

RENO DE MEDICI

NEUTRAL

Price (Eu): **0.28**

Target Price (Eu): **0.19**

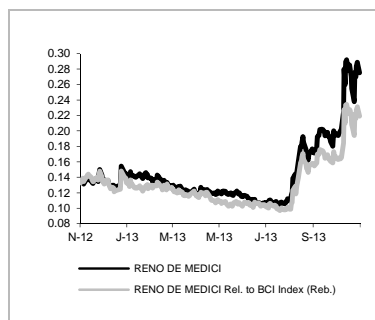
SECTOR: *Industrials*

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Improving Quarterly Results, But Stock Now Too Expensive

- 3Q13 results: rising profitability, positive cash generation.** Reno de Medici reported sales of Eu109.1mn in 3Q13, -2.0% YoY and -10.7% QoQ. Volumes sold reached 198,000 tons, -2.0% YoY and -13.2% QoQ, with an average sales price of Eu551 per ton, flat YoY and +2.8% QoQ. Demand in Europe for white lined chipboard packaging grew 4% YoY in 3Q13. EBITDA came in at Eu8.4mn, up +53.8% YoY. Profitability improved by 280bps to 7.7% due to higher sales prices implemented by the company, lower overseas sales, and stable energy and raw material costs. EBITDA was 14.4% above our estimate. Lower than forecast depreciations and net financial charges led to a group net profit of Eu0.3mn in 3Q13 (from a net loss of Eu3.1mn in 3Q12). Finally, in 3Q13 Reno de Medici's net debt decreased from Eu87.9mn at the end of June to Eu85.4mn at the end of September, mainly due to higher EBITDA.
- Outlook: 4Q13 expected flat, demand recovery in 2014.** According to the company, "given the satisfactory level of orders and the consequent appreciable backlog, added to which is the stability of prices of raw materials and energy components, the outlook for the fourth quarter of 2013 is expected to be in line with the figures recorded in the previous quarters". Demand is expected to pick up in 2014.
- 2013-15 estimates: EBITDA broadly unchanged, net profit revised upwards.** Following 3Q13 results we have revised our 2013-2015 sales downwards due to lower than expected average selling prices. As a result of lower raw material prices and energy costs, however, we have left our EBITDA estimates broadly unchanged. Based on lower depreciation and net financial charges, we have increased our forecast for group net profit by 21.5% on average in the 2013-15 period. We expect net debt to decrease to Eu75.7mn by the end of 2015.
- Downgrade to NEUTRAL on valuation grounds, target price lifted to Eu0.19.** In August 2013 we turned positive on the stock as: i) the restructuring of the industrial footprint was completed; ii) there was relatively high visibility on the order intake; and iii) planned increases in selling prices and lower input costs (both for fibres and energy) were delivering higher profitability. Since then, the share price has more than doubled (approx. +160%) showing an extremely high degree of volatility. We believe the share price has now outrun fundamentals, and we are therefore downgrading the stock to NEUTRAL. Due to the cyclical nature of the business and the low visibility on future cashflow, we have decided to value Reno de Medici using an Economic Profit model (EV/ROACE). Our model, based on increasing profitability and stable capital employed, yields a fair value of Eu0.19 per share. We highlight that higher investments should increase ROCE, closing the gap with the best-in-class Mayr-Melnhof (its cartonboard business yields a high double-digit ROCE) and thus supporting a higher valuation.

RENO DE MEDICI - 12m Performance



RATING: from OUTPERFORM to NEUTRAL

TARGET PRICE (Eu): from 0.15 to 0.19

Change in EPS est: 2013E 2014E
20.1% 26.6%

STOCK DATA

Reuters code: RDM.MI
Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	41.0%	151.6%	100.6%
Relative	35.0%	135.7%	76.5%
12 months H/L:	0.29/0.10		

SHAREHOLDER DATA

No. of Ord. shares (mn):	378
Total No. of shares (mn):	378
Mkt Cap Ord (Eu mn):	104
Total Mkt Cap (Eu mn):	104
Mkt Float - ord (Eu mn):	42
Mkt Float (in %):	40.0%
Main shareholder:	
Cascades	40.0%

BALANCE SHEET DATA

Book value (Eu mn):	139
BVPS (Eu):	0.37
P/BV:	0.8
Net Financial Position (Eu mn):	-85
Enterprise value (Eu mn):	189

