

EL.EN.

OUTPERFORM

SECTOR: Industrials

Price (Eu):

15.02

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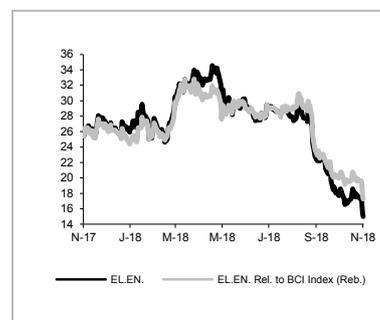
Target Price (Eu):

26.00

Growth Opportunities Remain, But Getting Harder To Grasp

- 3Q18 profitability falls short of estimates.** 3Q18 sales came in at Eu82.8mn, up 9.6% YoY (2.6% below expectations) with the medical and industrial divisions growing 10.1% and 9% YoY respectively. While the top line was slightly below our forecast, faced with a particularly strong comparison from 3Q17, profitability in 3Q18 declined more than expected due to a combination of negative factors. First, the gross margin suffered from a worse sales mix: not only was there a weaker sales mix between the industrial and medical divisions, with the former typically showing lower margins, but there was also a soft mix within the medical division; even though the FDA misunderstanding has been completely resolved, MonaLisa revenues suffered as its market reputation has not been fully restored yet. Second, the positive Chinese macroeconomic outlook is no longer a tailwind, and, even though growth prospects for industrial lasers remain bullish, demand is harder to capture, and higher sales and marketing expenses are needed. EBITDA therefore came to Eu8.7mn (-22% YoY), lower than our estimate, with the margin some 4pp lower YoY and roughly 1.5pp below the 4-year average for 3Q. EBIT came to Eu7.3mn (-19% YoY), benefiting from lower than expected D&A, and the net financial position at the end of September was positive to the tune of Eu55mn, lower than forecast due to a greater working capital expansion. Finally, the company confirmed FY18 top line guidance (annual growth in excess of 10%), but cut EBIT guidance from +10% to flat.
- Margin pressure expected to mark 2018, but double-digit sales growth trend to continue.** The first nine months of 2018 were affected by multiple negative elements: (i) unfavourable ForEx (USD, CNY, JPY), (ii) FDA issue hitting MonaLisa sales, mainly in US, (iii) weaker sales mix and (iv) lack of positive tailwind from Chinese macro outlook causing operating expenses to increase in order to support growth. As for the coming quarters, we should expect the lack of MonaLisa sales in US to persist into 4Q18 and 1Q19, while sales & marketing and R&D expenses should remain high in order to capture demand over the coming years. The company remains bullish on Chinese sales growth and intends to continue its investment plan aimed at increasing capacity to grasp future opportunities. Moreover, ONDA is expected to perform strongly in 2019, improving margins as it should generate higher profitability.
- Factoring in long-lasting margin pressure: estimates cut.** We are leaving our top-line estimates broadly unchanged, while bringing our 2018 EBIT forecast into line with company guidance. We are factoring expectations for a tougher environment into our 2019 and 2020 estimates (EBIT -13%), forecasting a gradual margin improvement thanks to both ONDA establishing itself and sales & marketing expenses starting to pay off.
- OUTPERFORM reiterated; target from Eu33 to Eu26.** We are lowering our target price to Eu26 from Eu33: this is due both to the cut in estimates and a higher WACC that takes into account the increased risk-free rate (3%). El.En.'s overall outlook and growth prospects remain solid, even with a tougher environment affecting margins in the medium term. In light of underlying market growth, coupled with new product launches and capacity expansion, and given the recent sharp decline in the stock price, we reiterate our OUTPERFORM recommendation.

EL.EN. - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 33.00 to 26.00

Change in EPS est:	2018E	2019E
	-11.5%	-16.0%

STOCK DATA

Reuters code:	ELEN.MI
Bloomberg code:	ELN IM

Performance	1m	3m	12m
Absolute	-17.7%	-46.0%	-40.9%
Relative	-14.4%	-37.5%	-27.9%
12 months H/L:	34.54/15.02		

SHAREHOLDER DATA

No. of Ord. shares (mn):	19
Total No. of shares (mn):	19
Mkt Cap Ord (Eu mn):	290
Total Mkt Cap (Eu mn):	290
Mkt Float - ord (Eu mn):	150
Mkt Float (in %):	51.7%
Main shareholder:	
Cangioli Andrea	15.2%

