

## RENO DE MEDICI

## NEUTRAL

Price (Eu): **0.11**  
 Target Price (Eu): **0.15**

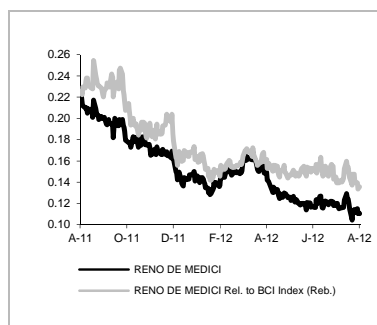
SECTOR: Industrials

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## High Input Prices Remain The Main Issue

- Quarterly results below our estimates.** Reno de Medici reported sales of Eu120.8mn in 2Q12, (-14.0% YoY and +3.6% QoQ), broadly in line with our estimate. Volumes sold decreased to 214,000 tons, (-13.4% YoY and +2.4% QoQ) as de-stocking effects ended and demand stabilised, albeit at a lower level than in 2Q11. The average sales price (ASP) was Eu565 per ton in 2Q12, substantially flat both YoY and QoQ: prices for recycled fibres, chemicals and energy remained high in the quarter. As a result EBITDA decreased 32.0% YoY to Eu6.8mn, coming out 15.1% below our estimate (Eu8.1mn). The EBITDA margin was equal to 5.7%, down 150bps YoY and 50bps QoQ. Finally, Reno de Medici reported a net loss of Eu1.8mn in 2Q12, below our estimates (-Eu1.1mn) but lower compared to 1Q12 (-Eu2.2mn).
- Stable balance sheet.** In 2Q12 Reno de Medici's net debt decreased more than expected from Eu95.5mn to Eu84.5mn at the end of 1Q12, as a result of lower capex, greater use of factoring and capital contribution of Friulia in RdM Ovaro plant. We are forecasting a Net debt flat by the end of the year at Eu84.1mn.
- Short term outlook characterized by high volatility.** Reno de Medici is unable to call a demand recovery (postponed to 2013), even though the slump caused by de-stocking seems to have come to an end and order flows gave first positive signs at the end of 1H12. Looking at input costs, the price of pulp should stabilize or even slightly decrease in 2H12, while energy is still on an upward trend (as in Italy the energy price is not linked to the price of crude oil).
- Virgin assets.** The BoD has resolved to non-exercise the Call option for the purchase of the Virgin Assets from Cascades (the main shareholder of Reno De Medici with a 45% stake) due to the current weak economic situation and the difficulties accessing new funding. Cascades may in any case exercise its put option in 2013.
- Sales and EBITDA estimates lowered for 2012.** We have lowered our FY12 sales volume assumption to 808,000 tons (-8.0% YoY). Our ASP estimate of Eu583 per ton was slightly upward revised. As a result, 2012 sales are now forecast to be Eu471.2mn, down 7.1% YoY (from previous -5.0%). We cut our EBITDA estimate by 7.4% to Eu32.7mn due to lower sales and higher energy prices. The EBITDA margin should nevertheless increase by 100bps YoY to 6.9% in FY12. At the bottom line, the company should report a marginal net loss. Our 2013 estimates remain basically unchanged.
- NEUTRAL reaffirmed, target unchanged at Eu0.15 per share.** We remain cautious on the stock as the macroeconomic scenario remains highly uncertain and there is still upward pressure on some input costs. 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): Unchanged

Change in EPS est:	2012E	2013E
	n.m.	-0.2%

## STOCK DATA

Reuters code: RDM.MI  
 Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	-7.4%	-12.2%	-50.8%
Relative	-6.3%	-7.4%	-32.4%
12 months H/L:	0.22/0.10		

## SHAREHOLDER DATA

No. of Ord. shares (mn):	378
Total No. of shares (mn):	378
Mkt Cap Ord (Eu mn):	42
Total Mkt Cap (Eu mn):	42
Mkt Float - ord (Eu mn):	17
Mkt Float (in %):	40.0%
Main shareholder:	
Cascades	40.0%