Key Figures	2011A	2012A	2013E	2014E	2015E
Sales (Eu mn)	507	466	470	496	522
Ebitda (Eu mn)	30	27	34	39	42
Net profit (Eu mn)	-3	-6	1	7	9
EPS - New (Eu)	-0.005	-0.017	0.004	0.017	0.024
EPS - Old (Eu)	-0.007	-0.033	0.003	0.014	0.020
DPS (Eu)	0.000	0.000	0.000	0.000	0.000

Ratios & Multiples	2011A	2012A	2013E	2014E	2015E
P/E	nm	nm	74.9	15.8	11.4
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	6.3	5.8	5.3	4.6	4.3
ROCE	0.8%	1.9%	3.8%	6.8%	8.1%

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RENO DE MEDICI - KEY FIGURES

	2011A	2012A	2013E	2014E	2015E	
	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015	
Fiscal year end						
PROFIT & LOSS (Eu mn)	Sales	507	466	470	496	522
	EBITDA	30	27	34	39	42
	EBIT	2	4	8	15	18
	Financial income (charges)	(7)	(7)	(7)	(7)	(6)
	Associates & Others	(1)	(3)	(0)	0	0
	Pre-tax profit (Loss)	(6)	(6)	1	9	12
	Taxes	4	(1)	0	(2)	(3)
	Tax rate (%)	-63.9%	13.0%	0.0%	-23.3%	-24.8%
	Minorities & discontinue activities	(0)	(0)	0	0	0
	Net profit	-3	-6	1	7	9
	Total extraordinary items	0	(6)	(2)	(1)	0
	Ebitda excl. extraordinary items	30	33	36	40	42
	Ebit excl. extraordinary items	2	4	8	15	18
	Net profit restated	(2)	(6)	1	7	9
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	378	378	378	378	378
	EPS stated fd	-0.007	-0.017	0.004	0.017	0.024
	EPS restated fd	-0.005	-0.017	0.004	0.017	0.024
	BVPS fd	0.406	0.362	0.366	0.383	0.407
	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	22	27	31	33
	Change in NWC	28	6	(5)	(4)	(4)
	Capital expenditure	(24)	(18)	(18)	(19)	(20)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	49	0	1	5	5
	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	49	0	1	5	5
BALANCE SHEET (Eu mn)	Total fixed assets	252	238	237	234	234
	Net working capital	48	42	47	51	55
	Long term liabilities	(60)	(57)	(60)	(60)	(60)
	Net capital employed	240	223	224	225	229
	Net financial position	(87)	(86)	(85)	(81)	(76)
	Group equity	153	137	138	145	154
	Minorities	1	1	1	1	1
	Net equity	154	137	139	145	154
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	104	104	104	104	104
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(87)	(86)	(85)	(81)	(76)
	Enterprise value	190	190	189	185	180
RATIOS(%)	EBITDA margin*	5.9%	7.1%	7.6%	8.1%	8.0%
	EBIT margin*	0.4%	0.9%	1.8%	3.1%	3.5%
	Gearing - Debt/equity	56.5%	63.1%	61.9%	55.7%	49.2%
	Interest cover on EBIT	0.3	0.6	1.2	2.3	2.9
	Debt/Ebitda	2.88	3.19	2.51	2.06	1.81
	ROCE*	0.8%	1.9%	3.8%	6.8%	8.1%
	ROE*	-1.6%	-4.4%	1.0%	4.6%	6.1%
	EV/CE	0.8	0.8	0.8	0.8	0.8
	EV/Sales	0.4	0.4	0.4	0.4	0.3
	EV/Ebit	nm	nm	22.5	12.1	9.8
	Free Cash Flow Yield	47.4%	0.3%	0.8%	4.7%	4.7%
GROWTH RATES (%)	Sales	0.7%	-8.0%	0.8%	5.6%	5.1%
	EBITDA*	-25.0%	9.7%	7.9%	13.3%	4.1%
	EBIT*	-82.3%	107.3%	90.5%	80.9%	20.6%
	Net profit	nm	nm	nm	374.7%	38.3%
	EPS restated	nm	nm	nm	374.7%	38.3%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Results

