

RENO DE MEDICI

NEUTRAL

Price (Eu): **0.12**

Target Price (Eu): **0.15**

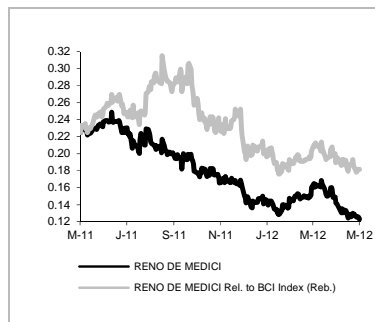
SECTOR: Industrials

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2H12 Should Be Better But Uncertainty Remains High

- Quarterly results show first signs of improvements.** Reno de Medici reported sales of Eu116.6mn in 1Q12, (-15.6% YoY and +3.9% QoQ), below our estimates due to lower volumes. Indeed, volumes sold decreased to 209,000 tons, (-13.3% YoY and +3.0% QoQ) as de-stocking effects ended in 4Q11 and demand stabilised in 1Q12, albeit at a lower level than in 1H11. The average sales price (ASP) was Eu558 per ton in 1Q12, down 2.6% YoY and up 0.9% QoQ: prices for recycled fibres, chemicals and energy remained high in the quarter. As a result EBITDA decreased 35.6% YoY to Eu7.2mn, coming out in line with our estimate (Eu7.1mn). The EBITDA margin was equal to 6.2%, down 190bps YoY but up 150bps QoQ and above our estimate. Finally, Reno de Medici reported a net loss of Eu2.2mn in 1Q12, below our estimates, due to losses from investments and negative tax income.
- Seasonality impacted deleverage.** Following several quarters of positive cash generation, in 1Q12 Reno de Medici's net debt increased to Eu95.5mn from Eu86.6mn at the end of 4Q11, as a result of lower payables. We were expecting the net debt to remain basically unchanged at Eu88.0mn.
- 2012 outlook: demand recovery awaiting confirmation.** As of today, Reno de Medici is unable to call a demand recovery, even though the slump caused by de-stocking seems to have come to an end and order flows returned to normal levels. Looking at input costs, the price of pulp and chemicals have stabilised while energy is still on an upward trend: Reno De Medici announced an increase in the sales price as of May that should bear fruit in 2H12.
- Sales and EBITDA estimates lowered for 2012.** We have lowered our FY12 sales volume assumption by 5.0% to 834,000 tons. Our ASP estimate of Eu578 per ton is unchanged. As a result, 2012 sales are now forecast to be Eu481.7mn, down 5.0% YoY. EBITDA is expected to grow by 17.5% in 2012 to Eu35.3mn, with the margin up 140bps YoY to 7.3%, as the sales price increase should lead to a positive EBITDA spread in 2H12. At the bottom line, the company should report a positive, even if marginal, net profit. Net debt is likely to move back to the level reached at the end of 2011 (approx. Eu90mn). Our 2013 estimates remain basically unchanged.
- We remain NEUTRAL, target cut to Eu0.15 per share.** In our opinion, it is still too early to upgrade the stock, as the macroeconomic scenario remains highly uncertain. The comparison base will be tough in 1H12 and will ease only in 2H12. Downside is limited, however, by management's successful track record in reducing leverage and by its commitment to keeping profitability at a satisfactory level through the cycle (output and price discipline) with capital employed remaining strictly under control.

