

RENO DE MEDICI OUTPERFORM

Price (Eu): **0.98**
 Target Price (Eu): **1.15**

SECTOR: Industrials

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Consolidating Leadership in Southern Europe Thanks to M&A

- Consolidating leadership in Southern Europe through the acquisition of Barcelona Cartonboard.** The Reno De Medici BoD has approved the project to acquire the entire capital of Barcelona Cartonboard, a Spanish company operating in the coated cartonboard sector. The target is the largest cartonboard producer in Spain, one of the most important paper mills in Southern Europe, and is ranked seventh in Europe in the WLC sector. Barcelona Cartonboard operates primarily in the business of coated cartonboard produced from recycled fibre (WLC) and, secondly, from virgin fibre (FBB), a business segment developed since the end of 2016.
- Attractive multiples.** Barcelona Cartonboard closed 2017 with turnover of Eu122.3mn, EBITDA of Eu5.1mn, and net profit of Eu1.4mn, while it is expected to close 2018 with Eu8.2mn in EBITDA (net debt of Eu9.9mn at the end of April). The preliminary price of the investment is based on an EV of Eu46.4mn, implying attractive transaction multiples (EV/EBITDA of 5.6x and PE of 11.6x based on expected numbers for 2018). Even after this acquisition, there will still be enough leeway in the group's financial leverage for it to pursue further acquisitions in order to expand the geographical presence or vertically integrate the business.
- Immediately EPS accretive: +9.6% in 2019, +10.5% in 2020.** We assume that the newly-acquired company will grow at a pace in line with RDM group in the next three years (achieving total turnover of Eu138.6mn by the end of 2020) as a result of faster organic growth in the WLC segment, partially offset by the relocation of activities in the FBB segment from Barcelona to La Rochette. We would expect a gradual ramp-up of profitability thanks to the investments carried out in previous years and as a result of integration in the RDM group. As stated during the conference call, management expects profitability to reach the average level for the group in around 3 years. Overall, we expect the EBITDA margin to increase from 4.2% in 2017 to 7.7% in 2020. Based on our profitability forecast and to a particularly favourable tax rate thanks to the carrying forward of tax losses, we estimate that the acquisition will be materially accretive to EPS. We forecast EPS accretion of 9.6% and 10.5% respectively for 2019 and 2020, when the company will be fully consolidated.
- Outperform confirmed, target boosted to Eu1.15 from Eu1.0.** We think the deal boasts a strong strategic and industrial rationale. The acquisition will enable RDM to consolidate its second place in Europe for WLC and leadership in the southern European market. Thanks to the know-how and best practice of the RDM group, Barcelona Cartonboard could give full rein to its industrial potential by improving the efficiency of production processes and increasing plant capacity, as well as benefitting from economies of scale deriving from membership of the RDM group. The acquisition will also enable RDM to optimise its product portfolio and to further improve the quality of services offered to customers in the context of the company's "Partner of Choice" strategy. Barcelona Cartonboard numbers are not yet in our estimates, but are incorporated in our valuation. Our "as is" valuation, the simple average of an EV/ROACE model and a peer comparison, yields a target price of Eu1.00 per share, to which we then add Eu0.15 of value creation from the deal in order to reach a new target price of Eu1.15. In light of the strong estimates momentum for RDM, we believe the stock re-rating may continue.

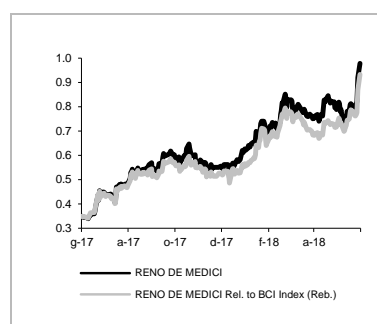
Key Figures	2016A	2017A	2018E	2019E	2020E
Sales (Eu mn)	478	569	607	619	631
Ebitda (Eu mn)	30	46	60	62	63
Net profit (Eu mn)	3	15	25	26	27
EPS - New (Eu)	0.008	0.039	0.067	0.070	0.072
EPS - Old (Eu)	0.008	0.039	0.067	0.070	0.072
DPS (Eu)	0.003	0.003	0.007	0.007	0.007

