

## EL.EN.

## OUTPERFORM

SECTOR: Industrials

Price (Eu):

22.72

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Target Price (Eu):

33.00

## Despite Lower Margins, Top Line Confirms Sustainable Double-Digit Growth

■ **2Q18 results broadly in line, with a stronger top-line held back by thinner operating margins.**

Quarterly sales beat our expectations by 6%, reaching Eu91mn (+17% YoY), with both business divisions (industrial and medical) registering double-digit growth of +12% and +13% YoY respectively. All medical products delivered positive performances (including Mona Lisa Touch, continuing the recovery started in recent quarters), and industrial "cutting" up +14% YoY in all markets. Geographically, Europe reported the highest growth with a +30% YoY increase for a gain in market share, while Italian and Rest of the world revenues registered a positive performance of almost +10% YoY. FOREX again affected revenues, albeit less than in 1Q18, and a weaker product mix and higher operating costs affected the EBITDA margin more than expected, down 170bps YoY on the quarter. EBITDA was flat YoY at Eu8.9mn and EBIT was Eu7.4mn (-3% YoY). However, positive financial gains from FOREX helped to mitigate this negative effect, leading to +9% growth of pre-tax profit in the quarter. Net profit increased as well, reaching Eu7.5mn in the semester (net profit detail available on a half-year basis) from Eu6mn in 1H17, which translates into a +24% YoY increase. Finally, the net cash position was in line at Eu66mn.

■ **Underlying market growth coupled to a pipeline of new products and heavy marketing activity pave the way to healthy growth.**

The strong top-line growth, even though hindered in the first half of 2018 by strong and unfavourable FOREX dynamics, has prompted management to revise 2018 guidance upward by at least +10% for YoY growth, most probably higher. At the same time, guidance on EBIT was left unchanged, translating into an expected contraction of margins. Compared to 1H18, profitability is expected to improve in 2H sustained by a better sales mix. However, excluding FOREX, operating margins show a slight decline as a result of the heavy investment plan implemented by management in order to lay the foundations for strong, continuing growth in the years to come. In addition to the underlying market, which is expected to perform well, the launch of new products and the effective marketing activities point to a market share gain, which we have seen in Europe for example.

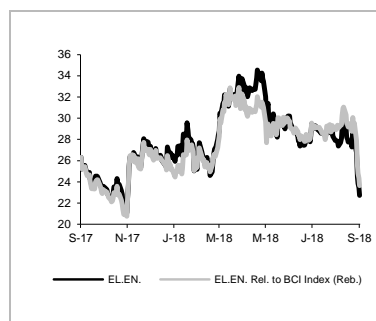
■ **We confirm top line expectations, but have trimmed estimates on the back of a tougher outlook for operating margins.**

The margin reduction continued in 2Q as well, and in 2H we do not see a real catalyst for an improvement in profitability compared to last year. Nevertheless, we do expect better operating leverage and also a favourable sales mix in the coming quarters thanks to the new launches, among which are ONDA and Motus AY. On the back of this, we have reduced our expectations at operating margin level by mid-single digit, leading to a downward EPS estimate revision of -9% and -5% on 2018 and 2019 respectively.

■ **Outperform confirmed; target from Eu35.2 to Eu33.**

On the back of our adjusted estimates, we have trimmed our target price from Eu35.2 to Eu33. Even if the recent negative stock price movement echoed sector performance, we think the concerns are unjustified in the case of El.En. as the business continues to show strong growth, and a very encouraging reception for the new products is expected. Based on the expected continuation of strong earnings momentum and potential upside to the current market valuation, we reiterate our OUTPERFORM recommendation.

