

EL.EN.

BUY

SECTOR: Industrials

Price (Eu):

16.79

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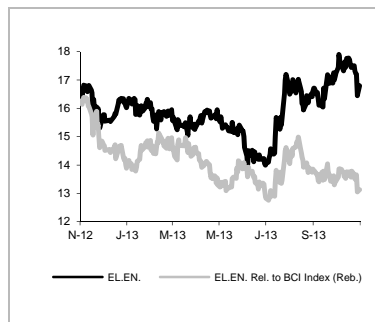
Target Price (Eu):

18.50

Weak Quarterly Results, Sales Outlook Downwards Revised

- Quarterly results below our estimates, negative cash generation.** In 3Q13 El.En posted a 0.9% YoY decrease in sales to Eu33.1mn, 7.8% short of our estimate. EBITDA came to Eu2.3mn, down 24.5% YoY. EBIT came to Eu1.1mn, down 36.7% YoY and 42.0% below our estimate. The net operating margin, down 190bp YoY to 3.3%, was affected by the increase in personnel costs, due to the strengthening of operating structures that are growing or expected to grow. Pre-tax profit was Eu2.6mn, up 148.0% YoY, as El.En booked unrealised gross income of Eu2.5mn from the revaluation of the investment in Cynosure. The cash position, equal to Eu13.5mn at September, was down QoQ and below our estimate (Eu19.2mn) due to higher working capital.
- 9M highlights.** In 9M13 sales declined by 1.2% YoY. Turnover grew in Italy (+12.4% YoY), was basically flat in Europe (-0.6% YoY), but fell in the Rest of the World (-5.1% YoY). By division, sales of medical and aesthetic laser systems went down by 0.4% YoY, while industrial laser systems sales went up by 2.7% (even though both the Brazilian and the Chinese subsidiaries underperformed); after-sale services also went down by 8.5% YoY. The huge YTD devaluation of the yen was the main reason behind the negative performance outside Europe in the medical division and the after-sale businesses.
- 2013 sales outlook revised downwards, minor changes to our estimates.** Management stated that "at the end of the third quarter results showed a delay on the roadmap for the achievement of sales and EBIT targets for the year 2013, which were: revenue growth of 5% and improvement in operating income. By the end of the year, also due to some restructuring of activities that resulted in a reduction in sales and additional operating costs, revenue will remain stable compared to 2012, while we expect to be able to improve on the operating profit of the previous year". We forecast sales of Eu160.3mn, implying top line growth of 1.0% (from 5.0% previously), and EBIT of Eu7.7mn (from Eu8.0mn previously), or 5.0% of sales (stable). At bottom line, we have increased our 2013 EPS estimate by 22.3% due to the revaluation of the investment in Cynosure. Finally we have cut our 2014-15 estimates by 3.9% on average.
- BUY reaffirmed, target price kept at Eu18.5.** We reiterate our positive stance on the stock as El.En should benefit from both its exposure to the medical and aesthetic treatment sector, which enjoys sustainable growth drivers, and, for the industrial laser systems business, the industrialisation of fast-growing markets such as Brazil and China. The current economic environment is still challenging; exchange rates volatility represents a headwind. Our valuation, based on an SoP that adds the value of El.En net of minorities to the market value of El.En's 9.4% stake in Cynosure, yields Eu18.5 per share. The stock is clearly undervalued but we stress that, without additional information on the strategic uses of cash and the Cynosure stake, any further re-rating is unlikely in the short term.

EL.EN. - 12m Performance



Eu/USD: 1.33 2013/14; 1.30 2015

RATING: Unchanged

TARGET PRICE (Eu): Unchanged

Change in EPS est:	2013E	2014E
	22.3%	-3.6%

STOCK DATA

Reuters code:	ELEN.MI
Bloomberg code:	ELN IM

Performance	1m	3m	12m
Absolute	-2.6%	-1.1%	3.3%
Relative	-2.3%	-9.4%	-26.0%
12 months H/L:	17.90/14.00		

SHAREHOLDER DATA

No. of Ord. shares (mn):	5
Total No. of shares (mn):	5
Mkt Cap Ord (Eu mn):	81
Total Mkt Cap (Eu mn):	81
Mkt Float - ord (Eu mn):	35
Mkt Float (in %):	42.7%
Main shareholder:	
Cangioli Andrea	13.4%

