

El. En. (ELN.IM)

Sector: Medical & Industrial Laser

Initial Coverage: 1H17, record consolidate turnover

September 11th, 2017

Investment summary

- El.En. Group is active in the design, production, R&D, distribution and sale worldwide of laser systems. There are two main areas of application, MEDICAL laser devices for medicine and aesthetics and INDUSTRIAL laser solutions for industry manufacturing and restoration.
- The Group grew both through acquisitions and through internal lines, establishing several companies; in the medical sector, the companies that are part of the Group are DEKA, Asclepion, Quanta System, Asa and Cynosure (then exit). With reference to the industrial sector, the Group's Chinese companies (growth for internal lines) are performing very well: now the Group is one of the most important players in China in the laser metal cutting market.
- In April 2016, El.En. S.p.A. has completely sold the shares of Cynosure Inc. for a counter value of approx. 45MUS\$. The consolidated gross capital gain on the income statement for the transaction was approx. 23M€.

Latest results

- In the 1H2017 El.En. financial results recorded an extremely positive trend in terms of turnover, the revenues increased 18.9% compared to 1H2016 and amounted to 142.9M€ driven by the industrial laser division, which grew more than 50% yoy, thanks to the performance of Chinese JV – which nearly doubled its sales yoy - and the excellent results of the Italian industrial market. The Ebitda amounted to 15.5M€ (in line with 1H2016) and profitability declined to 10.8% of revenues due to a change in the sales mix in which industrial sales has taken a greater weight.
- The NFP at 1H2017 was positive (cash) for 66.8M€, in decline compared to 1H2016, as a result of NWC increase and dividends payment for 8.4M€.

Valuation

- El.En. has a leading market positioning and important drivers for further growth: the technological shift of recent years has given a major boost to growth in the industrial sector (laser cutting), especially in China but also in the Italian market.
- Company valuation is based on 3-year financial plan, related cash flow projections and TV computed using *Twice's* SGA P/E, the model returns a fair value of 31.4€ per share.

Risks

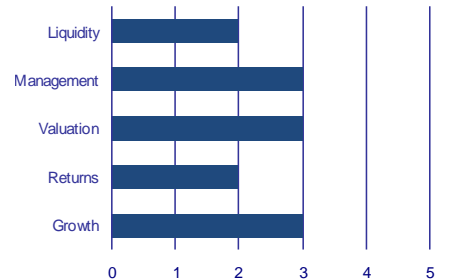
- Company turnover and profitability depend on USD exchange rates trend and the demand trends in the reference markets.

Forecast	16A	17E	18E	19E
Sales (€M)	252.6	279.8	301.3	321.3
EBIT (€M)	27.6	27.4	32.7	36.9
EPS (€)	2.23	1.05	1.25	1.41
Valuation	16A	17E	18E	19E
SHARE PRICE	14.3	26.0	33.0	34.8
EV/EBITDA	6.1	13.0	14.7	13.8
P/E	6.4	24.7	26.4	24.6
Dividend yield	2.8%	1.4%	1.3%	1.4%

Key Data

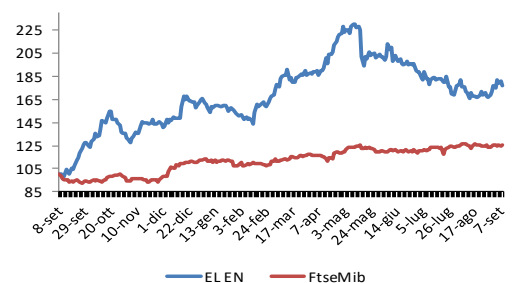
Price (€)	26.0
Market cap (€M)	502.0
Equity Value (€M)	605.4
Fair Value (€)	31.4
P/E LTM	6.4
P/E TTM	11.1

Investment Profile from 1 worst to 5 best



Stock data

Ticker Bloomberg	ELN.IM
N° of shares (M)	19.3
Free float	41.8%
Main shareholder	Andrea Cangiolli (15.2%)
Daily trading volume	49,573 shares