## EL.EN. - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 35.20 to 33.00

Change in EPS est:	2018E	2019E
	-9.0%	-5.1%

## STOCK DATA

Reuters code: ELEN.MI  
Bloomberg code: ELN IM

Performance	1m	3m	12m
Absolute	-18.6%	-24.8%	-13.6%
Relative	-18.2%	-19.3%	-9.7%
12 months H/L:	34.54/21.08		

## SHAREHOLDER DATA

No. of Ord. shares (mn):	19
Total No. of shares (mn):	19
Mkt Cap Ord (Eu mn):	438
Total Mkt Cap (Eu mn):	438
Mkt Float - ord (Eu mn):	227
Mkt Float (In %):	51.7%
Main shareholder:	
Cangioli Andrea	15.2%

## BALANCE SHEET DATA

	2018
Book value (Eu mn):	203
BVPS (Eu):	10.53
P/BV:	2.2
Net Financial Position (Eu mn):	78
Enterprise value (Eu mn):	379

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Key Figures	2016A	2017A	2018E	2019E	2020E
Sales (Eu mn)	253	306	346	384	423
Ebitda (Eu mn)	32	36	40	48	55
Net profit (Eu mn)	40	16	21	26	29
EPS - New (Eu)	0.901	0.810	1.070	1.330	1.525
EPS - Old (Eu)	0.901	0.810	1.176	1.402	1.610
DPS (Eu)	0.400	0.400	0.400	0.400	0.400

Ratios & Multiples	2016A	2017A	2018E	2019E	2020E
P/E	25.2	28.0	21.2	17.1	14.9
Div. Yield	1.8%	1.8%	1.8%	1.8%	1.8%
EV/Ebitda	11.3	10.2	9.5	7.9	6.6
ROCE	21.3%	26.5%	25.8%	27.2%	28.9%

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**EL.EN. - 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
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	253	306	346	384	423
	EBITDA	32	36	40	48	55
	EBIT	28	30	34	42	48
	Financial income (charges)	2	(3)	1	1	1
	Associates & Others	23	0	0	0	0
	Pre-tax profit (Loss)	53	27	35	43	49
	Taxes	(10)	(7)	(10)	(11)	(13)
	Tax rate (%)	-18.5%	-25.0%	-27.5%	-26.4%	-26.0%
	Minorities & discontinue activities	(3)	(5)	(5)	(6)	(7)
	Net profit	40	16	21	26	29
	Total extraordinary items					
	Ebitda excl. extraordinary items	32	36	40	48	55
	Ebit excl. extraordinary items	28	30	34	42	48
Net profit restated	17	16	21	26	29	
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	19	19	19	19	19
	EPS stated fd	2.094	0.810	1.070	1.330	1.525
	EPS restated fd	0.901	0.810	1.070	1.330	1.525
	BVPS fd	9.423	9.862	10.533	11.463	12.588
	Dividend per share (ord)	0.400	0.400	0.400	0.400	0.400
	Dividend per share (sav)					
Dividend pay out ratio (%)	19.1%	49.4%	37.4%	30.1%	26.2%	
<b>CASH FLOW (Eu mn)</b>	Gross cash flow	25	26	31	38	43
	Change in NWC	6	(9)	(10)	(7)	(4)
	Capital expenditure	(11)	(8)	(18)	(18)	(7)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	19	10	3	13	32
	Acquisitions, divestments & others	39	(0)	(3)	0	0
	Dividend	(6)	(8)	(8)	(8)	(8)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	53	2	(7)	5	25	
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	47	47	59	70	69
	Net working capital	54	63	73	81	85
	Long term liabilities	8	10	12	12	12
	Net capital employed	110	120	144	163	166
	Net financial position	83	85	78	83	108
	Group equity	193	204	222	246	274
	Minorities	11	14	19	25	31
Net equity	182	190	203	221	243	
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	438	438	438	438	438
	Adjustments (associate & minorities)	(11)	(14)	(19)	(25)	(31)
	Net financial position	83	85	78	83	108
	Enterprise value	367	368	379	380	362
<b>RATIOS(%)</b>	EBITDA margin*	12.8%	11.8%	11.5%	12.5%	12.9%
	EBIT margin*	10.9%	9.9%	9.8%	10.9%	11.3%
	Gearing - Debt/equity	-43.0%	-41.4%	-35.0%	-33.8%	-39.3%
	Interest cover on EBIT	nm	9.0	nm	nm	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	21.3%	26.5%	25.8%	27.2%	28.9%
	ROE*	22.9%	8.4%	10.5%	12.1%	12.7%
	EV/CE	2.8	3.2	2.9	2.5	2.2
	EV/Sales	1.5	1.2	1.1	1.0	0.9
	EV/Ebit	13.3	12.1	11.2	9.1	7.6
Free Cash Flow Yield	4.3%	2.1%	0.8%	2.8%	6.9%	
<b>GROWTH RATES (%)</b>	Sales	16.1%	21.3%	13.0%	11.0%	10.0%
	EBITDA*	26.2%	11.5%	10.6%	20.4%	13.3%
	EBIT*	28.3%	10.4%	11.7%	22.9%	13.9%
	Net profit	181.2%	-61.3%	32.1%	24.3%	14.6%
	EPS restated	21.0%	-10.1%	32.1%	24.3%	14.6%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

