

EL.EN.

NEUTRAL

SECTOR: Industrials

Price (Eu):

26.60

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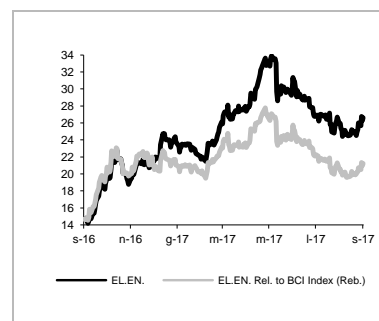
Target Price (Eu):

27.00

## Strong Top-Line Momentum, FY17 Guidance Confirmed

- Faster-than-expected 2Q top-line growth (+20% vs. +15% expected) boosted by the industrial segment (+50%); profitability still impacted by a worse mix...** El.En. reported a further acceleration in 2Q sales growth to Eu78mn (+20% vs. +18% YoY in 1Q17 and better than our +15% YoY forecast), **again boosted by a strong performance from the industrial segment (+50% YoY, with cutting at +62% YoY)**, and the continuation of robust revenues in the aesthetic sector (+33% YoY, driven by the rising contribution from the most innovative products such as Motus AX, Discovery Pico and Mediotstar). At the medical division, quarterly trends by segment were similar to the first part of the year, as the sales increase in the aesthetic sector was partly offset by continuing weakness in surgical revenues (mainly due to a further slowdown for Mona Lisa Touch, impacted by softer results for the core U.S. market) and medical service sales. From a geographical standpoint, 2Q growth was largely driven by the Rest of the World (benefitting once more from a strong rebound in China for cutting), but with Italy/Rest of Europe also performing positively (up +22% YoY and +10% YoY respectively). As expected, 2Q margins were still negatively impacted by a worse mix (as a consequence of a greater share of industrial sales featuring lower-than-average profitability, particularly in China, and the rising incidence of aesthetic vs. surgical on total medical revenues); 2Q EBIT reached Eu7.6mn (corresponding to a 9.8% margin, broadly in line with our expectations, down around -70bps YoY). At bottom-line level, the Company reported 1H17 net income of Eu6.0mn (vs. our estimate of Eu6.5mn) after higher net financial items (impacted by FOREX) and minorities. Finally, the net cash position decreased QoQ to Eu67mn as at the end of June (from Eu79mn as at end-March and vs. our forecast of Eu72mn).
- FY17 guidance confirmed (sales growth of >+10%, EBIT in line with FY16 in the best case, or around Eu28mn); Estimates fine-tuned.** During yesterday's conference call, El.En. management reiterated its positive outlook for the group's core markets (particularly for China, expected to continue to benefit from a sustainable upward trend in demand, but also for the Italian market). Based on current market trends and visibility, FY17 sales guidance (confirmed) of >+10% YoY (vs. +19% YoY in 1H17) looks in our view somewhat conservative: our updated forecasts point to FY17 revenue growth of around +15% YoY (vs. +12% YoY before), implying a 2H top-line increase of approx. +11.5% YoY, which we deem as feasible. At the operating profitability level, we are instead slightly lowering our margin assumptions (based on a further projected negative mix impact), for which reason our FY17 EBIT estimates remain little changed overall. All in all, we have reduced our FY18-19 EPS forecasts by an average of around 3% to mainly factor in higher minorities, while FY17 estimates also included higher net financial items (FOREX impact).
- NEUTRAL rating, Eu27.0 target price confirmed.** On the back of our updated forecasts, we confirm our Eu27.0 target price on the stock, calculated by averaging a DCF valuation (Eu25.5) and a peer comparison (Eu26.5), to which is added a further Eu1.0 per share to take into account the possible use of cash for accretive M&A deals. Based on the limited gap vs. the current market valuation, we confirm our NEUTRAL rating. The stock is currently trading at FY17 EV/EBITDA and P/E multiples of around 12.5x and 33x respectively.

## EL.EN. - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): Unchanged

Change in EPS est:	2017E	2018E
	-14.6%	-3.0%

## STOCK DATA

Reuters code:	ELEN.MI
Bloomberg code:	ELN IM

Performance	1m	3m	12m
Absolute	2,7%	-15,2%	81,0%
Relative	3,1%	-18,1%	55,6%
12 months H/L:	33,88/14,20		

## SHAREHOLDER DATA

No. of Ord. shares (mn):	19
Total No. of shares (mn):	19
Mkt Cap Ord (Eu mn):	513
Total Mkt Cap (Eu mn):	513
Mkt Float - ord (Eu mn):	215
Mkt Float (in %):	41,8%
Main shareholder:	
Cangioli Andrea	15,2%

