

RENO DE MEDICI OUTPERFORM

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

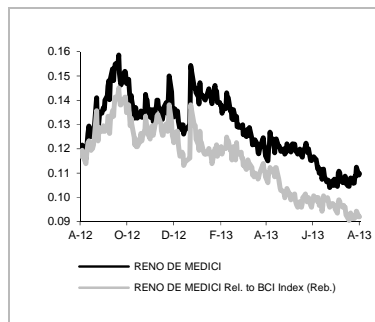
SECTOR: Industrials

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A Value Call On Recovering European Consumption

- Improving quarterly results.** Reno de Medici reported sales of Eu122.1mn in 2Q13, up 1.1% YoY and 3.1% below our estimate. In 2Q13 volumes increased 6.0% YoY to 228k tons; the average sale price was Eu536 per ton, down 4.7% YoY. Both volumes and prices were substantially unchanged QoQ. EBITDA increased by 23.9% YoY to Eu8.5mn. The EBITDA margin was 6.9%, up 120bps YoY and 40bps QoQ; the quarter saw benefits from new natural gas supply contracts and a better geographical mix (with lower sales in overseas markets). Pre-tax profit was marginally positive at Eu0.7mn, and benefited from lower depreciation and net financial charges YoY. Finally, the company reported a net profit of Eu0.5mn in 2Q13, compared to a net loss of Eu1.8mn in 2Q12.
- Balance sheet under control.** In 2Q13 Reno de Medici's net debt stood at Eu87.9mn, essentially in line with the figure reported at 1Q13 and our estimate. We anticipate net debt will remain stable in the next few quarters: we forecast Eu85.5mn at the end of 2013. Reno de Medici has sold machinery and related spare parts from the closed Magenta mill; payment is expected by the beginning of 2014.
- Outlook: good visibility on 2H13, demand recovery in 2014.** According to Reno de Medici, production is at full capacity and the backlog of orders is satisfactory. Sales and margins should benefit from the increases in the sales price scheduled for 2H13. As for the trend in input costs, the company does not expect a short-term rise in the cost of recycled fibres: as things stand a recovery in exports towards China does not seem probable. Furthermore, it's reasonable to assume a decrease in energy costs due to the current excess supply of both natural gas and electricity in Italy. Demand is expected to pick up in 2014.
- 2013-15 estimates revised upwards.** We have marginally lifted our sales assumptions over the 2013-15 period (by 2.6% on average), due to an improved outlook for both volumes (consumption should recover from 2014 onwards in Europe) and prices (the market is well disciplined, with overcapacity having been reduced in recent years). We have left our EBITDA margin forecasts unchanged: the economic slowdown in China is having a positive impact on recycled fibre prices in Europe (now stable); this effect combined with declining energy prices in Italy should lead to a higher spread between average selling prices and input costs. Finally, lower depreciation brought an average 23.9% increase in our EBIT estimates. Reno de Medici should already achieve break even at bottom line in 2013.
- Upgrade to OUTPERFORM, target left unchanged at Eu0.15 per share.** We turn positive on the stock as: i) restructuring of the industrial footprint has been completed, together with the deleverage of the balance sheet to a sustainable level, ii) there is relatively high visibility on the order intake in 2H13, iii) higher selling prices and lower input costs (both for fibres and energy) should grant the company healthy profitability. Trading at just 0.3x P/BV, and 0.3x EV/ 1Y forward sales, Reno de Medici is a value call on the expected recovery in consumption in Europe from 2014.

RENO DE MEDICI - 12m Performance



RATING: from NEUTRAL to OUTPERFORM

TARGET PRICE (Eu): Unchanged

Change in EPS est: **2013E** **2014E**
 n.m. n.m.

