

EL.EN.

OUTPERFORM

Price (Eu): 20.40

Target Price (Eu): 25.50

SECTOR: Industrials

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## Reiterating Our Positive View Despite a Challenging Quarter Ahead

- 1Q20 results better than expected thanks to the Medical segment.** 1Q20 revenues fell 13% YoY (vs. our -16%), mainly due to a -43% decline in Industrial segment revenues (vs. our -41% estimate) as a consequence of plant closures in China. This was partially mitigated by strong growth in the Medical segment (+7.5% vs. our +1% estimate), specifically in revenues from Aesthetics and Medical Services, which grew double-digit, supported by excellent global market dynamics until February and resilient demand outside Europe until late March. The EBITDA margin was up 0.5pp YoY to 9.7% (vs. our 7.1%) thanks to the higher contribution from the Medical segment, which partly offset the decline in the Industrial segment. The positive NFP, at €27.5mn, was affected by the cost of buying out Chinese minorities (€20mn) and NWC cash absorption (€18.5mn) due to the maintenance of inventory levels.
- No guidance provided on 2020.** Changes in the conditions of daily life under the pandemic and of the recovery in demand vary widely from one country to another, considerably reducing visibility on potential scenarios for 2020. Consequently, ELN management was unable to give definite guidance for the year. Some actions have been implemented to limit costs during the lockdown, including travel and marketing expense rationalisation, and recourse to state-funded schemes to reduce staff costs in Italy. The latter will mainly materialise in 2Q figures. Key group departments (R&D, marketing, legal) continued working remotely during the lockdown. Plants in Italy re-opened in mid-May.
- Key confcall takeaways: tough 2Q ahead with opposing trends to 1Q.** The Medical segment is set to suffer a significant drop in sales in 2Q as plant closures in Italy for all of April and part of May will drive production down to very low levels. However, the Industrial business is set to benefit from a speedier recovery. Indeed, management provided rather positive messages from China, where production is back to pre-Covid-19 levels, and order intake shows healthy dynamism as normal business conditions have progressively returned. In Italy, Industrial production resumed at a more sustained pace, while production of medical devices remained weaker after the re-opening amid an expected slower recovery in demand. Positive messages were given on the order book, as little or no order cancellations were received, although there were some postponements.
- Changes to estimates.** Visibility remains scant on 2Q and 2H. Despite the 1Q beat, we have revised our 2020 sales growth forecast downwards (to -7% from +2% previously), mostly due to the medical segment (to -8% from +5% previously), in order to reflect the Italian lockdown, which lasted longer than initially expected. We forecast a high single-digit top-line recovery in 2H, led by the Industrial segment. We have revised our EPS by -19%/-8% for '20/'21 as we expect some of the cost-cutting actions to partially mitigate the decline in sales. Our 2021 forecasts are slightly above 2019 levels. We have lowered our FY20 capex and adjusted our DPS forecasts to reflect cancellation of the FY19 dividend and a lower pay-out for FY20 (DPS €0.125 from €0.40 previously).
- OUTPERFORM confirmed, TP €25.5 (from €26).** A strong balance sheet, the resilient medical business, and positive exposure to strong, long-term dynamics are still powering the equity story. We have adjusted our DCF-based TP as higher net cash (amid the dividend cut) partly offsets lower margins. Our TP reflects a 125x EV/EBIT multiple for '21, in line with the peer group's historical multiple.

