

RENO DE MEDICI

NEUTRAL

Price (Eu): **0.13**
 Target Price (Eu): **0.15**

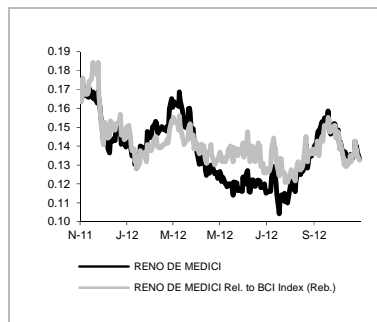
SECTOR: Industrials

Jacopo Tagliaferri +39-02-77115.230
 e-mail: jacopo.tagliaferri@intermonte.it

High Energy Costs Hurt Results, But Improving Outlook Given On 4Q12

- Quarterly results below our estimates.** Reno de Medici reported sales of Eu111.3mn in 3Q12, down 4.2% YoY and 13.9% above our estimate due to higher than expected volumes (equal to 202,000 tons, +8.0% YoY as 3Q11 production was affected by some closures). The average sale price was Eu551 per ton in 3Q12, essentially flat QoQ (-2.4%) and 4.2% below our estimate as prices for recycled cardboard remained high in the quarter. As a result of higher volumes, EBITDA increased by 53.6% YoY to Eu5.4mn, broadly in line with our estimate. The EBITDA margin was equal to 4.9%, up 190bps YoY but down 80bps QoQ and 100bps below our estimate, penalised by much higher costs for natural gas. Finally, Reno de Medici reported a net loss of Eu3.1mn in 3Q12, worse than our estimate (-Eu2.1mn) due to losses from associates (Manucor).
- Stable balance sheet.** In 3Q12 Reno de Medici's net debt increased from Eu84.5mn to Eu91.8mn at the end of 2Q12: working capital went up due to typical seasonality. We are forecasting a net debt position equal to Eu87.3mn at the end of the year.
- Improving outlook given on 4Q12 and FY13.** Reno de Medici is expecting 4Q12 to show progress YoY in both production and earnings. Looking at input costs, the prices of pulp are volatile and increases cannot be ruled out while energy prices should decline from the high levels. In FY13 a more efficient natural gas market in Italy could have a positive economic effect on the group's result (gas costs were Eu6.5mn higher in 9M12 compared to 9M11).
- EPS estimates lowered for 2012, unchanged for 2013.** We have increased our FY12 sales volume assumption to 847,000 tons (-3.5% YoY from previous -8.0%). On the other hand, our average selling price estimate has been lowered to Eu557 per ton. As a result, 2012 sales are now forecast to be Eu472.2mn, broadly unchanged. We cut our EBITDA estimate by 8.2% to Eu30.0mn due to higher energy prices. The EBITDA margin should nevertheless increase by 50bps YoY (from previous 100bps) to 6.4% in FY12. At the bottom line, the company is expected to report a net loss of Eu5.1mn. Finally, our FY13 and FY14 EPS estimates have been broadly left unchanged as slightly worse EBITDA results should be compensated by lower assumptions on D&A and taxes.
- NEUTRAL reaffirmed, target left unchanged at Eu0.15 per share.** We remain cautious on the stock: even if sales volumes seem to have stabilised, there is still upward pressure on some input costs. On the plus side, leverage is stable and management is committed to keeping profitability at a satisfactory level through the cycle (output and price discipline).

RENO DE MEDICI - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): Unchanged

Change in EPS est:	2012E	2013E
	n.m.	-1.8%

STOCK DATA

Reuters code: RDM.MI
 Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	-9.5%	20.9%	-19.9%
Relative	-8.3%	10.8%	-19.6%
12 months H/L:	0.17/0.10		

SHAREHOLDER DATA

No. of Ord. shares (mn):	378
Total No. of shares (mn):	378
Mkt Cap Ord (Eu mn):	50
Total Mkt Cap (Eu mn):	50
Mkt Float - ord (Eu mn):	20
Mkt Float (in %):	40.0%
Main shareholder:	
Cascades	40.0%

BALANCE SHEET DATA

Book value (Eu mn):	149
BVPS (Eu):	0.39
P/BV:	0.3
Net Financial Position (Eu mn):	-87
Enterprise value (Eu mn):	138

Key Figures	2010A	2011A	2012E	2013E	2014E
Sales (Eu mn)	504	507	472	533	558
Ebitda (Eu mn)	40	30	30	39	43
Net profit (Eu mn)	1	-2	-5	4	8
EPS - New (Eu)	0.004	-0.007	-0.013	0.012	0.021
EPS - Old (Eu)		-0.007	-0.006	0.011	0.020
DPS (Eu)	0.000	0.000	0.000	0.000	0.000

Ratios & Multiples	2010A	2011A	2012E	2013E	2014E
P/E	36.8	nm	nm	11.3	6.3
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	3.9	4.6	4.6	3.3	2.8
ROCE	4.4%	0.9%	1.5%	5.6%	7.6%

