

# RENO DE MEDICI

# BUY

Price (Eu):

0.30

Target Price (Eu):

0.50

SECTOR: Industrials

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## Numbers Rise in FY15, Encouraging Start To 2016

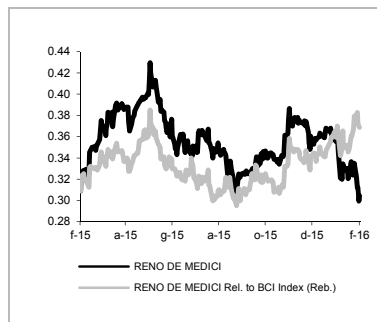
- Numbers on the rise in FY15, debt much better than expected.** Reno De Medici reported FY15 revenues of Eu438.2mn, up 2.8% YoY and broadly in line with our estimate of Eu442.9mn. Volumes sold reached 824,000 tons, +2.4% YoY, for an implicit average sale price of Eu531.8 per ton, +0.5% YoY. Adjusted EBITDA (net of "white certificate" sales, which we estimate amounted to Eu5.0mn in FY14 and were nil in FY15) came in at Eu41.8mn, up 15.5% YoY and slightly below our estimate due to a negative change in inventories. The margin on sales improved by 100bps YoY to 9.5%, benefiting from a price increase (July) and lower energy costs. Net income was Eu9.8mn, below our estimate also due to around Eu900k of write-downs in 4Q related to the Magenta mill. Finally, net debt decreased QoQ from Eu55.0mn to Eu50.3mn, turning out to be much better than our forecast (Eu55.6mn) thanks to a better working capital trend.
- 2016 starts well after a weak 4Q.** In 4Q15, European demand decreased, both year-on-year (marginally) and sequentially (more appreciably), in keeping with the slowdown seen towards the end of the previous quarter. That recent downturn was probably a natural adjustment after exceptionally high order flow in the first half of the year and possibly also a function of clients' re-stocking behaviors. It can therefore be deemed a temporary situation. Indeed, the company stated that "in the sector in which Reno De Medici operates, the beginning of 2016 is moderately encouraging, with order inflows recovering more satisfactory levels. Furthermore, the evolution of prices of recycled fibers confirms the downward trend, whilst energy prices continue to stay at very low levels".
- Estimates fine-tuned.** Following the release of FY15 results, we have made minor changes to our 2016-17 EPS estimates: -0.4% in 2016 and -0.3% in 2017, factoring in our estimates slightly lower revenues. For the time being, we have not assumed another price increase on top of the one implemented in July. As for cash generation, we have included in our estimates the sale of the Spanish subsidiary, which should reduce net debt by around Eu4.2mn. As a consequence we estimate net debt to decrease to Eu32.1mn at the end of 2016 and to Eu15.0mn 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 15.6% in the 2016-17 period. We would highlight that starting this year the company will be able to distribute a dividend (though this is not in our estimates), and we think that could be a positive catalyst for the stock.

Key Figures	2013A	2014A	2015A	2016E	2017E
Sales (Eu mn)	428	426	438	449	461
Ebitda (Eu mn)	39	41	42	48	53
Net profit (Eu mn)	2	5	10	16	20
EPS - New (Eu)	0.005	0.014	0.026	0.041	0.053
EPS - Old (Eu)		0.014	0.034	0.041	0.053
DPS (Eu)	0.000	0.000	0.000	0.000	0.000

Ratios & Multiples	2013A	2014A	2015A	2016E	2017E
P/E	64.8	21.4	11.7	7.4	5.7
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	5.1	5.0	3.9	3.2	2.5
ROCE	5.3%	8.8%	8.4%	12.8%	15.5%

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### RENO DE MEDICI - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): Unchanged

Change in EPS est:	2016E	2017E
	-0.4%	-0.3%

#### STOCK DATA

 Reuters code: RDM.MI  
 Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	-14.4%	-21.3%	-1.5%
Relative	2.3%	2.2%	16.1%
12 months H/L:	0.43/0.30		

#### SHAREHOLDER DATA

No. of Ord. shares (mn):	378
Total No. of shares (mn):	378
Mkt Cap Ord (Eu mn):	115
Total Mkt Cap (Eu mn):	115
Mkt Float - ord (Eu mn):	36
Mkt Float (in %):	31.2%
Main shareholder:	
Cascades	57.6%