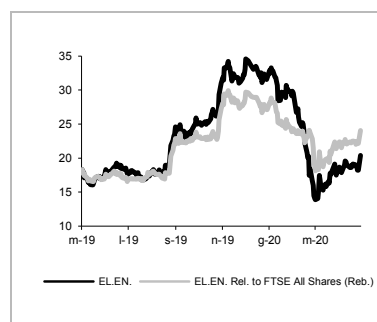
Key Figures	2018A	2019A	2020E	2021E	2022E
Sales (Eu mn)	346	401	373	413	450
Ebitda (Eu mn)	36	46	37	47	55
Net profit (Eu mn)	17	26	19	26	31
EPS - New Adj.(Eu)	0.870	1.333	0.954	1.340	1.580
EPS - Old Adj.(Eu)	0.870	1.333	1.181	1.451	1.672
DPS (Eu)	0.400	0.000	0.125	0.400	0.400

Ratios & Multiples	2018A	2019A	2020E	2021E	2022E
P/E Adj.	23.4	15.3	21.4	15.2	12.9
Div. Yield	2.0%	0.0%	0.6%	2.0%	2.0%
EV/Ebitda Adj.	10.6	8.2	11.0	8.1	6.6
ROCE	21.7%	22.7%	13.4%	17.0%	20.1%

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 Next event: 1H20 results  
 Results out 10 September 2020

### EL.EN. - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 26.00 to 25.50

Ch. in Adj.EPS est:	2020E	2021E
	-19.2%	-7.7%

### STOCK DATA

 Reuters code: ELEN.MI  
 Bloomberg code: ELN IM

Performance	1m	3m	12m
Absolute	12.0%	-30.0%	9.7%
Relative	10.1%	0.5%	27.1%
12 months H/L:	34.58/13.90		

### SHAREHOLDER DATA

No. of Ord. shares (mn):	20
Total No. of shares (mn):	20
Mkt Cap Ord (Eu mn):	398
Total Mkt Cap (Eu mn):	398
Mkt Float - ord (Eu mn):	206
Mkt Float (in %):	51.7%
Main shareholder:	
Cangioli Andrea	15.2%

### BALANCE SHEET DATA

	2020
Book value (Eu mn):	239
BVPS (Eu):	12.26
P/BV:	1.7
Net Financial Position (Eu mn):	36
Enterprise value (Eu mn):	403

Please see important disclaimer  
on the last page of this report

**EL.EN. - KEY FIGURES**

		<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
	Fiscal year end	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	346	401	373	413	450
	EBITDA	36	46	37	47	55
	EBIT	30	38	27	38	46
	Financial income (charges)	1	0	1	1	1
	Associates & Others	(1)	(0)	0	0	0
	Pre-tax profit (Loss)	30	39	27	39	46
	Taxes	(8)	(10)	(7)	(10)	(12)
	Tax rate (%)	-26.1%	-25.5%	-26.0%	-26.0%	-26.0%
	Minorities & discontinue activities	(5)	(3)	(2)	(3)	(3)
	Net profit	17	26	19	26	31
	Total extraordinary items					
	Ebitda excl. extraordinary items	36	46	37	47	55
	Ebit excl. extraordinary items	30	38	27	38	46
Net profit restated	17	26	19	26	31	
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	19	20	20	20	20
	EPS stated fd	0.870	1.333	0.954	1.340	1.580
	EPS restated fd	0.870	1.333	0.954	1.340	1.580
	BVPS fd	10.398	11.375	12.258	13.372	14.420
	Dividend per share (ord)	0.400	0.000	0.125	0.400	0.400
	Dividend per share (sav)					
	Dividend pay out ratio (%)	46.0%	0.0%	13.1%	29.9%	25.3%
<b>CASH FLOW (Eu mn)</b>	Gross cash flow	27	37	30	38	43
	Change in NWC	(17)	1	(27)	(9)	(2)
	Capital expenditure	(26)	(23)	(8)	(8)	(8)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(16)	14	(5)	20	33
	Acquisitions, divestments & others	3	(6)	(20)	0	0
	Dividend	(8)	(9)	(0)	(3)	(8)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	(22)	(1)	(25)	18	25	
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	68	89	87	86	86
	Net working capital	80	80	106	115	118
	Long term liabilities	9	11	29	26	23
	Net capital employed	157	179	223	228	226
	Net financial position	63	61	36	54	79
	Group equity	219	241	259	282	305
	Minorities	19	19	20	21	24
Net equity	201	222	239	261	281	
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	398	398	398	398	398
	Adjustments (associate & minorities)	(41)	(41)	(41)	(41)	(41)
	Net financial position	63	61	36	54	79
	Enterprise value	377	378	403	385	360
<b>RATIOS(%)</b>	EBITDA margin*	10.3%	11.6%	9.8%	11.4%	12.1%
	EBIT margin*	8.7%	9.5%	7.2%	9.3%	10.1%
	Gearing - Debt/equity	-28.5%	-25.5%	-14.1%	-19.2%	-25.9%
	Interest cover on EBIT	nm	nm	nm	nm	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	21.7%	22.7%	13.4%	17.0%	20.1%
	ROE*	8.6%	12.3%	8.1%	10.5%	11.4%
	EV/CE	2.7	2.2	2.0	1.7	1.6
	EV/Sales	1.1	0.9	1.1	0.9	0.8
	EV/Ebit	12.6	9.9	14.9	10.0	7.9
	Free Cash Flow Yield	-3.7%	3.2%	-1.0%	4.7%	7.5%
<b>GROWTH RATES (%)</b>	Sales	12.9%	15.8%	-6.9%	10.7%	9.0%
	EBITDA*	-1.4%	30.0%	-20.8%	28.8%	15.5%
	EBIT*	-1.5%	27.4%	-29.5%	42.4%	19.1%
	Net profit	7.4%	54.9%	-28.4%	40.4%	17.9%
	EPS restated	7.4%	53.2%	-28.4%	40.4%	17.9%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