## BALANCE SHEET DATA

	2017
Book value (Eu mn):	189
BVPS (Eu):	9,79
P/BV:	2,7
Net Financial Position (Eu mn):	80
Enterprise value (Eu mn):	440

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on the last page of this report

Key Figures	2015A	2016A	2017E	2018E	2019E
Sales (Eu mn)	218	253	291	312	334
Ebitda (Eu mn)	26	32	35	41	45
Net profit (Eu mn)	14	40	16	21	23
EPS - New (Eu)	0,745	0,901	0,817	1,086	1,191
EPS - Old (Eu)	0,745	0,901	0,957	1,120	1,237
DPS (Eu)	0,300	0,400	0,400	0,400	0,400

Ratios & Multiples	2015A	2016A	2017E	2018E	2019E
P/E	35,7	29,5	32,6	24,5	22,3
Div. Yield	1,1%	1,5%	1,5%	1,5%	1,5%
EV/Ebitda	17,7	13,5	12,5	10,5	9,3
ROCE	17,0%	21,3%	25,6%	27,5%	28,6%

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**EL.EN. - KEY FIGURES**

	<b>2015A</b>	<b>2016A</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>
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	218	253	291	312	334
EBITDA	26	32	35	41	45
EBIT	21	28	30	35	39
Financial income (charges)	1	2	(3)	1	1
Associates & Others	0	23	0	0	0
Pre-tax profit (Loss)	23	53	27	36	40
Taxes	(7)	(10)	(7)	(10)	(11)
Tax rate (%)	-30,6%	-18,5%	-27,2%	-27,1%	-27,4%
Minorities & discontinue activities	(2)	(3)	(4)	(5)	(6)
Net profit	14	40	16	21	23
Total extraordinary items					
Ebitda excl. extraordinary items	26	32	35	41	45
Ebit excl. extraordinary items	21	28	30	35	39
Net profit restated	14	17	16	21	23
<b>PER SHARE DATA (Eu)</b>					
Total shares out (mn) - average fd	19	19	19	19	19
EPS stated fd	0,745	2,094	0,817	1,086	1,191
EPS restated fd	0,745	0,901	0,817	1,086	1,191
BVPS fd	8,822	9,369	9,786	10,472	11,263
Dividend per share (ord)	0,300	0,400	0,400	0,400	0,400
Dividend per share (sav)					
Dividend pay out ratio (%)	40,3%	19,1%	49,0%	36,8%	33,6%
<b>CASH FLOW (Eu mn)</b>					
Gross cash flow	20	25	25	32	35
Change in NWC	(11)	6	(15)	(5)	(7)
Capital expenditure	(8)	(11)	(5)	(7)	(7)
Other cash items	0	0	0	0	0
Free cash flow (FCF)	2	19	5	19	21
Acquisitions, divestments & others	(14)	39	0	0	0
Dividend	(5)	(6)	(8)	(8)	(8)
Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	(17)	53	(2)	12	13
<b>BALANCE SHEET (Eu mn)</b>					
Total fixed assets	81	47	47	48	49
Net working capital	60	54	69	74	81
Long term liabilities	9	8	8	8	8
Net capital employed	150	110	124	131	139
Net financial position	30	83	80	92	106
Group equity	180	193	205	223	244
Minorities	9	12	16	21	27
Net equity	170	181	189	202	217
<b>ENTERPRISE VALUE (Eu mn)</b>					
Average mkt cap - current	513	513	513	513	513
Adjustments (associate & minorities)	29	(8)	(8)	(8)	(8)
Net financial position	30	83	80	92	106
Enterprise value	455	438	440	429	415
<b>RATIOS(%)</b>					
EBITDA margin*	11,8%	12,8%	12,1%	13,1%	13,4%
EBIT margin*	9,9%	10,9%	10,3%	11,3%	11,5%
Gearing - Debt/equity	-16,6%	-43,0%	-39,3%	-41,3%	-43,2%
Interest cover on EBIT	nm	nm	10,7	nm	nm
Debt/Ebitda	nm	nm	nm	nm	nm
ROCE*	17,0%	21,3%	25,6%	27,5%	28,6%
ROE*	9,2%	23,0%	8,5%	10,7%	11,0%
EV/CE	3,6	3,4	3,8	3,4	3,1
EV/Sales	2,1	1,7	1,5	1,4	1,2
EV/Ebit	21,2	15,9	14,7	12,2	10,8
Free Cash Flow Yield	0,3%	3,7%	1,0%	3,7%	4,0%
<b>GROWTH RATES (%)</b>					
Sales	20,9%	16,1%	15,0%	7,5%	7,0%
EBITDA*	42,9%	26,2%	8,8%	15,9%	9,6%
EBIT*	55,8%	28,3%	8,8%	17,0%	9,8%
Net profit	-13,0%	181,2%	-61,0%	32,9%	9,7%
EPS restated	30,1%	21,0%	-9,3%	32,9%	9,7%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