Reno de Medici - Quarterly Results

(€ mn)		Q3'12A	Q3'13A	YoY	Q3'13E	A v E
Sales		111.3	109.1	-2.0%	114.3	-4.6%
	Yoy Growth		-2.0%		1.5%	
Volumes ('000)		202	198	-2.0%	206	-3.9%
	Yoy Growth		-2.0%		2.0%	
Average Prices (Eu)		551	551	0.0%	557	-1.1%
	Yoy Growth		0.0%		-0.5%	
Other Revenues		1.8	3.5		1.8	
COGS		(89.2)	(86.4)		(89.3)	
	<i>as a % of total sales</i>	-80.1%	-79.2%		-79.0%	
Labour Costs		(17.4)	(16.7)		(17.4)	
Other Operating		(1.1)	(1.1)		(1.2)	
EBITDA		5.4	8.4	53.8%	7.3	14.4%
	<i>Margin %</i>	4.9%	7.7%		6.1%	
Depreciations		(6.6)	(6.0)		(6.2)	
Write offs		0.0	0.0		0.0	
EBIT		(1.2)	2.3	n.m.	1.1	109.4%
	<i>Margin %</i>	-1.0%	2.1%		0.6%	
Financials and associates		(2.6)	(1.9)		(1.6)	
Pre Tax Profit		(3.8)	0.4	n.m.	(0.5)	n.m.
Taxes		0.7	(0.3)		0.0	
Minorities		(0.0)	(0.1)		0.0	
Group Net Profit		(3.1)	0.3	n.m.	(0.5)	n.m.

Source: Company data and Intermonte Sim

Outlook

From the company's press release: "Given the satisfactory level of orders and the consequent appreciable backlog, added to which is the stability of prices of raw materials and energy components, the outlook for the fourth quarter of 2013 is expected to be in line with the figures recorded in the previous quarters".

Estimates

Reno de Medici - Change in estimates

(€ mn)	2013 old	2013 new	change %	2014 old	2014 new	change %	2015 old	2015 new	change %
Sales	489.8	470.0	-4.0%	517.1	496.5	-4.0%	543.2	521.6	-4.0%
YoY growth %	5.0%	0.8%		5.6%	5.6%		5.1%	5.1%	
EBITDA Adjusted	35.6	35.5	-0.3%	39.7	40.2	1.2%	41.8	41.9	0.2%
Ebitda margin %	7.3%	7.6%		7.7%	8.1%		7.7%	8.0%	
EBITDA	33.6	34.0	1.1%	38.7	39.2	1.2%	41.8	41.9	0.2%
Ebitda margin %	6.9%	7.2%		7.5%	7.9%		7.7%	8.0%	
Total D&A	(25.5)	(25.6)		(25.0)	(24.0)		(24.5)	(23.5)	
EBIT	8.1	8.4	3.4%	13.7	15.2	10.8%	17.3	18.4	6.2%
Ebit margin %	1.7%	1.8%		2.7%	3.1%		3.2%	3.5%	
Net financials & Participations	(7.0)	(7.0)		(7.0)	(6.6)		(7.1)	(6.3)	
Pre Tax profit	1.2	1.4	20.1%	6.7	8.6	28.1%	10.2	12.1	18.3%
Taxes	0.0	0.0		(1.5)	(2.0)		(2.5)	(3.0)	
Minorities	0.0	0.0		0.0	0.0		0.0	0.0	
Group Net Profit	1.2	1.4	20.1%	5.2	6.6	26.6%	7.7	9.1	17.8%
Net Debt	(85.5)	(85.5)	0.0%	(80.6)	(80.6)	0.0%	(75.7)	(75.7)	0.0%

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	863.0	897.5	924.4
YoY growth %		33.9%	-4.8%	11.8%	-7.2%	-5.0%	3.5%	4.0%	3.0%
Average selling price (Eu/ton)	516	507	506	532	578	559	545	553	564
YoY growth %		-1.6%	-0.3%	5.2%	8.5%	-3.2%	-2.5%	1.5%	2.0%
Sales (Eu mn)	342.5	451.1	428.1	503.6	507.1	466.3	470.0	496.5	521.6
YoY growth %		31.7%	-5.1%	17.6%	0.7%	-8.0%	0.8%	5.6%	5.1%
Raw materials (Eu mn)	139.7	181.7	169.4	230.5	238.8	214.0	216.7	228.4	238.9
YoY growth % as a % of sales		30.1%	-6.8%	36.1%	3.6%	-10.4%	1.2%	5.4%	4.6%
Energy (Eu mn)	55.2	77.4	60.6	59.4	65.4	69.2	62.5	64.5	67.8
YoY growth % as a % of sales		40.3%	-21.8%	-1.9%	10.1%	5.8%	-9.7%	3.2%	5.1%
SPREAD (Eu/ton)*	305.4	303.0	305.8	288.7	305.6	302.5	293.6	298.7	305.8
SPREAD (Eu mn)	202.8	269.4	258.7	273.1	268.3	252.3	253.3	268.1	282.7