## 1Q20 Results

1Q20 revenues fell 13% YoY (vs. our -16%), mainly due to a -43% decline in Industrial segment revenues (vs. our -41% estimate) as a consequence of plant closures in China. This was partially mitigated by strong growth in the Medical segment (+7.5% vs. our +1% estimate), specifically in revenues from Aesthetics and Medical Services, which grew double-digit, supported by excellent global market dynamics until February and resilient demand outside Europe until late March. The EBITDA margin was up 0.5pp YoY to 9.7% (vs. our 7.1%) thanks to the higher contribution from the Medical segment, which partly offset the decline in the Industrial segment. The positive NFP, at €27.5mn, was affected by the cost of buying out Chinese minorities (€20mn) and NWC cash absorption (€18.5mn) due to the maintenance of inventory levels.

### El.En – Quarterly results

(Eu mn)	1Q19A	1Q20A	1Q20E	A v E	2019A	2020E	2021E
Medical Segment	49.8	53.5	50.3	6%	242.2	223.8	244.6
YoY growth %	19.6%	7.5%	1.0%		22.4%	-7.6%	9.3%
Industrial Segment	34.1	19.4	20.2	(4%)	158.6	149.2	168.4
YoY growth %	22.3%	-43.0%	-40.6%		7.0%	-5.9%	12.9%
<b>Sales</b>	<b>83.9</b>	<b>72.9</b>	<b>70.5</b>	<b>3%</b>	<b>400.8</b>	<b>373.1</b>	<b>413.1</b>
YoY growth %	20.6%	-13.0%	-15.9%		15.8%	-6.9%	10.7%
<b>EBITDA</b>	<b>7.7</b>	<b>7.1</b>	<b>5.0</b>	<b>41%</b>	<b>46.3</b>	<b>36.7</b>	<b>47.3</b>
Ebitda margin %	9.2%	9.7%	7.1%		11.6%	9.8%	11.4%
YoY growth %	19.5%	-7.8%	-34.8%		30.0%	-20.8%	28.8%
<b>EBIT</b>	<b>5.7</b>	<b>4.5</b>	<b>3.0</b>	<b>52%</b>	<b>38.2</b>	<b>26.9</b>	<b>38.4</b>
Ebit margin %	6.8%	6.2%	4.2%		9.5%	7.2%	9.3%
YoY growth %	7.1%	-21.4%	-48.3%		27.4%	-29.5%	42.4%
<b>Pretax Profit</b>	<b>6.4</b>	<b>4.7</b>	<b>3.1</b>	<b>54%</b>	<b>38.6</b>	<b>27.4</b>	<b>38.9</b>
Pretax margin %	7.7%	6.5%	4.3%		9.6%	7.4%	9.4%
YoY growth %	39.0%	-26.8%	-52.5%		30.8%	-29.0%	41.6%
<b>Net financial position</b>	<b>61.1</b>	<b>27.5</b>	<b>32.0</b>	<b>(14%)</b>	<b>61.4</b>	<b>36.4</b>	<b>54.2</b>