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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	472	533	558
	EBITDA	40	30	30	39	43
	EBIT	12	2	3	13	17
	Financial income (charges)	(7)	(8)	(8)	(7)	(5)
	Associates & Others	0	0	0	0	1
	Pre-tax profit (Loss)	5	(6)	(5)	6	12
	Taxes	(3)	4	0	(2)	(4)
	Tax rate (%)	-63.5%	-65.5%	0.0%	-26.6%	-32.5%
	Minorities & discontinue activities	(1)	(0)	(0)	(0)	(0)
	Net profit	1	-2	-5	4	8
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	40	30	30	39	43
	Ebit excl. extraordinary items	12	2	3	13	17
	Net profit restated	1	(2)	(5)	4	8
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	378	378	378	378	378
	EPS stated fd	0.004	-0.007	-0.013	0.012	0.021
	EPS restated fd	0.004	-0.007	-0.013	0.012	0.021
	BVPS fd	0.414	0.406	0.393	0.404	0.425
	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	21	30	33
	Change in NWC	6	28	(11)	(4)	(7)
	Capital expenditure	(16)	(23)	(15)	(17)	(17)
	Other cash items	0	0	0	0	1
	Free cash flow (FCF)	20	31	(5)	10	9
	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)	10	9
BALANCE SHEET (Eu mn)	Total fixed assets	257	252	241	234	228
	Net working capital	76	48	59	64	71
	Long term liabilities	(70)	(60)	(65)	(67)	(69)
	Net capital employed	263	240	236	230	229
	Net financial position	(106)	(87)	(87)	(77)	(68)
	Group equity	157	153	148	153	161
	Minorities	1	1	1	1	1
	Net equity	158	154	149	153	161
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	50	50	50	50	50
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(106)	(87)	(87)	(77)	(68)
	Enterprise value	157	137	138	128	118
RATIOS(%)	EBITDA margin*	7.9%	5.9%	6.4%	7.3%	7.7%
	EBIT margin*	2.4%	0.4%	0.7%	2.4%	3.1%
	Gearing - Debt/equity	68.0%	56.4%	58.9%	50.7%	42.3%
	Interest cover on EBIT	1.7	0.3	0.4	2.0	3.4
	Debt/Ebitda	2.66	2.88	2.91	1.98	1.59
	ROCE*	4.4%	0.9%	1.5%	5.6%	7.6%
	ROE*	0.9%	-1.6%	-3.4%	2.9%	5.1%
	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	13.0	nm	39.4	9.8	6.8
	Free Cash Flow Yield	39.6%	60.8%	-10.0%	19.1%	18.2%
GROWTH RATES (%)	Sales	17.6%	0.7%	-6.9%	13.0%	4.5%
	EBITDA*	24.4%	-25.0%	0.0%	30.2%	9.7%
	EBIT*	144.7%	-82.1%	62.4%	273.3%	33.0%
	Net profit	nm	nm	nm	nm	79.4%
	EPS restated	nm	nm	nm	nm	79.4%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Results

Reno de Medici - Quarterly Results

(€ mn)	Q3'11A	Q3'12A	YoY	Q3'12E	A v E	FY'11A	FY'12E	YoY
Sales	116.3	111.3	-4.2%	97.8	13.9%	507.1	472.2	-6.9%
Yoy Growth		-4.2%		-5.2%		0.7%	-6.9%	
Volumes ('000)	187	202	8.0%	170	18.8%	878	847	-3.5%
Yoy Growth		8.0%		1.6%		-7.2%	-3.5%	
Average Prices (Eu)	622	551	-11.3%	575	-4.2%	578	557	-3.5%
Yoy Growth		-11.3%		-6.7%		8.5%	-3.5%	
Other Revenues	2.8	1.8		2.9		15.4	15.4	
Cost of Raw Materials	-97.6	-89.2		-77.7		-415.2	-382.0	
as a % of total sales	-83.9%	-80.1%		-79.5%		-81.9%	-80.9%	
Labour Costs	-17.3	-17.4		-16.5		-72.7	-71.2	
Other Operating	-0.7	-1.1		-0.7		-4.6	-4.4	
EBITDA	3.5	5.4	53.6%	5.7	-5.4%	30.0	30.0	0.0%
Margin %	3.0%	4.9%		5.9%		5.9%	6.4%	
Depreciations	-6.6	-6.6		-6.5		-27.1	-26.5	
Wright offs	0.0	0.0		0.0		-0.7	0.0	
EBIT	-3.1	-1.2	-62.5%	-0.8	-52.4%	2.2	3.5	62.4%
Margin %	-2.7%	-1.0%		-0.8%		0.4%	0.7%	
Financials	-1.7	-2.6		-1.5		-8.5	-8.3	
Pre Tax Profit	-4.8	-3.8	-21.5%	-2.3	-68.0%	-6.3	-4.8	23.9%
Taxes	0.2	0.7		0.0		4.1	0.0	
Minorities	0.0	0.0		0.0		-0.3	-0.3	
Group Net Profit	-4.7	-3.1	-33.0%	-2.1	-51.2%	-2.5	-5.1	-106.7%

