

# RENO DE MEDICI

# BUY

Price (Eu):

0.36

Target Price (Eu):

0.50

SECTOR: Industrials

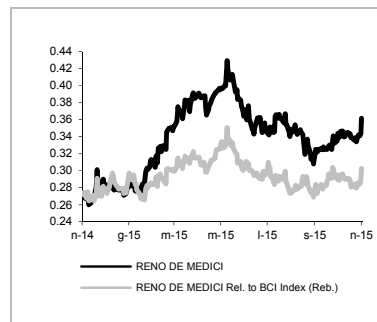
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## Solid Quarterly Results And Strong Outlook: We Remain Positive

- Solid 3Q15 results, beating our estimates.** Reno De Medici reported 3Q15 revenues of Eu108.7mn, up 7.2% YoY. The difference from our estimate was mostly due to the deconsolidation of the Spanish business. Volumes sold reached 201,000 tons, +5.2% YoY, with an implied average sales price of Eu541 per ton, +1.9% YoY. YTD demand for cartonboard has increased by 4.0% in Europe. Adjusted EBITDA (net of "white certificates" sales, which we estimate amounted to Eu1.4mn in 3Q14 and were nil in 3Q15) came in at Eu11.0mn, up 53.4% YoY and slightly above our estimate (Eu10.6mn). The margin on sales improved by 300bps YoY to 10.1%: it benefited from the price increase (effective from July) and lower energy costs. Net income was equal to Eu3.2mn, 7.6% above our estimate thanks to lower than forecast D&A expenses and tax rate. Finally, net debt decreased QoQ from Eu59.6mn to Eu55.0mn, turning out to be a touch better than our forecast (Eu55.5mn).
- Positive 4Q outlook, despite a slowdown in the order intake.** The company stated that "the order intake in Europe remained well above previous years' levels up to August, but after the customary mid-Summer slowdown the September pick up was much slower than expected. The order backlog, which reached very high levels in June and early July, started to decrease. Nevertheless, the overall outlook for 4Q remains positive, partly because raw material costs are declining and energy costs are set to remain stable at the very low levels witnessed in 3Q. In our opinion, the company exercised its customary caution.
- Estimates fine-tuned.** Following the release of 9M15 results, we have made minor changes to our 2015-17 EPS estimates: -3.6% in 2015, -3.0% in 2016, and -1.4% in 2017. In particular we have factored in higher raw material costs, while keeping our revenue estimates unchanged. We have lowered our assumptions on D&A and the tax rate. For the time being, we have not assumed another price increase on top of the one implemented in July. Having said that, we would expect management, which has been very disciplined on pricing, to react promptly if raw material costs remain at high levels. As for cash generation, the company is expected to reduce its net debt by around Eu12.0mn per year on average, reaching Eu27.9mn at the end of 2017.
- BUY reiterated; target price still Eu0.50.** We confirm our positive view on the stock. Our target price, based on an EV/ROACE model, remains unchanged at Eu0.50 per share. The macroeconomic environment is showing signs of improvement and demand for cartonboard has been increasing steadily. Since the structure is consolidated on a European level and price discipline is quite strong, we are confident that in the current scenario Reno's profitability might improve further. This would imply a higher ROCE, leading to a stock re-rating. At the current share price level, on average the FCF yield would equate to 9.3% in the 2015-17 period.

### RENO DE MEDICI - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): Unchanged

Change in EPS est:	2015E	2016E
	-3.6%	-3.0%

#### STOCK DATA

 Reuters code: RDM.MI  
 Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	5.1%	4.6%	31.8%
Relative	2.3%	9.8%	12.4%
12 months H/L:	0.43/0.26		

#### SHAREHOLDER DATA

No. of Ord. shares (mn):	378
Total No. of shares (mn):	378
Mkt Cap Ord (Eu mn):	136
Total Mkt Cap (Eu mn):	136
Mkt Float - ord (Eu mn):	43
Mkt Float (in %):	31.2%
Main shareholder:	
Cascades	57.6%

#### BALANCE SHEET DATA

	2015
Book value (Eu mn):	155
BVPS (Eu):	0.41
P/BV:	0.9
Net Financial Position (Eu mn):	-56
Enterprise value (Eu mn):	191

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on the last page of this report