## BALANCE SHEET DATA

	2012
Book value (Eu mn):	152
BVPS (Eu):	0.40
P/BV:	0.3
Net Financial Position (Eu mn):	-88
Enterprise value (Eu mn):	130

Key Figures	2010A	2011A	2012E	2013E	2014E
Sales (Eu mn)	504	507	471	509	534
Ebitda (Eu mn)	40	30	33	40	44
Net profit (Eu mn)	1	-2	-2	4	7
EPS - New (Eu)	0.004	-0.007	-0.006	0.011	0.020
EPS - Old (Eu)		-0.007	0.002	0.011	0.017
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
Ratios & Multiples	2010A	2011A	2012E	2013E	2014E
P/E	30.6	nm	nm	9.8	5.6
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	3.7	4.3	4.0	2.9	2.4
ROCE	4.4%	0.9%	2.3%	5.6%	7.9%

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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						
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	504	507	471	509	534
	EBITDA	40	30	33	40	44
	EBIT	12	2	5	13	18
	Financial income (charges)	(7)	(8)	(8)	(6)	(5)
	Associates & Others	0	0	0	0	1
	Pre-tax profit (Loss)	5	(6)	(2)	7	13
	Taxes	(3)	4	0	(2)	(5)
	Tax rate (%)	-63.5%	-65.5%	0.0%	-30.6%	-38.1%
	Minorities & discontinue activities	(1)	(0)	(0)	(0)	(0)
	Net profit	1	-2	-2	4	7
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	40	30	33	40	44
	Ebit excl. extraordinary items	12	2	5	13	18
	Net profit restated	1	(2)	(2)	4	7
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	378	378	378	378	378
	EPS stated fd	0.004	-0.007	-0.006	0.011	0.020
	EPS restated fd	0.004	-0.007	-0.006	0.011	0.020
	BVPS fd	0.414	0.406	0.400	0.411	0.431
	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 (%)					
<b>CASH FLOW (Eu mn)</b>	Gross cash flow	29	25	25	31	34
	Change in NWC	6	28	(12)	(1)	(7)
	Capital expenditure	(16)	(23)	(15)	(16)	(17)
	Other cash items	0	0	0	0	1
	Free cash flow (FCF)	20	31	(2)	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	(2)	14	10
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	257	252	241	233	226
	Net working capital	76	48	60	61	68
	Long term liabilities	(70)	(60)	(62)	(65)	(68)
	Net capital employed	263	240	240	230	227
	Net financial position	(106)	(87)	(88)	(74)	(64)
	Group equity	157	153	151	155	163
	Minorities	1	1	1	1	1
	Net equity	158	154	152	156	163
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	42	42	42	42	42
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(106)	(87)	(88)	(74)	(64)
	Enterprise value	148	128	130	116	106
<b>RATIOS(%)</b>	EBITDA margin*	7.9%	5.9%	6.9%	7.9%	8.3%
	EBIT margin*	2.4%	0.4%	1.2%	2.6%	3.4%
	Gearing - Debt/equity	68.0%	56.4%	58.5%	47.9%	39.5%
	Interest cover on EBIT	1.7	0.3	0.7	2.2	3.7
	Debt/Ebitda	2.66	2.88	2.71	1.86	1.45
	ROCE*	4.4%	0.9%	2.3%	5.6%	7.9%
	ROE*	0.9%	-1.6%	-1.5%	2.8%	4.6%
	EV/CE	0.5	0.5	0.5	0.5	0.5
	EV/Sales	0.3	0.3	0.3	0.2	0.2
	EV/Ebit	12.3	nm	23.8	8.8	5.9
	Free Cash Flow Yield	47.6%	73.1%	-5.2%	32.9%	23.5%
<b>GROWTH RATES (%)</b>	Sales	17.6%	0.7%	-7.1%	7.9%	5.0%
	EBITDA*	24.4%	-25.0%	8.9%	22.2%	10.9%
	EBIT*	144.7%	-82.1%	154.4%	141.8%	36.5%
	Net profit	nm	nm	nm	nm	73.9%
	EPS restated	nm	nm	nm	nm	73.9%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