RENO DE MEDICI - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 0.21 to 0.15

Change in EPS est:

	2012E	2013E
	-59.8%	-6.4%

STOCK DATA

Reuters code: RDM.MI
Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	-12.8%	-14.6%	-45.3%
Relative	-5.6%	-3.2%	-13.4%
12 months H/L:	0.25/0.12		

SHAREHOLDER DATA

No. of Ord. shares (mn):	378
Total No. of shares (mn):	378
Mkt Cap Ord (Eu mn):	46
Total Mkt Cap (Eu mn):	46
Mkt Float - ord (Eu mn):	19
Mkt Float (in %):	40.0%
Main shareholder:	
Cascades	40.0%

BALANCE SHEET DATA

	2012
Book value (Eu mn):	155
BVPS (Eu):	0.41
P/BV:	0.3
Net Financial Position (Eu mn):	-87
Enterprise value (Eu mn):	134

Key Figures	2010A	2011A	2012E	2013E	2014E
Sales (Eu mn)	504	507	482	525	546
Ebitda (Eu mn)	40	30	35	41	44
Net profit (Eu mn)	1	-2	1	4	7
EPS - New (Eu)	0.004	-0.007	0.002	0.011	0.017
EPS - Old (Eu)	0.004	-0.007	0.004	0.012	0.011
DPS (Eu)	0.000	0.000	0.000	0.000	0.000

Ratios & Multiples	2010A	2011A	2012E	2013E	2014E
P/E	34.0	nm	70.7	10.9	7.0
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	3.8	4.4	3.8	2.9	2.5
ROCE	4.4%	0.9%	3.4%	5.7%	7.5%

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RENO DE MEDICI - KEY FIGURES

	2010A	2011A	2012E	2013E	2014E	
	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	
Fiscal year end						
PROFIT & LOSS (Eu mn)	Sales	504	507	482	525	546
	EBITDA	40	30	35	41	44
	EBIT	12	2	8	14	17
	Financial income (charges)	(7)	(8)	(6)	(6)	(5)
	Associates & Others	0	0	0	0	1
	Pre-tax profit (Loss)	5	(6)	2	8	13
	Taxes	(3)	4	0	(2)	(5)
	Tax rate (%)	-63.5%	-65.5%	0.0%	-31.5%	-39.4%
	Minorities & discontinue activities	(1)	(0)	(1)	(1)	(1)
	Net profit	1	-2	1	4	7
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	40	30	35	41	44
	Ebit excl. extraordinary items	12	2	8	14	17
	Net profit restated	1	(2)	1	4	7
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	378	378	378	378	378
	EPS stated fd	0.004	-0.007	0.002	0.011	0.017
	EPS restated fd	0.004	-0.007	0.002	0.011	0.017
	BVPS fd	0.414	0.406	0.408	0.419	0.437
	Dividend per share (ord)	0.000	0.000	0.000	0.000	0.000
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)					
CASH FLOW (Eu mn)	Gross cash flow	29	25	28	31	34
	Change in NWC	6	28	(14)	(2)	(7)
	Capital expenditure	(16)	(23)	(15)	(16)	(17)
	Other cash items	0	0	0	0	1
	Free cash flow (FCF)	20	31	(1)	14	10
	Acquisitions, divestments & others	(0)	0	0	0	0
	Dividend	0	0	0	0	0
	Equity financing/Buy-back	0	0	0	0	0
	Change in Net Financial Position	24	20	(1)	14	11
BALANCE SHEET (Eu mn)	Total fixed assets	257	252	242	233	226
	Net working capital	76	48	62	63	70
	Long term liabilities	(70)	(60)	(62)	(65)	(68)
	Net capital employed	263	240	241	232	227
	Net financial position	(106)	(87)	(87)	(73)	(62)
	Group equity	157	153	154	158	165
	Minorities	1	1	1	1	1
	Net equity	158	154	155	159	166
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	46	46	46	46	46
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(106)	(87)	(87)	(73)	(62)
	Enterprise value	153	133	134	120	109
RATIOS(%)	EBITDA margin*	7.9%	5.9%	7.3%	7.8%	8.1%
	EBIT margin*	2.4%	0.4%	1.7%	2.6%	3.2%
	Gearing - Debt/equity	68.0%	56.4%	56.7%	46.3%	37.9%
	Interest cover on EBIT	1.7	0.3	1.3	2.3	3.7
	Debt/Ebitda	2.66	2.88	2.47	1.80	1.41
	ROCE*	4.4%	0.9%	3.4%	5.7%	7.5%
	ROE*	0.9%	-1.6%	0.4%	2.7%	4.1%
	EV/CE	0.6	0.5	0.6	0.5	0.5
	EV/Sales	0.3	0.3	0.3	0.2	0.2
	EV/Ebit	12.7	nm	16.6	8.8	6.3
	Free Cash Flow Yield	42.8%	65.7%	-2.7%	29.2%	22.2%
GROWTH RATES (%)	Sales	17.6%	0.7%	-5.0%	9.0%	4.0%
	EBITDA*	24.4%	-25.0%	17.6%	15.5%	9.0%
	EBIT*	144.7%	-82.1%	275.4%	67.7%	27.1%
	Net profit	nm	nm	nm	549.1%	54.7%
	EPS restated	nm	nm	nm	549.3%	54.7%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Results

