

EL.EN.

OUTPERFORM

SECTOR: Industrials

Price (Eu):

29.66

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Target Price (Eu):

35.20

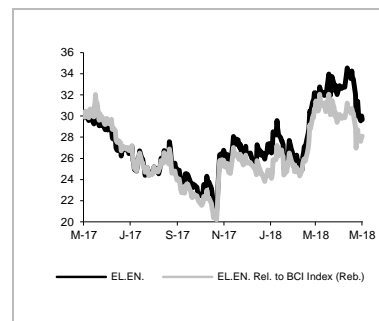
First Quarter Hindered by Forex, Growth Target Still Achievable

- 1Q18 results hit by combined negative impact of weak USD, JPY and CNY, already included in company guidance.** El.En. reported quarterly top line growth of +6.8% YoY (+2% above our estimates), hindered by a negative impact from weakness in the USD, JPY and CNY compared to 1Q17. The negative impact came to ca. 3.8%. Both the Industrial and Medical divisions were up +7% YoY: the former was supported by the good performance in the Cutting segment, which accounted for 30% of total sales in the quarter, and the latter benefitted from a positive contribution from the Surgical segment. The geographical breakdown showed +31% YoY growth in European sales, with the Rest of the World up 2.8% YoY, again affected by FOREX, while Italian sales were flat YoY. The gross operating margin slowed due to higher costs: personnel costs increased as the total number of employees grew +11% YoY to 1,308 as at the end of March 2018; this personnel increase is mainly related to the business expansion in China. The EBIT margin therefore tightened 80bps YoY to 7.7%, resulting in EBIT of Eu5.3mn (-3.3% YoY). Net cash decreased QoQ to Eu73mn from Eu85mn at YE17, as a result of increasing NWC and higher CAPEX in the quarter. In addition, Eu12mn in highly-liquid fixed-income investments with a mid-long time horizon have been accounted as non-current assets and therefore excluded from the calculation of the net financial position.
- FY18 guidance confirmed, with Onda sales beginning earlier than forecast.** Management confirmed its guidance for the year (+10% sales growth and +10% EBIT growth), which already included a negative impact in 1Q. For the coming months, the FOREX impact is forecast to be significantly lower. Excluding exchange rates, overall sales kept up with healthy growth rates in both the Industrial and Medical segments, where markets are forecast to grow at double-digit rates in the coming years. As regards the medical division in particular, body shaping and skin tightening are expected to perform well. In addition, the company announced that Onda, its innovative new system, has been approved for sale in Europe and shipping has already begun in mid-May, earlier than forecast (July). We should already see a contribution to revenues in 2Q18 results, increasing visibility on its overall impact.
- Estimates adjusted to account for high CAPEX and a stronger Onda contribution, partly deferred to subsequent years.** We are fine-tuning our estimates, in particular our top-line forecast for the 2018-20 period to account for a stronger contribution from Onda, spread slightly over the next two years, although we are still relatively conservative. The earlier than expected commencement of sales in 2Q18 will also raise visibility on 2018 figures, on which we are being more cautious. Finally, we adjusted our estimates on the YE18 net cash position, which we forecast to decrease to Eu80mn due to expectations for high CAPEX.
- OUTPERFORM confirmed; target from Eu36.0 to Eu35.2.** On the back of our adjusted estimates, we are trimming our target price from Eu36.0 to Eu35.2 (-2%), 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 to the current market valuation, we reiterate our OUTPERFORM recommendation.

Key Figures	2016A	2017A	2018E	2019E	2020E
Sales (Eu mn)	253	306	346	388	431
Ebitda (Eu mn)	32	36	43	51	58
Net profit (Eu mn)	40	16	23	27	31
EPS - New (Eu)	0.901	0.810	1.176	1.402	1.610
EPS - Old (Eu)	0.901	0.810	1.207	1.406	1.633
DPS (Eu)	0.400	0.400	0.400	0.400	0.400
Ratios & Multiples	2016A	2017A	2018E	2019E	2020E
P/E	32.9	36.6	25.2	21.2	18.4
Div. Yield	1.3%	1.3%	1.3%	1.3%	1.3%
EV/Ebitda	15.5	13.9	11.9	10.1	8.6
ROCE	21.3%	26.5%	27.9%	28.7%	30.5%

