

# RENO DE MEDICI OUTPERFORM

**Price (Eu):** **0.65**  
**Target Price (Eu):** **0.73**

**SECTOR: Industrials**

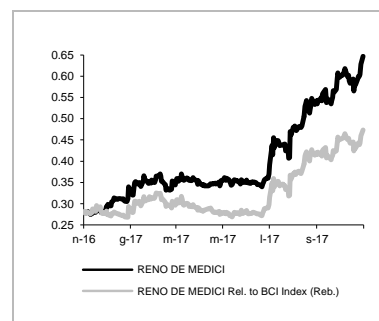
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## Solid 3Q Results, Demand and Order Inflow Trends Remain Strong

- 3Q results beat estimates.** The company closed 3Q with turnover of Eu137.4mn, up 6.0% YoY thanks to growth in WLC volumes and the price hikes implemented towards the end of 2Q, which were fully in force by 3Q. The company posted EBITDA of Eu9.7mn (vs. our estimate of Eu9.3mn) with a 120bp margin expansion YoY thanks to fewer plant stoppages than was the case a year ago. Net profit came in at Eu2.4mn, an improvement on the Eu1.2mn loss recorded in 3Q16 and higher than our Eu1.5mn forecast, thanks in part to a lower-than-expected tax rate. Finally, net debt came down to Eu42mn from Eu52mn as at the end of June thanks to seasonal working capital trends.
- Outlook remains solid.** In the sectors in which the Reno De Medici Group operates, the short-term outlook remains positive. In the WLC segment, after the closing of 3Q, European demand and order inflow remains sustained. In view of the continuous and significant fibre price rises, RDM announced a new price increase at the beginning of July in order to protect profitability; the increase was applied to deliveries from September. In the European FBB segment, the order inflow and backlog also remained satisfactory. At the beginning of October, the Group announced an increase to selling prices, which will be applied to deliveries starting from November. The expected evolution of raw material prices of paper for recycling (WLC) in the last part of 2017 is marked by strong uncertainty. It is reasonable to suppose that when export activity to China normalizes, the price decreases that characterized the month of September and the first part of October will be reabsorbed, even if the pressure on prices generated by the additional production capacity entering the market in some contiguous sectors will continue and might even increase. As regards virgin fibers (FBB), strong demand is expected to continue, and the consequent pressure on the level of prices should continue.
- Estimates revised upward.** In view of 3Q results and the outlook provided by management, we have raised our estimates; we have increased 2017 EBITDA and net profit by 0.9% and 5.6% respectively, in order to reflect slightly lower costs and tax rate. In 4Q17 we expect EBITDA to come to Eu9.4mn, from Eu7.1mn in 4Q16. Positive changes to EPS in 2018 and 2019 stand at 4.5% and 4.2% respectively.
- OUTPERFORM from BUY; target lifted to Eu0.73.** The new corporate strategy, with a renewed focus on production efficiency, supply chain integration, and improved revenue mix, is starting to pay off. In addition, recent results have demonstrated the strong rationale behind the acquisition of La Rochette, both from a financial point of view and a strategic one. Finally, an ungeared balance sheet provides leeway for additional, value-accretive M&A. Our valuation, the simple average of an EV/ROACE model and a peer comparison, yields a new target price of Eu0.73 per share, from Eu0.55 previously, as we have rolled our models over and factored in the new estimates. We believe that if the measures adopted by the CEO prove to be effective and further shrink the performance gap on Mayr Melnhof, the stock rerating may continue.

### RENO DE MEDICI - 12m Performance



**RATING: from BUY to OUTPERFORM**

**TARGET PRICE (Eu): from 0.55 to 0.73**

**Change in EPS est:**     **2017E**   **2018E**  
5.6%     **4.5%**

#### STOCK DATA

Reuters code: RDM.MI  
Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	8.4%	40.2%	129.1%
Relative	5.5%	34.3%	89.6%
12 months H/L:	0.65/0.28		

#### SHAREHOLDER DATA

No. of Ord. shares (mn): 378  
Total No. of shares (mn): 378  
Mkt Cap Ord (Eu mn): 244  
Total Mkt Cap (Eu mn): 244  
Mkt Float - ord (Eu mn): 76  
Mkt Float (in %): 31.2%  
Main shareholder:  
Cascades 57.6%