Key Figures	2013A	2014A	2015E	2016E	2017E
Sales (Eu mn)	428	426	443	454	465
Ebitda (Eu mn)	39	41	44	49	54
Net profit (Eu mn)	2	5	13	16	20
EPS - New (Eu)	0.005	0.014	0.034	0.041	0.053
EPS - Old (Eu)		0.014	0.035	0.043	0.054
DPS (Eu)	0.000	0.000	0.000	0.000	0.000

Ratios & Multiples	2013A	2014A	2015E	2016E	2017E
P/E	76.9	25.5	10.6	8.7	6.8
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	5.6	5.5	4.3	3.8	3.1
ROCE	5.3%	8.9%	10.1%	12.5%	14.9%

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**RENO DE MEDICI - KEY FIGURES**

		2013A	2014A	2015E	2016E	2017E
	Fiscal year end	31/12/2013	31/12/2014	31/12/2015	31/12/2016	31/12/2017
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	428	426	443	454	465
	EBITDA	39	41	44	49	54
	EBIT	11	18	21	27	32
	Financial income (charges)	(6)	(5)	(4)	(4)	(3)
	Associates & Others	(1)	1	2	0	0
	Pre-tax profit (Loss)	4	14	18	23	30
	Taxes	1	(4)	(5)	(7)	(9)
	Tax rate (%)	27.6%	-27.6%	-29.0%	-32.0%	-32.0%
	Minorities & discontinue activities	3	5	0	0	0
	Net profit	2	5	13	16	20
	Total extraordinary items	2	5	0	2	2
	Ebitda excl. extraordinary items	37	36	44	47	52
	Ebit excl. extraordinary items	11	18	21	27	32
Net profit restated	2	5	13	16	20	
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	378	378	378	378	378
	EPS stated fd	0.005	0.014	0.034	0.041	0.053
	EPS restated fd	0.005	0.014	0.034	0.041	0.053
	BVPS fd	0.371	0.376	0.410	0.452	0.505
	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	26	23	36	38	42
	Change in NWC	2	(3)	(3)	(2)	(5)
	Capital expenditure	(15)	(20)	(16)	(17)	(17)
	Other cash items	3	6	(9)	(6)	(6)
	Free cash flow (FCF)	16	6	8	13	14
	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	16	6	8	13	14	
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	219	210	210	205	204
	Net working capital	40	43	46	47	52
	Long term liabilities	(48)	(47)	(45)	(39)	(37)
	Net capital employed	210	206	210	213	219
	Net financial position	(70)	(64)	(56)	(42)	(28)
	Group equity	140	142	155	170	191
	Minorities	1	0	0	0	0
Net equity	141	142	155	171	191	
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	136	136	136	136	136
	Adjustments (associate & minorities)	1	1	1	1	1
	Net financial position	(70)	(64)	(56)	(42)	(28)
	Enterprise value	206	199	191	177	163
<b>RATIOS(%)</b>	EBITDA margin*	8.5%	8.5%	10.0%	10.2%	11.2%
	EBIT margin*	2.7%	4.3%	4.7%	5.8%	6.9%
	Gearing - Debt/equity	50.2%	45.1%	35.9%	24.8%	14.6%
	Interest cover on EBIT	1.9	3.5	4.8	7.5	12.6
	Debt/Ebitda	1.81	1.55	1.26	0.87	0.52
	ROCE*	5.3%	8.9%	10.1%	12.5%	14.9%
	ROE*	1.3%	3.8%	8.7%	9.6%	11.1%
	EV/CE	0.9	1.0	0.9	0.8	0.8
	EV/Sales	0.5	0.5	0.4	0.4	0.3
	EV/Ebit	17.9	10.8	9.1	6.7	4.9
Free Cash Flow Yield	11.8%	4.6%	6.2%	9.8%	10.7%	
<b>GROWTH RATES (%)</b>	Sales	-8.1%	-0.5%	3.9%	2.5%	2.5%
	EBITDA*	11.1%	-1.1%	22.3%	5.0%	12.2%
	EBIT*	nm	60.4%	13.8%	26.3%	21.4%
	Net profit	nm	202.1%	140.4%	21.2%	29.0%
	EPS restated	nm	202.1%	140.4%	21.2%	29.0%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