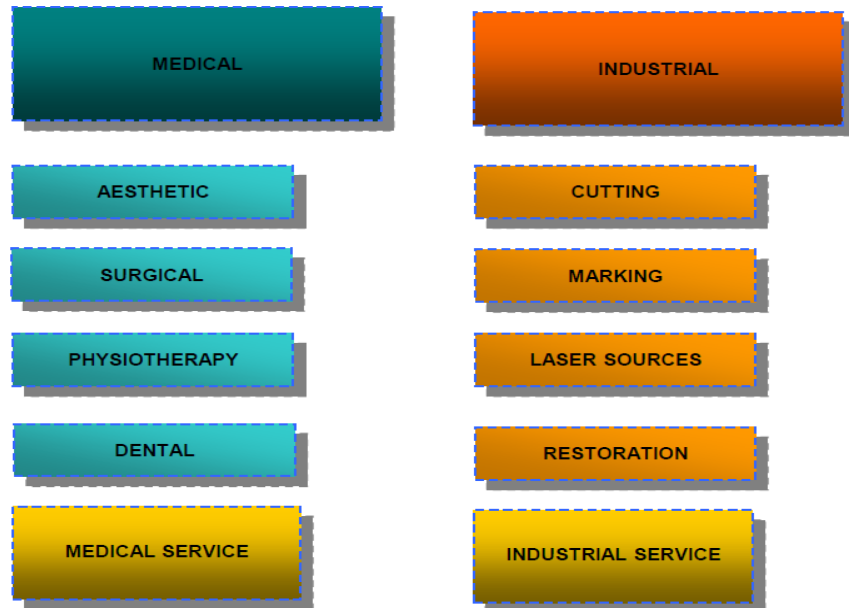


Share Price perf (%)	3M	6M	IPO
Absolute	-15.1%	-3.1%	76.9%
Rel. to FtseMib	-18.6%	-14.9%	51.6%

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Business Description

EI.En. Group is active in the design, production, research and development, distribution and sale worldwide of laser systems. There are two main areas for the group's activities, the laser systems for medicine and aesthetics (MEDICAL laser devices) and the laser systems for industry manufacturing (INDUSTRIAL laser solutions).



At the base of the constant growth of the recent years there are the characteristics of the two main markets; in the medical sector, there is a growing demand for aesthetic and medical treatments by an aging population and increasingly desires to reduce the effects of aging; there is also a growing request for technologies capable of reducing the time required for some surgical operations or increase effectiveness by reducing the impact on the patient and reducing overall costs.

In the industrial sector laser systems represent an increasingly essential instrument in manufacturing by providing flexible and innovative technologies for manufacturers competing on the international market who wish to raise their qualitative standards.

Key Strategic Assumption

The Group articulation in multiple companies also reflects the strategy for the distribution of their products and the coordination of R&D and marketing activities.

The Group's strategy foresees that the various companies maintain their own characterization by product type and segmentation, with brands and distribution networks independent. Each company then enjoys *cross fertilization* on specific technologies that research teams make available to other group companies.

The ability to innovate, to propose to the market innovative products that allow you to run new applications, is the main critical success factor of EI.En. and the main competitive weapon. The group succeeds in creating new market niches to be a leader. The amount of R&D expenses corresponds to approx. 4% of the Group's consolidated turnover.

The technological breakthrough for laser cutting in recent years has impressed the growth of EI.En's industrial division globally; in Italy, the exit from the crisis and the industry incentives related to Industry 4.0 are contributing to growth.

FINANCIALS

Income statement (€M)	16A	17E	18E	19E
Sales	252.6	279.8	301.3	321.3
COGS	142.1	162.9	173.2	183.1
Gross Profit	110.5	117.0	128.0	138.2
EBITDA	32.4	32.4	37.7	41.9
Depreciation, Amortization	4.8	5.0	5.0	5.0
EBIT	27.6	27.4	32.7	36.9
Net Financial Results	25.1	0.4	0.4	0.4
Income tax	-9.7	-7.5	-9.0	-10.2
Net result before Minority	43.0	20.3	24.1	27.2
EPS (€)	2.23	1.05	1.25	1.41
DPS (€)	0.40	0.36	0.42	0.48

Margin (%)	16A	17E	18E	19E
Gross Margin	43.8%	41.8%	42.5%	43.0%
EBITDA Margin	12.8%	11.6%	12.5%	13.1%
EBIT Margin	10.9%	9.8%	10.9%	11.5%
Net Margin before Minority	17.0%	7.2%	8.0%	8.5%

Growth (%)	16A	17E	18E	19E
Sales growth	16.1%	10.8%	7.7%	6.7%
EBIT growth	28.4%	-0.7%	19.3%	12.9%
Net growth	167.9%	-52.8%	19.0%	12.8%

Cash Flow statement (€M)	16A	17E	18E	19E
Cash Flow	47.8	25.3	29.1	32.2
+/- Var. Working Capital	5.3	-13.5	-5.6	-3.6
Operating Cash Flow	53.1	11.8	23.6	28.6
Op. Cash Flow / Sales	21.0%	4.2%	7.8%	8.9%
Capex	31.0	-5.5	-12.0	-10.0
FCF	84.1	6.3	11.6	18.6
FCF / Sales	33.3%	2.2%	3.8%	5.8%