#### BALANCE SHEET DATA

	2016
Book value (Eu mn):	168
BVPS (Eu):	0.44
P/BV:	0.7
Net Financial Position (Eu mn):	-32
Enterprise value (Eu mn):	146

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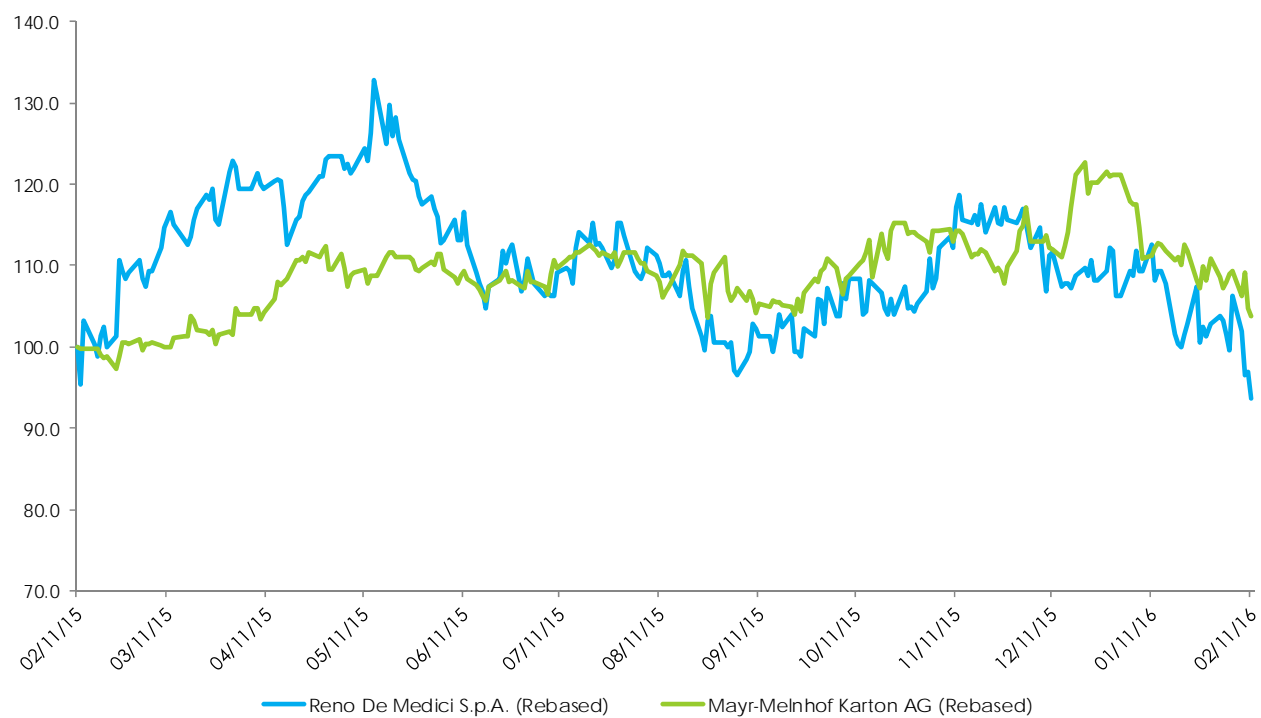
**RENO DE MEDICI - KEY FIGURES**

	2013A	2014A	2015A	2016E	2017E	
	31/12/2013	31/12/2014	31/12/2015	31/12/2016	31/12/2017	
Fiscal year end						
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	428	426	438	449	461
	EBITDA	39	41	42	48	53
	EBIT	11	18	17	26	31
	Financial income (charges)	(6)	(5)	(4)	(3)	(2)
	Associates & Others	(1)	1	1	0	0
	Pre-tax profit (Loss)	4	14	15	23	30
	Taxes	1	(4)	(4)	(7)	(9)
	Tax rate (%)	27.6%	-27.6%	-25.1%	-32.0%	-32.0%
	Minorities & discontinue activities	3	5	1	0	0
	Net profit	2	5	10	16	20
	Total extraordinary items	2	5	0	2	2
	Ebitda excl. extraordinary items	37	36	42	46	51
	Ebit excl. extraordinary items	11	18	17	26	31
	Net profit restated	2	5	10	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	0.026	0.041	0.053
	EPS restated fd	0.005	0.014	0.026	0.041	0.053
	BVPS fd	0.371	0.375	0.404	0.445	0.498
	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	33	38	42
	Change in NWC	2	(2)	(1)	(1)	(2)
	Capital expenditure	(15)	(20)	(16)	(17)	(17)
	Other cash items	(0)	6	(1)	(6)	(6)
	Free cash flow (FCF)	13	8	16	14	17
	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	13	8	16	18	17
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	219	210	198	204	203
	Net working capital	40	42	42	44	46
	Long term liabilities	(45)	(45)	(38)	(48)	(46)
	Net capital employed	213	207	203	200	203
	Net financial position	(74)	(66)	(50)	(32)	(15)
	Group equity	140	142	152	168	188
	Minorities	1	0	0	0	0
	Net equity	141	142	153	168	188
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	115	115	115	115	115
	Adjustments (associate & minorities)	1	1	2	2	2
	Net financial position	(74)	(66)	(50)	(32)	(15)
	Enterprise value	187	180	164	146	128
<b>RATIOS(%)</b>	EBITDA margin*	8.5%	8.5%	9.5%	10.3%	11.1%
	EBIT margin*	2.7%	4.3%	3.9%	5.8%	6.8%
	Gearing - Debt/equity	52.5%	46.6%	33.0%	19.1%	8.0%
	Interest cover on EBIT	1.9	3.5	4.8	8.7	18.3
	Debt/Ebitda	1.89	1.60	1.20	0.67	0.28
	ROCE*	5.3%	8.8%	8.4%	12.8%	15.5%
	ROE*	1.3%	3.8%	6.6%	9.7%	11.3%
	EV/CE	0.9	0.9	0.8	0.7	0.6
	EV/Sales	0.4	0.4	0.4	0.3	0.3
	EV/Ebit	16.3	9.7	9.5	5.6	4.0
	Free Cash Flow Yield	11.2%	6.7%	13.8%	12.3%	15.1%
<b>GROWTH RATES (%)</b>	Sales	-8.1%	-0.5%	2.8%	2.5%	2.5%
	EBITDA*	11.1%	-1.1%	15.5%	10.5%	10.9%
	EBIT*	nm	60.4%	-6.5%	50.0%	20.9%
	Net profit	nm	202.1%	82.6%	58.9%	29.2%
	EPS restated	nm	202.1%	82.6%	58.9%	29.2%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