## Results

### Reno de Medici – Quarterly Results

(Eu mn)	Q3'14A	Q3'15A	YoY	Q3'15E	A vs E	9M'14A	9M'15A	YoY	9M'15E	A v E
<b>Sales</b>	<b>101.4</b>	<b>108.7</b>	<b>7.2%</b>	<b>131.0</b>	<b>-17.0%</b>	<b>322.8</b>	<b>334.8</b>	<b>3.7%</b>	<b>357.0</b>	<b>-6.2%</b>
Volumes ('000)	191	201	5.2%	234	-14.1%	611	630	3.1%	663	-5.0%
Average Prices (Eu)	531	541	1.9%	560	-3.4%	528	531	0.6%	539	-1.3%
Other Revenues	1.6	1.4		1.9		5.4	4.5		5.0	
"White Certificates"	1.4	0.0		0.0		5.7	0.0		0.0	
Δ Finished Goods	(4.9)	0.8		(3.4)		(6.0)	(1.8)		(6.0)	
COGS	(74.7)	(83.3)	11.6%	(98.3)		(242.2)	(251.8)		(266.8)	
% on sales	-73.7%	-76.7%		-75.0%		-75.0%	-75.2%		-74.7%	
Personnel Costs	(15.4)	(15.2)	-1.4%	(19.6)		(48.8)	(47.6)		(52.0)	
% on sales	-15.2%	-14.0%		-14.9%		-15.1%	-14.2%		-14.6%	
Other Operating Costs	(0.8)	(1.3)		(1.0)		(3.2)	(4.0)		(3.7)	
% on sales	-0.7%	-1.2%		-0.8%		-1.0%	-1.2%		-1.0%	
<b>EBITDA</b>	<b>8.6</b>	<b>11.0</b>	<b>28.4%</b>	<b>10.6</b>	<b>3.9%</b>	<b>33.7</b>	<b>34.1</b>	<b>1.0%</b>	<b>33.6</b>	<b>1.2%</b>
% on sales	8.5%	10.1%		8.1%		10.4%	10.2%		9.4%	
<b>Adjusted EBITDA</b>	<b>7.2</b>	<b>11.0</b>	<b>53.4%</b>	<b>10.6</b>	<b>3.9%</b>	<b>28.0</b>	<b>34.1</b>	<b>21.5%</b>	<b>33.6</b>	<b>1.2%</b>
% on sales	7.1%	10.1%		8.1%		8.7%	10.2%		9.4%	
Depreciations	(5.6)	(5.7)		(6.1)		(16.9)	(16.9)		(17.2)	
Write offs	0.4	0.0		0.0		(0.0)	(1.3)		(1.3)	
<b>EBIT</b>	<b>3.4</b>	<b>5.3</b>	<b>55.5%</b>	<b>4.6</b>	<b>15.6%</b>	<b>16.8</b>	<b>15.9</b>	<b>-5.6%</b>	<b>15.1</b>	<b>4.7%</b>
% on sales	3.3%	4.9%		3.5%		5.2%	4.7%		4.2%	
Financials and associates	(0.7)	(0.7)		(1.0)		(3.1)	(1.9)		(2.2)	
<b>Pre Tax Profit</b>	<b>2.7</b>	<b>4.5</b>	<b>68.8%</b>	<b>3.5</b>	<b>28.8%</b>	<b>13.7</b>	<b>14.0</b>	<b>1.6%</b>	<b>12.9</b>	<b>7.8%</b>
Taxes	(0.7)	(0.9)		(0.6)		(2.5)	(3.0)		(2.8)	
Discontinued	(0.6)	(0.5)		(0.0)		(0.6)	(0.9)		(0.4)	
Minorities	0.2	0.2		0.1		0.1	0.1		0.0	
<b>Group Net Profit</b>	<b>1.2</b>	<b>3.2</b>	<b>155.3%</b>	<b>2.9</b>	<b>7.6%</b>	<b>10.4</b>	<b>10.0</b>	<b>-4.2%</b>	<b>9.8</b>	<b>2.3%</b>
<b>Net Debt</b>	<b>(68.8)</b>	<b>(55.0)</b>		<b>(55.5)</b>		<b>(68.8)</b>	<b>(55.0)</b>		<b>(55.5)</b>	