## 2Q18 Results

### El.En. – 2Q18 Results

(Eu mn)	2Q17A	2Q18A	2Q18E	A v E	1H17A	1H18A	1H18E	A v E
<b>Sales</b>	<b>77.8</b>	<b>91.1</b>	<b>86.0</b>	<b>5.9%</b>	<b>142.9</b>	<b>160.6</b>	<b>155.6</b>	<b>3%</b>
YoY growth %	19.7%	17.1%	10.6%		18.9%	12.4%	8.9%	
<b>EBITDA</b>	<b>8.9</b>	<b>8.9</b>	<b>9.4</b>	<b>(5.3%)</b>	<b>15.5</b>	<b>15.3</b>	<b>15.9</b>	<b>(3%)</b>
Ebitda margin %	11.5%	9.8%	11.0%		10.8%	9.6%	10.2%	
YoY growth %	13.1%	-0.1%	5.5%		-0.6%	-0.8%	2.5%	
Total D&A	(1.3)	(1.5)	(1.6)		(2.3)	(2.6)	(2.7)	
<b>EBIT</b>	<b>7.6</b>	<b>7.4</b>	<b>7.9</b>	<b>(6.0%)</b>	<b>13.1</b>	<b>12.7</b>	<b>13.2</b>	<b>(4%)</b>
Ebit margin %	9.8%	8.1%	9.1%		9.2%	7.9%	8.5%	
YoY growth %		-2.9%	3.3%			-3.1%		
Net financials & Participations	(1.9)	1.1	0.9		(2.3)	0.4	0.2	
<b>Pretax Profit</b>	<b>5.7</b>	<b>8.5</b>	<b>8.8</b>	<b>(3.5%)</b>	<b>10.9</b>	<b>13.1</b>	<b>13.4</b>	<b>(2%)</b>
Pretax margin %	7.3%	9.3%	10.2%		7.6%	8.1%	8.6%	
YoY growth %		48.2%	53.6%			20.3%	23.2%	
Taxes					-2.8	-3.7	-3.8	
tax rate					(26.0%)	(28.1%)	(28.0%)	
Minorities and disc. Operations					-2.0	-2.0	-2.0	
<b>Group net profit</b>					<b>6.0</b>	<b>7.5</b>	<b>7.7</b>	<b>(3%)</b>
YoY growth %						24.0%	27.3%	
<b>Net cash</b>	<b>66.7</b>	<b>65.0</b>	<b>65.0</b>	<b>0%</b>	<b>66.7</b>	<b>66.0</b>	<b>65.0</b>	<b>2%</b>

