

## EL.EN.

## OUTPERFORM

Price (Eu): **32.18**

Target Price (Eu): **36.00**

SECTOR: Industrials

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## Strong Earnings Momentum Ahead Supports a Further Stock Re-Rating

- Stronger-than-expected 4Q top line growth (+21% YoY vs +14% YoY expected) diluted by a worse business mix.** El.En. reported quarterly top line growth that beat expectations, with sales reaching Eu88mn (+20.5% YoY), rounding off a strong 2017. More specifically, the Industrial sector delivered another very strong quarter (almost +60% YoY, still boosted by Chinese sales), while Medical revenue increased 5% YoY. The quarterly beat at top line was offset by softer margins, mainly as a consequence of a weaker business mix, but also due to factoring in some non-recurring items in the last part of the year (i.e. a one-off of more than Eu1mn for a stock option and other compensation-related incentive plans, mostly concentrated in 4Q). Even though the EBIT margin decreased by 129bp to 9.4%, EBIT grew by 6% YoY. For the FY, the bottom line came in at Eu15.6mn, basically in line with expectations after better-than-projected taxation, with the net cash position of Eu84.5mn as at YE17 marking an improvement on the Eu76mn recorded as at the end of September. Finally, the BoD proposed a Eu0.40 DPS (in line).
- New ONDA system the potential tailwind propelling medium-term growth. Avg. FY18-20 EPS upgrade of around +14%.** The company has grown significantly in recent years, with the Industrial segment (mainly cutting) registering overall YoY growth in excess of 50% in 2017, bringing its contribution to roughly 44% of total revenue (from 34% in FY16); Medical revenues grew 5% YoY in FY17. The intensification of product development activities in 2017 will allow the company to launch several innovative systems for medical and aesthetic applications this year. These include the new ONDA system, which uses microwave technology for body contouring. This system is expected to be operational in 3Q18, mainly in European markets, while the US, China and Japan will contribute after 2019 (due to the longer periods needed for local clearance). We have factored this new tailwind into our estimates, with a stronger contribution from 2019 onwards. As for FY18, the group's updated guidance (which we would deem as conservative in view of the strong underlying business environment) points to 10% top line growth, implying FY18 revenue of Eu337mn, and an EBIT margin of 10%. All in all, we have upgraded our avg. FY18-20 EPS estimates by approx. +14%. Given the group's current net cash position of Eu85mn and projected cash generation, in our view there should be ample room to pursue any potential M&A opportunities or a more generous dividend policy going forward.
- OUTPERFORM confirmed; target from Eu29.0 to Eu36.0.** On the back of our updated forecasts, we have set a new target price of Eu36.0 (from Eu29.0), derived from a DCF valuation (WACC 7%, g 2%) and including Eu1.0 per share to account for the possible use of cash for accretive M&A deals. Based on the expected continuation of strong earnings momentum and potential upside at the current market valuation, we reiterate our OUTPERFORM recommendation.

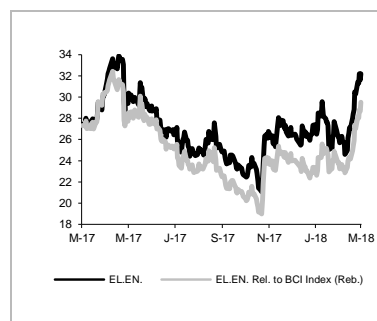
Key Figures	2016A	2017A	2018E	2019E	2020E
Sales (Eu mn)	253	306	352	382	415
Ebitda (Eu mn)	32	36	46	53	61
Net profit (Eu mn)	40	16	23	27	32
EPS - New (Eu)	0.901	0.810	1.207	1.406	1.633
EPS - Old (Eu)	0.901	0.837	1.121	1.229	
DPS (Eu)	0.400	0.400	0.400	0.400	0.400

Ratios & Multiples	2016A	2017A	2018E	2019E	2020E
P/E	35.7	39.7	26.7	22.9	19.7
Div. Yield	1.2%	1.2%	1.2%	1.2%	1.2%
EV/Ebitda	16.9	15.1	11.7	9.9	8.2
ROCE	21.3%	26.5%	30.9%	32.6%	35.4%