STOCK DATA

Reuters code: RDM.MI
 Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	2.8%	-8.6%	-6.2%
Relative	-3.5%	-9.1%	-25.0%
12 months H/L:	0.16/0.10		

SHAREHOLDER DATA

No. of Ord. shares (mn):	378
Total No. of shares (mn):	378
Mkt Cap Ord (Eu mn):	41
Total Mkt Cap (Eu mn):	41
Mkt Float - ord (Eu mn):	17
Mkt Float (in %):	40.0%
Main shareholder:	
Cascades	40.0%

BALANCE SHEET DATA

	2013
Book value (Eu mn):	138
BVPS (Eu):	0.36
P/BV:	0.3
Net Financial Position (Eu mn):	-85
Enterprise value (Eu mn):	127

Key Figures	2011A	2012A	2013E	2014E	2015E
Sales (Eu mn)	507	466	490	517	543
Ebitda (Eu mn)	30	27	34	39	42
Net profit (Eu mn)	-3	-12	1	5	8
EPS - New (Eu)	-0.007	-0.033	0.003	0.014	0.020
EPS - Old (Eu)	-0.007	-0.033	-0.012	0.003	0.017
DPS (Eu)	0.000	0.000	0.000	0.000	0.000

Ratios & Multiples	2011A	2012A	2013E	2014E	2015E
P/E	nm	nm	35.9	8.0	5.4
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	3.8	3.9	3.6	3.1	2.8
ROCE	0.8%	-0.6%	4.5%	6.6%	7.7%

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RENO DE MEDICI - KEY FIGURES

		2011A	2012A	2013E	2014E	2015E
	Fiscal year end	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
PROFIT & LOSS (Eu mn)	Sales	507	466	490	517	543
	EBITDA	30	27	34	39	42
	EBIT	2	(1)	10	15	17
	Financial income (charges)	(7)	(7)	(6)	(6)	(6)
	Associates & Others	(1)	(3)	(1)	(1)	(1)
	Pre-tax profit (Loss)	(5)	(11)	3	8	10
	Taxes	4	(1)	0	(2)	(3)
	Tax rate (%)	-69.2%	6.3%	0.0%	-19.5%	-24.4%
	Minorities & discontinue activities	(1)	(0)	0	0	0
	Net profit	-3	-12	1	5	8
	Total extraordinary items	(4)	(6)	(2)	(1)	0
	Ebitda excl. extraordinary items	34	33	36	40	42
	Ebit excl. extraordinary items	2	(1)	10	15	17
Net profit restated	(3)	(12)	1	5	8	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	378	378	378	378	378
	EPS stated fd	-0.007	-0.033	0.003	0.014	0.020
	EPS restated fd	-0.007	-0.033	0.003	0.014	0.020
	BVPS fd	0.406	0.362	0.365	0.379	0.399
	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	25	16	27	30	32
	Change in NWC	28	6	(5)	(4)	(5)
	Capital expenditure	(24)	(18)	(19)	(20)	(21)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	29	4	3	7	7
	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	20	0	1	5	5	
BALANCE SHEET (Eu mn)	Total fixed assets	252	238	238	236	237
	Net working capital	48	42	47	51	55
	Long term liabilities	(60)	(57)	(62)	(63)	(66)
	Net capital employed	240	223	223	224	226
	Net financial position	(87)	(86)	(85)	(81)	(76)
	Group equity	153	137	138	143	151
	Minorities	1	1	1	1	1
Net equity	154	137	138	144	151	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	41	41	41	41	41
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(87)	(86)	(85)	(81)	(76)
	Enterprise value	128	128	127	122	117
RATIOS(%)	EBITDA margin*	6.7%	7.1%	7.3%	7.7%	7.7%
	EBIT margin*	0.4%	nm	2.1%	2.9%	3.2%
	Gearing - Debt/equity	56.5%	63.1%	62.0%	56.4%	50.2%
	Interest cover on EBIT	0.3	nm	1.7	2.4	2.9
	Debt/Ebitda	2.88	3.19	2.54	2.08	1.81
	ROCE*	0.8%	-0.6%	4.5%	6.6%	7.7%
	ROE*	-1.6%	-8.5%	0.8%	3.7%	5.2%
	EV/CE	0.5	0.6	0.6	0.5	0.5
	EV/Sales	0.3	0.3	0.3	0.2	0.2
	EV/Ebit	20.5	28.9	15.6	8.9	6.8
	Free Cash Flow Yield	71.0%	10.7%	6.7%	16.5%	16.8%
GROWTH RATES (%)	Sales	0.7%	-8.0%	5.0%	5.6%	5.1%
	EBITDA*	-14.8%	-3.5%	8.3%	11.5%	5.1%
	EBIT*	-82.3%	nm	nm	45.5%	17.2%
	Net profit	nm	nm	nm	350.7%	48.6%
	EPS restated	nm	nm	nm	350.7%	48.6%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Results