BALANCE SHEET DATA

	2013
Book value (Eu mn):	121
BVPS (Eu):	25.11
P/BV:	0.7
Net Financial Position (Eu mn):	15
Enterprise value (Eu mn):	29

Key Figures	2011A	2012A	2013E	2014E	2015E
Sales (Eu mn)	137	151	153	161	167
Ebitda (Eu mn)	11	13	13	14	15
Net profit (Eu mn)	0	23	4	4	4
EPS - New (Eu)	-0.056	0.651	0.811	0.747	0.829
EPS - Old (Eu)	-0.056	0.651	0.663	0.775	0.864
DPS (Eu)	0.000	0.500	0.324	0.299	0.332

Ratios & Multiples	2011A	2012A	2013E	2014E	2015E
P/E	nm	25.8	20.7	22.5	20.3
Div. Yield	0.0%	3.0%	1.9%	1.8%	2.0%
EV/Ebitda	10.8	2.6	2.3	2.0	1.7
ROCE	5.0%	6.5%	7.1%	7.9%	8.4%

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EL.EN. - KEY FIGURES

		2011A	2012A	2013E	2014E	2015E
	Fiscal year end	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
PROFIT & LOSS (Eu mn)	Sales	137	151	153	161	167
	EBITDA	11	13	13	14	15
	EBIT	5	7	8	9	10
	Financial income (charges)	0	(1)	1	(1)	(1)
	Associates & Others	(1)	(0)	0	0	0
	Pre-tax profit (Loss)	5	6	9	8	9
	Taxes	(3)	(3)	(4)	(4)	(4)
	Tax rate (%)	-55.8%	-48.5%	-41.1%	-42.8%	-42.0%
	Minorities & discontinue activities	(2)	20	(1)	(1)	(1)
	Net profit	0	23	4	4	4
	Total extraordinary items					
Ebitda excl. extraordinary items	11	13	13	14	15	
Ebit excl. extraordinary items	5	7	8	9	10	
Net profit restated	(0)	3	4	4	4	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	5	5	5	5	5
	EPS stated fd	-0.056	4.809	0.811	0.747	0.829
	EPS restated fd	-0.056	0.651	0.811	0.747	0.829
	BVPS fd	19.631	23.278	25.114	25.529	26.358
	Dividend per share (ord)	0.000	0.500	0.324	0.299	0.332
	Dividend per share (sav)					
Dividend pay out ratio (%)	0.0%	3.8%	33.3%	46.9%		
CASH FLOW (Eu mn)	Gross cash flow	5	35	10	10	11
	Change in NWC	(22)	17	(2)	(2)	(2)
	Capital expenditure	(5)	(5)	(6)	(6)	(6)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(2)	35	0	3	3
	Acquisitions, divestments & others	20	(11)	(2)	0	0
	Dividend	(1)	0	(2)	(2)	(1)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	(3)	35	(2)	2	2	
BALANCE SHEET (Eu mn)	Total fixed assets	52	57	58	55	55
	Net working capital	69	52	55	56	58
	Long term liabilities	1	(3)	(1)	3	4
	Net capital employed	122	106	112	114	117
	Net financial position	53	18	15	17	19
	Group equity	175	124	128	131	136
	Minorities	80	12	6	8	9
Net equity	95	112	121	123	127	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	81	81	81	81	81
	Adjustments (associate & minorities)	(89)	31	36	36	36
	Net financial position	53	18	15	17	19
	Enterprise value	117	32	29	28	26
RATIOS(%)	EBITDA margin*	7.9%	8.3%	8.2%	8.7%	9.1%
	EBIT margin*	3.7%	4.9%	5.0%	5.5%	5.8%
	Gearing - Debt/equity	-30.3%	-14.4%	-12.1%	-13.0%	-14.0%
	Interest cover on EBIT	nm	5.5	nm	17.8	19.4
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	5.0%	6.5%	7.1%	7.9%	8.4%
	ROE*	-0.3%	22.4%	3.4%	3.0%	3.2%
	EV/CE	1.2	0.3	0.3	0.2	0.2
	EV/Sales	0.9	0.2	0.2	0.2	0.2
	EV/Ebit	23.0	4.3	3.8	3.1	2.6
Free Cash Flow Yield	-1.4%	70.8%	0.3%	6.9%	7.7%	
GROWTH RATES (%)	Sales	3.6%	10.1%	1.0%	5.3%	3.6%
	EBITDA*	-18.8%	15.7%	-0.2%	12.0%	7.9%
	EBIT*	-39.1%	46.7%	3.0%	15.6%	9.0%
	Net profit	nm	nm	-83.1%	-7.9%	11.0%
	EPS restated	nm	nm	24.6%	-7.9%	11.0%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Results