Source: Company data & Intermonte Sim * SPREAD = (Sales - Raw Materials) / 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	470.0	496.5	521.6
YoY growth %	9.1%	31.7%	-5.1%	17.6%	0.7%	-8.0%	0.8%	5.6%	5.1%
EBITDA Adjusted	29.6	18.8	31.0	40.0	30.0	32.9	35.5	40.2	41.9
Ebitda Adj. margin %	8.6%	4.2%	7.2%	7.9%	5.9%	7.1%	7.6%	8.1%	8.0%
EBITDA	29.6	40.0	31.0	40.0	30.0	27.0	34.0	39.2	41.9
Ebitda margin %	8.6%	8.9%	7.2%	7.9%	5.9%	5.8%	7.2%	7.9%	8.0%
D&A and Provisions	(19.7)	(25.7)	(27.3)	(28.0)	(27.9)	(28.5)	(25.6)	(24.0)	(23.5)
EBIT	9.9	14.4	3.8	12.0	2.1	4.4	8.4	15.2	18.4
Ebit margin %	2.9%	3.2%	0.9%	2.4%	0.4%	0.9%	1.8%	3.1%	3.5%
Net financials & Participations	(7.4)	(11.7)	(9.5)	(7.5)	(8.1)	(10.0)	(7.0)	(6.6)	(6.3)
Pre Tax profit	2.3	2.7	(5.3)	5.2	(5.5)	(5.6)	1.4	8.6	12.1
Taxes	0.3	(2.1)	(1.3)	(3.2)	3.8	(0.7)	0.0	(2.0)	(3.0)
Minorities	(0.3)	(0.3)	(0.4)	(0.7)	(0.3)	(0.1)	0.0	0.0	0.0
Group Net Profit	0.6	(6.4)	(6.9)	1.4	(2.5)	(6.4)	1.4	6.6	9.1

Source: Company data & Intermonte Sim

Reno de Medici Cash Flow

(€ mn)	2007A	2008A	2009A	2010A	2011A	2012A	2013E	2014E	2015E
Net Income	0.8	(6.2)	(6.6)	2.0	-2.2	-6.3	1.4	6.6	9.1
D&A	19.1	23.9	26.7	26.1	27.5	26.3	24.6	24.0	23.5
Other non-cash items	0.0	1.7	0.6	1.9	0.4	2.2	1.0	0.0	0.0
Op. Cash Flow	19.9	19.5	20.7	30.0	25.7	22.2	27.0	30.6	32.6
Change in NWC	8.5	(18.4)	5.7	6.3	27.8	6.1	(5.1)	(4.0)	(4.0)
Capex	(17.8)	(16.9)	(19.7)	(15.8)	(23.7)	(17.8)	(17.9)	(18.9)	(19.8)
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	0.5	1.7	(4.6)	4.0	19.5	(17.5)	(3.2)	(2.9)	(3.8)
Net Cash Flow	11.1	(14.1)	(2.6)	24.4	49.2	0.3	0.8	4.8	4.9
Initial NFP	(125.8)	(114.1)	(128.5)	(130.8)	(135.8)	(86.6)	(86.3)	(85.5)	(80.6)
Final NFP	(114.1)	(128.5)	(130.8)	(135.8)	(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	47.0	51.0	55.0
Net Fixed Assets	190.3	270.7	269.2	257.0	251.8	238.0	237.1	233.9	234.3
Other assets/liabilities	(30.6)	(68.8)	(65.6)	(69.7)	(59.9)	(56.9)	(60.5)	(59.6)	(59.8)
Net Capital Employed	229.1	289.5	285.7	263.0	239.9	223.0	223.6	225.3	229.5
Net Debt	(114.1)	(128.5)	(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	138.1	144.7	153.8
Gearing (%)	99.2%	79.8%	84.5%	68.0%	56.5%	63.1%	61.9%	55.7%	49.2%
Leverage (x)	3.9	3.2	4.2	2.7	2.9	3.2	2.5	2.1	1.8

Source: Company data & Intermonte Sim

Valuation

Because of the cyclicity of the business and the low visibility of future cash flows, we decided to value Reno de Medici using an Economic Profit model (EV/ROACE) based on our 2015 estimates.