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### EL.EN. - 12m Performance



**RATING: Unchanged**

**TARGET PRICE (Eu): from 29.00 to 36.00**

**Change in EPS est:** 2018E 2019E  
7.7% 14.4%

#### STOCK DATA

Reuters code: ELEN.MI  
Bloomberg code: ELN IM

Performance	1m	3m	12m
Absolute	25.2%	21.9%	17.9%
Relative	26.5%	22.8%	8.8%
12 months H/L:	33.88/21.08		

#### SHAREHOLDER DATA

No. of Ord. shares (mn):	19
Total No. of shares (mn):	19
Mkt Cap Ord (Eu mn):	621
Total Mkt Cap (Eu mn):	621
Mkt Float - ord (Eu mn):	260
Mkt Float (in %):	41.8%
Main shareholder:	
Cangioli Andrea	15.2%

#### BALANCE SHEET DATA

	2018
Book value (Eu mn):	203
BVPS (Eu):	10.53
P/BV:	3.1
Net Financial Position (Eu mn):	92
Enterprise value (Eu mn):	536

Please see important disclaimer on the last page of this report

**EL.EN. - KEY FIGURES**

		<b>2016A</b>	<b>2017A</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
	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	352	382	415
	EBITDA	32	36	46	53	61
	EBIT	28	30	39	45	53
	Financial income (charges)	2	(3)	1	1	1
	Associates & Others	23	0	0	0	0
	Pre-tax profit (Loss)	53	27	40	46	54
	Taxes	(10)	(7)	(11)	(13)	(15)
	Tax rate (%)	-18.5%	-25.0%	-27.0%	-27.0%	-27.0%
	Minorities & discontinue activities	(3)	(5)	(6)	(7)	(8)
	Net profit	40	16	23	27	32
	Total extraordinary items					
	Ebitda excl. extraordinary items	32	36	46	53	61
	Ebit excl. extraordinary items	28	30	39	45	53
Net profit restated	17	16	23	27	32	
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	19	19	19	19	19
	EPS stated fd	2.094	0.810	1.207	1.406	1.633
	EPS restated fd	0.901	0.810	1.207	1.406	1.633
	BVPS fd	9.369	9.723	10.529	11.535	12.767
	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%	33.2%	28.5%	24.5%
<b>CASH FLOW (Eu mn)</b>	Gross cash flow	25	26	36	41	47
	Change in NWC	6	(9)	(7)	(7)	(9)
	Capital expenditure	(11)	(5)	(14)	(13)	(7)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	19	12	15	22	32
	Acquisitions, divestments & others	39	(3)	0	0	0
	Dividend	(6)	(8)	(8)	(8)	(8)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	53	2	8	14	25	
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	47	47	54	60	58
	Net working capital	54	63	69	76	85
	Long term liabilities	8	10	10	10	10
	Net capital employed	110	120	134	146	153
	Net financial position	83	85	92	106	131
	Group equity	193	204	226	252	284
	Minorities	12	17	22	29	37
Net equity	181	188	203	223	246	
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	621	621	621	621	621
	Adjustments (associate & minorities)	(8)	(8)	(8)	(8)	(8)
	Net financial position	83	85	92	106	131
	Enterprise value	546	544	536	522	498
<b>RATIOS(%)</b>	EBITDA margin*	12.8%	11.8%	13.0%	13.8%	14.6%
	EBIT margin*	10.9%	9.9%	11.1%	11.9%	12.7%
	Gearing - Debt/equity	-43.0%	-41.4%	-40.8%	-42.2%	-46.2%
	Interest cover on EBIT	nm	9.0	nm	nm	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	21.3%	26.5%	30.9%	32.6%	35.4%
	ROE*	23.0%	8.5%	11.9%	12.7%	13.4%
	EV/CE	4.2	4.7	4.2	3.7	3.3
	EV/Sales	2.2	1.8	1.5	1.4	1.2
	EV/Ebit	19.8	17.9	13.7	11.5	9.4
Free Cash Flow Yield	3.1%	2.0%	2.4%	3.5%	5.1%	
<b>GROWTH RATES (%)</b>	Sales	16.1%	21.3%	15.0%	8.5%	8.5%
	EBITDA*	26.2%	11.5%	26.9%	15.2%	15.0%
	EBIT*	28.3%	10.4%	28.6%	16.1%	16.0%
	Net profit	181.2%	-61.3%	48.9%	16.5%	16.1%
	EPS restated	21.0%	-10.1%	48.9%	16.5%	16.1%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

