

EL.EN.

OUTPERFORM

SECTOR: Industrials

Price (Eu):

18.40

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Target Price (Eu):

26.00

Sales Beat with 20% YoY Growth, But Op Leverage Potential Not Reflected in 1Q

- El.En. beat expectations for 1Q19 sales, with both divisions up 20% YoY.** The company reported a strong quarter: sales rose above expectations, increasing 21% YoY to €84mn, with growth almost the same at both the industrial and medical divisions. In particular, a strong performance by the urology segment counterbalanced the absence of MonaLisa sales. Geographically, Europe posted 18% YoY growth, Italy 16% YoY, and the rest of the world (including USA and China) 23%. EBITDA reached €7.7mn (up 20% YoY vs 1Q18 figures not adjusted for IFRS16), while higher D&A (again due to IFRS16) led to EBIT of €5.7mn, slightly above our estimate of €5.4mn, and up 8% YoY. Excluding a €0.5mn IFRS16 effect, EBITDA would have grown +11% YoY. The EBIT margin decreased YoY by 86bps as there was no contribution to profitability from MonaLisa and government grants for R&D activity were lower, while positive income from FOREX drove net income to €6.4mn, above our expectation. Finally, the net financial position was positive for €61mn, in line if a €4.5mn IFRS16 impact is excluded, and stable vs YE18.
- Chinese market picking up again. FY19 sales guidance raised to over 10% YoY growth.** 1Q19 saw the Chinese market return to healthy growth after the slowdown in 2H18: Chinese sales are estimated to have increased in the quarter by over 30% YoY. The company confirmed the recovery of significant momentum, supported by very rapid innovation of the product offering and an increase in the power of laser sources. In light of this good trend, guidance for 2019 revenues has been raised to >+10% YoY, above the previous range of 5-10% given at the start of 2019. EBIT guidance was confirmed in expectation of positive YoY growth, therefore with no indications on margin evolution.
- Estimates basically unchanged; 2Q19 looks promising.** Revenue estimates were already in line with the new company guidance, therefore we have only adjusted our FY19-21 figures to account for IFRS16. The positive trend that boosted revenues in 1Q19 is expected to continue through 2019; at the same time, operating leverage should perform better from 2Q19, likely generating margin expansion: management said in the confcall that it expects the 2Q19 EBIT margin to be at least stable YoY. Furthermore, ONDA is expected to support the positive outlook as sales have been very buoyant, the order book is currently full, and the company has also received clearance to sell the system in Brazil, enabling the 2019 business plan targets to be reached.
- OUTPERFORM reiterated and target price confirmed at €26.** After leaving our estimates and assumptions unchanged, we confirm our target price of €26 resulting from a DCF model. The company trades at 15.5x P/E and 6.5x EV/EBITDA on the FY19-20 average, equivalent to a significant discount to its closest comparables: -35% on EBITDA, -25% on EBIT and -12% on P/E. Furthermore, the major investment plan designed to expand manufacturing plants in China is forecast to end in 2019, freeing up cash generation and pointing to average FCF for FY20-21 of ca. 8%.

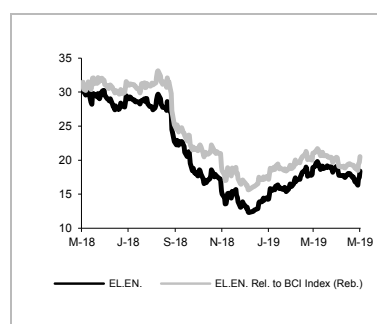
Key Figures	2017A	2018A	2019E	2020E	2021E
Sales (Eu mn)	306	346	388	431	466
Ebitda (Eu mn)	36	36	44	51	55
Net profit (Eu mn)	16	17	21	25	27
EPS - New Adj.(Eu)	0.810	0.870	1.104	1.285	1.399
EPS - Old Adj.(Eu)	0.810	0.870	1.107	1.285	1.400
DPS (Eu)	0.400	0.400	0.400	0.400	0.400

Ratios & Multiples	2017A	2018A	2019E	2020E	2021E
P/E Adj.	22.7	21.1	16.7	14.3	13.1
Div. Yield	2.2%	2.2%	2.2%	2.2%	2.2%
EV/Ebitda Adj.	7.9	8.7	7.0	5.9	5.1
ROCE	26.5%	21.7%	22.1%	25.2%	28.0%

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Next event:
Results out September 12th 2019

EL.EN. - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): Unchanged

Ch. in Adj. EPS est:	2019E	2020E
	-0.3%	0.0%

STOCK DATA

Reuters code: ELEN.MI
Bloomberg code: ELN IM

Performance	1m	3m	12m
Absolute	-3.2%	13.9%	-40.6%
Relative	0.7%	9.8%	-30.4%
12 months H/L:	31.40/12.29		