Source: Intermonte SIM and Company data

## Change in estimates

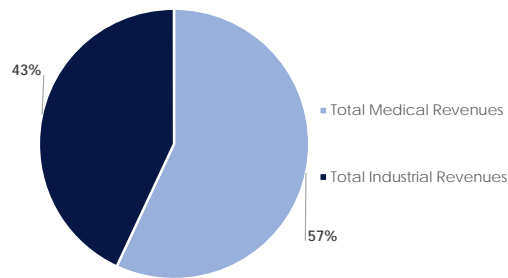
### El.En. – Change in estimates

(Eu mn)	2017A	2018E	2019E	2020E
<b>Sales new</b>	<b>306.5</b>	<b>346.3</b>	<b>384.4</b>	<b>422.8</b>
Sales old		346.3	387.9	430.5
<b>% change</b>		<b>0.0%</b>	<b>-0.9%</b>	<b>-1.8%</b>
<b>EBITDA new</b>	<b>36.1</b>	<b>40.0</b>	<b>48.1</b>	<b>54.5</b>
EBITDA old		42.9	50.5	57.6
<b>% change</b>		<b>-6.9%</b>	<b>-4.8%</b>	<b>-5.4%</b>
<b>Adjusted EBIT new</b>	<b>30.4</b>	<b>34.0</b>	<b>41.8</b>	<b>47.6</b>
Adjusted EBIT old		36.9	44.1	50.6
<b>% change</b>		<b>-7.7%</b>	<b>-5.2%</b>	<b>-5.9%</b>
<b>Adjusted Group Net profit new</b>	<b>15.6</b>	<b>20.7</b>	<b>25.7</b>	<b>29.4</b>
Adjusted Group Net Profit old		22.7	27.0	31.1
<b>% change</b>		<b>-9.0%</b>	<b>-5.1%</b>	<b>-5.3%</b>

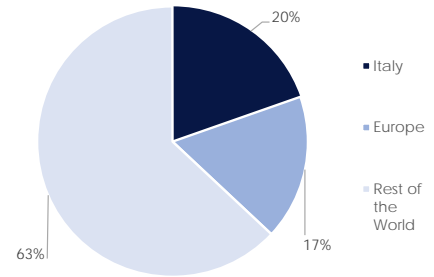
Source: Intermonte SIM and Company data

**El.En. – Breakdown of full-year 2017 figures**

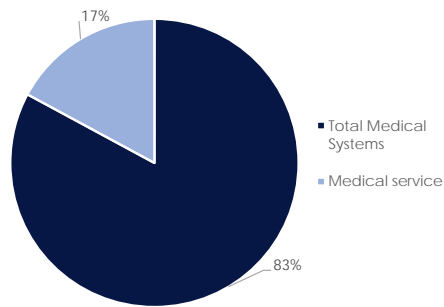
*Sales by main segment*



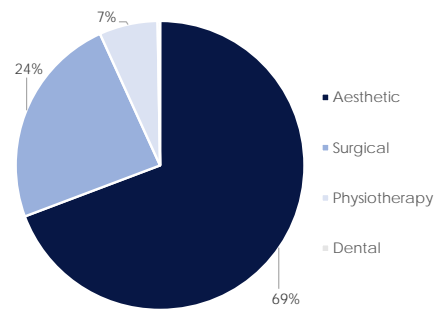
*Sales by geography*



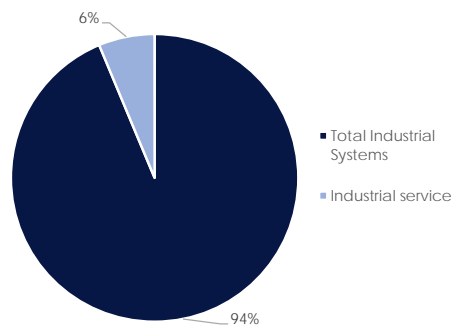
*Medical segment – Sales breakdown*



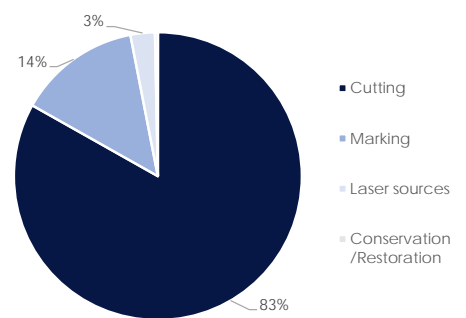
*Medical system – Sales by product category*