## Results

Reno de Medici - Quarterly Results									
(€ mn)		Q2'11A	Q2'12A	YoY	Q2'12E	A v E	1H'11A	1H'12A	YoY
Sales		140.5	120.8	-14.0%	120.4	0.3%	278.6	237.5	-14.8%
	Yoy Growth		-14.0%		-14.3%			-14.8%	
Volumes ('000)		247	214	-13.4%	215	-0.5%	488	423	-13.3%
	Yoy Growth		-13.4%		-13.0%		-7.2%	-13.3%	
Average Prices (Eu)		569	565	-0.8%	560	0.8%	571	595	4.3%
	Yoy Growth		-0.8%		-1.6%		8.5%	4.3%	
Other Revenues		4.2	2.5		4.2		3.9	3.0	
Cost of Raw Materials		-114.7	-97.1		-98.2		-223.8	-192.3	
	as a % of total sales	-81.6%	-80.4%		-81.6%		-80.3%	-81.0%	
Labour Costs		-18.9	-18.4		-17.3		-38.8	-36.5	
Other Operating		-1.0	-1.0		-1.0		-2.5	-2.4	
EBITDA		10.1	6.8	-32.0%	8.1	-15.1%	21.2	14.0	-33.9%
	Margin %	7.2%	5.7%		6.7%		7.6%	5.9%	
Depreciations		-6.6	-6.6		-6.5		-13.1	-13.1	
Wright offs		0.0	0.0		0.0		0.0	0.0	
EBIT		3.5	0.2	-93.4%	1.6	-85.1%	8.2	0.9	-89.1%
	Margin %	2.5%	0.2%		1.3%		2.9%	0.4%	
Financials		-2.1	-1.7		-2.4		-3.8	-4.1	
Pre Tax Profit		1.3	-1.4	n.m.	-0.9	-62.2%	4.4	-3.2	n.m.
Taxes		-0.5	-0.3		-0.1		-1.2	-0.7	
Minorities		-0.1	-0.1		-0.1		-0.2	-0.1	
Group Net Profit		0.8	-1.8	n.m.	-1.1	-69.4%	2.8	-4.0	n.m.

Source: Company data and Intermonte Sim

## Outlook

From the company's press release:

*"The economic and financial context regarding the demand for consumer goods, to which the packaging market is closely connected, is expected to be difficult for the second half of 2012 as well, also if it should confirm the slight positive signs noted in the first half. A clear sign of recovery in the demand of packaging cardboard is expected only in 2013.*

*However, there is a high risk of relapse into recession, not linked to the specific sector but to the economic and financial situation in general. Therefore, the short-term outlook remains characterized by high volatility.*

*With specific reference to the folding box board sector, positive signs derive mainly from conclusion of the destocking policy adopted for the entire second half of 2011 by customers and converters, with consequent return to a normal flow of orders to the benefit of production efficiency.*

*With reference to the production factors, the greatest element of uncertainty foreseen in the second half 2012 regards the price of pulp raw materials and, specifically, confirmation of the trend seen at the end of the first half, with slightly lower prices. On the other hand, no significant reductions in energy costs are expected in Italy, taking into account of the lack of access to the spot market and to supply that are not indexed to the price of crude oil. In Italy there are not infrastructural and market conditions that could enable the energy consuming industries (as for the paper one) to compete on equal terms in the international market."*