Source: Company data and Intermonte SIM estimates

## Changes to estimates

### El.En – Changes to estimates

	New Estimates			Old Estimates			Delta %		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
<b>Revenue</b>	<b>373</b>	<b>413</b>	<b>450</b>	<b>409</b>	<b>454</b>	<b>495</b>	<b>-9%</b>	<b>-9%</b>	<b>-9%</b>
%YoY	-6.9%	10.7%	9.0%	2.0%	11.1%	9.0%			
<b>EBITDA</b>	<b>37</b>	<b>47</b>	<b>55</b>	<b>41</b>	<b>50</b>	<b>57</b>	<b>-11%</b>	<b>-6%</b>	<b>-4%</b>
%YoY	-20.8%	28.8%	15.5%	-10.8%	21.5%	13.7%			
%margin	9.8%	11.4%	12.1%	10.1%	11.1%	11.5%			
<b>EBIT</b>	<b>27</b>	<b>38</b>	<b>46</b>	<b>33</b>	<b>41</b>	<b>48</b>	<b>-18%</b>	<b>-7%</b>	<b>-5%</b>
%YoY	-29.5%	42.4%	19.1%	-14.4%	26.1%	16.6%			
%margin	7.2%	9.3%	10.1%	8.0%	9.1%	9.7%			
<b>EPS</b>	<b>0.95</b>	<b>1.34</b>	<b>1.58</b>	<b>1.18</b>	<b>1.45</b>	<b>1.67</b>	<b>-19%</b>	<b>-8%</b>	<b>-6%</b>
%YoY	-28.4%	40.4%	17.9%	-11.4%	22.9%	15.4%			
<b>NFP</b>	<b>36</b>	<b>54</b>	<b>79</b>	<b>35</b>	<b>47</b>	<b>67</b>	<b>3%</b>	<b>15%</b>	<b>18%</b>

Source: Intermonte SIM estimates

**Peer Group - Absolute Performances**

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
<b>EL.EN.</b>	<b>20.40</b>	<b>EUR</b>	<b>398</b>	<b>12.0%</b>	<b>-30.0%</b>	<b>-34.2%</b>	<b>-38.3%</b>	<b>9.7%</b>	<b>-32.2%</b>
AMADA CO.	959.00	JPY	331,944	9.2%	-12.3%	-23.8%	-23.3%	-13.8%	-26.6%
BIOLASE	0.38	USD	12	-4.9%	-45.6%	-28.6%	-31.2%	-79.5%	-68.6%
CUTERA	12.48	USD	218	16.6%	-53.1%	-65.9%	-65.1%	-31.4%	-69.7%
HAN'S LASER TECH IND.	30.87	CNY	32,467	2.8%	-24.6%	-15.1%	-22.8%	-7.2%	-42.8%
INMODE	25.91	USD	923	6.1%	-36.3%	-50.4%	-33.9%	---	---
IPG PHOTONICS	150.22	USD	7,966	26.2%	10.6%	10.0%	3.7%	12.1%	-38.0%
LUTRONIC	6110.00	HKD	158,419	8.0%	-20.1%	-22.8%	-33.1%	-29.5%	-61.1%
PRIMA INDUSTRIE	12.90	EUR	134	-4.0%	-19.6%	-12.0%	-21.3%	-23.7%	-65.0%
RA MEDICAL	0.75	USD	10	-28.2%	-61.5%	-51.6%	-33.6%	-84.4%	---
SISRAM MEDICAL	2.62	HKD	1,158	-2.2%	-33.5%	-38.5%	-36.6%	-39.4%	-60.0%
<b>Mean performance</b>				<b>3.8%</b>	<b>-29.6%</b>	<b>-30.3%</b>	<b>-30.5%</b>	<b>-28.7%</b>	<b>-51.6%</b>
<b>Italy FTSE Mib</b>	17,401.5	EUR		2.0%	-31.0%	-25.8%	-26.0%	-17.5%	-25.8%