BALANCE SHEET DATA

	2018
Book value (Eu mn):	200
BVPS (Eu):	10.37
P/BV:	1.4
Net Financial Position (Eu mn):	56
Enterprise value (Eu mn):	253

Please see important disclaimer on the last page of this report

Key Figures	2016A	2017A	2018E	2019E	2020E
Sales (Eu mn)	253	306	346	379	413
Ebitda (Eu mn)	32	36	37	43	48
Net profit (Eu mn)	40	16	18	22	25
EPS - New Adj.(Eu)	0.901	0.810	0.947	1.118	1.277
EPS - Old Adj.(Eu)	0.901	0.810	1.070	1.330	1.525
DPS (Eu)	0.400	0.400	0.400	0.400	0.400

Ratios & Multiples	2016A	2017A	2018E	2019E	2020E
P/E Adj.	16.7	18.5	15.9	13.4	11.8
Div. Yield	2.7%	2.7%	2.7%	2.7%	2.7%
EV/Ebitda Adj.	6.7	6.1	6.9	6.1	5.1
ROCE	21.3%	26.5%	21.6%	21.0%	22.5%

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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
PROFIT & LOSS (Eu mn)	Sales	253	306	346	379	413
	EBITDA	32	36	37	43	48
	EBIT	28	30	31	36	41
	Financial income (charges)	2	(3)	1	1	1
	Associates & Others	23	0	0	0	0
	Pre-tax profit (Loss)	53	27	31	37	42
	Taxes	(10)	(7)	(9)	(10)	(11)
	Tax rate (%)	-18.5%	-25.0%	-27.3%	-27.3%	-27.1%
	Minorities & discontinue activities	(3)	(5)	(5)	(5)	(6)
	Net profit	40	16	18	22	25
	Total extraordinary items					
	Ebitda excl. extraordinary items	32	36	37	43	48
	Ebit excl. extraordinary items	28	30	31	36	41
Net profit restated	17	16	18	22	25	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	19	19	19	19	19
	EPS stated fd	2.094	0.810	0.947	1.118	1.277
	EPS restated fd	0.901	0.810	0.947	1.118	1.277
	BVPS fd	9.423	9.862	10.374	11.062	11.909
	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%	42.2%	35.8%	31.3%
CASH FLOW (Eu mn)	Gross cash flow	25	26	29	33	38
	Change in NWC	6	(9)	(24)	(2)	0
	Capital expenditure	(11)	(8)	(20)	(20)	(10)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	19	10	(14)	12	28
	Acquisitions, divestments & others	39	(0)	(6)	(4)	0
	Dividend	(6)	(8)	(8)	(8)	(8)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	53	2	(29)	(0)	20	
BALANCE SHEET (Eu mn)	Total fixed assets	47	47	60	74	76
	Net working capital	54	63	87	89	88
	Long term liabilities	8	10	16	20	20
	Net capital employed	110	120	163	182	184
	Net financial position	83	85	56	55	76
	Group equity	193	204	219	237	260
	Minorities	11	14	19	24	30
Net equity	182	190	200	213	230	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	290	290	290	290	290
	Adjustments (associate & minorities)	(11)	(14)	(19)	(24)	(30)
	Net financial position	83	85	56	55	76
	Enterprise value	218	219	253	258	244
RATIOS(%)	EBITDA margin*	12.8%	11.8%	10.6%	11.3%	11.7%
	EBIT margin*	10.9%	9.9%	8.8%	9.6%	10.0%
	Gearing - Debt/equity	-43.0%	-41.4%	-25.4%	-23.3%	-29.1%
	Interest cover on EBIT	nm	9.0	nm	nm	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	21.3%	26.5%	21.6%	21.0%	22.5%
	ROE*	22.9%	8.4%	9.4%	10.4%	11.1%
	EV/CE	1.7	1.9	1.8	1.5	1.3
	EV/Sales	0.9	0.7	0.7	0.7	0.6
	EV/Ebit	7.9	7.2	8.3	7.1	5.9
Free Cash Flow Yield	6.4%	3.2%	-4.7%	3.8%	8.9%	
GROWTH RATES (%)	Sales	16.1%	21.3%	13.0%	9.5%	9.0%
	EBITDA*	26.2%	11.5%	1.5%	16.4%	13.2%
	EBIT*	28.3%	10.4%	0.5%	18.5%	13.8%
	Net profit	181.2%	-61.3%	16.9%	18.0%	14.3%
	EPS restated	21.0%	-10.1%	16.9%	18.0%	14.3%