#### BALANCE SHEET DATA

**2017**  
Book value (Eu mn): 170  
BVPS (Eu): 0.45  
P/BV: 1.4  
Net Financial Position (Eu mn): -35  
Enterprise value (Eu mn): 277

**Please see important disclaimer  
on the last page of this report**

Key Figures	2015A	2016A	2017E	2018E	2019E
Sales (Eu mn)	438	478	570	586	603
Ebitda (Eu mn)	42	30	42	47	51
Net profit (Eu mn)	10	3	13	17	20
EPS - New (Eu)	0.026	0.008	0.034	0.045	0.052
EPS - Old (Eu)		0.008	0.033	0.043	0.050
DPS (Eu)	0.005	0.002	0.007	0.009	0.011
Ratios & Multiples	2015A	2016A	2017E	2018E	2019E
P/E	25.0	77.9	18.8	14.5	12.3
Div. Yield	0.8%	0.3%	1.1%	1.4%	1.6%
EV/Ebitda	7.0	9.4	6.5	5.5	4.7
ROCE	8.4%	4.4%	9.9%	12.2%	13.9%

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**RENO DE MEDICI - KEY FIGURES**

		2015A	2016A	2017E	2018E	2019E
	Fiscal year end	31/12/2015	31/12/2016	31/12/2017	31/12/2018	31/12/2019
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	438	478	570	586	603
	EBITDA	42	30	42	47	51
	EBIT	17	9	20	25	29
	Financial income (charges)	(4)	(3)	(3)	(2)	(2)
	Associates & Others	1	1	0	0	0
	Pre-tax profit (Loss)	15	6	18	23	27
	Taxes	(4)	(3)	(5)	(6)	(7)
	Tax rate (%)	-25.1%	-47.3%	-26.0%	-26.0%	-26.0%
	Minorities & discontinue activities	1	0	0	0	0
	Net profit	10	3	13	17	20
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	42	30	42	47	51
	Ebit excl. extraordinary items	17	9	20	25	29
Net profit restated	10	3	13	17	20	
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	378	378	378	378	378
	EPS stated fd	0.026	0.008	0.034	0.045	0.052
	EPS restated fd	0.026	0.008	0.034	0.045	0.052
	BVPS fd	0.404	0.411	0.451	0.497	0.557
	Dividend per share (ord)	0.005	0.002	0.007	0.009	0.011
	Dividend per share (sav)	0.074	0.074	0.074	0.074	0.074
	Dividend pay out ratio (%)					
<b>CASH FLOW (Eu mn)</b>	Gross cash flow	33	25	35	39	42
	Change in NWC	(1)	(4)	(5)	(2)	(1)
	Capital expenditure	(16)	(16)	(19)	(17)	(18)
	Other cash items	(1)	1	1	1	1
	Free cash flow (FCF)	16	6	12	21	24
	Acquisitions, divestments & others	0	(13)	0	0	0
	Dividend	0	(2)	(1)	(3)	(3)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	16	6	9	18	21	
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	198	206	205	204	203
	Net working capital	42	46	51	53	54
	Long term liabilities	(38)	(52)	(50)	(52)	(50)
	Net capital employed	203	200	205	205	207
	Net financial position	(50)	(44)	(35)	(17)	4
	Group equity	152	155	170	188	210
	Minorities	0	0	0	0	0
Net equity	153	155	170	188	210	
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	244	244	244	244	244
	Adjustments (associate & minorities)	2	3	3	3	3
	Net financial position	(50)	(44)	(35)	(17)	4
	Enterprise value	293	286	277	259	238
<b>RATIOS(%)</b>	EBITDA margin*	9.5%	6.4%	7.5%	8.1%	8.4%
	EBIT margin*	3.9%	1.8%	3.5%	4.3%	4.8%
	Gearing - Debt/equity	33.0%	28.6%	20.7%	9.2%	-1.7%
	Interest cover on EBIT	4.8	2.7	7.7	11.4	15.1
	Debt/Ebitda	1.20	1.46	0.83	0.37	nm
	ROCE*	8.4%	4.4%	9.9%	12.2%	13.9%
	ROE*	6.6%	2.0%	8.0%	9.4%	10.0%
	EV/CE	1.4	1.4	1.4	1.3	1.2
	EV/Sales	0.7	0.6	0.5	0.4	0.4
	EV/Ebit	17.0	32.7	13.8	10.4	8.3
Free Cash Flow Yield	6.4%	2.4%	5.1%	8.5%	10.0%	
<b>GROWTH RATES (%)</b>	Sales	2.8%	9.0%	19.2%	2.9%	2.9%
	EBITDA*	15.5%	-27.2%	39.5%	11.4%	7.8%
	EBIT*	-6.5%	-49.2%	130.1%	24.0%	14.8%
	Net profit	82.6%	-68.0%	314.2%	29.9%	17.5%
	EPS restated	82.6%	-68.0%	314.2%	29.9%	17.5%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