## Estimates

### Reno de Medici - 2H12 and FY12 Estimates

(€ mn)		2H'11A	2H'12E	YoY	FY'11A	FY'12E	YoY
Sales		228.5	233.7	2.3%	507.1	471.2	-7.1%
	YoY Growth		2.3%		0.7%	-7.1%	
Volumes ('000)		390.0	384.8	-1.3%	878	808	-8.0%
	YoY Growth	-7.2%	-1.3%		-7.2%	-8.0%	
Average Prices (Eu)		586	607	3.7%	578	583	1.0%
	YoY Growth	8.5%	3.7%		8.5%	1.0%	
Other Revenues		7.7	7.7		15.4	15.4	
Cost of Raw Materials		-191.5	-188.7		-415.2	-381.0	
	<i>as a % of totalsales</i>	-83.8%	-80.8%		-81.9%	-80.9%	
Labour Costs		-33.8	-31.8		-72.7	-68.3	
Other Operating		-2.0	-2.2		-4.6	-4.6	
<b>EBITDA</b>		<b>8.8</b>	<b>18.7</b>	<b>112.3%</b>	<b>30.0</b>	<b>32.7</b>	<b>8.9%</b>
	<i>Margin %</i>	<i>3.8%</i>	<i>8.0%</i>		<i>5.9%</i>	<i>6.9%</i>	
Depreciations		-14.1	-13.4		-27.1	-26.5	
Wright offs		-0.7	-0.7		-0.7	-0.7	
<b>EBIT</b>		<b>-6.0</b>	<b>4.6</b>	<b>n.m.</b>	<b>2.2</b>	<b>5.5</b>	<b>154.4%</b>
	<i>Margin %</i>	<i>-2.6%</i>	<i>2.0%</i>		<i>0.4%</i>	<i>1.2%</i>	
Financials		-4.7	-3.4		-8.5	-7.5	
<b>Pre Tax Profit</b>		<b>-10.7</b>	<b>1.2</b>	<b>n.m.</b>	<b>-6.3</b>	<b>-2.0</b>	<b>67.6%</b>
Taxes		5.4	0.7		4.1	0.0	
Minorities		0.0	-0.1		-0.3	-0.3	
<b>Group Net Profit</b>		<b>-5.3</b>	<b>1.7</b>	<b>n.m.</b>	<b>-2.5</b>	<b>-2.3</b>	<b>5.3%</b>

Source: Company data and Intermonte Sim

### Reno de Medici - Change in estimates

(€ mn)	2012 old	2012 new	change %	2013 old	2013 new	change %	2014 old	2014 new	change %
Sales	481.7	471.2	-2.2%	525.1	508.6	-3.1%	546.1	534.1	-2.2%
YoY growth %	-5.0%	-7.1%		9.0%	7.9%		4.0%	5.0%	
<b>EBITDA</b>	<b>35.3</b>	<b>32.7</b>	<b>-7.4%</b>	<b>40.8</b>	<b>39.9</b>	<b>-2.0%</b>	<b>44.4</b>	<b>44.3</b>	<b>-0.3%</b>
Ebitda margin %	7.3%	6.9%		7.8%	7.9%		8.1%	8.3%	
Total D&A	(27.2)	(27.2)		(27.2)	(26.7)		(27.2)	(26.2)	
<b>EBIT</b>	<b>8.1</b>	<b>5.5</b>	<b>-32.2%</b>	<b>13.6</b>	<b>13.2</b>	<b>-2.3%</b>	<b>17.2</b>	<b>18.1</b>	<b>4.9%</b>
Ebit margin %	1.7%	1.2%		2.6%	2.6%		3.2%	3.4%	
Net financials & Participations	(6.9)	(7.5)		(6.4)	(6.5)		(5.2)	(5.3)	
<b>Pre Tax profit</b>	<b>1.2</b>	<b>-2.0</b>	<b>n.m.</b>	<b>7.2</b>	<b>6.8</b>	<b>-5.6%</b>	<b>12.0</b>	<b>12.8</b>	<b>6.0%</b>
Taxes	0.0	0.0		(2.4)	(2.2)		(4.9)	(5.1)	
Minorities	(0.5)	(0.3)		(0.5)	(0.3)		(0.5)	(0.3)	
<b>Group Net Profit</b>	<b>0.7</b>	<b>-2.3</b>	<b>n.m.</b>	<b>4.3</b>	<b>4.3</b>	<b>-0.2%</b>	<b>6.6</b>	<b>7.4</b>	<b>12.1%</b>

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
<b>RENO DE MEDICI</b>	<b>0.1</b>	<b>EUR</b>	<b>41.8</b>	<b>-7.4%</b>	<b>-12.2%</b>	<b>-25.1%</b>	<b>-21.6%</b>	<b>-50.8%</b>	<b>-43.9%</b>
HOLMEN	177.6	EUR	14,917.7	-5.9%	0.4%	-9.8%	-10.2%	3.1%	-7.4%
MAYR-MELNHOF	71.0	EUR	1,419.1	-3.0%	-8.4%	-2.9%	8.4%	-4.0%	-10.5%
METSA	2.1	EUR	676.0	2.0%	-4.2%	12.0%	54.9%	-13.1%	-32.5%
UPM KYMMENE	8.3	EUR	4,356.3	-8.7%	-12.7%	-20.6%	-2.6%	-16.5%	-26.9%
<b>Mean performance</b>				<b>-4.6%</b>	<b>-7.4%</b>	<b>-9.3%</b>	<b>5.8%</b>	<b>-16.3%</b>	<b>-24.2%</b>
<b>Italy Fixed</b>	13,282.6	EUR	162,682	-7.2%	-6.5%	-18.4%	-12.0%	-23.1%	-38.4%