* Excluding extraordinary items

Source: Intermonte SIM estimates

3Q18 Results

3Q18 profitability falls short of estimates. 3Q18 sales came in at Eu82.8mn, up 9.6% YoY (2.6% below expectations) with the medical and industrial divisions growing 10.1% and 9% YoY respectively. While the top line was slightly below our forecast, faced with a particularly strong comparison from 3Q17, profitability in 3Q18 declined more than expected due to a combination of negative factors. First, the gross margin suffered from a worse sales mix: not only was there a weaker sales mix between the industrial and medical divisions, with the former typically showing lower margins, but there was also a soft mix within the medical division; even though the FDA misunderstanding has been completely resolved, MonaLisa revenues suffered as its market reputation has not been fully restored yet. Second, the positive Chinese macroeconomic outlook is no longer a tailwind, and, even though growth prospects for industrial lasers remain bullish, demand is harder to capture, and higher sales and marketing expenses are needed. EBITDA therefore came to Eu8.7mn (-22% YoY), lower than our estimate, with the margin some 4pp lower YoY and roughly 1.5pp below the 4-year average for 3Q. EBIT came to Eu7.3mn (-19% YoY), benefiting from lower than expected D&A, and the net financial position at the end of September was positive to the tune of Eu55mn, lower than forecast due to a greater working capital expansion. Finally, the company confirmed FY18 top line guidance (annual growth in excess of 10%), but cut EBIT guidance from +10% to flat.

El.En. – 3Q18 Results

(Eu mn)	3Q17A	3Q18A	3Q18E	A v E	9M17A	9M18A	9M18E	A v E
Sales	75.5	82.8	85.0	(2.6%)	218.4	243.4	245.6	(0.9%)
YoY growth %	27.2%	9.6%	12.5%		21.6%	11.5%	12.5%	
EBITDA	11.1	8.7	10.4	(16.5%)	26.5	24.0	25.7	(6.7%)
Ebitda margin %	14.7%	10.5%	12.2%		12.2%	9.9%	10.5%	
YoY growth %	49.8%	-21.6%	-6.1%		15.6%	-9.5%	-3.0%	
Total D&A	(2.1)	(1.4)	(2.2)		(4.4)	(4.0)	(4.8)	
EBIT	9.0	7.3	8.3	(11.8%)	22.2	20.0	21.0	(4.6%)
Ebit margin %	11.9%	8.8%	9.7%		10.1%	8.2%	8.5%	
YoY growth %		-19.4%	-8.6%			-9.7%	-5.3%	
Net financials & Participations	(0.8)	(0.5)	0.5		(3.1)	(0.1)	0.9	
Pretax Profit	8.2	6.8	8.8	(22.1%)	19.1	19.9	21.8	(8.8%)
Pretax margin %	10.9%	8.2%	10.3%		8.7%	8.2%	8.9%	
YoY growth %		(17.1%)	6.4%			4.2%	14.3%	
Net cash	75.7	54.8	68.0	(19%)	75.7	54.8	68.0	(19%)

Source: Intermonte SIM and Company data

Change in estimates

Margin pressure expected to mark 2018, but double-digit sales growth trend to continue. The first nine months of 2018 were affected by multiple negative elements: (i) unfavourable ForEx (USD, CNY, JPY), (ii) FDA issue hitting MonaLisa sales, mainly in US, (iii) weaker sales mix and (iv) lack of positive tailwind from Chinese macro outlook causing operating expenses to increase in order to support double-digit growth.

As for the coming quarters, we should expect the lack of MonaLisa sales in US to persist into 4Q18 and 1Q19 (it is taking longer than expected to restore market confidence in the product), while sales & marketing and R&D expenses should remain high in order to capture demand over the coming years. The company remains bullish on Chinese sales growth and intends to continue its investment plan aimed at increasing capacity to grasp future opportunities. Moreover, ONDA is expected to perform strongly in 2019, improving margins as it should generate higher profitability. In fact, the company revealed that ONDA has been recognized as the best non-invasive technology for body sculpturing, which could probably enable considerable pricing power, benefiting profitability.

Factoring in long-lasting margin pressure: estimates cut. We are leaving our top-line estimates broadly unchanged, while bringing our 2018 EBIT forecast into line with company guidance. We are factoring expectations for a tougher environment into our 2019 and 2020 estimates (EBIT - 13%), forecasting a gradual margin improvement thanks to both ONDA establishing itself and sales & marketing expenses starting to pay off

As for EPS, we are revising our 2018-2020 estimates downwards (-14.6% on average in the period), mostly as the result of lower operating margins.