Ratios & Multiples	2016A	2017A	2018E	2019E	2020E
P/E	nm	25.3	14.7	14.0	13.5
Div. Yield	0.3%	0.3%	0.7%	0.7%	0.7%
EV/Ebitda	13.5	8.9	6.5	6.0	5.6
ROCE	4.4%	11.4%	17.5%	17.6%	17.4%

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Next event:
 2Q17 Results out 31 July

RENO DE MEDICI - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 1.00 to 1.15

Change in EPS est:	2018E	2019E
	0.0%	0.0%

STOCK DATA

Reuters code: RDM.MI
 Bloomberg code: RM IM

Performance	1m	3m	12m
Absolute	24.1%	18.5%	178.3%
Relative	28.9%	20.6%	173.3%
12 months H/L:	0.98/0.34		

SHAREHOLDER DATA

No. of Ord. shares (mn):	378
Total No. of shares (mn):	378
Mkt Cap Ord (Eu mn):	369
Total Mkt Cap (Eu mn):	369
Mkt Float - ord (Eu mn):	115
Mkt Float (in %):	31.2%
Main shareholder:	
Cascades	57.6%

BALANCE SHEET DATA

Book value (Eu mn):	195
BVPS (Eu):	0.52
P/BV:	1.9
Net Financial Position (Eu mn):	-26
Enterprise value (Eu mn):	390

Please see important disclaimer
 on the last page of this report

RENO DE MEDICI - KEY FIGURES

		2016A	2017A	2018E	2019E	2020E
	Fiscal year end	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020
PROFIT & LOSS (Eu mn)	Sales	478	569	607	619	631
	EBITDA	30	46	60	62	63
	EBIT	9	23	38	39	40
	Financial income (charges)	(3)	(3)	(2)	(2)	(2)
	Associates & Others	1	(0)	(0)	(0)	0
	Pre-tax profit (Loss)	6	21	35	37	38
	Taxes	(3)	(6)	(10)	(11)	(11)
	Tax rate (%)	-47.3%	-29.1%	-28.9%	-28.9%	-29.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	3	15	25	26	27
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	30	46	60	62	63
Ebit excl. extraordinary items	9	23	38	39	40	
Net profit restated	3	15	25	26	27	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	378	378	378	378	378
	EPS stated fd	0.008	0.039	0.067	0.070	0.072
	EPS restated fd	0.008	0.039	0.067	0.070	0.072
	BVPS fd	0.411	0.446	0.515	0.588	0.667
	Dividend per share (ord)	0.003	0.003	0.007	0.007	0.007
	Dividend per share (sav)	0.025	0.025	0.025	0.025	0.025
	Dividend pay out ratio (%)					
CASH FLOW (Eu mn)	Gross cash flow	25	37	48	49	50
	Change in NWC	1	(4)	(5)	(2)	(2)
	Capital expenditure	(18)	(21)	(22)	(23)	(23)
	Other cash items	13	(0)	(0)	(0)	(0)
	Free cash flow (FCF)	21	12	20	23	24
	Acquisitions, divestments & others	(13)	(10)	0	0	0
	Dividend	(2)	(1)	(1)	(3)	(3)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	6	0	18	21	21	
BALANCE SHEET (Eu mn)	Total fixed assets	206	206	212	216	221
	Net working capital	46	49	54	57	59
	Long term liabilities	(52)	(42)	(46)	(46)	(45)
	Net capital employed	200	213	220	227	236
	Net financial position	(44)	(44)	(26)	(5)	16
	Group equity	155	168	195	222	252
	Minorities	0	0	0	0	0
Net equity	155	168	195	222	252	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	369	369	369	369	369
	Adjustments (associate & minorities)	3	5	5	5	5
	Net financial position	(44)	(44)	(26)	(5)	16
	Enterprise value	411	409	390	370	349
RATIOS(%)	EBITDA margin*	6.4%	8.1%	10.0%	10.0%	10.0%
	EBIT margin*	1.8%	4.1%	6.2%	6.4%	6.4%
	Gearing - Debt/equity	28.6%	26.2%	13.1%	2.2%	-6.5%
	Interest cover on EBIT	2.7	9.3	15.8	18.7	22.4
	Debt/Ebitda	1.46	0.96	0.42	0.08	nm
	ROCE*	4.4%	11.4%	17.5%	17.6%	17.4%
	ROE*	2.0%	9.0%	13.8%	12.7%	11.5%
	EV/CE	2.0	2.0	1.8	1.7	1.5
	EV/Sales	0.9	0.7	0.6	0.6	0.6
	EV/Ebit	nm	17.4	10.3	9.4	8.7
Free Cash Flow Yield	5.6%	3.2%	5.4%	6.4%	6.5%	
GROWTH RATES (%)	Sales	9.0%	19.1%	6.6%	1.9%	1.9%
	EBITDA*	-27.2%	50.5%	31.9%	2.4%	1.5%
	EBIT*	-49.2%	168.2%	61.4%	3.8%	2.3%
	Net profit	-68.0%	364.8%	72.5%	4.9%	3.6%
	EPS restated	-68.0%	364.8%	72.5%	4.9%	3.6%

