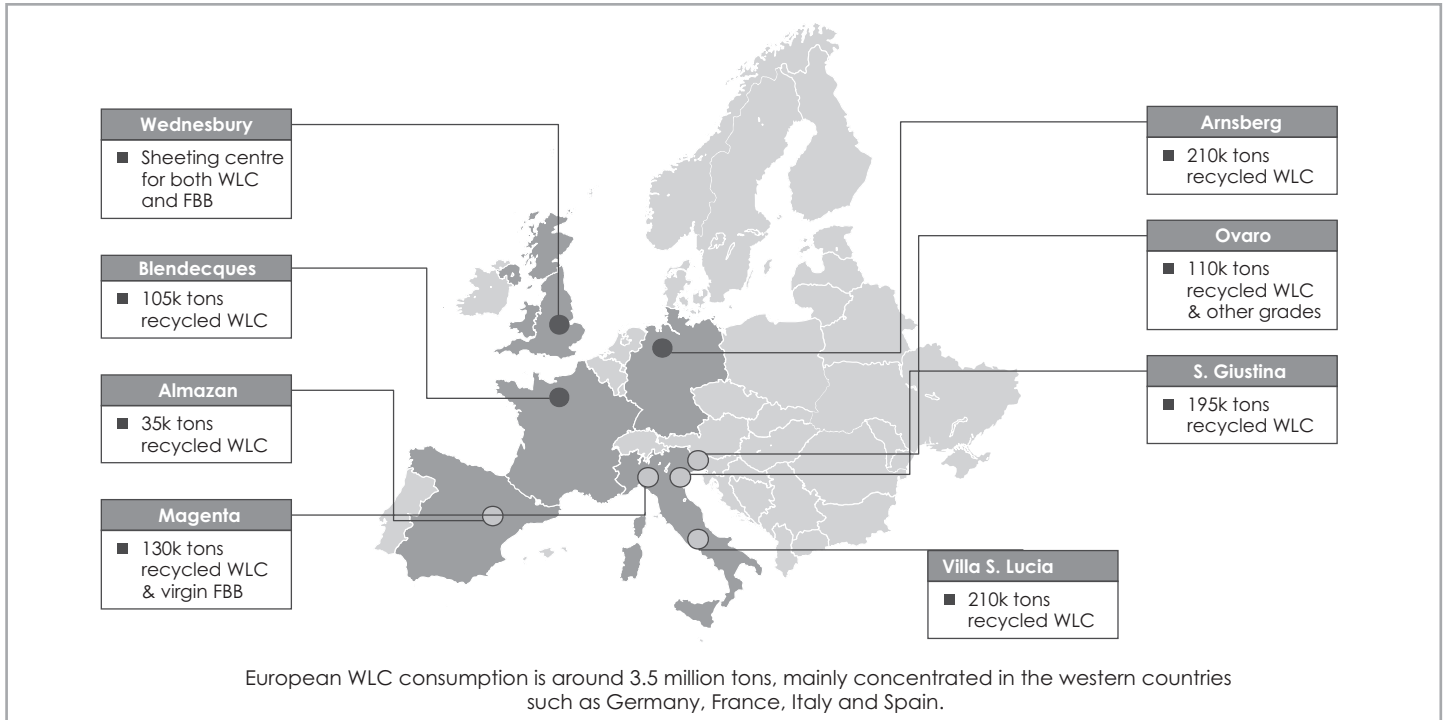


Source: Company data

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: Company data

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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.

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NEUTRAL: 32.99%

UNDERPERFORM: 9.17%

SELL: 1.67%

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (30 in total) is as follows:

BUY: 30.0%

OUTPERFORM: 13.33%

NEUTRAL: 56.67%

UNDERPERFORM: 0.00%

SELL: 0.00%

CONFLICT OF INTEREST

In order to disclose its possible conflicts of interest Intermonte SIM states that:

- within the last year, Intermonte SIM managed or co-managed/is managing or is co-managing (see companies indicated in bold type) an Institutional Offering of the securities of the following Companies: **ENEL Green Power**, TBS Group;
- Intermonte SIM is Specialist and/or Corporate Broker and/or Broker in charge of the share buy back activity of the following Companies: Biancamano, B&C Speakers, Buongiorno, Carraro, Cementir, Cogeme, Datalogic, DeA Capital, Digital Bros, Dmail, EEMS, Eurotech, Fiera Milano, Fintel Energia Group, Gefran, IGD, IW Bank, Meridie, M&C Management e Capitali, Pierrel, QF Alpha Immobiliare, QF Beta Immobiliare, Reno de Medici, Reply, Saes Getters, Servizi Italia, TBS Group, Ternienergia, Vittoria Assicurazioni, VR Way.
- 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: Cattolica Assicurazioni.

DETAILS ON STOCK RECOMMENDATION

Stock	RENO DE MEDICI		
Current Recomm:	NEUTRAL	Previous Recomm:	NEUTRAL
Current Target (Eu):	0.27	Previous Target (Eu):	0.25
Current Price (Eu):	0.25	Previous Price (Eu):	0.22
Date of Report:	25/11/10	Date of Last Report:	11/08/10

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