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EL.EN. - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 36.00 to 35.20

Change in EPS est:	2018E	2019E
	-2.5%	-0.3%

STOCK DATA

Reuters code: ELEN.MI
Bloomberg code: ELN IM

Performance	1m	3m	12m
Absolute	-9.7%	15.4%	-2.3%
Relative	-6.6%	13.7%	-7.9%
12 months H/L:	34.54/21.08		

SHAREHOLDER DATA

No. of Ord. shares (mn):	19
Total No. of shares (mn):	19
Mkt Cap Ord (Eu mn):	572
Total Mkt Cap (Eu mn):	572
Mkt Float - ord (Eu mn):	239
Mkt Float (in %):	41.8%
Main shareholder:	
Cangioli Andrea	15.2%

BALANCE SHEET DATA

	2018
Book value (Eu mn):	205
BVPS (Eu):	10.64
P/BV:	2.8
Net Financial Position (Eu mn):	80
Enterprise value (Eu mn):	511

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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	388	431
	EBITDA	32	36	43	51	58
	EBIT	28	30	37	44	51
	Financial income (charges)	2	(3)	1	1	1
	Associates & Others	23	0	0	0	0
	Pre-tax profit (Loss)	53	27	38	45	52
	Taxes	(10)	(7)	(10)	(12)	(14)
	Tax rate (%)	-18.5%	-25.0%	-26.4%	-26.4%	-26.4%
	Minorities & discontinue activities	(3)	(5)	(5)	(6)	(7)
	Net profit	40	16	23	27	31
	Total extraordinary items					
	Ebitda excl. extraordinary items	32	36	43	51	58
Ebit excl. extraordinary items	28	30	37	44	51	
Net profit restated	17	16	23	27	31	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	19	19	19	19	19
	EPS stated fd	2.094	0.810	1.176	1.402	1.610
	EPS restated fd	0.901	0.810	1.176	1.402	1.610
	BVPS fd	9.423	9.862	10.639	11.640	12.851
	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%	34.0%	28.5%	24.8%
CASH FLOW (Eu mn)	Gross cash flow	25	26	34	40	45
	Change in NWC	6	(9)	(10)	(8)	(5)
	Capital expenditure	(11)	(8)	(18)	(18)	(7)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	19	10	6	14	33
	Acquisitions, divestments & others	39	(0)	(3)	0	0
	Dividend	(6)	(8)	(8)	(8)	(8)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	53	2	(4)	6	26	
BALANCE SHEET (Eu mn)	Total fixed assets	47	47	58	70	69
	Net working capital	54	63	73	81	87
	Long term liabilities	8	10	12	12	12
	Net capital employed	110	120	144	163	168
	Net financial position	83	85	80	86	112
	Group equity	193	204	224	250	280
	Minorities	11	14	19	25	32
Net equity	182	190	205	225	248	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	572	572	572	572	572
	Adjustments (associate & minorities)	(11)	(14)	(19)	(25)	(32)
	Net financial position	83	85	80	86	112
	Enterprise value	500	502	511	511	493
RATIOS(%)	EBITDA margin*	12.8%	11.8%	12.4%	13.0%	13.4%
	EBIT margin*	10.9%	9.9%	10.6%	11.4%	11.7%
	Gearing - Debt/equity	-43.0%	-41.4%	-35.8%	-34.6%	-40.0%
	Interest cover on EBIT	nm	9.0	nm	nm	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	21.3%	26.5%	27.9%	28.7%	30.5%
	ROE*	22.9%	8.4%	11.5%	12.6%	13.1%
	EV/CE	3.9	4.4	3.9	3.3	3.0
	EV/Sales	2.0	1.6	1.5	1.3	1.1
	EV/Ebit	18.1	16.5	13.9	11.6	9.7
Free Cash Flow Yield	3.3%	1.6%	1.0%	2.3%	5.5%	
GROWTH RATES (%)	Sales	16.1%	21.3%	13.0%	12.0%	11.0%
	EBITDA*	26.2%	11.5%	18.8%	17.7%	14.0%
	EBIT*	28.3%	10.4%	21.1%	19.6%	14.7%
	Net profit	181.2%	-61.3%	45.2%	19.2%	14.9%
	EPS restated	21.0%	-10.1%	45.2%	19.2%	14.9%