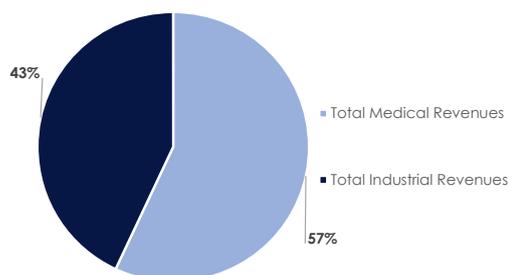
El.En. – Change in estimates

(Eu mn)	2017A	2018E	2019E	2020E
Sales new	306.5	346.3	379.2	413.3
Sales old		346.3	384.4	422.8
% change		0.0%	-1.4%	-2.2%
EBITDA new	36.1	36.7	42.7	48.3
EBITDA old		42.9	50.5	57.6
% change		-14.6%	-15.5%	-16.1%
EBIT new	30.4	30.6	36.3	41.3
Adjusted EBIT old		34.0	41.8	47.6
% change		-10.0%	-13.2%	-13.3%
Group Net profit new	15.6	18.3	21.6	24.6
Adjusted Group Net Profit old		20.7	25.7	29.4
% change		-11.5%	-16.0%	-16.2%

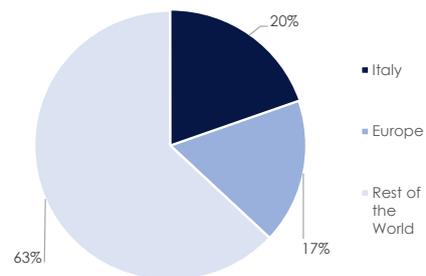
Source: Intermonte SIM and Company data

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

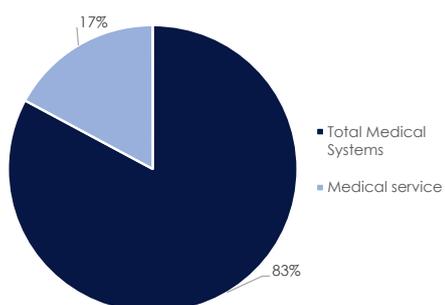
Sales by main segment



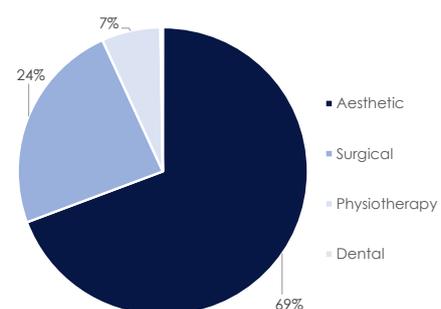
Sales by geographical area



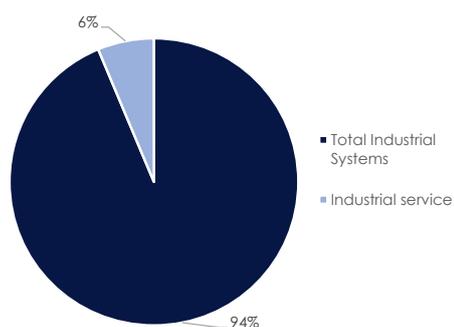
Medical segment – Sales breakdown



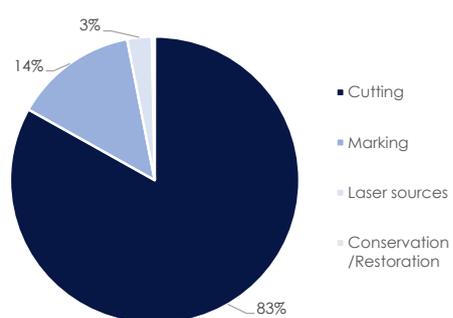
Medical system – Sales by product category



