

EL.EN.

BUY

SECTOR: Industrials

Price (Eu):

15.90

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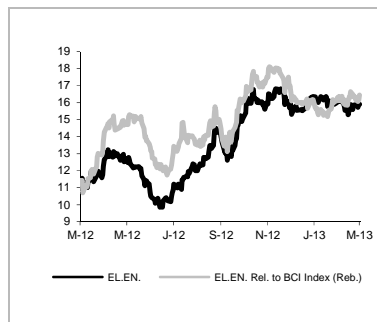
Target Price (Eu):

20.60

## 2013 Should Be As Positive As 2012

- Quarterly results: high single digit sales growth and sound operating leverage.** El.En posted sales of Eu42.9mn in 4Q12, up 8.2% YoY (after posting 10.8% growth in 9M12) and in line with our estimate. The Medical business performed well, the Industrial business was halted by slowdowns in Brazil and China, and the service business grew steadily. In 4Q12 EBIT jumped by 16.2% YoY to Eu1.9mn; the net operating margin improved by 30bps YoY to 4.4%. The company posted a pre-tax profit of Eu1.5mn, down 25.0% YoY penalised by negative changes in the USD/EUR exchange rate.
- Full year results: in line with guidance (sales +10% YoY and EBIT margin of 5.0%).** El.En's sales increased by 10.1% YoY to Eu151.2mn in FY12. EBIT reached Eu7.5mn, up 46.7% YoY; the margin improved by 120bps to 4.9% given higher sales and lower provisions. Net profit before minorities was Eu29.8mn: Eu26.7mn came from discontinued operations (the sale of Cynosure's shares). Group net profit was Eu23.2mn, of which Eu2.1mn from ongoing operations (compared to Eu0.7mn in FY11), and Eu21.1mn from discontinued operations. The BoD proposed to distribute a DPS of Eu0.5.
- Cash position boosted by sale of Cynosure shares.** In conjunction with Cynosure's rights issue in November, El.En sold some of its shares (840k out of about 3mn) for USD20.5 each, cashing in a total of Eu12.8mn and reducing its stake to 13%. As a result El.En's net cash position increased from Eu7.8mn at September 2012 to Eu17.9mn at December (slightly below our expectations). Cash outflows for the buyouts of minorities in Quanta Systems and DEKA MELA came to around Eu3.4mn.
- 2013 outlook: base and best case scenarios.** Management indications point to "growth of around 5% and an increase in operating income (EBIT). In correspondence to an improvement in conditions and of a recovery from the phase of uncertainty and recession, and greater availability of cash for investments, we could, however, reach the goals we have set for this year, 10% revenue growth and a 5% EBIT margin.". Our estimates are in line with the guidance provided: we forecast sales of Eu160.3mn, equal to top line growth of 6.0%, and EBIT of Eu8.1mn, or 5.0% of sales in 2013. Compared to our last note, we are cutting 2013 and 2014 EBIT estimates by 18.7% and 17.9% due to reduced assumptions on margins (sales remain unchanged). Finally, 2013 and 2014 EPS have been lowered by 17.9% and 17.5% respectively.
- BUY confirmed, target price raised to Eu20.6.** Our target price is based on an SoP valuation which adds the value of El.En (DCF-based, net of minorities) to the market value of El.En's 13% stake in Cynosure. A higher market value of Cynosure offsets a lower valuation of El.En due to estimate cuts. We reiterate our positive stance on the stock as El.En should benefit from its exposure to the medical and aesthetic treatment sector, which enjoys sustainable growth drivers, and the industrialisation of fast-growing markets such as Brazil and China, which should benefit the industrial laser systems business. The group's new structure (without full consolidation of Cynosure and with lower minority interests) could potentially lead to a re-rating.