Source: Company data and Intermonte SIM estimates

## Change in Estimates

### Reno de Medici – Change In Estimates

Eu mn	2015 new	2015 old	change %	2016 new	2016 old	change %	2017 new	2017 old	change %
<b>Sales</b>	<b>442.9</b>	<b>442.9</b>	<b>0.0%</b>	<b>454.0</b>	<b>454.0</b>	<b>0.0%</b>	<b>465.5</b>	<b>465.5</b>	<b>0.0%</b>
YoY growth %	3.9%	3.9%		2.5%	2.5%		2.5%	2.5%	
<b>Volumes</b>	<b>824.3</b>	<b>824.3</b>	<b>0.0%</b>	<b>836.7</b>	<b>836.7</b>	<b>0.0%</b>	<b>849.2</b>	<b>849.2</b>	<b>0.0%</b>
YoY growth %	2.4%	2.4%		1.5%	1.5%		1.5%	1.5%	
<b>Average Prices</b>	<b>537.3</b>	<b>537.3</b>	<b>0.0%</b>	<b>542.7</b>	<b>542.7</b>	<b>0.0%</b>	<b>548.1</b>	<b>548.1</b>	<b>0.0%</b>
YoY growth %	1.5%	1.5%		1.0%	1.0%		1.0%	1.0%	
<b>EBITDA</b>	<b>44.3</b>	<b>46.2</b>	<b>-4.2%</b>	<b>48.5</b>	<b>50.0</b>	<b>-3.0%</b>	<b>54.2</b>	<b>54.9</b>	<b>-1.3%</b>
EBITDA margin %	10.0%	10.4%		10.7%	11.0%		11.6%	11.8%	
<b>EBITDA Adjusted (Ex. White Certificates)</b>	<b>44.3</b>	<b>46.2</b>	<b>-4.2%</b>	<b>46.5</b>	<b>48.0</b>	<b>-3.1%</b>	<b>52.2</b>	<b>52.9</b>	<b>-1.4%</b>
EBITDA Adjusted margin %	10.0%	10.4%		10.2%	10.6%		11.2%	11.4%	
<b>EBIT</b>	<b>21.0</b>	<b>22.4</b>	<b>-6.5%</b>	<b>26.5</b>	<b>27.5</b>	<b>-3.6%</b>	<b>32.2</b>	<b>32.9</b>	<b>-2.2%</b>
EBIT margin %	4.7%	5.1%		5.8%	6.1%		6.9%	7.1%	
<b>Group Net Profit</b>	<b>12.9</b>	<b>13.4</b>	<b>-3.6%</b>	<b>15.6</b>	<b>16.1</b>	<b>-3.0%</b>	<b>20.1</b>	<b>20.4</b>	<b>-1.4%</b>
<b>Net Debt</b>	<b>(55.6)</b>	<b>(55.0)</b>	<b>1.0%</b>	<b>(42.3)</b>	<b>(40.7)</b>	<b>4.0%</b>	<b>(27.9)</b>	<b>(25.9)</b>	<b>7.7%</b>

Source: Intermonte SIM estimates

## Valuation

### Reno de Medici – Valuation

	2015E	2016E	2017E
Capital Employed - year average	210.4	212.8	218.5
Ebit	21.0	26.5	32.2
ROACE	10.1%	12.5%	14.9%
Tax load ratio (%)	29.0%	32.0%	32.0%
<b>ROACEAT</b>	<b>7.2%</b>	<b>8.5%</b>	<b>10.1%</b>
<b>WACC</b>	<b>7.2%</b>	<b>7.4%</b>	<b>7.5%</b>
TG	0.5%	0.5%	0.5%
Required return	6.7%	6.9%	7.0%
EV / CE	1.1	1.2	1.4
<b>Enterprise Value (Eu mn)</b>	<b>223.7</b>	<b>263.3</b>	<b>314.4</b>
NFP (+)	(55.6)	(42.3)	(27.9)
(Minorities) / Associates (+)	0.0	0.0	0.0
<b>Fair Value (Eu mn)</b>	<b>168.1</b>	<b>221.0</b>	<b>286.5</b>
<b>Fair value per share (Eu)</b>	<b>0.45</b>	<b>0.58</b>	<b>0.76</b>
Number of shares	377.8	377.8	377.8
<b>Actualized Value</b>	<b>0.42</b>	<b>0.51</b>	<b>0.61</b>
<b>2015 - 2017 Average Fair Value</b>		<b>0.50</b>	