At our target price (Eu0.19) Reno de Medici would be trading at 4.7x EV/EBITDA 2014E and 4.0x EV/EBITDA 2015E, with respectively a 9,9% and 13,8% discount to Mayr-Melnhof. We deem the discount to be justified by the higher ROCE attained by Mayr-Melnhof.

Reno de Medici Ev/Roace

	2014E	2015E
<i>Capital Employed - year average</i>	225.3	229.5
<i>Ebit</i>	15.2	18.4
<i>ROACE</i>	6.8%	8.1%
	<i>Tax load ratio (%)</i> 23.3%	24.8%
<u><i>ROACEAT</i></u>	<u>5.2%</u>	<u>6.1%</u>
<i>WACC</i>	8.9%	9.0%
<i>TG</i>	0.0%	0.0%
<u><i>Required return</i></u>	<u>8.9%</u>	<u>9.0%</u>
<i>EV / CE</i>	0.6	0.7
<i>Enterprise Value (€ mn)</i>	131.1	154.4
<i>NFP (-)</i>	(80.6)	(75.7)
<i>(+) minorities</i>	0.0	0.0
<i>Fair Value (€ mn)</i>	50.5	78.7
<i>Fair value per share (€)</i>	0.16	0.21
<i>Number of shares</i>	377.8	377.8
<i>Actualized Value</i>		0.19

Source: Intermonte Sim

RENO DE MEDICI Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
RENO DE MEDICI	0.3	EUR	103.9	41.0%	144.7%	125.4%	78.3%	100.6%	65.6%
HOLMEN	218.0	SEK	18,476.8	7.0%	13.1%	21.4%	13.3%	10.3%	17.1%
MAYR-MELNHOF	81.4	EUR	1,628.4	-0.8%	-1.9%	-1.8%	0.7%	4.5%	18.7%
METSA	2.9	EUR	958.2	7.7%	14.5%	21.7%	31.5%	35.8%	107.1%
STORA ENSO OYJ	7.5	EUR	5,568-	14.4%	24.9%	34.3%	37.9%	43.1%	45.3%
UPM KYMMENE	12.1	EUR	6,410.4	19.6%	44.7%	50.1%	37.8%	42.9%	42.3%
Mean performance				14.8%	40.0%	41.9%	33.2%	39.5%	49.4%
Italy Fixed	19,310.7	EUR	229,808	5.5%	15.1%	14.1%	18.7%	22.5%	25.8%

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	0.3	EUR	103.9	0.4	0.4	5.3	4.6	22.5	12.1	74.9	15.8	0.0%	0.0%
HOLMEN	218.0	SEK	18,476.8	1.5	1.5	10.0	8.4	21.7	15.3	24.2	17.0	4.1%	4.5%
MAYR-MELNHOF	81.4	EUR	1,628.4	0.7	0.6	5.2	4.7	7.9	7.1	13.4	12.4	2.8%	3.0%
METSA	2.9	EUR	958.2	0.8	0.7	7.6	6.7	15.0	12.3	25.6	15.6	2.5%	2.8%
STORA ENSO OYJ	7.5	SEK	5,568	0.8	0.8	8.1	6.8	17.1	12.4	21.3	14.2	4.3%	4.3%
UPM KYMMENE	12.1	EUR	6,410.4	1.0	0.9	8.3	7.5	16.5	13.5	14.5	13.5	4.9%	5.0%
Median				0.8	0.8	7.9	6.8	16.8	12.3	22.8	14.9	3.5%	3.7%

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	470.0	490.0	-4.1%	496.5	517.0	-4.0%
Ebitda	34.0	34.0	0.0%	39.2	39.0	0.6%
Net Profit	1.4	1.0	38.6%	6.6	5.0	31.6%
EPS	0.0	0.0	#DIV/0!	0.0	0.0	74.3%
Net Debt	(85.5)	(85.0)	0.6%	(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:	NEUTRAL	Previous Recomm:	OUTPERFORM
Current Target (Eu):	0.19	Previous Target (Eu):	0.15
Current Price (Eu):	0.28	Previous Price (Eu):	0.12
Date of report:	05/11/2013	Date of last report:	07/08/2013

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