Source: Company data and Intermonte Sim

Outlook

From the company's press release:

"The fourth quarter 2012 is expected to show improvement over the same period of the prior year in both production and earnings, despite an overall context that remains negative. Operating rates are expected to remain at higher levels, as the fourth quarter of 2011 paid for the effects of the temporary stoppages that were carried out at certain factories to maintain manufacturing efficiency. No significant variations are expected for the main production factors: the prices of recovered fibre are volatile and increases cannot be ruled out; energy prices should

decline from the high levels. In 2013, we can expect an improvement in some of negative trends that has been characterizing the macroeconomic situation since the end of 2008. In particular, a different and more efficient natural gas market would have in 2013 a positive economic effect for the Group."

Change in Estimates

Reno de Medici - Change in estimates

(€ mn)	2012 old	2012 new	change %	2013 old	2013 new	change %	2014 old	2014 new	change %
Sales	471.2	472.2	0.2%	508.6	533.5	4.9%	534.1	557.5	4.4%
YoY growth %	-7.1%	-6.9%		7.9%	13.0%		5.0%	4.5%	
EBITDA	32.7	30.0	-8.2%	39.9	39.0	-2.2%	44.3	42.9	-3.2%
Ebitda margin %	6.9%	6.4%		7.9%	7.3%		8.3%	7.7%	
Total D&A	(27.2)	(26.5)		(26.7)	(26.0)		(26.2)	(25.5)	
EBIT	5.5	3.5	-36.2%	13.2	13.0	-1.4%	18.1	17.4	-4.0%
Ebit margin %	1.2%	0.7%		2.6%	2.4%		3.4%	3.1%	
Net financials & Participations	(7.1)	(8.3)		(6.1)	(6.6)		(5.0)	(5.1)	
Pre Tax profit	-1.7	-4.8	n.m.	7.2	6.5	-9.6%	13.1	12.3	-6.6%
Taxes	0.0	0.0		(2.3)	(1.7)		(5.2)	(4.0)	
Minorities	(0.3)	(0.3)		(0.3)	(0.3)		(0.3)	(0.3)	
Group Net Profit	-2.0	-5.1	n.m.	4.5	4.4	-1.8%	7.7	8.0	4.0%

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	0.1	EUR	50.2	-9.5%	20.9%	8.1%	-5.7%	-19.9%	-47.6%
HOLMEN	194.1	EUR	16,303.7	6.9%	8.6%	8.9%	-1.8%	4.3%	-11.0%
MAYR-MELNHOF	78.3	EUR	1,565.0	1.0%	7.3%	0.0%	19.5%	14.2%	0.0%
METSA	2.1	EUR	689.1	-11.0%	-1.9%	1.9%	57.9%	48.9%	-12.5%
UPM KYMMENE	8.5	EUR	4,482.5	-3.7%	-1.1%	-5.6%	0.2%	0.0%	-30.5%
Mean performance				-3.2%	6.8%	2.7%	14.0%	9.5%	-20.3%
Italy Fixed	15,544.4	EUR	177,872	-2.1%	10.0%	11.7%	3.0%	1.3%	-26.7%

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
RENO DE MEDICI	0.1	EUR	50.2	0.3	0.2	4.6	3.3	39.4	9.8	(9.9)	11.3	0.0%	0.0%
HOLMEN	194.1	EUR	16,303.7	1.3	1.3	7.4	7.3	12.6	12.5	14.2	13.9	4.3%	4.4%
MAYR-MELNHOF	78.3	EUR	1,565.0	0.7	0.6	5.1	4.6	7.7	6.9	13.4	12.5	2.8%	2.9%
METSA	2.1	EUR	689.1	0.7	0.6	6.1	5.6	10.6	10.7	24.4	12.7	1.2%	2.5%
UPM KYMMENE	8.5	EUR	4,482.5	0.8	0.7	6.0	5.2	15.4	11.5	12.8	10.8	7.1%	7.3%
Median				0.7	0.6	6.0	5.2	12.6	10.7	13.4	12.5	2.8%	2.9%

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

RENO DE MEDICI - Estimates Comparison with Consensus

(Eu mn)	2012			2013		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
Revenues	472.2	471.0	0.3%	533.5	509.0	4.8%
Ebitda	30.0	33.0	-9.1%	39.0	40.0	-2.4%
Net Profit	(5.1)	(2.0)	154.3%	4.4	4.0	11.1%
EPS	(0.0)	(0.0)	124.3%	0.0	0.0	7.0%
Net Debt	(87.3)	(88.0)	-0.8%	(77.4)	(74.0)	4.6%

Source: Intermonte SIM estimates and Factset consensus estimates

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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.
 The stock price indicated is the reference price on the day prior to the publication of the report.

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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):	0.15
Current Price (Eu):	0.13	Previous Price (Eu):	0.11
Date of report:	06/11/2012	Date of last report:	03/08/2012

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