El.En. Quarterly Results		(€ mn)	3Q12A	3Q13A	3Q13E	A v E
Sales			33.5	33.2	36.0	-7.8%
	YoY growth %			-0.9%	7.5%	
EBITDA		3.0	2.3	3.1	-26.9%	
	Ebitda margin %	9.0%	6.8%	8.6%		
	YoY growth %			-24.5%	3.3%	
Total D&A		-1.3	-1.2	-1.2		
EBIT		1.7	1.1	1.9	-42.0%	
	Ebit margin %	5.2%	3.3%	5.3%		
	YoY growth %			-36.7%	9.1%	
Net financials & Participations		-0.7	-1.2	-0.8		
<i>Other income</i>			2.8	0.0		
Pretax Profit		1.1	2.6	1.1	148.0%	
	Pretax margin %	3.1%	7.9%	2.9%		
	YoY growth %			148.0%	0.0%	

Source: Company data and Intermonte Sim

Estimates

El.En. Change in estimates				
(€ mn)	2012A	2013E	2014E	2015E
Sales new	151.2	152.8	160.9	166.7
Sales old		158.8	166.4	171.4
% change		-3.8%	-3.3%	-2.7%
EBITDA new	12.5	12.5	14.0	15.1
EBITDA old		13.2	14.7	15.5
% change		-5.3%	-4.8%	-2.6%
EBIT new	7.5	7.7	8.9	9.7
EBIT old		8.0	9.2	9.8
% change		-3.1%	-3.3%	-1.0%
Pretax Profit new	6.1	8.9	8.4	9.2
Pretax Profit old		7.6	8.7	9.6
% change		16.5%	-3.4%	-3.7%
Group Net profit new	23.2	3.9	3.6	4.0
Group Net Profit old		3.2	3.7	4.2
% change		22.3%	-3.6%	-4.1%

Source: Company data and Intermonte Sim

El.En. Income statement estimates						
(€ mn)	2011A	2012A	2013E	2014E	2015E	CAGR12-15E
Sales	137.4	151.2	152.8	160.9	166.7	3.3%
YoY growth %	3.6%	10.1%	1.0%	5.3%	3.6%	
EBITDA	10.8	12.5	12.5	14.0	15.1	6.4%
Ebitda margin %	7.9%	8.3%	8.2%	8.7%	9.1%	
YoY growth %		15.7%	-0.2%	12.0%	7.9%	
Total D&A	(5.7)	(5.0)	(4.8)	(5.1)	(5.4)	
EBIT	5.1	7.5	7.7	8.9	9.7	9.1%
Ebit margin %	3.7%	4.9%	5.0%	5.5%	5.8%	
YoY growth %		46.7%	3.0%	15.6%	9.0%	
Net financial charges	(0.3)	(1.4)	(1.6)	(0.5)	(0.5)	
Other income			2.8			
Pretax Profit	4.8	6.1	8.9	8.4	9.2	14.7%
Taxes	(2.7)	(3.0)	(3.6)	(3.6)	(3.9)	
<i>Income from continued op.</i>	<i>2.1</i>	<i>3.1</i>				
<i>Income from discontinued op.</i>	<i>(2.4)</i>	<i>26.7</i>				
Net Profit before minority interest	(0.3)	29.8	5.2	4.8	5.3	n.m.
<i>Minority interest from continued op.</i>	<i>(1.4)</i>	<i>(1.0)</i>	<i>(1.3)</i>	<i>(1.2)</i>	<i>(1.3)</i>	
<i>Minority interest from discontinued</i>	<i>1.4</i>	<i>(5.6)</i>				
Group Net Profit	-0.3	23.2	3.9	3.6	4.0	n.m.
Net margin %	-0.2%	15.3%	2.6%	2.2%	2.4%	
YoY growth %		n.m.	n.m.	-7.9%	11.0%	

Source: Company data and Intermonte SIM estimates

Valuation

El.En. - Valuation summary

	Method	€ mn	€ per share	us (30-08-2013)	change
El.En	DCF, net of minorities	52.2	10.8	10.8	0.1%
Stake in Cynosure	market value	37.0	7.7	7.7	-0.3%
Total Equity Value		89.2	18.5	18.5	0.0%
El.En Share Price			16.5	16.9	-2.7%
potential upside			12.4%	9.8%	

Source: Intermonte Sim

Peer Group

El.En. Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
Cynosure	23.2	USD - US Dollar	588.1	6.3%	-3.3%	-5.4%	-2.6%	0.2%	106.3%
El.En	16.7	Euro	80.3	-1.6%	1.4%	13.8%	2.4%	39.1%	13.7%
Syneron Medical Ltd	8.6	U.S. Dollar	308.5	31.2%	36.3%	24.4%	31.4%	41.1%	8.2%
Cutera, Inc.	6.9	U.S. Dollar	97.4	-1.6%	-4.8%	-4.1%	0.8%	-3.3%	21.4%
BIOLASE, Inc.	1.2	U.S. Dollar	42.4	-15.6%	1.7%	-67.2%	-12.2%	-14.5%	-43.9%
Solta Medical, Inc.	1.5	U.S. Dollar	119.1	-1.3%	-2.7%	-10.0%	-26.5%	-22.2%	-12.2%
Medical avg				3.2%	7.6%	-14.2%	-1.6%	0.3%	-6.6%
Italy FTSE Mib				-1.2%	7.4%	7.7%	18.0%	28.7%	24.2%