Stock data	16A	17E	18E	19E
Number of Shares (M)	19.3	19.3	19.3	19.3
Share price	14.33	26.01	33.03	34.76
Market cap (€M)	276.6	502.0	637.5	670.9

Balance sheet (€M)	16A	17E	18E	19E
LONG LIVED ASSETS	58.2	57.6	64.6	69.6
WC	59.2	72.8	78.3	81.9
CAPITAL EMPLOYED	117.4	130.3	142.9	151.5
EQUITY	181.8	195.3	211.2	229.2
MINORITY INTEREST	10.9	10.9	10.9	10.9
PROVISIONS	3.5	3.5	3.5	3.5
PENSIONS (e.g. TFR)	3.9	3.9	3.9	3.9
NET DEBT (*)	-82.6	-83.2	-86.6	-95.9
CAPITAL INVESTED	117.4	130.3	142.9	151.5

Ratios	16A	17E	18E	19E
ROCE after tax	14.1%	12.6%	13.7%	15.8%
ROE	23.6%	10.4%	11.4%	11.9%
Capital Turnover	2.2	2.1	2.1	2.3
Net Debt / EBITDA	-2.4	-2.4	-2.2	-2.2
Gearing	-43.3%	-40.6%	-39.2%	-40.2%
WC / Sales	23.4%	26.0%	26.0%	25.5%
Amortization / Sales	1.9%	1.8%	1.7%	1.6%
Capex / Sales	-12.3%	2.0%	4.0%	3.1%
EPS growth	167.9%	-52.8%	19.0%	12.8%
PEG	3.8	-48.2	139.4	192.7

Valuation	16A	17E	18E	19E
EV/Sales	0.8	1.5	1.8	1.8
EV/EBITDA	6.1	13.0	14.7	13.8
EV/EBIT	7.2	15.4	17.0	15.7
P/E	6.4	24.7	26.4	24.6
P/B	1.5	2.6	3.0	2.9
EV/CE	1.7	3.2	3.9	4.1
FCF Yield	30.4%	1.2%	1.8%	2.8%
Dividend yield	2.8%	1.4%	1.3%	1.4%

Source: Company data, Twice estimates

(*) The Group also holds insurance policies of around 12M€ that are not counted in the PFN but are included in the non-current assets.

Valuation

We valued the Company based on 3 years cash flow projections and terminal value computed using *Twice's Sustainable Growth Adjusted P/E* ("SGAP") methodology. The model points out a 31.4€ fair value.

With regards to the 3 years business plan we made the following assumptions:

- Revenues will increase double digit in 2017, in line with the results of the semester and Company guidance. We expect that the CAGR 2017-2019 will be equal to 7.15%.
- For the FY2017 the profitability will remain in absolute value in line with FY2016 because of the higher share of industrial division revenues with lower margins, for the three-year period we forecast an increase in margins of about 150 bps.
- For the three-year period, we expect capex for a total for the period of 27.5M€, equivalent to an average of 3% of turnover, mainly tied to industrial facilities.
- The Company is able to generate a positive operating cash flows that, net of any extraordinary transactions, will increase the cash availability.
- The Company will maintain a dividend payout equal to 25% of EBIT in the following years.

Cash Flow	FY 2017	FY 2018	FY 2019
Sales	279.8	301.3	321.3
<i>Sales growth</i>	10.8%	7.7%	6.7%
EBIT	27.4	32.7	36.9
<i>Margin</i>	9.8%	10.9%	11.5%
Taxes	7.5	9.0	10.2
<i>Tax rate</i>	27.5%	27.5%	27.5%
Net Result before Minority	20.3	24.1	27.2
Depreciation	5.0	5.0	5.0
<i>% of sales</i>	1.8%	1.7%	1.6%
Capex	-5.5	-12.0	-10.0
<i>% of sales</i>	-2.0%	-4.0%	-3.1%
Var. Working Capital	-13.5	-5.6	-3.6
Dividends	6.9	8.2	9.2
Free Cash Flow after dividends	-0.6	3.4	9.4

NET RESULT 2019	27.2
<i>SGA PE</i>	25.0
TV actualized	583.6
Dividends actualized	21.8
Equity value (€M)	605.4
Number of Shares (M)	19.3
Equity value per share (€)	31.4
<i>Upside</i>	20.6%

Sensitivity analysis		Net result CAGR 2016-2019				
		4.8%	7.7%	10.8%	14.5%	17.0%
Mkt premium	1.7%	45.4				65.6
	2.7%		36.8		45.0	
	3.8%			31.37		
	5.1%		22.4		27.3	
	6.0%	17.8				25.4