Reno de Medici - Quarterly Results

(€ mn)		Q2'12A	Q2'13A	YoY	Q2'13E	A v E
Sales		120.8	122.1	1.1%	126.0	-3.1%
	Yoy Growth		1.1%		4.3%	
Volumes ('000)		215	228	6.0%	230	-0.9%
	Yoy Growth		6.0%		7.0%	
Average Prices (Eu)		562	536	-4.7%	548	-2.2%
	Yoy Growth		-4.7%		-2.5%	
Other Revenues		2.5	2.4		2.0	
Cost of Raw Materials		(97.1)	(96.2)		(99.0)	
	as a % of total sales	-80.4%	-78.8%		-78.6%	
Labour Costs		(18.4)	(18.4)		(18.4)	
Other Operating		(1.0)	(1.4)		(1.2)	
EBITDA		6.8	8.5	23.9%	9.4	-9.8%
	Margin %	5.7%	6.9%		7.5%	
Depreciations		(6.6)	(6.2)		(6.4)	
Wright offs		0.0	0.0		0.0	
EBIT		0.2	2.3	n.m.	3.0	-23.0%
	Margin %	0.2%	1.9%		2.4%	
Financials and associates		(1.7)	(1.6)		(2.0)	
Pre Tax Profit		(1.4)	0.7	n.m.	1.0	-29.0%
Taxes		(0.3)	(0.2)		0.0	
Minorities		(0.1)	0.0		0.0	
Group Net Profit		(1.8)	0.5	n.m.	1.0	-52.9%

Source: Company data and Intermonte Sim

Outlook

From the company's press release:

"The outlook for the remainder of 2013 is related to the macroeconomic and sector scenario with a possible recovery of volumes sold in 2014. The flow of orders, however, is expected to be satisfactory. Revenues and margins should benefit from the increases in the price schedule recently prepared. As far as the trend in costs for the main production factors is concerned, recovered fibre prices could only increase in the event of a recovery of exports towards China, which, as of today, does not seem probable on the base of forecasts on the evolution of Chinese internal consumption. Furthermore it's reasonable to expect a decrease in energy costs (natural gas and electricity), due to current excess of supply of energy products and services."

Estimates

Reno de Medici - Change in estimates

(€ mn)	2013 old	2013 new	change %	2014 old	2014 new	change %	2015 old	2015 new	change %
Sales	480.4	489.8	2.0%	504.6	517.1	2.5%	525.0	543.2	3.5%
YoY growth %	3.0%	5.0%		5.0%	5.6%		2.5%	2.5%	
EBITDA Adjusted	36.2	35.6	-1.6%	39.8	39.7	-0.1%	41.5	41.8	0.6%
Ebit da margin %	7.5%	7.3%		7.9%	7.7%		7.9%	7.7%	
EBITDA	33.2	33.6	1.3%	37.8	38.7	2.5%	40.5	41.8	3.1%
Ebit da margin %	6.9%	6.9%		7.5%	7.5%		7.7%	7.7%	
Total D&A	(27.0)	(25.5)		(26.5)	(25.0)		(26.0)	(24.5)	
EBIT	6.2	8.1	30.9%	11.3	13.7	21.6%	14.5	17.3	19.1%
Ebit margin %	1.3%	1.7%		2.2%	2.7%		2.8%	3.2%	
Net financials & Participations	(7.4)	(7.0)		(6.6)	(7.0)		(5.8)	(7.1)	
Pre Tax profit	(1.2)	1.2	n.m.	4.7	6.7	42.0%	8.7	10.2	17.7%
Taxes	0.0	0.0		(0.5)	(1.5)		(2.2)	(2.5)	
Minorities	0.0	0.0		0.0	0.0		0.0	0.0	
Group Net Profit	(1.2)	1.2	n.m.	4.2	5.2	23.3%	6.5	7.7	19.1%