### EL.EN. - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 20.10 to 20.60

Change in EPS est:	2013E	2014E
	-17.9%	-17.5%

### STOCK DATA

Reuters code:	ELEN.MI
Bloomberg code:	ELN IM

Performance	1m	3m	12m
Absolute	-1.6%	1.4%	39.1%
Relative	1.9%	-0.6%	42.5%
12 months H/L:	16.81/9.86		

### SHAREHOLDER DATA

No. of Ord. shares (mn):	5
Total No. of shares (mn):	5
Mkt Cap Ord (Eu mn):	77
Total Mkt Cap (Eu mn):	77
Mkt Float - ord (Eu mn):	33
Mkt Float (in %):	42.7%
Main shareholder:	
Cangioli Andrea	13.4%

### BALANCE SHEET DATA

	2013
Book value (Eu mn):	127
BVPS (Eu):	23.67
P/BV:	0.7
Net Financial Position (Eu mn):	18
Enterprise value (Eu mn):	18

Key Figures	2010A	2011A	2012E	2013E	2014E
Sales (Eu mn)	133	137	151	160	166
Ebitda (Eu mn)	13	11	13	13	15
Net profit (Eu mn)	2	0	23	3	3
EPS - New (Eu)	0.456	-0.056	0.651	0.546	0.681
EPS - Old (Eu)	0.456	0.149	0.358	0.665	0.826
DPS (Eu)	0.200	0.000	0.500	0.218	0.272

Ratios & Multiples	2010A	2011A	2012E	2013E	2014E
P/E	34.9	nm	24.4	29.1	23.3
Div. Yield	1.3%	0.0%	3.1%	1.4%	1.7%
EV/Ebitda	5.5	10.4	1.4	1.4	1.1
ROCE	10.4%	5.0%	6.5%	7.4%	8.3%

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**EL.EN. - KEY FIGURES**

		2010A	2011A	2012E	2013E	2014E
	Fiscal year end	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	133	137	151	160	166
	EBITDA	13	11	13	13	15
	EBIT	8	5	7	8	9
	Financial income (charges)	0	0	(1)	(1)	(1)
	Associates & Others	(1)	(1)	(0)	0	0
	Pre-tax profit (Loss)	8	5	6	7	9
	Taxes	(4)	(3)	(3)	(3)	(4)
	Tax rate (%)	-48.7%	-55.8%	-48.5%	-44.7%	-42.7%
	Minorities & discontinue activities	(2)	(2)	20	(1)	(2)
	Net profit	2	0	23	3	3
	Total extraordinary items					
Ebitda excl. extraordinary items	13	11	13	13	15	
Ebit excl. extraordinary items	8	5	7	8	9	
Net profit restated	2	(0)	3	3	3	
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	5	5	5	5	5
	EPS stated fd	0.456	-0.056	4.809	0.546	0.681
	EPS restated fd	0.456	-0.056	0.651	0.546	0.681
	BVPS fd	16.976	34.390	23.340	23.667	24.076
	Dividend per share (ord)	0.200	0.000	0.500	0.218	0.272
	Dividend per share (sav)					
Dividend pay out ratio (%)	43.9%	0.0%	3.8%	49.4%	51.4%	
<b>CASH FLOW (Eu mn)</b>	Gross cash flow	9	5	35	9	10
	Change in NWC	(16)	(22)	17	(2)	(2)
	Capital expenditure	(5)	(5)	(5)	(6)	(6)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(12)	(22)	46	2	3
	Acquisitions, divestments & others	0	0	0	0	0
	Dividend	0	(1)	0	(2)	(1)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	(23)	(3)	35	(0)	2	
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	37	52	57	54	54
	Net working capital	47	69	52	54	55
	Long term liabilities	(3)	1	(3)	2	1
	Net capital employed	81	122	107	110	111
	Net financial position	10	53	18	18	20
	Group equity	82	166	113	114	116
	Minorities	9	9	12	13	15
Net equity	91	175	124	127	131	
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	77	77	77	77	77
	Adjustments (associate & minorities)	(7)	(89)	41	41	41
	Net financial position	10	53	18	18	20
	Enterprise value	74	113	18	18	16
<b>RATIOS(%)</b>	EBITDA margin*	10.1%	7.9%	8.3%	8.3%	8.8%
	EBIT margin*	6.3%	3.7%	4.9%	5.0%	5.5%
	Gearing - Debt/equity	-12.2%	-32.0%	-15.8%	-15.4%	-17.0%
	Interest cover on EBIT	nm	nm	5.5	10.7	18.4
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	10.4%	5.0%	6.5%	7.4%	8.3%
	ROE*	4.9%	-0.2%	15.5%	2.1%	2.5%
	EV/CE	0.9	1.1	0.2	0.2	0.1
	EV/Sales	0.6	0.8	0.1	0.1	0.1
	EV/Ebit	8.8	22.1	2.4	2.3	1.8
Free Cash Flow Yield	-14.4%	-13.2%	129.2%	6.2%	8.9%	
<b>GROWTH RATES (%)</b>	Sales	30.3%	3.6%	10.1%	6.0%	3.8%
	EBITDA*	484.2%	-18.8%	15.7%	6.2%	10.5%
	EBIT*	nm	-39.1%	46.7%	7.7%	14.3%
	Net profit	nm	nm	nm	-88.6%	24.7%
	EPS restated	nm	nm	nm	-16.1%	24.7%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