Source: FactSet

### RENO DE MEDICI Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales	EV/Sales	EV/Ebitda	EV/Ebitda	EV/Ebit	EV/Ebit	P/E	P/E	Div Yield	Div Yield
				2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
<b>RENO DE MEDICI</b>	<b>0.1</b>	<b>EUR</b>	<b>41.8</b>	<b>0.3</b>	<b>0.2</b>	<b>4.0</b>	<b>2.9</b>	<b>23.8</b>	<b>8.8</b>	<b>(17.9)</b>	<b>9.8</b>	<b>0.0%</b>	<b>0.0%</b>
HOLMEN	177.6	EUR	14,917.7	1.2	1.1	7.0	6.5	11.9	10.7	13.0	11.7	4.4%	4.7%
MAYR-MELNHOF	71.0	EUR	1,419.1	0.6	0.5	4.4	4.0	6.6	5.9	11.8	11.0	3.0%	3.2%
METSA	2.1	EUR	676.0	0.6	0.6	5.4	5.0	10.3	9.1	23.4	10.4	0.6%	2.4%
UPM KYMMENE	8.3	EUR	4,356.3	0.7	0.7	5.3	4.6	11.8	9.3	10.4	8.6	7.4%	7.6%
<b>Median</b>				<b>0.6</b>	<b>0.6</b>	<b>5.3</b>	<b>4.6</b>	<b>11.8</b>	<b>9.1</b>	<b>11.8</b>	<b>10.4</b>	<b>3.0%</b>	<b>3.2%</b>

Source: Intermonte SIM estimates for covered companies, FactSet consensus estimates for peer group

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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.

**CURRENT INVESTMENT RESEARCH RATING DISTRIBUTIONS**

Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms. As at September 30<sup>th</sup> 2011 Intermonte's Research Department covered 128 companies.

Intermonte's distribution of stock ratings is as follows:

BUY: 21.09%

OUTPERFORM: 31.25%

NEUTRAL: 35.94%

UNDERPERFORM: 11.72%

SELL: 0.00%

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (32 in total) is as follows:

BUY: 21.88%

OUTPERFORM: 46.88%

NEUTRAL: 31.24%

UNDERPERFORM: 0.00%

SELL: 0.00%

**CONFLICT OF INTEREST**

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

- o 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 and/or, managed or co-managed/is managing or is co-managing (see companies indicated in bold type) an offering with firm commitment underwriting of the securities of the following Companies: **Intesa Sanpaolo**, Enel Green Power, TerniGreen, TBS Group, UBI, UniCredit;
- o 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, Cattolica Assicurazioni, Cell Therapeutics, Credito Valtellinese, Datalogic, DeA capital, Digital bros, EL.En, EEMS, Fiera Milano, Fintel Energia Group, Gefran, IGD, IGI Kinexia, Meridie, QF Alpha Immobiliare, QF Beta Immobiliare, Reno de Medici, Reply, Saes Getters, Servizi Italia, TESMEC, TBS Group, TerniGreen, Ternienergia, Vittoria Assicurazioni, VR Way.
- o 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.
- o Intermonte SIM SpA acts as Financial Advisor to the following companies: Cattolica Assicurazioni.

**DETAILS ON STOCKS RECOMMENDATION**

Stock NAME	RENO DE MEDICI		
Current Recomm:	NEUTRAL	Previous Recomm:	NEUTRAL
Current Target (Eu):	0.15	Previous Target (Eu):	0.15
Current Price (Eu):	0.11	Previous Price (Eu):	0.11
Date of report:	03/08/2012	Date of last report:	13/07/2012

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