## 4Q17 Results

### El.En. – 4Q17 Results

(€ mn)	4Q16A	4Q17A	4Q17E	A v E	FY16A	FY17A	FY17E	A v E
<b>Sales</b>	<b>73.1</b>	<b>88.0</b>	<b>83.5</b>	<b>5%</b>	<b>252.6</b>	<b>306.5</b>	<b>301.9</b>	<b>2%</b>
YoY growth %	18.5%	20.5%	14.3%		16.1%	21.3%	19.5%	
<b>EBITDA</b>	<b>9.4</b>	<b>9.6</b>	<b>11.6</b>	<b>(17%)</b>	<b>32.4</b>	<b>36.1</b>	<b>38.2</b>	<b>(5%)</b>
Ebitda margin %	12.9%	10.9%	13.9%		12.8%	11.8%	12.6%	
YoY growth %	48.3%	1.6%	23.2%		26.2%	11.5%	17.8%	
Total D&A	(1.6)	(1.3)	(1.8)		(4.8)	(5.7)	(6.2)	
<b>EBIT</b>	<b>7.8</b>	<b>8.3</b>	<b>9.8</b>	<b>(15%)</b>	<b>27.6</b>	<b>30.4</b>	<b>32.0</b>	<b>(5%)</b>
Ebit margin %	10.7%	9.4%	11.7%		10.9%	9.9%	10.6%	
YoY growth %		5.9%	25.3%					
Net financials & Participations	2.9	(0.2)	(0.5)		25.1	(3.2)	(3.6)	
<b>Pretax Profit</b>	<b>10.7</b>	<b>8.1</b>	<b>9.3</b>	<b>(12%)</b>	<b>52.7</b>	<b>27.2</b>	<b>28.4</b>	<b>(4%)</b>
Pretax margin %	14.6%	9.2%	11.1%		20.9%	8.9%	9.4%	
YoY growth %		(24.2%)	(13.5%)			(48.4%)	(46.2%)	
Taxes					(9.7)	(6.8)	(7.8)	
tax rate					(18.5%)	(25.0%)	(27.4%)	
Minorities and disc. Operations					(2.6)	(4.8)	(4.4)	
<b>Group net profit</b>					<b>40.4</b>	<b>15.6</b>	<b>16.2</b>	<b>(3%)</b>
YoY growth %						(61.3%)	(60.0%)	

Source: company data and Intermonte SIM

## Change in estimates

### El.En. – Change in estimates

(€ mn)	2017A	2018E	2019E	2020E
<b>Sales new</b>	<b>306.5</b>	<b>352.4</b>	<b>382.4</b>	<b>414.9</b>
Sales old		324.6	347.3	369.8
<b>% change</b>		<b>8.6%</b>	<b>10.1%</b>	<b>12.2%</b>
<b>EBITDA new</b>	<b>36.1</b>	<b>45.8</b>	<b>52.8</b>	<b>60.7</b>
EBITDA old		43.2	47.1	51.7
<b>% change</b>		<b>6.2%</b>	<b>12.2%</b>	<b>17.4%</b>
<b>Adjusted EBIT new</b>	<b>30.4</b>	<b>39.2</b>	<b>45.5</b>	<b>52.8</b>
Adjusted EBIT old		36.5	39.9	44.1
<b>% change</b>		<b>7.4%</b>	<b>14.0%</b>	<b>19.5%</b>
<b>Adjusted Group Net profit new</b>	<b>15.6</b>	<b>23.3</b>	<b>27.1</b>	<b>31.5</b>
Adjusted Group Net Profit old		21.6	23.7	26.2
<b>% change</b>		<b>7.7%</b>	<b>14.4%</b>	<b>20.1%</b>