## Results

### *El.En 4Q12 Results*

(€ mn)		4Q11A	4Q12A	4Q12E	A v E
<b>Sales</b>		<b>39.7</b>	<b>42.9</b>	<b>43.3</b>	<b>-0.8%</b>
	YoY growth %		8.2%	9.0%	
<b>EBITDA</b>		<b>3.2</b>	<b>3.2</b>	<b>3.8</b>	<b>-15.3%</b>
	Ebitda margin %	8.1%	7.5%	8.8%	
	YoY growth %		-0.3%	7.9%	
Total D&A		-1.6	-1.3	-1.7	
<b>EBIT</b>		<b>1.6</b>	<b>1.9</b>	<b>2.1</b>	<b>-10.6%</b>
	Ebit margin %	4.1%	4.4%	4.9%	
	YoY growth %		16.2%	19.2%	
Net financials & Participations		0.3	-0.4	5.6	
<b>Pretax Profit</b>		<b>2.0</b>	<b>1.5</b>	<b>7.7</b>	<b>n.m.</b>
	Ebit margin %	5.0%	3.4%	17.8%	
	YoY growth %		-25.0%	n.m.	

Source: Intermonte Sim

### *El.En FY12 results*

(€ mn)		2011A	2012A	2013E
<b>Sales</b>		<b>137.4</b>	<b>151.2</b>	<b>160.3</b>
	YoY growth %	3.6%	10.1%	6.0%
<b>EBITDA</b>		<b>10.8</b>	<b>12.5</b>	<b>13.3</b>
	Ebitda margin %	7.9%	8.3%	8.3%
	YoY growth %		15.7%	6.2%
Total D&A		(5.7)	(5.0)	(5.3)
<b>EBIT</b>		<b>5.1</b>	<b>7.5</b>	<b>8.1</b>
	Ebit margin %	3.7%	4.9%	5.0%
	YoY growth %		46.7%	7.7%
Net financial charges		(0.3)	(1.4)	(0.8)
<b>Pretax Profit</b>		<b>4.8</b>	<b>6.1</b>	<b>7.3</b>
Taxes		(2.7)	(3.0)	(3.3)
<i>Income from continued ope</i>		<i>2.1</i>	<i>3.7</i>	
<i>Income from discontinued c</i>		<i>(2.4)</i>	<i>26.7</i>	
<b>Net Profit before minority int</b>		<b>(0.3)</b>	<b>29.8</b>	<b>4.0</b>
<i>Minority interest from contin</i>		<i>(1.4)</i>	<i>(1.0)</i>	<i>(1.4)</i>
<i>Minority interest from discon</i>		<i>1.4</i>	<i>(5.6)</i>	
<b>Group Net Profit</b>		<b>-0.3</b>	<b>23.2</b>	<b>2.6</b>
	Net margin %	-0.2%	15.3%	1.6%
	YoY growth %		n.m.	n.m.