* Excluding extraordinary items

Source: Intermonte SIM estimates

1Q18 Results

El.En. – 1Q18 Results

(Eu mn)	1Q17A	1Q18A	1Q18E	A v E
Sales	65.1	69.6	68.5	2%
YoY growth %	17.9%	6.8%	5.2%	
EBITDA	6.5	6.4	6.6	(3%)
Ebitda margin %	10.0%	9.2%	9.6%	
YoY growth %	-14.7%	-1.7%	0.9%	
Total D&A	(1.0)	(1.1)	(0.6)	
EBIT	5.5	5.3	6.0	(11%)
Ebit margin %	8.5%	7.7%	8.8%	
YoY growth %		-3.3%	8.5%	
Net financials & Participations	(0.4)	(0.7)	(0.6)	
Pretax Profit	5.2	4.6	5.4	(14%)
Pretax margin %	7.9%	6.7%	7.9%	
YoY growth %		(10.5%)	4.4%	
Net cash	79.2	72.6	79.0	(8.1%)

Source: Intermonte SIM and Company data

Change in estimates

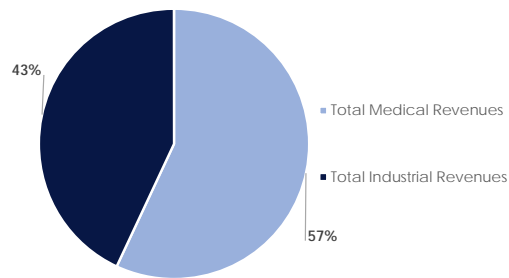
El.En. – Change in estimates

(Eu mn)	2017A	2018E	2019E	2020E
Sales new	306.5	346.3	387.9	430.5
Sales old		352.4	382.4	414.9
% change		-1.7%	1.4%	3.8%
EBITDA new	36.1	42.9	50.5	57.6
EBITDA old		45.8	52.8	60.7
% change		-6.4%	-4.3%	-5.2%
Adjusted EBIT new	30.4	36.9	44.1	50.6
Adjusted EBIT old		39.2	45.5	52.8
% change		-5.9%	-3.0%	-4.1%
Adjusted Group Net profit new	15.6	22.7	27.0	31.1
Adjusted Group Net Profit old		23.3	27.1	31.5
% change		-2.5%	-0.3%	-1.4%