Reno de Medici - Quarterly Results

(€ mn)		Q1'11A	Q1'12A	Q1'12E	A v E	FY'11A	FY'12E
Sales		138.1	116.6	131.1	-11.1%	507.1	481.7
	Yoy Growth	19.9%	-15.6%	-5.0%		0.7%	-5.0%
Volumes ('000)		241	209	230	-9.1%	878	834
	Yoy Growth	2.6%	-13.3%	-4.6%		-7.2%	-5.0%
Average Prices (Eu)		573	558	570	-2.1%	578	578
	Yoy Growth	16.5%	-2.6%	-0.5%		8.5%	0.0%
Other Revenues		3.6	5.2	3.9		15.4	15.4
Cost of Raw Materials		-109.1	-95.2	-108.8		-415.2	-387.0
	Margin %	-79.0%	-81.6%	-83.0%		-81.9%	-80.3%
Labour Costs		-19.9	-18.1	-18.0		-72.7	-70.8
Other Operating		-1.5	-1.4	-1.0		-4.6	-4.0
EBITDA		11.2	7.2	7.1	0.5%	30.0	35.3
	Margin %	8.1%	6.2%	5.4%		5.9%	7.3%
Depreciations		-6.5	-6.5	-6.6		-27.1	-26.5
Wright offs		0.0	0.0	-0.2		-0.7	-0.7
EBIT		4.7	0.7	0.3	91.5%	2.2	8.1
	Margin %	3.4%	0.6%	0.3%		0.4%	1.7%
Financials		-1.6	-2.4	-1.9		-8.5	-8.0
Pre Tax Profit		3.1	-1.8	-1.5	-15.7%	-6.3	0.1
Taxes		-0.8	-0.3	0.5		4.1	0.0
Minorities		-0.1	-0.1	-0.1		-0.3	-0.5
Group Net Profit		2.0	-2.2	-1.2	-89.5%	-2.5	-0.4

Source: Company data and Intermonte Sim

Outlook

Looking specifically at coated carton board, positive signs arise above all from the end of the de-stocking policy adopted by end customers and converters throughout the second half of 2011, which will result in the order flow returning to normal levels, as well as the stabilisation of pulp raw materials and energy costs, although this has not yet been confirmed. The increase in sales prices announced for May should also contribute to a rebalancing of earnings, although this will only begin to take hold in the second half of the year. Given this scenario, Reno De Medici will continue to operate with the objective of safeguarding industrial efficiency and profitability, adapting its production levels and prices to real demand.

Estimates

Reno de Medici - Change in estimates

(€ mn)	2012 old	2012 new	change %	2013 old	2013 new	change %	2014 new
Sales	507.1	481.7	-5.0%	527.3	525.1	-0.4%	546.1
YoY growth %	0.0%	-5.0%		4.0%	9.0%		4.0%
EBITDA	36.8	35.3	-4.2%	41.2	40.8	-1.2%	44.4
Ebitda margin %	7.3%	7.3%		7.8%	7.8%		8.1%
Total D&A	(27.2)	(27.2)		(27.2)	(27.2)		(27.2)
EBIT	9.6	8.1	-16.0%	14.0	13.6	-3.5%	17.2
Ebit margin %	1.9%	1.7%		2.7%	2.6%		3.2%
Net financials & Participations	(7.5)	(6.9)		(6.4)	(6.4)		(5.2)
Pre Tax profit	2.1	1.2	-44.9%	7.7	7.2	-6.4%	12.0
Taxes	0.0	0.0		(2.6)	(2.4)		(4.9)
Minorities	(0.5)	(0.5)		(0.5)	(0.5)		(0.5)
Group Net Profit	1.6	0.7	-59.8%	4.6	4.3	-6.4%	6.6