* Excluding extraordinary items

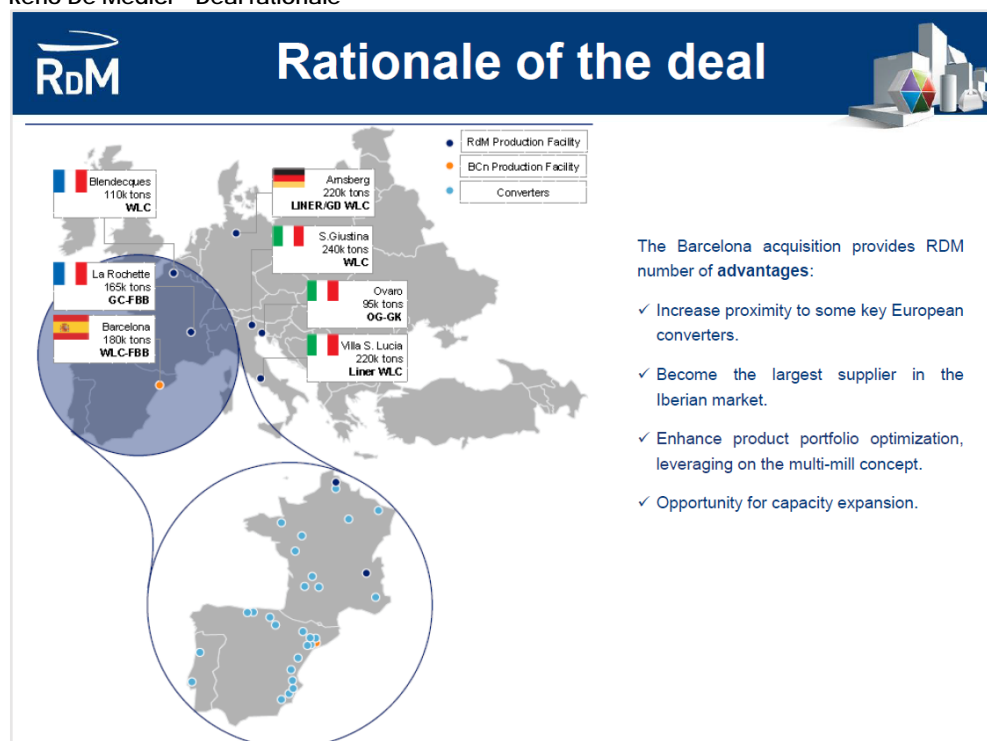
Source: Intermonte SIM estimates

Barcelona Cartonboard acquisition

Barcelona Cartonboard acquisition. The Board of Directors of Reno De Medici has approved the project to acquire the entire capital of Barcelona Cartonboard, a Spanish company in the coated cartonboard sector, from German private equity fund Quantum Capital Partners. Barcelona Cartonboard is the largest cartonboard producer in Spain, one of the most important paper mills in Southern Europe, and is ranked seventh in Europe in the WLC sector, where Reno De Medici is currently the second-ranked player. Founded in 1967, Barcelona Cartonboard manufactures coated cartonboard from recycled fibre (WLC - White Lined Chipboard) and, secondly, from virgin fibre (FBB - Folding Box Board), a business segment developed since the end of 2016. The company has annual production capacity of 180k tons and employs approximately 230 at its HQ and plant at Castellbisbal, Catalonia. Thanks to over Eu18mn in strategic investments carried out in a two-year period between 2016 and 2017, Barcelona Cartonboard is among the leading European paper mills in terms of production capacity and machine speed and width. The plant is one of the most modern and is recognized for the high quality of the cartonboard produced.