*Industrial segment – Sales breakdown*



*Industrial system – Sales by product category*



Source: Company Data

## Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
<b>EL.EN.</b>	<b>22.72</b>	<b>EUR</b>	<b>438</b>	<b>-18.6%</b>	<b>-24.8%</b>	<b>-21.1%</b>	<b>-12.7%</b>	<b>-13.6%</b>	<b>48.4%</b>
AMADA CO.	1149.00	JPY	420,314	0.0%	0.5%	-15.8%	-25.1%	-6.1%	10.9%
BIOLASE	2.08	USD	43	38.7%	65.1%	-9.6%	-2.4%	-26.8%	-77.1%
CUTERA	31.60	USD	437	-8.1%	-29.5%	-39.9%	-30.3%	-15.6%	193.4%
HAN'S LASER TECH IND.	40.21	CNY	42,907	-8.3%	-29.1%	-31.1%	-18.6%	2.9%	83.0%
IPG PHOTONICS	159.41	USD	8,570	-3.1%	-33.9%	-37.1%	-25.6%	-11.4%	96.6%
PRIMA INDUSTRIE	32.35	EUR	339	1.1%	-13.5%	-19.7%	-4.3%	-20.7%	128.6%
SISRAM MEDICAL	5.03	HKD	2,224	12.5%	-17.9%	-18.9%	-23.2%	---	---
<b>Mean performance</b>				<b>1.8%</b>	<b>-10.4%</b>	<b>-24.1%</b>	<b>-17.8%</b>	<b>-13.1%</b>	<b>69.1%</b>
<b>Italy FTSE Mib</b>	20,885.4	EUR		-0.1%	-7.1%	-7.0%	-4.4%	-6.3%	26.3%

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
<b>EL.EN.</b>	<b>22.72</b>	<b>EUR</b>	<b>438</b>	<b>1.1</b>	<b>1.0</b>	<b>9.5</b>	<b>7.9</b>	<b>11.2</b>	<b>9.1</b>	<b>21.2</b>	<b>17.1</b>	<b>1.8%</b>	<b>1.8%</b>
AMADA CO.	1149.00	JPY	420,314	1.1	1.0	6.2	6.0	7.9	7.5	13.3	13.1	3.7%	3.9%
BIOLASE	2.08	USD	43										
CUTERA	31.60	USD	437								73.5		
HAN'S LASER TECH IND.	40.21	CNY	42,907	3.1	2.4	17.9	13.2	19.7	14.7	21.1	16.7	1.0%	1.2%
IPG PHOTONICS	159.41	USD	8,570							20.0	18.2		
PRIMA INDUSTRIE	32.35	EUR	339	0.8	0.7	7.2	6.2	10.6	8.7	12.9	10.8	1.5%	1.8%
SISRAM MEDICAL	5.03	HKD	2,224										
<b>Median</b>				<b>1.1</b>	<b>1.0</b>	<b>7.2</b>	<b>6.2</b>	<b>10.6</b>	<b>8.7</b>	<b>16.6</b>	<b>16.7</b>	<b>1.5%</b>	<b>1.8%</b>

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

## EL.EN. - Estimates Comparison with Consensus

(Eu mn)	2018			2019		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
Revenues	346.3	343.2	0.9%	384.4	365.3	5.2%
Ebitda	40.0	38.8	2.9%	48.1	43.4	10.8%
Net Profit	20.7	18.7	10.4%	25.7	21.5	19.4%
EPS	1.070	0.969	10.4%	1.330	1.114	19.4%
Net Debt	77.8	74.9	3.8%	83.0	72.4	14.7%

Source: Intermonte SIM estimates and Factset consensus estimates

## DETAILS ON STOCKS RECOMMENDATION

Stock NAME	EL.EN.		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	33.00	Previous Target (Eu):	35.20
Current Price (Eu):	22.72	Previous Price (Eu):	29.66
Date of report:	17/09/2018	Date of last report:	24/05/2018

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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:	41,67 %
NEUTRAL:	39,10 %
UNDERPERFORM	05,13 %
SELL:	00,00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (51 in total) is as follows:

BUY:	15,69 %
OUTPERFORM:	58,82 %
NEUTRAL:	25,49 %
UNDERPERFORM	00,00 %
SELL:	00,00 %

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Emittente	%	Long/Short
CAPITAL FOR PROGRESS 2	1,37	LONG
OLIDATA	0,88	SHORT
WASTE ITALIA	0,61	SHORT

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