Source: Company data & Intermonte Sim

Peer Group

Reno de Medici Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
Reno de Medici S.p.A.	0.12	EUR	46	-13.7%	-16.3%	-29.3%	-14.3%	-47.0%	-33.0%
Mayr-Melnhof Karton AG	78.1	EUR	1,562	5.9%	6.0%	14.4%	19.2%	-3.0%	16.5%
Stora Enso Oyj	4.8	EUR	4,009	-11.3%	-15.6%	6.1%	3.2%	-40.5%	-9.5%
Metsa Board Corp. Cl B	2.0	EUR	678	4.1%	8.1%	42.6%	51.1%	-37.4%	-10.3%
UPM-Kymmene Oyj	8.9	EUR	4,698	-0.3%	-11.8%	5.2%	5.0%	-34.2%	-5.1%
Holmen AB	177.5	SEK	15,187	1.9%	-5.0%	-3.4%	-10.2%	-21.1%	2.9%
Pulp&Paper avg				0.1%	-3.7%	13.0%	13.7%	-27.2%	-1.1%
FTSE Italy All Share	286.6	EUR	349,870	-6.4%	-11.3%	-7.7%	-3.6%	-33.5%	-24.3%

Source: Factset

Reno de Medici Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales 2011	EV/Sales 2012	EV/Ebitda 2011	EV/Ebitda 2012	EV/Ebit 2011	EV/Ebit 2012	P/E 2011	P/E 2012	Div Yield 2011	Div Yield 2012
Reno de Medici S.p.A.	0.12	EUR	46	0.26	0.28	4.4	3.8	61.8	16.6	nm	70.7	0.0%	0.0%
Mayr-Melnhof Karton AG	78.1	EUR	1,562	0.56	0.65	4.3	4.8	9.5	6.4	13.6	13.0	2.7%	2.8%
Stora Enso Oyj	4.8	EUR	4,009	0.59	0.65	4.9	5.9	11.3	7.8	7.7	9.8	6.2%	6.2%
Metsa Board Corp. Cl B	2.0	EUR	678	0.49	0.63	6.8	6.5	9.7	20.8	412.0	41.2	0.0%	0.0%
UPM-Kymmene Oyj	8.9	EUR	4,698	0.85	0.78	6.0	5.5	12.5	12.2	9.7	11.1	6.6%	6.6%
Holmen AB	177.5	SEK	15,187	1.24	1.18	7.1	7.2	11.6	12.6	11.5	13.7	4.5%	4.5%
Pulp&Paper avg				0.59	0.65	6.0	5.9	11.3	12.2	11.5	13.0	4.5%	4.5%

Source: Intermonte SIM estimates for Reno de Medici and Factset consensus estimates for peer group

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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.

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NEUTRAL: 35.94%

UNDERPERFORM: 11.72%

SELL: 0.00%

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BUY: 21.88%

OUTPERFORM: 46.88%

NEUTRAL: 31.24%

UNDERPERFORM: 0.00%

SELL: 0.00%

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DETAILS ON STOCKS RECOMMENDATION

Stock NAME	RENO DE MEDICI		
Current Recomm:	NEUTRAL	Previous Recomm:	NEUTRAL
Current Target (Eu):	0.15	Previous Target (Eu):	0.21
Current Price (Eu):	0.12	Previous Price (Eu):	0.13
Date of report:	07/05/2012	Date of last report:	19/04/2012

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