Strong industrial and strategic rationale. We think the deal boasts a strong industrial rationale. The acquisition will enable RDM to consolidate its second place in Europe for WLC and its leadership in the southern European market by eliminating a competitor with an aggressive pricing policy. Thanks to the know-how and best practice of the RDM group, Barcelona Cartonboard could give full rein to its industrial potential by improving the efficiency of the production processes and increasing plant capacity, as well as benefitting from economies of scale deriving from membership of the RDM group. The acquisition will also enable RDM to optimise its product portfolio and to further improve the quality of the services offered to customers in the context of the company's "Partner of Choice" strategy.

Reno De Medici – Deal rationale

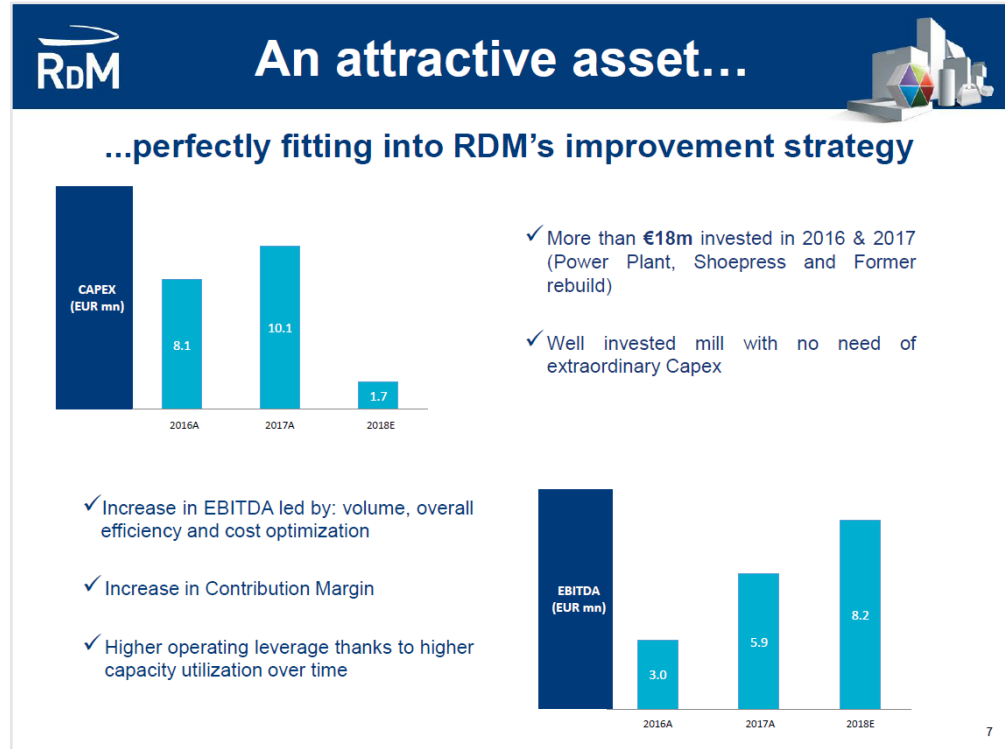


Source: Company presentation

Transaction details. The preliminary price of the investment is based on an Enterprise Value of Eu46.4mn. The price will be subject to subsequent contractual adjustments resulting from the level of the NFP and working capital on the effective date of the transaction. The acquisition will be financed by Reno De Medici mainly through an external financing line. The signing of the preliminary agreement should come by the end of June 2018, with the closing conditional on authorization from the Antitrust Authorities, as required by law. The closing is expected by the end of 2018.