## Results

### Reno De Medici - Quarterly Results

(Eu mn)	3Q16A	3Q17A	YoY	3Q17E	A vs E
<b>Revenues</b>	<b>129.6</b>	<b>137.4</b>	<b>6.0%</b>	<b>140.9</b>	<b>-2.4%</b>
Other Revenues	1.2	2.1		1.3	
"White Certificates"	0.0	0.0		0.0	
Δ Finished Goods	(4.6)	(3.8)		0.7	
COGS	(98.6)	(104.4)		(110.6)	
% on sales	-76.0%	-76.0%		-78.5%	
Personnel Costs	(20.7)	(20.6)		(21.4)	
% on sales	-15.9%	-15.0%		-15.2%	
Other Operating Costs	(1.0)	(1.0)		(1.5)	
% on sales	-0.8%	-0.7%		-1.1%	
<b>EBITDA</b>	<b>6.0</b>	<b>9.7</b>	<b>61.3%</b>	<b>9.3</b>	<b>3.4%</b>
% on sales	4.6%	7.0%		6.6%	
Depreciations	(5.6)	(5.6)		(5.7)	
Write offs	0.0	0.0		0.0	
<b>EBIT</b>	<b>0.4</b>	<b>4.0</b>	<b>nm</b>	<b>3.7</b>	<b>9.0%</b>
% on sales	0.4%	2.9%		2.6%	
Financials and associates	(0.8)	(0.8)		(0.9)	
<b>Pre Tax Profit</b>	<b>(0.3)</b>	<b>3.2</b>	<b>nm</b>	<b>2.8</b>	<b>13.5%</b>
Taxes	(0.8)	(0.8)		(1.4)	
Discontinued	0.0	0.0		0.0	
Minorities	0.0	0.0		0.0	
<b>Group Net Profit</b>	<b>(1.2)</b>	<b>2.4</b>	<b>nm</b>	<b>1.5</b>	<b>64.1%</b>
<b>Net Debt</b>	<b>(55.9)</b>	<b>(42.0)</b>	<b>-25%</b>	<b>(45.0)</b>	<b>-6.7%</b>

Source: Company data and Intermonte Sim

## Estimates

### Reno De Medici - Change in estimates

Eu mn	2017 new	2017 old	% change	2018 new	2018 old	% change	2019 new	2019 old	% change
<b>Revenues</b>	<b>569.6</b>	<b>571.7</b>	<b>-0.4%</b>	<b>586.2</b>	<b>588.3</b>	<b>-0.4%</b>	<b>603.3</b>	<b>605.4</b>	<b>-0.4%</b>
<b>EBITDA</b>	<b>42.4</b>	<b>42.1</b>	<b>0.9%</b>	<b>47.3</b>	<b>47.0</b>	<b>0.6%</b>	<b>51.0</b>	<b>50.7</b>	<b>0.5%</b>
EBITDA margin %	7.5%	7.4%		8.1%	8.0%		8.4%	8.4%	
<b>EBIT</b>	<b>20.1</b>	<b>19.8</b>	<b>1.8%</b>	<b>25.0</b>	<b>24.7</b>	<b>1.1%</b>	<b>28.7</b>	<b>28.4</b>	<b>1.0%</b>
EBIT margin %	3.5%	3.5%		4.3%	4.2%		4.8%	4.7%	
<b>Group Net Profit</b>	<b>13.0</b>	<b>12.3</b>	<b>5.6%</b>	<b>16.9</b>	<b>16.1</b>	<b>4.5%</b>	<b>19.8</b>	<b>19.0</b>	<b>4.2%</b>
<b>Net Debt</b>	<b>(35.3)</b>	<b>(39.9)</b>	<b>-11.6%</b>	<b>(17.3)</b>	<b>(22.4)</b>	<b>-22.6%</b>	<b>3.5</b>	<b>(2.0)</b>	<b>-279.5%</b>