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
EL.EN.	15.02	EUR	290	-17.7%	-46.0%	-51.5%	-42.3%	-40.9%	-29.5%
AMADA CO.	1173.00	JPY	429,092	5.5%	0.8%	-11.0%	-23.5%	-19.0%	-7.1%
BIOLASE	1.29	USD	27	-4.4%	-32.5%	-1.5%	-39.5%	-54.7%	-85.0%
CUTERA	21.30	USD	296	-4.6%	-37.3%	-44.2%	-53.0%	-49.8%	49.0%
HAN'S LASER TECH IND.	35.13	CNY	37,486	-0.7%	-17.3%	-34.7%	-28.9%	-38.4%	50.7%
IPG PHOTONICS	138.48	USD	7,395	-1.4%	-15.5%	-45.1%	-35.3%	-40.6%	45.7%
PRIMA INDUSTRIE	18.50	EUR	194	-29.7%	-42.2%	-50.7%	-45.3%	-46.9%	30.6%
SISRAM MEDICAL	4.98	HKD	2,202	10.2%	14.5%	-19.8%	-24.0%	-26.7%	---
Mean performance				-5.4%	-21.9%	-32.3%	-36.5%	-39.6%	7.8%
Italy FTSE Mib	18,878.3	EUR		-4.3%	-8.0%	-20.5%	-13.6%	-15.0%	14.0%

Source: FactSet

Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales		EV/Ebitda		EV/Ebit		P/E		Div Yield	
				2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
EL.EN.	15.02	EUR	290	0.7	0.7	6.9	6.1	8.3	7.1	15.9	13.4	2.7%	2.7%
AMADA CO.	1173.00	JPY	429,092	1.1	1.1	6.3	6.0	8.2	7.9	13.3	13.0	3.6%	3.9%
BIOLASE	1.29	USD	27										
CUTERA	21.30	USD	296								218.5		
HAN'S LASER TECH IND.	35.13	CNY	37,486	3.0	2.3	18.5	14.0	19.8	15.3	19.9	16.8	1.1%	1.3%
IPG PHOTONICS	138.48	USD	7,395	4.2	3.9	10.0	9.5	11.6	11.1	18.7	18.9	0.0%	0.0%
PRIMA INDUSTRIE	18.50	EUR	194	0.5	0.5	4.9	3.9	7.4	5.6	7.8	6.7	2.6%	3.1%
SISRAM MEDICAL	4.98	HKD	2,202										
Median				2.0	1.7	8.2	7.7	9.9	9.5	16.0	16.8	1.9%	2.2%

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	344.6	0.5%	379.2	374.6	1.2%
Ebitda	36.7	39.4	-7.0%	42.7	45.7	-6.6%
Net Profit	18.3	19.9	-7.9%	21.6	23.8	-9.2%
EPS	0.947	1.020	-7.1%	1.118	1.222	-8.5%
Net Debt	55.6	76.4	-27.2%	55.3	77.7	-28.8%

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):	26.00		Previous Target (Eu):	33.00
Current Price (Eu):	15.02		Previous Price (Eu):	29.66
Date of report:	19/11/2018		Date of last report:	17/09/2018

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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 newswell.

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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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BUY:	13.07 %
OUTPERFORM:	45.75 %
NEUTRAL:	33.99 %
UNDERPERFORM:	07.19 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (53 in total) is as follows:

BUY:	18.87 %
OUTPERFORM:	50.94 %
NEUTRAL:	30.19 %
UNDERPERFORM:	00.00 %
SELL:	00.00 %

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Intermonte SIM performs as a market maker for the following companies: Atlantia, Autogrill, Azimut Holding, Banco Popolare, Bca Monte dei Paschi di Siena, Bca POP Emilia Romagna, Bca POP Milano, CNH Industrial, Enel, Eni, Exor, Fiat Chrysler Automobiles NV, Generali, Indice FTMIB, Intesa Sanpaolo, Intesa Sanpaolo Risp, Leonardo-Finmeccanica, Luxottica Group, Mediaset, Mediobanca, Prisma, Saipem, Snam, Stmicroelectronics, Telecom Italia, Telecom Italia Risparmio, Tenaris, Terna, Ubi Banca, Unicredit, Unipol, Unipolsai.

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Through its Websim Division, **Intermonte SIM** carries out marketing / communication activities on behalf of the following equity crowdfunding 200Crowd, BacktoWork24, Crowdfundme, Opstart and the following issuers: Banca IMI, BNP Paribas, Credit Suisse, Exane, Leonteq, Unicredit, Vontobel, Wisdomtree.

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
CAPITAL FOR PROGRESS 2	1,68	LONG
EPS EQUITA PEP2	0,73	LONG
Gambero Rosso	0,58	LONG
THESPAC	1,27	LONG
WASTE ITALIA	0,65	SHORT

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