Financials and valuation. The company to be acquired closed 2017 with total turnover of Eu122.3mn, EBITDA of Eu5.1mn and net profit of Eu1.4mn. As shown in the figure below, in 2017 EBITDA started to show the first improvements from the aforementioned major investments and in 2018 EBITDA is expect to improve further to Eu8.2mn. Net debt as at the end of 2017 was Eu11.5mn, while at the end of April came down to Eu9.9mn.

Reno De Medici – Barcelona Cartonboard Investments & EBITDA



Source: Company presentation

The transaction multiples are attractive (EV/EBITDA of 5.6x and PE of 11.6x based on expected numbers for 2018). The company currently trades at 5.7x EV/EBITDA and 12.2x PE based on 2018 numbers. Given the strong improvement potential of the acquired company, the gap would be much larger when looking at 2020 estimates (3.0x vs 4.3x for EV/EBITDA). At the year-end 2018 pro-forma figure, net debt/EBITDA would be around 1.0x, giving leeway to pursue further acquisitions in order to expand the geographical presence or vertically integrate the business.

Highly EPS accretive. We assume that the newly acquired company will grow at a pace in line with RDM group in the coming three years, (achieving total turnover of Eu138.6mn by the end of 2020) as a result of a faster organic growth in the WLC segment, partially compensated by a relocation of activities in the FBB segment from Barcelona to La Rochette. We would expect a gradual ramp-up of Barcelona Cartonboard profitability thanks to the investments carried out in previous years and as a result of integration in the RDM group. As stated during the conference call, management expects profitability to reach the average level for the group in around 3 years (2021). Overall, we expect the EBITDA margin to increase form 4.2% in 2017 to 7.7% in 2020. Based on our profitability forecast and to a particularly favourable tax rate thanks to the carrying forward of tax losses, **we estimate that the acquisition will be materially accretive to EPS.** We forecast EPS accretion of 9.6% and 10.5% respectively in 2019 and 2020, when the company will be fully consolidated.

Reno De Medici – Estimated acquisition impact

Eu mn	Barcelona Cartonboard			Reno De Medici			Pro-forma		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Revenues	133.5	136.0	138.6	606.9	618.7	630.7	740.4	754.7	769.3
growth %		1.9%	1.9%		1.9%	1.9%		1.9%	1.9%
EBITDA	8.2	9.8	10.7	60.4	61.9	62.8	68.6	71.7	73.5
margin%	6.1%	7.2%	7.7%	10.0%	10.0%	10.0%	9.3%	9.5%	9.5%
Net Profit Adj.	3.0	3.9	4.3	25.1	26.4	27.3	26.7	28.9	30.2
growth		31%	9%		4.9%	3.6%		8.1%	4.5%
n. of shares				377.8	377.8	377.8	377.8	377.8	377.8
EPS				0.067	0.070	0.072	0.071	0.076	0.080
EPS accretion %							6.4%	9.6%	10.5%
P/E	11.6x	8.9x	8.2x	13.1x	12.5x	12.0x	12.3x	11.4x	10.9x
EV/EBITDA	5.6x	4.2x	3.4x	5.8x	5.3x	4.9x	5.8x	5.1x	4.6x
Net Debt/EBITDA							1.0	0.6	0.2

Source: Intermonte SIM estimates

Valuation

Outperform confirmed, target boosted to Eu1.15 from Eu1.0. Barcelona Cartonboard numbers are not yet in our estimates, but are incorporated in our valuation. Our “as is” valuation, the simple average of an EV/ROACE model and a peer comparison, yields a target price of Eu1.00 per share, to which we then add Eu0.15 of value creation from the deal in order to reach a new target price of Eu1.15. In light of the strong estimates momentum for RDM, we believe the stock re-rating may continue.