Source: Company data & Intermonte Sim

Financials

Reno de Medici Basic Assumptions

	2007A	2008A	2009A	2010A	2011A	2012A	2013E	2014E	2015E
Volumes (k)	664.0	889.0	846.0	946.0	878.0	834.0	867.4	902.1	929.1
YoY growth %		33.9%	-4.8%	11.8%	-7.2%	-5.0%	4.0%	4.0%	3.0%
Average selling price (Eu/ton)	516	507	506	532	578	559	565	573	585
YoY growth %		-1.6%	-0.3%	5.2%	8.5%	-3.2%	1.0%	1.5%	2.0%
Sales (Eu mn)	342.5	451.1	428.1	503.6	507.1	466.3	489.8	517.1	543.2
YoY growth %		31.7%	-5.1%	17.6%	0.7%	-8.0%	5.0%	5.6%	5.1%
Raw material costs (Eu mn)	139.7	181.7	169.4	230.5	238.8	203.0	205.0	207.0	209.0
YoY growth %		30.1%	-6.8%	36.1%	3.6%	-15.0%	1.0%	1.0%	1.0%
as a % of sales									
Energy (Eu mn)	55.2	77.4	60.6	59.4	65.4	73.0	67.0	67.0	68.0
YoY growth %		40.3%	-21.8%	-1.9%	10.1%	11.6%	-8.2%	0.0%	1.5%
as a % of sales									
SPREAD (Eu/ton)*	305	303	306	289	306	316	328	344	360
SPREAD (Eu mn)	77.5	93.9	99.7	106.1	97.6	88.0	98.8	104.6	108.2

Source: Company data & Intermonte Sim

* SPREAD = (Sales - Raw materials costs) / Volumes

Reno de Medici P&L

(€ mn)	2007A	2008A	2009A	2010A	2011A	2012A	2013E	2014E	2015E
Sales	342.5	451.1	428.1	503.6	507.1	466.3	489.8	517.1	543.2
YoY growth %	9.1%	31.7%	-5.1%	17.6%	0.7%	-8.0%	5.0%	5.6%	2.5%
EBITDA Adjusted					34.1	32.9	35.6	39.7	41.8
Ebitda Adj. margin %					6.7%	7.1%	7.3%	7.7%	7.7%
EBITDA	29.6	19.1	32.2	40.0	30.0	27.0	33.6	38.7	41.8
Ebitda margin %	8.7%	4.2%	7.5%	7.9%	5.9%	5.8%	6.9%	7.5%	7.7%
D&A and Provisions	(19.0)	(26.7)	(27.3)	(28.0)	(27.9)	(28.5)	(25.5)	(25.0)	(24.5)
EBIT	10.6	(7.6)	4.9	12.0	6.2	4.4	8.1	13.7	17.3
Ebit margin %	3.1%	-1.7%	1.1%	2.4%	1.2%	0.9%	1.7%	2.7%	3.2%
Net financials & Participations	(7.6)	(11.7)	(10.2)	(6.8)	(7.6)	(10.0)	(7.0)	(7.0)	(7.1)
Pre Tax profit	3.0	1.9	(5.3)	5.2	(1.4)	(5.6)	1.2	6.7	10.2
Taxes	0.8	(2.1)	(1.3)	(3.2)	3.8	(0.7)	0.0	(1.5)	(2.5)
Minorities	(0.3)	(0.2)	(0.4)	(0.7)	(0.8)	(0.1)	0.0	0.0	0.0
Group Net Profit	1.4	(6.4)	(6.9)	1.4	(2.5)	(12.3)	1.2	5.2	7.7

Source: Company data & Intermonte Sim

Reno de Medici Cash Flow

(€ mn)	2007A	2008A	2009A	2010A	2011A	2012A	2013E	2014E	2015E
Net Income	1.7	(6.2)	(6.5)	2.0	-1.7	-12.2	1.2	5.2	7.7
D&A	18.4	25.0	26.7	26.1	27.5	26.3	24.5	24.0	23.5
Other non-cash items	0.0	1.7	0.6	1.9	0.4	2.2	1.0	1.0	1.0
Op. Cash Flow	20.1	20.5	20.7	30.0	26.2	16.3	26.7	30.2	32.2
Change in NWC	8.5	(18.4)	5.7	6.3	27.8	6.1	(5.3)	(3.7)	(4.6)
Capex	(17.8)	(16.9)	(19.7)	(15.8)	(23.7)	(17.8)	(18.6)	(19.6)	(20.6)
Acquisitions	0.0	0.0	(4.7)	(0.2)	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	(0.9)	(3.3)	0.0	(10.9)	0.3	(2.0)	(2.0)	(2.0)
Net Cash Flow	10.5	(12.9)	(2.6)	24.4	19.9	0.3	0.8	4.8	5.0
Initial NFP	(125.8)	(115.3)	(128.3)	(130.8)	(106.5)	(86.6)	(86.3)	(85.5)	(80.6)
Final NFP	(115.3)	(128.3)	(130.8)	(106.5)	(86.6)	(86.3)	(85.5)	(80.6)	(75.7)