Source: Factset

El.En. Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	Capi/Sales 2013	Capi/Sales 2014	P/E 2013	P/E 2014	P/BV 2013	P/BV 2014	EV/EBITDA 2013	EV/EBITDA 2014
El.En	16.7	EUR - Euro	80.3	0.30	0.28	11.7	12.7	0.38	0.37	2.5	2.1
Syneron Medical Ltd	8.6	U.S. Dollar	308.5	1.6	1.4		44.0	1.4	1.7		
Cynosure	23.2	USD - US Dollar	588.1	2.7	2.1	26.6	19.4			12.0	15.8
Cutera, Inc.	6.9	U.S. Dollar	97.4	1.8	1.5			1.3	1.2		6.7
BIOLASE, Inc.	1.2	U.S. Dollar	42.4	1.0	0.9			5.6	4.6		
Solta Medical, Inc.	1.5	U.S. Dollar	119.1	1.1	1.0		30.1			18.9	10.2
Medical avg				1.6	1.4	26.6	30.1	1.4	1.7	15.5	10.2

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

EL.EN. Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
EL.EN.	16.8	EUR	81.0	-2.6%	-1.1%	6.9%	8.1%	3.3%	72.7%
AMADA CO.	905.0	JPY	345,748.7	2.3%	24.7%	9.8%	63.1%	103.4%	90.1%
COHERENT INC.	65.4	USD	1,599.3	-0.7%	16.1%	12.2%	29.2%	55.4%	31.7%
CYMER	---	USD	---	---	---	---	---	---	---
FIDIA	2.6	EUR	13.3	2.0%	10.6%	4.1%	12.1%	13.0%	-5.8%
GSI GROUP	10.7	USD	363.4	9.5%	26.8%	30.2%	23.6%	47.0%	-0.6%
PRIMA INDUSTRIE	9.5	EUR	81.7	-5.5%	2.2%	-4.0%	2.2%	0.5%	41.7%
ROFIN-SINAR TECH	24.0	USD	675.8	-6.3%	2.3%	-7.3%	10.5%	24.9%	10.8%
Mean performance				-0.2%	11.7%	7.4%	21.2%	35.4%	34.4%
Italy Fixed	19,105.5	EUR	227,489	-0.9%	8.1%	8.5%	17.4%	28.6%	25.4%

Source: FactSet

EL.EN. Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales 2013	EV/Sales 2014	EV/Ebitda 2013	EV/Ebitda 2014	EV/Ebit 2013	EV/Ebit 2014	P/E 2013	P/E 2014	Div Yield 2013	Div Yield 2014
EL.EN.	16.8	EUR	81.0	0.2	0.2	2.3	2.0	3.8	3.1	20.7	22.5	1.9%	1.8%
AMADA CO.	905.0	JPY	345,748.7	1.3	1.2	13.0	10.7	19.9	14.6	30.5	23.5	1.6%	1.7%
COHERENT INC.	65.4	USD	1,599.3	1.8	1.6	10.5	8.8	13.1	11.7	18.4	16.5		
CYMER		USD											
FIDIA	2.6	EUR	13.3	0.3	0.3	15.8	4.7		7.5		23.2	0.0%	0.0%
GSI GROUP	10.7	USD	363.4							26.6	17.3		
PRIMA INDUSTRIE	9.5	EUR	81.7	0.5	0.5	5.9	4.7	9.0	6.5	9.5	6.3	0.0%	0.0%
ROFIN-SINAR TECH	24.0	USD	675.8	1.0	1.0	8.9	8.7	11.7	11.5	19.6	20.5	0.0%	0.0%
Median				0.8	0.8	9.7	6.7	11.7	9.5	20.2	20.5	0.0%	0.0%

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

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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.

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NEUTRAL: 34.62%

UNDERPERFORM: 0.00%

SELL: 0.00%

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DETAILS ON STOCKS RECOMMENDATION

Stock NAME	EL.EN.		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (Eu):	18.50	Previous Target (Eu):	18.50
Current Price (Eu):	16.79	Previous Price (Eu):	17.02
Date of report:	19/11/2013	Date of last report:	30/08/2013

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