Source: Company data and Intermonte Sim

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

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
<b>RENO DE MEDICI</b>	<b>0.65</b>	<b>EUR</b>	<b>244</b>	<b>8.4%</b>	<b>40.2%</b>	<b>82.3%</b>	<b>111.6%</b>	<b>129.1%</b>	<b>79.1%</b>
HOLMEN	412.60	SEK	34,657	6.7%	11.8%	5.7%	26.3%	37.1%	54.5%
MAYR-MELNHOF	129.00	EUR	2,580	4.9%	13.4%	16.3%	28.1%	31.0%	19.4%
METSA	6.77	EUR	2,405	11.2%	14.8%	1.0%	-0.4%	26.1%	6.9%
STORA ENSO	13.75	EUR	10,844	10.8%	21.0%	24.0%	34.7%	65.1%	51.7%
UPM KYMMENE	---	EUR	14,058	11.3%	15.4%	7.4%	12.9%	27.9%	49.1%
<b>Mean performance</b>				<b>8.9%</b>	<b>19.4%</b>	<b>22.8%</b>	<b>35.5%</b>	<b>52.7%</b>	<b>43.4%</b>
<b>Italy FTSE Mib</b>	23,002.9	EUR	355,563	2.7%	4.9%	7.1%	19.6%	41.0%	2.1%

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
				2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
<b>RENO DE MEDICI</b>	<b>0.65</b>	<b>EUR</b>	<b>244</b>	<b>0.5</b>	<b>0.4</b>	<b>6.5</b>	<b>5.5</b>	<b>13.8</b>	<b>10.4</b>	<b>18.8</b>	<b>14.5</b>	<b>1.1%</b>	<b>1.4%</b>
HOLMEN	412.60	SEK	34,657	2.4	2.3	12.5	11.6	17.6	16.2	20.5	19.5	3.1%	3.2%
MAYR-MELNHOF	129.00	EUR	2,580	1.1	1.0	8.1	7.6	12.0	11.0	16.7	15.7	2.3%	2.5%
METSA	6.77	EUR	2,405	1.5	1.4	10.0	8.6	15.1	12.2	18.6	14.3	3.2%	3.5%
STORA ENSO	13.75	EUR	10,844	1.3	1.3	9.0	8.1	13.5	11.9	16.3	14.7	2.9%	3.2%
UPM KYMMENE	26.36	EUR	14,058	1.5	1.4	8.9	8.6	11.7	11.6	15.0	15.0	3.8%	4.0%
<b>Median</b>				<b>1.5</b>	<b>1.4</b>	<b>9.0</b>	<b>8.6</b>	<b>13.5</b>	<b>11.9</b>	<b>16.7</b>	<b>15.0</b>	<b>3.1%</b>	<b>3.2%</b>

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

**DETAILS ON STOCKS RECOMMENDATION**

Stock NAME	RENO DE MEDICI		
Current Recomm:	OUTPERFORM	Previous Recomm:	BUY
Current Target (Eu):	0.73	Previous Target (Eu):	0.55
Current Price (Eu):	0.65	Previous Price (Eu):	0.48
Date of report:	07/11/2017	Date of last report:	16/08/2017

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&P/IB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

Explanation of our ratings system:

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.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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Intermonte's distribution of stock ratings is as follows:

BUY:	13.64 %
OUTPERFORM:	45.45 %
NEUTRAL:	38.96 %
UNDERPERFORM	01.95 %
SELL:	00,00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (44 in total) is as follows:

BUY:	26.09 %
OUTPERFORM:	45.65 %
NEUTRAL:	28.26 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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IKF	0,57	SHORT
MONDO TV FRANCE	0,6	SHORT
OLIDATA	0,88	SHORT
WASTE ITALIA	0,88	SHORT
ZEPHYRO SPA	1,4	LONG

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