Source: Company data & Intermonte Sim

Reno de Medici Balance Sheet

(€ mn)	2007A	2008A	2009A	2010A	2011A	2012A	2013E	2014E	2015E
Net Working Capital	69.4	87.7	82.0	75.7	47.9	41.9	47.1	50.8	55.4
Net Fixed Assets	191.0	270.6	269.2	257.0	251.8	238.0	237.9	235.6	236.7
Other assets/liabilities	(30.0)	(69.1)	(65.6)	(69.7)	(59.9)	(56.9)	(61.7)	(62.7)	(65.7)
Net Capital Employed	230.3	289.3	285.7	263.0	239.9	223.0	223.3	223.7	226.5
Net Debt	(115.3)	(128.3)	(130.8)	(106.5)	(86.6)	(86.3)	(85.5)	(80.6)	(75.7)
Group's Net Equity	115.0	161.0	154.8	156.6	153.3	136.7	137.9	143.1	150.8
Gearing (%)	100.3%	79.7%	84.5%	68.0%	56.5%	63.1%	62.0%	56.4%	50.2%
Leverage (x)	3.9	6.7	4.1	2.7	2.9	3.2	2.5	2.1	1.8

Source: Company data & Intermonte Sim

RENO DE MEDICI Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
RENO DE MEDICI	0.1	EUR	41.4	2.8%	-8.6%	-20.5%	-28.9%	-6.2%	-48.3%
HOLMEN	192.2	EUR	16,144.1	5.6%	7.2%	-1.1%	-0.1%	6.5%	19.5%
MAYR-MELNHOF	83.0	EUR	1,660.0	-1.2%	-0.6%	-2.9%	2.6%	15.1%	18.1%
METSA	2.5	EUR	820.4	0.0%	3.3%	9.6%	12.6%	15.7%	70.1%
UPM KYMMENE	9.1	EUR	4,790.1	22.5%	12.4%	3.8%	3.4%	3.1%	11.4%
Mean performance				5.9%	2.7%	-2.2%	-2.1%	6.8%	14.1%
Italy Fixed	16,683.2	EUR	194,874	7.4%	-1.1%	0.5%	2.5%	16.3%	4.2%

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
				2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
RENO DE MEDICI	0.1	EUR	41.4	0.3	0.2	3.6	3.1	15.6	8.9	35.9	8.0	0.0%	0.0%
HOLMEN	192.2	EUR	16,144.1	1.4	1.3	9.6	8.0	21.7	15.4	23.6	17.0	4.6%	5.1%
MAYR-MELNHOF	83.0	EUR	1,660.0	0.7	0.6	5.3	4.8	8.0	7.1	13.7	12.5	2.8%	2.9%
METSA	2.5	EUR	820.4	0.7	0.7	6.9	6.2	13.6	11.4	21.6	13.6	2.8%	3.3%
UPM KYMMENE	9.1	EUR	4,790.1	0.8	0.8	7.1	6.4	14.2	11.7	12.1	11.0	6.6%	6.6%
Median				0.7	0.7	6.9	6.2	14.2	11.4	21.6	12.5	2.8%	3.3%

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

RENO DE MEDICI - Estimates Comparison with Consensus

(Eu mn)	2013			2014		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
Revenues	489.8	480.0	2.0%	517.1	505.0	2.4%
Ebitda	33.6	33.0	1.9%	38.7	38.0	2.0%
Net Profit	1.2	(5.0)	-123.1%	5.2	1.0	419.9%
EPS	0.0	(0.0)	-125.4%	0.0	0.0	358.7%
Net Debt	(85.5)	(87.0)	-1.8%	(80.6)	(81.0)	-0.5%

Source: Intermonte SIM estimates and Factset consensus estimates

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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.

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DETAILS ON STOCKS RECOMMENDATION

Stock NAME	RENO DE MEDICI		
Current Recomm:	OUTPERFORM	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:	07/08/2013	Date of last report:	18/06/2013

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