Source: Company data

## Guidance

In the press release management stated: "for 2013 we expect growth of around 5% and an increase in operating income. In correspondence to an improvement in conditions and a recovery from the phase of uncertainty and recession, and greater availability of cash for investments, we could, however, reach the goals we set for this year, which are 10% revenue growth and a 5% EBIT margin".

## Estimates

EI.En Change in estimates			
(€ mn)	2012A	2013E	2014E
<b>Sales new</b>	<b>151.2</b>	<b>160.3</b>	<b>166.3</b>
Sales old		160.3	166.3
% change		0.0%	0.0%
<b>EBITDA new</b>	<b>12.5</b>	<b>13.3</b>	<b>14.7</b>
EBITDA old		15.5	17.0
% change		-14.2%	-13.5%
<b>EBIT new</b>	<b>7.5</b>	<b>8.1</b>	<b>9.2</b>
EBIT old		9.9	11.2
% change		-18.7%	-17.9%
<b>Pretax Profit new</b>	<b>6.1</b>	<b>7.3</b>	<b>8.7</b>
Pretax Profit old		9.4	10.7
% change		-22.3%	-18.7%
<b>Group Net profit new</b>	<b>23.2</b>	<b>2.6</b>	<b>3.3</b>
Group Net Profit old		3.2	4.0
% change		-17.9%	-17.5%

Source: Company data and Intermonte Sim

EI.En P&L Estimates					
(€ mn)	2011A	2012A	2013E	2014E	CAGR12-14E
<b>Sales</b>	<b>137.4</b>	<b>151.2</b>	<b>160.3</b>	<b>166.3</b>	<b>4.9%</b>
YoY growth %	3.6%	10.1%	6.0%	3.8%	
<b>EBITDA</b>	<b>10.8</b>	<b>12.5</b>	<b>13.3</b>	<b>14.7</b>	<b>8.4%</b>
Ebitda margin %	7.9%	8.3%	8.3%	8.8%	
YoY growth %		15.7%	6.2%	10.5%	
Total D&A	(5.7)	(5.0)	(5.3)	(5.5)	
<b>EBIT</b>	<b>5.1</b>	<b>7.5</b>	<b>8.1</b>	<b>9.2</b>	<b>10.9%</b>
Ebit margin %	3.7%	4.9%	5.0%	5.5%	
YoY growth %		46.7%	7.7%	14.3%	
Net financial charges	(0.3)	(1.4)	(0.8)	(0.5)	
<b>Pretax Profit</b>	<b>4.8</b>	<b>6.1</b>	<b>7.3</b>	<b>8.7</b>	<b>19.5%</b>
Taxes	(2.7)	(3.0)	(3.3)	(3.7)	
<i>Income from continued ope</i>	<i>2.1</i>	<i>3.1</i>			
<i>Income from discontinued c</i>	<i>(2.4)</i>	<i>26.7</i>			
<b>Net Profit before minority int</b>	<b>(0.3)</b>	<b>29.8</b>	<b>4.0</b>	<b>5.0</b>	<b>n.m.</b>
<i>Minority interest from contin</i>	<i>(1.4)</i>	<i>(1.0)</i>	<i>(1.4)</i>	<i>(1.7)</i>	
<i>Minority interest from discon</i>	<i>1.4</i>	<i>(5.6)</i>			
<b>Group Net Profit</b>	<b>-0.3</b>	<b>23.2</b>	<b>2.6</b>	<b>3.3</b>	<b>n.m.</b>
Net margin %	-0.2%	15.3%	1.6%	2.0%	
YoY growth %		n.m.	n.m.	24.7%	

Source: Company data and Intermonte Sim

## Valuation

### SOP

For our valuation of the El.En Group, we have used a sum of the parts (SoP) model, adding together the value of El.En (based on a discounted cash flow model, net of the cash flow pertaining to minority shareholders) and the market value of El.En's 13% stake in Cynosure (NASDAQ: CYNO US). Our new target price of Eu20.6, which is 2.4% higher than in our last note dated 21<sup>st</sup> November 2012, is the result of a higher market value for Cynosure (23.3%) and a lower value of El.En (-11.1%, due to our cut in estimates).