## Results

<b>El.En. Results</b>						
<b>(€ mn)</b>	<b>2Q16A</b>	<b>2Q17A</b>	<b>2Q17E</b>	<b>A v E</b>	<b>1H16A</b>	<b>1H17A</b>
<b>Sales</b>	<b>64,9</b>	<b>77,8</b>	<b>74,9</b>	<b>3,8%</b>	<b>120,2</b>	<b>142,9</b>
YoY growth %	11,3%	19,7%	15,3%		12,4%	18,9%
<b>EBITDA</b>	<b>7,9</b>	<b>8,9</b>	<b>8,5</b>	<b>5,5%</b>	<b>15,6</b>	<b>15,5</b>
Ebitda margin %	12,2%	11,5%	11,3%		13,0%	10,8%
YoY growth %	9,3%	13,1%	7,1%		24,2%	-0,6%
Total D&A	(1,1)	(1,3)	(1,2)		(2,0)	(2,3)
<b>EBIT</b>	<b>6,8</b>	<b>7,6</b>	<b>7,3</b>	<b>4,6%</b>	<b>13,5</b>	<b>13,1</b>
Ebit margin %	10,5%	9,8%	9,7%		11,3%	9,2%
YoY growth %		11,7%	6,8%			
Net financials & Participations	23,4	(1,9)	(1,3)		22,5	(2,3)
<b>Pretax Profit</b>	<b>30,2</b>	<b>5,7</b>	<b>5,9</b>	<b>-3,7%</b>	<b>36,0</b>	<b>10,9</b>
Pretax margin %	46,4%	7,3%	7,9%		29,9%	7,6%
YoY growth %	459,8%	-81,1%	-80%		0,0%	0,0%
Taxes					-4,7	-2,8
tax rate					-12,9%	-26,0%
Minorities and disc. Operations					-1,0	-2,0
<b>Group net profit</b>					<b>30,3</b>	<b>6,0</b>
YoY growth %					nm	nm

Source: Company data and Intermonte Sim

## Estimates

<b>El.En. Change in estimates</b>				
<b>(€ mn)</b>	<b>2016A</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>
<b>Sales new</b>	<b>252,6</b>	<b>290,5</b>	<b>312,3</b>	<b>334,2</b>
Sales old		282,5	304,5	326,7
<b>% change</b>		<b>2,9%</b>	<b>2,6%</b>	<b>2,3%</b>
<b>EBITDA new</b>	<b>32,4</b>	<b>35,2</b>	<b>40,8</b>	<b>44,8</b>
EBITDA old		35,2	40,6	44,6
<b>% change</b>		<b>0,1%</b>	<b>0,6%</b>	<b>0,4%</b>
<b>Adjusted EBIT new</b>	<b>27,6</b>	<b>30,0</b>	<b>35,1</b>	<b>38,6</b>
Adjusted EBIT old		30,0	34,9	38,4
<b>% change</b>		<b>0,1%</b>	<b>0,7%</b>	<b>0,5%</b>
<b>Adjusted Group Net profit new</b>	<b>17,4</b>	<b>15,8</b>	<b>21,0</b>	<b>23,0</b>
Adjusted Group Net Profit old		18,5	21,6	23,9
<b>% change</b>		<b>-14,6%</b>	<b>-3,0%</b>	<b>-3,7%</b>

Source: Company data and Intermonte Sim estimates

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

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
<b>EL.EN.</b>	<b>26,60</b>	<b>EUR</b>	<b>513</b>	<b>2,7%</b>	<b>-15,2%</b>	<b>2,7%</b>	<b>13,3%</b>	<b>81,0%</b>	<b>155,8%</b>
AMADA CO.	1221,00	JPY	446.570	-3,6%	-6,5%	-6,4%	-6,4%	19,0%	19,5%
COHERENT INC.	236,89	USD	5.835	7,9%	-8,1%	29,0%	72,4%	123,7%	332,9%
FIDIA	6,40	EUR	33	-4,6%	-8,7%	-10,3%	14,7%	4,5%	-7,5%
NOVANTA	39,85	USD	1.378	4,2%	4,9%	55,7%	89,8%	132,8%	213,8%
PRIMA INDUSTRIE	39,20	EUR	411	26,4%	35,4%	106,3%	147,8%	180,8%	180,0%
<b>Mean performance</b>				<b>5,5%</b>	<b>0,3%</b>	<b>29,5%</b>	<b>55,3%</b>	<b>90,3%</b>	<b>149,1%</b>
<b>Italy FTSE Mib</b>	21.722,5	EUR	338.053	-1,4%	4,7%	11,7%	12,9%	25,6%	1,2%