Source: Intermonte SIM estimates

### Reno de Medici – Multiples At Target Price

	2014A	2015E	2016E	2017E
P/E	19.0	15.0	12.4	9.6
EV/Sales	0.6	0.6	0.5	0.5
EV/EBITDA	6.3	5.6	4.9	4.1
EV/EBIT	14.0	11.9	8.9	6.9
P/BV	1.4	1.2	1.1	1.0
EV/CE	1.3	1.2	1.1	1.0

Source: Intermonte SIM estimates

## RENO DE MEDICI Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
<b>RENO DE MEDICI</b>	<b>0.4</b>	<b>EUR</b>	<b>136.5</b>	<b>5.1%</b>	<b>4.6%</b>	<b>-8.9%</b>	<b>33.2%</b>	<b>31.8%</b>	<b>31.9%</b>
HOLMEN	267.1	SEK	22,435.4	9.3%	5.8%	0.2%	0.4%	8.6%	20.6%
MAYR-MELNHOF	108.0	EUR	2,160.0	5.9%	3.6%	6.4%	25.6%	28.2%	30.2%
METSA	6.3	EUR	2,250.4	23.4%	3.1%	21.7%	45.8%	81.1%	125.6%
STORA ENSO OYJ	85.0	SEK	---	23.2%	1.5%	1.0%	21.1%	38.7%	35.5%
UPM KYMMENE	17.7	EUR	9,432.4	22.5%	2.7%	12.8%	29.8%	38.0%	42.5%
<b>Mean performance</b>				<b>14.9%</b>	<b>3.5%</b>	<b>5.5%</b>	<b>26.0%</b>	<b>37.7%</b>	<b>47.7%</b>
<b>Italy Fixed</b>	<b>22,529.9</b>	<b>EUR</b>	<b>309,958</b>	<b>1.6%</b>	<b>-5.4%</b>	<b>-0.6%</b>	<b>18.5%</b>	<b>16.8%</b>	<b>17.0%</b>

Source: FactSet

## RENO DE MEDICI Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales		EV/Ebitda		EV/Ebit		P/E		Div Yield	
				2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
<b>RENO DE MEDICI</b>	<b>0.4</b>	<b>EUR</b>	<b>136.5</b>	<b>0.4</b>	<b>0.4</b>	<b>4.3</b>	<b>3.8</b>	<b>9.1</b>	<b>6.7</b>	<b>10.6</b>	<b>8.7</b>	<b>0.0%</b>	<b>0.0%</b>
HOLMEN	267.1	SEK	22,435.4	1.7	1.7	9.5	8.6	15.8	13.8	17.1	15.5	4.0%	4.2%
MAYR-MELNHOF	108.0	EUR	2,160.0	1.0	0.9	7.1	6.5	10.5	9.5	15.5	14.5	2.5%	2.6%
METSA	6.3	EUR	2,250.4	1.3	1.3	9.1	7.8	13.9	11.2	18.2	14.2	2.3%	2.7%
STORA ENSO OYJ	85.0	SEK	---	1.0	1.0	7.5	7.1	11.6	11.0	13.7	12.2	3.5%	3.9%
UPM KYMMENE	17.7	EUR	9,432.4	1.2	1.1	8.8	8.0	10.4	12.3	11.2	13.1	4.2%	4.4%
<b>Median</b>				<b>1.1</b>	<b>1.1</b>	<b>8.1</b>	<b>7.5</b>	<b>11.0</b>	<b>11.1</b>	<b>14.6</b>	<b>13.6</b>	<b>3.0%</b>	<b>3.3%</b>

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

## RENO DE MEDICI - Estimates Comparison with Consensus

(Eu mn)	2015			2016		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
<b>Revenues</b>	442.9	443.0	0.0%	454.0	454.0	0.0%
<b>Ebitda</b>	44.3	46.0	-3.7%	48.5	48.0	1.0%
<b>Net Profit</b>	12.9	13.0	-0.9%	15.6	16.0	-2.5%
<b>EPS</b>	0.0	0.0	-2.5%	0.0	0.0	-3.9%
<b>Net Debt</b>	(55.6)	(55.0)	1.0%	(42.3)	(41.0)	3.2%

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:	BUY	Previous Recomm:	BUY
Current Target (Eu):	0.50	Previous Target (Eu):	0.50
Current Price (Eu):	0.36	Previous Price (Eu):	0.35
Date of report:	09/11/2015	Date of last report:	05/08/2015

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