Reno De Medici – Valuation summary

	Eu p.s.	Weight
Peers comparison	1.00	50%
EV/ROCE	1.01	50%
Average	1.00	
Value creation from acquisition	0.15	
Target Price	1.15	
Current price	0.98	
Upside	17.1%	

Source: Intermonte SIM estimates

Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
RENO DE MEDICI	0.98	EUR	369	24.1%	18.5%	76.2%	93.5%	178.3%	223.1%
HOLMEN	210.65	SEK	35,388	-1.3%	-6.5%	-2.0%	-3.4%	10.1%	59.2%
MAYR-MELNHOF	118.20	EUR	2,364	-5.0%	-6.9%	-4.3%	-3.5%	2.8%	18.2%
METSA	9.76	EUR	3,470	0.4%	20.4%	36.6%	36.6%	43.5%	110.2%
STORA ENSO	17.41	EUR	13,730	-0.4%	12.9%	29.7%	31.7%	47.0%	141.0%
UPM KYMMENE	---	EUR	---	---	---	---	---	---	---
Mean performance				3.6%	7.7%	27.2%	31.0%	56.3%	110.3%
Italy FTSE Mib	22,099.3	EUR		-5.8%	-3.3%	-1.3%	1.1%	5.5%	30.6%

Source: FactSet

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
				2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
RENO DE MEDICI	0.98	EUR	369	0.6	0.6	6.5	6.0	10.3	9.4	14.7	14.0	0.7%	0.7%
HOLMEN	210.65	SEK	35,388	2.3	2.2	11.4	11.2	15.6	15.3	17.9	18.6	3.4%	3.6%
MAYR-MELNHOF	118.20	EUR	2,364	1.0	0.9	6.9	6.7	10.1	9.7	14.3	13.5	2.8%	2.9%
METSA	9.76	EUR	3,470	1.8	1.7	10.3	9.3	14.2	12.4	17.4	15.5	2.7%	3.1%
STORA ENSO	17.41	EUR	13,730	1.5	1.5	8.4	8.3	11.7	11.5	14.4	14.5	3.0%	3.2%
UPM KYMMENE		EUR											
Median				1.7	1.6	9.3	8.8	13.0	12.0	15.9	15.0	2.9%	3.2%

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:	OUTPERFORM
Current Target (Eu):	1.15	Previous Target (Eu):	1.00
Current Price (Eu):	0.98	Previous Price (Eu):	0.81
Date of report:	19/06/2018	Date of last report:	11/05/2018

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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 MIBEX 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:	14,10 %
OUTPERFORM:	43,59 %
NEUTRAL:	37,18 %
UNDERPERFORM	05,13 %
SELL:	00,00 %

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BUY:	14,81 %
OUTPERFORM:	50,00 %
NEUTRAL:	35,19 %
UNDERPERFORM	00,00 %
SELL:	00,00 %

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- o Intermonte has provided in the last 12 months / provides / may provide investment banking services to the following companies: Aedes, Aeroporto di Bologna, Carraro, Conafi, M&C, Il Sole 24 Ore, Italiaonline, Saras, Witi.
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- o Intermonte SIM SpA performs as a market maker for the following companies: Atlantia, Autogrill, Azimut Holding, Banco Popolare, BCA Monte dei Paschi di Siena, BCA POP Emilia Romagna, BCA POP Milano, CNH Industrial, Enel, Eni, Exor, Fiat Chrysler Automobiles NV, Generali, Indice FTMB, Intesa Sanpaolo, Intesa Sanpaolo Rsp, Leonardo-Finmeccanica, Luxottica Group, Mediaset, Mediobanca, Prysman, Saipem, Snam, Stmicroelectronics, Telecom Italia, Telecom Italia Risparmio, Tenaris, Tema, Ubi Banca, Unicredit, Unipol, Unipolsai.
- o Intermonte SIM SpA is acting as placement agent in Il Sole 24 Ore's capital increase with an agreement with the company for the publication of an equity research regarding the company and the transaction. Intermonte will receive fees from the company for its activity as placement agent.

Intermonte SIM SpA holds net long or short positions in excess of 0.5% of the overall share capital in the following issuers:

Emittente	%	Long/Short
CAPITAL FOR PROGRESS 2	1,06	LONG
COGEME SET SPA	1,6	SHORT
IKF	0,57	SHORT
OLIDATA	0,88	SHORT
WASTE ITALIA	0,61	SHORT

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