Source: company data and Intermonte SIM

**Peer Group - Absolute Performances**

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
<b>EL.EN.</b>	<b>32.18</b>	<b>EUR</b>	<b>621</b>	<b>25.2%</b>	<b>21.9%</b>	<b>29.6%</b>	<b>23.6%</b>	<b>17.9%</b>	<b>229.9%</b>
AMADA CO.	1252.00	JPY	457,995	-12.5%	-18.9%	0.9%	-18.4%	-0.6%	13.3%
BIOLASE	0.44	USD	45	4.2%	-0.5%	-28.3%	2.6%	-65.3%	-70.8%
COHERENT INC.	192.04	USD	4,766	-8.6%	-34.9%	-24.5%	-32.0%	-2.1%	116.8%
CUTERA	51.95	USD	720	14.8%	12.4%	30.4%	14.6%	156.5%	383.3%
FIDIA	7.66	EUR	39	-3.3%	20.3%	22.1%	10.8%	7.6%	20.7%
NOVANTA	52.15	USD	1,804	-3.4%	3.5%	22.3%	4.3%	93.5%	282.1%
PRIMA INDUSTRIE	39.10	EUR	410	10.9%	14.6%	-1.5%	15.7%	72.4%	238.2%
<b>Mean performance</b>				<b>3.4%</b>	<b>2.3%</b>	<b>6.4%</b>	<b>2.7%</b>	<b>35.0%</b>	<b>151.7%</b>
<b>Italy FTSE Mib</b>	22,289.1	EUR		-1.7%	0.4%	-1.1%	2.0%	10.5%	20.7%

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>32.18</b>	<b>EUR</b>	<b>621</b>	<b>1.5</b>	<b>1.4</b>	<b>11.7</b>	<b>9.9</b>	<b>13.7</b>	<b>11.5</b>	<b>26.7</b>	<b>22.9</b>	<b>1.2%</b>	<b>1.2%</b>
AMADA CO.	1252.00	JPY	457,995	1.2	1.1	7.0	6.2	8.8	7.8	14.2	13.1	3.6%	3.9%
BIOLASE	0.44	USD	45										
COHERENT INC.	192.04	USD	4,766							12.8	10.8		
CUTERA	51.95	USD	720							72.8	49.3		
FIDIA	7.66	EUR	39	0.8	0.7	10.3	8.7	14.8	12.5	25.5	16.1	1.8%	2.9%
NOVANTA	52.15	USD	1,804	3.1	2.8	15.2	13.1	18.2	15.5	27.5	24.1		
PRIMA INDUSTRIE	39.10	EUR	410	1.0	0.9	8.5	7.3	12.2	10.0	15.3	12.9	1.3%	1.5%
<b>Median</b>				<b>1.1</b>	<b>1.0</b>	<b>9.4</b>	<b>8.0</b>	<b>13.5</b>	<b>11.3</b>	<b>20.4</b>	<b>14.6</b>	<b>1.8%</b>	<b>2.9%</b>

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

**DETAILS ON STOCKS RECOMMENDATION**

Stock NAME	EL.EN.		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	36.00	Previous Target (Eu):	29.00
Current Price (Eu):	32.18	Previous Price (Eu):	23.65
Date of report:	26/03/2018	Date of last report:	16/11/2017

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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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BUY:	12.99 %
OUTPERFORM:	42.86 %
NEUTRAL:	38.96 %
UNDERPERFORM	05.19 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (44 in total) is as follows:

BUY:	14.29 %
OUTPERFORM:	55.10 %
NEUTRAL:	30.61 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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- o Intermonte SIM SpA is acting as placement agent in Il Sole 24 Ore's capital increase with an agreement with the company for the publication of an equity research regarding the company and the transaction. Intermonte will receive fees from the company for its activity as placement agent.

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	1.06	LONG
COGEME SET SPA	1.6	SHORT
IKF	0.57	SHORT
OLIDATA	0.88	SHORT
WASTE ITALIA	0.61	SHORT

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