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
				2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
<b>EL.EN.</b>	<b>20.40</b>	<b>EUR</b>	<b>398</b>	<b>1.1</b>	<b>0.9</b>	<b>11.0</b>	<b>8.1</b>	<b>14.9</b>	<b>10.0</b>	<b>21.4</b>	<b>15.2</b>	<b>0.6%</b>	<b>2.0%</b>
AMADA CO.	959.00	JPY	331,944	0.8	0.8	4.8	4.3	7.6	6.5	13.1	11.6	5.1%	5.2%
BIOLASE	0.38	USD	12		0.5								
CUTERA	12.48	USD	218										
HAN'S LASER TECH IND.	30.87	CNY	32,467	2.9	2.4	20.5	15.7	25.6	18.9	26.1	20.0	0.9%	1.2%
INMODE	25.91	USD	923	4.2	2.4	13.4	6.6	14.4	6.8	21.9	13.9	0.0%	0.0%
IPG PHOTONICS	150.22	USD	7,966	5.9	4.8	23.9	15.8	35.8	21.0	52.7	33.8	0.0%	0.0%
LUTRONIC	6110.00	HKD	158,419										
PRIMA INDUSTRIE	12.90	EUR	134	0.6	0.6	8.1	6.0	33.5	13.6	49.9	12.2	1.4%	2.0%
RA MEDICAL	0.75	USD	10										
SISRAM MEDICAL	2.62	HKD	1,158										
<b>Median</b>				<b>2.9</b>	<b>1.6</b>	<b>13.4</b>	<b>6.6</b>	<b>25.6</b>	<b>13.6</b>	<b>26.1</b>	<b>13.9</b>	<b>0.9%</b>	<b>1.2%</b>

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

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

(Eu mn)	2020			2021		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
<b>Revenues</b>	373.1	387.4	-3.7%	413.1	479.0	-13.8%
<b>Ebitda</b>	36.7	40.9	-10.4%	47.3	58.0	-18.5%
<b>Net Profit</b>	18.6	20.7	-10.0%	26.1	30.0	-12.9%
<b>EPS</b>	0.954	1.061	-10.0%	1.340	1.560	-14.1%
<b>Net Debt</b>	36.4	18.1	101.2%	54.2	(56.0)	-196.8%

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):	25.50		Previous Target (Eu):	26.00
Current Price (Eu):	20.40		Previous Price (Eu):	17.88
Date of report:	19/05/2020		Date of last report:	27/04/2020

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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.

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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

**CURRENT INVESTMENT RESEARCH RATING DISTRIBUTIONS**

Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.

As at 31 March 2020 Intermonte's Research Department covered 123 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	08,73 %
OUTPERFORM:	49,21 %
NEUTRAL:	37,30 %
UNDERPERFORM	04,76 %
SELL:	00,00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (48 in total) is as follows:

BUY:	14,58 %
OUTPERFORM:	66,67 %
NEUTRAL:	18,75 %
UNDERPERFORM	00,00 %
SELL:	00,00 %

**CONFLICT OF INTEREST**

The list of all conflicts of interest (last 12 months) and other important legal disclaimers are available on our Website in the "Legal Information" section - [Please click here](#)

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
GABELLI VALUE FOR ITALY AZ. ORD	0,72	LONG
IKF	0,57	SHORT
LIFE CARE CAPITAL	0,84	LONG
OLIDATA	0,74	SHORT
SPACTIV	1,08	LONG
THESPAC	0,89	LONG
VEI 1	0,87	LONG

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