Reno De Medici Group, an Italian Packaging Group, is Rated 'BBB-/A-3'; Outlook Stable

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LONDON (Standard & Poor's CreditWire) March 19, 2001--Standard & Poor's today assigned its triple-'B'-minus long-term and 'A-3' short-term corporate credit ratings to Italy-based packaging company Reno De Medici Group. The outlook is stable.

The ratings on Reno De Medici reflect the group's solid market position in the modestly growing, but fairly well structured recycled cartonboard market, limited integration and diversification, and moderate financial profile.

Through the mergers in 1997 and 1998 with Saffa SpA and Sarrio S.A., respectively, Reno De Medici has become the second-largest recycled cartonboard producer in Europe, with a focus on white lined chipboard (WLC) used for packaging products. In this segment, the group has a better-than-average, although uneven, cost position, reflecting the size and efficiency of its major mills compared with those of many of its competitors, and the scope for further productivity increases. With almost all production based on recycled fiber, Reno De Medici is exposed to fluctuations in wastepaper prices. A mitigating factor is that the group can purchase part of its recycled fiber needs from local municipalities at a very low cost. Recent years' experience in passing on higher raw material costs to sales prices has also been encouraging.

Reno De Medici's narrow product and geographical sales mix (with almost 50% of sales in Italy) exposes the group to fluctuations in demand and prices in its product segments, as well as to changes in regional economic conditions. A mitigating factor is, however, the high industry concentration in the European recycled cartonboard industry, which contributes to stability in prices.

The group's financial position was weak after the merger with Saffa in 1997. Since then, Reno De Medici has reduced its debt levels, primarily through the disposal of noncore assets that were part of the former Saffa and Sarrio. Net debt to capital was 44% at the end of September 2000, compared with 60% at year-end 1997. Current EBITDA margins of about 14% could slightly improve in coming years, following the upgrade of mills and other ongoing rationalization initiatives. Coverage ratios are expected to remain at current levels in the near term, with EBITDA net interest coverage of about 5.5 times (x)-6.0x and funds from operations to net debt of about 25%-30%.

OUTLOOK: STABLE
Despite large capital spending in 2001, the free cash flows should allow the group to further reduce debt levels in the coming years, barring any major economic downturn. Although there is some flexibility in the rating category for smaller bolt-on acquisitions, no major debt-financed acquisitions are expected, Standard & Poor's said. -- CreditWire

Credit Profile:

ISSUER CREDIT RATINGS
Reno De Medici
Corp credit rtg   BBB-/Stable/A-3