El.En - SOP (€ mn)					
	Method	€ mn	€ per share	previous (21-12-2012)	change
El.En	DCF, net of minorities	52.3	10.8	12.2	-11.1%
Stake in Cynosure	market value	47.0	9.7	7.9	23.3%
<b>Total Equity Value</b>		<b>99.3</b>	<b>20.6</b>	20.1	2.4%
El.En Share Price			15.8	16.3	-3.1%
<b>potential upside</b>			<b>30.3%</b>	23.9%	

Source: Intermonte Sim

Once we restate El.En's EV for the value of its stake in Cynosure (Eu47.0mn based on market prices) we can see that El.En (even adding back Eu6.1mn, the book value of its minority interests ex-Cynosure as at FY12) is trading at undemanding multiples based on current market prices.

### El.En ex Cynosure multiples at our DCF fair value

	2011	2012	2013	2014
P/E	n.m.	16.7	19.9	15.9
EV/Sales	0.34	0.30	0.29	0.28
EV/Ebitda	4.3	3.7	3.5	3.1
EV/Ebit	9.0	6.2	5.7	5.0

Source: Intermonte Sim

### El.En ex Cynosure multiples at current market prices

	2011	2012	2013	2014
P/E	n.m.	9.3	11.1	8.9
EV/Sales	0.61	0.12	0.11	0.09
EV/Ebitda	7.8	1.4	1.3	1.1
EV/Ebit	16.6	2.3	2.2	1.7

Source: Intermonte Sim

**EL.EN. Peer Group - Absolute Performances**

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
<b>EL.EN.</b>	<b>15.9</b>	<b>EUR</b>	<b>76.7</b>	<b>-1.6%</b>	<b>1.4%</b>	<b>13.8%</b>	<b>2.4%</b>	<b>39.1%</b>	<b>13.7%</b>
AMADA CO.	621.0	JPY	237,082.6	8.9%	19.9%	71.5%	11.9%	7.6%	-10.8%
COHERENT INC.	57.8	USD	1,400.5	-2.0%	20.8%	16.5%	14.2%	-1.1%	-0.7%
CYMER	97.6	USD	3,067.1	-4.7%	10.7%	71.0%	7.9%	104.4%	108.7%
FIDIA	2.6	EUR	13.4	-2.6%	9.7%	2.7%	12.9%	-21.1%	-33.8%
GSI GROUP	8.9	---	301.4	-6.3%	10.4%	-5.2%	3.2%	-22.3%	-23.6%
PRIMA INDUSTRIE	9.9	EUR	85.9	2.8%	10.4%	9.8%	7.4%	5.8%	11.3%
ROFIN-SINAR TECH	27.4	USD	770.2	-2.4%	33.5%	21.5%	26.2%	5.7%	-23.7%
<b>Mean performance</b>				<b>-1.0%</b>	<b>14.6%</b>	<b>25.2%</b>	<b>10.8%</b>	<b>14.8%</b>	<b>5.1%</b>
<b>Italy Fixed</b>	15,745.3	EUR	178,745	-5.8%	-0.8%	-3.1%	-3.2%	-6.3%	-28.0%

Source: FactSet

**EL.EN Peer Group - Absolute Performances**

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
<b>Cynosure</b>	<b>22.2</b>	<b>EUR - Euro</b>	<b>424</b>	<b>4.2%</b>	<b>28.6%</b>	<b>10.4%</b>	<b>21.3%</b>	<b>56.5%</b>	<b>139.2%</b>
<b>El.En</b>	<b>15.9</b>	<b>EUR - Euro</b>	<b>74.9</b>	<b>-1.6%</b>	<b>1.4%</b>	<b>13.8%</b>	<b>2.4%</b>	<b>39.1%</b>	<b>13.7%</b>
Syneron Medical Ltd.	7.8	USD - US Dollar	276	-2.6%	23.0%	6.7%	18.6%	-7.4%	-18.4%
Palomar Medical Technologies Inc.	9.3	USD - US Dollar	188	19.6%	37.6%	47.5%	33.3%	23.4%	-11.5%
Cutera Inc.	9.9	USD - US Dollar	140	11.5%	44.7%	84.5%	44.9%	38.6%	51.3%
Biolase Inc	3.1	USD - US Dollar	99	19.8%	103.5%	128.0%	120.1%	62.1%	-13.6%
Solta Medical Inc.	1.7	USD - US Dollar	136	-3.1%	-17.3%	-31.4%	-15.0%	-22.9%	-22.4%
<b>Medical avg</b>				<b>9.0%</b>	<b>38.3%</b>	<b>47.1%</b>	<b>40.4%</b>	<b>18.7%</b>	<b>-2.9%</b>
<b>Italy FTSE Mib</b>	274.8	EUR - Euro	382,272	-2.6%	1.4%	-1.2%	-0.6%	-3.9%	-27.2%