### Reno De Medici vs Mayr-Melnhof - 1 Year performance



Source: FactSet

**RENO DE MEDICI Peer Group - Absolute Performances**

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
<b>RENO DE MEDICI</b>	<b>0.30</b>	<b>EUR</b>	<b>115</b>	<b>-14.4%</b>	<b>-21.3%</b>	<b>-12.0%</b>	<b>-17.3%</b>	<b>-1.5%</b>	<b>-16.5%</b>
HOLMEN	---	SEK	19,857	-5.7%	-13.7%	-3.6%	-9.6%	-19.2%	1.6%
MAYR-MELNHOF	---	EUR	1,989	-6.3%	-7.9%	-0.8%	-13.2%	5.5%	9.2%
METSA	---	EUR	1,865	-25.1%	-19.4%	-8.8%	-23.5%	-8.0%	80.0%
STORA ENSO OYJ	---	SEK	---	-13.7%	-24.7%	-18.4%	-16.0%	-19.7%	-9.0%
UPM KYMMENE	---	EUR	7,544	-15.3%	-20.0%	-12.6%	-17.9%	-14.0%	12.1%
<b>Mean performance</b>				<b>-13.4%</b>	<b>-17.8%</b>	<b>-9.3%</b>	<b>-16.3%</b>	<b>-9.5%</b>	<b>12.9%</b>
<b>Italy FTSE Mib</b>	16,514.9	EUR	229,358	-17.3%	-24.4%	-28.2%	-22.9%	-21.4%	-18.0%

Source: FactSet

**RENO DE MEDICI Peer Group - Multiple Comparison**

Stock	Price	Ccy	Mkt cap	EV/Sales		EV/Ebitda		EV/Ebit		P/E		Div Yield	
				2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
<b>RENO DE MEDICI</b>	<b>0.30</b>	<b>EUR</b>	<b>115</b>	<b>0.3</b>	<b>0.3</b>	<b>3.2</b>	<b>2.5</b>	<b>5.6</b>	<b>4.0</b>	<b>7.4</b>	<b>5.7</b>	<b>0.0%</b>	<b>0.0%</b>
HOLMEN	236.40	SEK	19,857	1.5	1.5	8.0	7.6	12.7	11.9	13.6	13.2	4.7%	4.9%
MAYR-MELNHOF	99.44	EUR	1,989	0.9	0.8	6.3	5.8	9.3	8.6	13.8	13.1	2.8%	3.0%
METSA	5.25	EUR	1,865	1.1	1.0	7.0	6.0	10.4	8.4	12.8	10.3	3.8%	4.4%
STORA ENSO OYJ	64.50	SEK	---	0.9	0.8	6.1	5.8	9.4	8.9	9.3	8.8	5.0%	5.4%
UPM KYMMENE	14.14	EUR	7,544	0.9	0.9	6.5	6.2	9.9	9.6	10.0	10.2	5.5%	5.7%
<b>Median</b>				<b>0.9</b>	<b>0.9</b>	<b>6.5</b>	<b>6.0</b>	<b>9.9</b>	<b>8.9</b>	<b>12.8</b>	<b>10.3</b>	<b>4.7%</b>	<b>4.9%</b>

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

**RENO DE MEDICI - Estimates Comparison with Consensus**

(Eu mn)	2016			2017		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
<b>Revenues</b>	449.3	454.0	-1.0%	460.6	465.5	-1.1%
<b>Ebitda</b>	48.2	47.0	2.6%	53.3	52.0	2.4%
<b>Net Profit</b>	15.5	16.0	-2.8%	20.1	20.0	0.4%
<b>EPS</b>	0.041	0.041	0.5%	0.053	0.053	0.4%
<b>Net Debt</b>	(32.1)	(42.0)	-23.5%	(15.0)	(28.0)	-46.3%

Source: Intermonte SIM estimates and Factset consensus estimates

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

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.

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OUTPERFORM: 39.87%

NEUTRAL: 35.06%

UNDERPERFORM: 3.92%

SELL: 1.31%

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BUY: 26.32%

OUTPERFORM: 55.26%

NEUTRAL: 18.42%

UNDERPERFORM: 0.00%

SELL: 0.00%

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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):	0.30	Previous Price (Eu):	0.36
Date of report:	15/02/2016	Date of last report:	09/11/2015

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