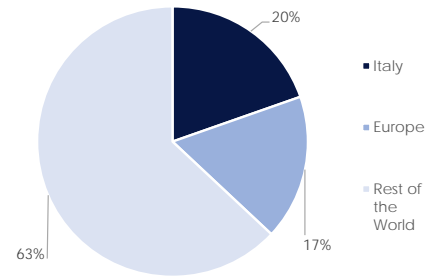
Source: Intermonte SIM and Company data

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

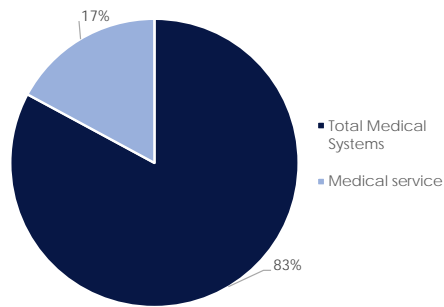
Sales breakdown by main segment



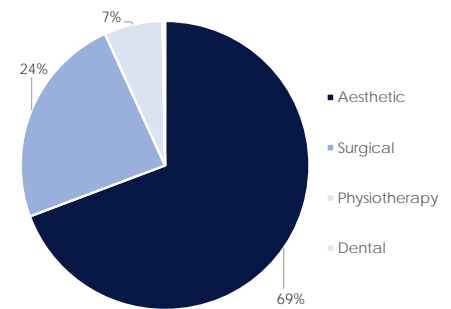
Sales breakdown by geography



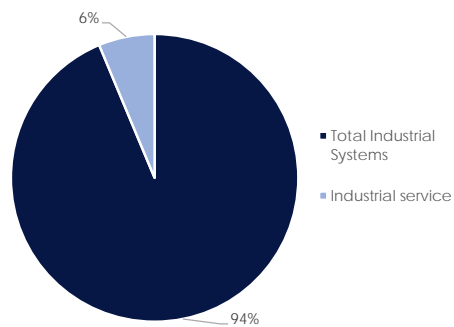
Medical segment – Sales breakdown



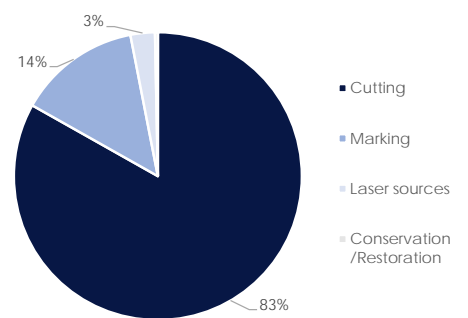
Medical system – Sales breakdown by product category



Industrial segment – Sales breakdown



Industrial system – Sales breakdown by product category



Source: Company Data

Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
EL.EN.	29.66	EUR	572	-9.7%	15.4%	11.6%	13.9%	-2.3%	142.3%
AMADA CO.	1270.00	JPY	464,578	-4.2%	-11.3%	-15.0%	-17.2%	-4.5%	8.5%
BIOLASE	1.24	USD	25	-28.8%	-41.0%	-58.0%	-41.8%	-79.3%	-79.5%
CUTERA	39.65	USD	541	-24.0%	-12.4%	-2.7%	-12.6%	77.8%	293.0%
HAN'S LASER TECH IND.	55.58	CNY	59,308	13.8%	7.9%	-2.1%	12.5%	69.9%	160.8%
IPG PHOTONICS	246.16	USD	13,217	9.1%	1.6%	2.8%	15.0%	77.8%	196.9%
PRIMA INDUSTRIE	36.80	EUR	386	-9.0%	4.4%	3.6%	8.9%	24.1%	227.1%
SISRAM MEDICAL	6.51	HKD	2,878	4.2%	6.5%	3.3%	-0.6%	---	---
Mean performance				-6.1%	-3.6%	-7.1%	-2.7%	23.3%	135.6%
Italy FTSE Mib	22,911.7	EUR		-4.5%	1.1%	2.7%	4.8%	7.0%	32.2%

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.	29.66	EUR	572	1.5	1.3	11.9	10.1	13.9	11.6	25.2	21.2	1.3%	1.3%
AMADA CO.	1270.00	JPY	464,578	1.2	1.1	7.1	6.2	8.9	7.9	14.4	13.2	3.5%	3.9%
BIOLASE	1.24	USD	25										
CUTERA	39.65	USD	541							70.2	44.1		
HAN'S LASER TECH IND.	55.58	CNY	59,308	4.1	3.1	23.5	18.2	25.6	19.4	28.6	22.7	0.9%	1.1%
IPG PHOTONICS	246.16	USD	13,217							28.9	25.8		
PRIMA INDUSTRIE	36.80	EUR	386	0.9	0.8	8.1	6.8	11.8	9.5	14.6	12.2	1.3%	0.8%
SISRAM MEDICAL	6.51	HKD	2,878										
Median				1.2	1.1	8.1	6.8	11.8	9.5	28.6	22.7	1.3%	1.1%

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	341.2	1.5%	387.9	374.7	3.5%
Ebitda	42.9	41.2	4.0%	50.5	48.4	4.4%
Net Profit	22.7	22.0	3.1%	27.0	26.9	0.6%
EPS	1.176	1.235	-4.8%	1.402	1.492	-6.0%
Net Debt	80.3	78.8	2.0%	86.5	91.6	-5.6%

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):	35.20		Previous Target (Eu):	36.00
Current Price (Eu):	29.66		Previous Price (Eu):	32.18
Date of report:	24/05/2018		Date of last report:	26/03/2018

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- 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

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BUY:	14,10 %
OUTPERFORM:	43,59 %
NEUTRAL:	37,18 %
UNDERPERFORM	05,13 %
SELL:	00,00 %

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BUY:	14,81 %
OUTPERFORM:	50,00 %
NEUTRAL:	35,19 %
UNDERPERFORM	00,00 %
SELL:	00,00 %

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Emittente	%	Long/Short
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COGEME SET SPA	1,6	SHORT
IKF	0,57	SHORT
OLIDATA	0,88	SHORT
WASTE ITALIA	0,61	SHORT

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