Source: Factset

**EL.EN. 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
				2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
<b>EL.EN.</b>	<b>15.9</b>	<b>EUR</b>	<b>76.7</b>	<b>0.1</b>	<b>0.1</b>	<b>1.3</b>	<b>1.1</b>	<b>2.2</b>	<b>1.7</b>	<b>11.1</b>	<b>8.9</b>	<b>1.4%</b>	<b>1.7%</b>
AMADA CO.	621.0	JPY	237,082.6	0.8	0.9	8.1	8.1	12.5	11.7	25.8	20.9	2.0%	2.4%
COHERENT INC.	57.8	USD	1,400.5	1.4	1.3	7.5	6.6	10.4	8.7	17.3	14.5		
CYMER	97.6	USD	3,067.1	4.1	3.6	37.2	25.4	54.7	25.4	66.2	36.8	0.0%	0.0%
FIDIA	2.6	EUR	13.4	0.2	0.3	3.4	3.8	5.1	5.3	14.8	10.2	0.0%	0.0%
GSI GROUP	8.9		301.4							14.2	11.0		
PRIMA INDUSTRIE	9.9	EUR	85.9	0.6	0.5	5.7	5.4	8.2	8.0	7.8	8.4	0.0%	0.0%
ROFIN-SINAR TECH	27.4	USD	770.2	1.2	1.1	9.2	6.9	11.5	8.2	19.3	14.5	0.0%	0.0%
<b>Median</b>				<b>0.8</b>	<b>0.9</b>	<b>7.5</b>	<b>6.6</b>	<b>10.4</b>	<b>8.2</b>	<b>18.3</b>	<b>14.5</b>	<b>0.0%</b>	<b>0.0%</b>

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

**El.En Peer Group - Multiple Comparison**

Stock	Price	Ccy	Mkt cap	Capi/Sales	Capi/Sales	P/E 2013	P/E 2014
				2013	2014		
<b>Cynosure</b>	<b>22.2</b>	<b>EUR - Euro</b>	<b>424</b>	<b>3.1</b>	<b>2.6</b>	<b>33.6</b>	<b>24.5</b>
<b>El.En</b>	<b>15.9</b>	<b>EUR - Euro</b>	<b>76.7</b>	<b>0.2</b>	<b>0.2</b>	<b>11.1</b>	<b>8.9</b>
Syneron Medical Ltd.	7.8	USD - US Dollar	276	1.2	1.1	49.9	22.7
Palomar Medical Technologies Inc.	9.3	USD - US Dollar	188	2.8	2.6	66.3	42.6
Cutera Inc.	9.9	USD - US Dollar	140	2.1	1.8	152.9	43.3
Biolase Inc	3.1	USD - US Dollar	99	1.9	1.5	80.2	20.0
Solta Medical Inc.	1.7	USD - US Dollar	136	0.9	0.8	62.6	16.2
<b>Medical avg</b>				<b>1.9</b>	<b>1.5</b>	<b>66.3</b>	<b>22.7</b>

Source: Factset consensus estimates for peer group, Intermonte estimates for El.En

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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	ELEN.		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (Eu):	20.60	Previous Target (Eu):	20.10
Current Price (Eu):	15.90	Previous Price (Eu):	16.35
Date of report:	15/03/2013	Date of last report:	21/11/2012

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