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
				2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
<b>EL.EN.</b>	<b>26,60</b>	<b>EUR</b>	<b>513</b>	<b>1,5</b>	<b>1,4</b>	<b>12,5</b>	<b>10,5</b>	<b>14,7</b>	<b>12,2</b>	<b>32,6</b>	<b>24,5</b>	<b>1,5%</b>	<b>1,5%</b>
AMADA CO.	1221,00	JPY	446.570	1,4	1,3	8,4	7,6	10,7	9,6	15,7	14,7	3,4%	3,5%
COHERENT INC.	236,89	USD	5.835	6,5	3,4	28,5	11,2	37,7	12,5	49,9	19,3		
FIDIA	6,40	EUR	33										
NOVANTA	39,85	USD	1.378	2,6	2,2	13,7	10,9	16,3	12,8	28,3	23,4		
PRIMA INDUSTRIE	39,20	EUR	411	1,1	1,0	10,6	8,5	16,4	12,0	22,4	16,1	0,9%	1,1%
<b>Median</b>				<b>2,0</b>	<b>1,7</b>	<b>12,2</b>	<b>9,7</b>	<b>16,3</b>	<b>12,2</b>	<b>25,3</b>	<b>17,7</b>	<b>2,1%</b>	<b>2,3%</b>

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

**El.En. Peer Group - Absolute Performances**

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
<b>El.En</b>	<b>26,6</b>	<b>Euro</b>	<b>513,3</b>	<b>2,7%</b>	<b>-15,2%</b>	<b>2,7%</b>	<b>13,3%</b>	<b>81,0%</b>	<b>153,3%</b>
Cutera, Inc.	32,3	USD	452,0	42,8%	51,8%	68,2%	96,2%	234,4%	140,3%
BIOLASE, Inc.	0,5	USD	37,3	-29,3%	-52,3%	-61,8%	-63,0%	-69,3%	-64,5%
<b>Medical avg</b>				<b>6,8%</b>	<b>-0,3%</b>	<b>3,2%</b>	<b>16,6%</b>	<b>82,5%</b>	<b>37,9%</b>
<b>Italy FTSE Mib</b>				<b>-0,8%</b>	<b>3,2%</b>	<b>11,4%</b>	<b>12,9%</b>	<b>23,3%</b>	<b>4,1%</b>

Source: Factset

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

Stock	Price	Ccy	Mkt cap	EV/Sales	EV/Sales	P/E	P/E	EV/EBITDA	EV/EBITDA
				2017	2018	2017	2018	2017	2018
<b>El.En</b>	<b>26,6</b>	<b>EUR - Euro</b>	<b>513,3</b>	1,5	1,4	32,6	24,5	12,5	10,5
Cutera, Inc.	32,3	USD	452,0	3,4	3,0	76,7	49,7	39,4	27,9
BIOLASE, Inc.	0,5	USD	37,3	0,7	0,7				
<b>Medical avg</b>				<b>2,0</b>	<b>1,8</b>	<b>76,7</b>	<b>49,7</b>	<b>39,4</b>	<b>27,9</b>

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

**EL.EN. - Estimates Comparison with Consensus**

(Eu mn)	2017			2018		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
<b>Revenues</b>	290,5	281,1	3,4%	312,3	299,6	4,3%
<b>Ebitda</b>	35,2	33,5	5,0%	40,8	38,0	7,4%
<b>Net Profit</b>	15,8	16,3	-3,3%	21,0	20,0	5,0%
<b>EPS</b>	0,817	0,858	-4,8%	1,086	1,026	5,9%
<b>Net Debt</b>	80,4	80,9	-0,6%	92,2	87,6	5,2%

Source: Intermonte SIM estimates and Factset consensus estimates

**DETAILS ON STOCKS RECOMMENDATION**

Stock NAME	EL.EN.			
Current Recomm:	NEUTRAL		Previous Recomm:	NEUTRAL
Current Target (Eu):	27,00		Previous Target (Eu):	27,00
Current Price (Eu):	26,60		Previous Price (Eu):	28,60
Date of report:	08/09/2017		Date of last report:	18/05/2017

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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.

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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.

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

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OUTPERFORM:	46.75 %
NEUTRAL:	39.61 %
UNDERPERFORM	00.65 %
SELL:	00.00 %

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

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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
COGEME SET SPA	1,6	SHORT
IKF	0,57	SHORT
MONDO TV FRANCE	0,88	SHORT
OLIDATA	0,88	SHORT
WASTE ITALIA	1,06	SHORT
ZEPHYRO SPA	1,4	LONG

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