SHAREHOLDER DATA

No. of Ord. shares (mn):	19
Total No. of shares (mn):	19
Mkt Cap Ord (Eu mn):	355
Total Mkt Cap (Eu mn):	355
Mkt Float - ord (Eu mn):	184
Mkt Float (in %):	51.7%
Main shareholder:	
Cangioli Andrea	15.2%

BALANCE SHEET DATA

	2019
Book value (Eu mn):	211
BVPS (Eu):	10.94
P/BV:	1.7
Net Financial Position (Eu mn):	64
Enterprise value (Eu mn):	312

Please see important disclaimer
on the last page of this report

EL.EN. - KEY FIGURES

		2017A	2018A	2019E	2020E	2021E
	Fiscal year end	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021
PROFIT & LOSS (Eu mn)	Sales	306	346	388	431	466
	EBITDA	36	36	44	51	55
	EBIT	30	30	36	42	46
	Financial income (charges)	(3)	1	1	1	1
	Associates & Others	0	(1)	0	0	0
	Pre-tax profit (Loss)	27	30	37	43	47
	Taxes	(7)	(8)	(10)	(11)	(12)
	Tax rate (%)	-25.0%	-26.1%	-26.0%	-26.0%	-26.0%
	Minorities & discontinue activities	(5)	(5)	(6)	(7)	(8)
	Net profit	16	17	21	25	27
	Total extraordinary items					
	Ebitda excl. extraordinary items	36	36	44	51	55
	Ebit excl. extraordinary items	30	30	36	42	46
Net profit restated	16	17	21	25	27	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	19	19	19	19	19
	EPS stated fd	0.810	0.870	1.104	1.285	1.399
	EPS restated fd	0.810	0.870	1.104	1.285	1.399
	BVPS fd	9.862	10.467	10.938	11.557	12.270
	Dividend per share (ord)	0.400	0.400	0.400	0.400	0.400
	Dividend per share (sav)					
	Dividend pay out ratio (%)	49.4%	46.0%	36.2%	31.1%	28.6%
CASH FLOW (Eu mn)	Gross cash flow	26	27	36	40	44
	Change in NWC	(9)	(17)	(9)	(9)	(9)
	Capital expenditure	(8)	(26)	(13)	(5)	(5)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	10	(16)	14	27	30
	Acquisitions, divestments & others	(0)	3	(5)	0	0
	Dividend	(8)	(8)	(8)	(8)	(8)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	2	(22)	1	19	22	
BALANCE SHEET (Eu mn)	Total fixed assets	47	68	72	68	64
	Net working capital	63	80	89	98	107
	Long term liabilities	10	9	7	0	(8)
	Net capital employed	120	157	168	166	163
	Net financial position	85	63	64	83	104
	Group equity	204	219	232	249	267
	Minorities	14	17	21	26	31
Net equity	190	202	211	223	237	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	355	355	355	355	355
	Adjustments (associate & minorities)	(14)	(17)	(21)	(26)	(31)
	Net financial position	85	63	64	83	104
	Enterprise value	285	310	312	298	281
RATIOS(%)	EBITDA margin*	11.8%	10.3%	11.5%	11.8%	11.8%
	EBIT margin*	9.9%	8.7%	9.3%	9.8%	9.9%
	Gearing - Debt/equity	-41.4%	-28.5%	-27.5%	-33.3%	-39.0%
	Interest cover on EBIT	9.0	nm	nm	nm	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	26.5%	21.7%	22.1%	25.2%	28.0%
	ROE*	8.4%	8.6%	10.3%	11.4%	11.7%
	EV/CE	2.5	2.2	1.9	1.8	1.7
	EV/Sales	0.9	0.9	0.8	0.7	0.6
	EV/Ebit	9.3	10.3	8.7	7.1	6.1
Free Cash Flow Yield	2.6%	-4.4%	3.8%	7.1%	7.7%	
GROWTH RATES (%)	Sales	21.3%	12.9%	12.0%	11.1%	8.3%
	EBITDA*	11.5%	-1.4%	24.6%	14.5%	8.4%
	EBIT*	10.4%	-1.5%	19.7%	17.4%	9.2%
	Net profit	-61.3%	7.4%	26.8%	16.4%	8.9%
	EPS restated	-10.1%	7.4%	26.8%	16.4%	8.9%

* Excluding extraordinary items

Source: Intermonte SIM estimates

1Q19 Results

EI.En. beat expectations for 1Q19 sales, with both divisions up 20% YoY. The company reported a strong quarter: sales rose above expectations, increasing 21% YoY to €84mn, with growth almost the same at both the industrial and medical divisions. In particular, a strong performance by the urology segment counterbalanced the absence of MonaLisa sales. Geographically, Europe posted 18% YoY growth, Italy 16% YoY, and the rest of the world (including USA and China) 23%. EBITDA reached €7.7mn (up 20% YoY vs 1Q18 figures not adjusted for IFRS16), while higher D&A (again due to IFRS16) led to EBIT of €5.7mn, slightly above our estimate of €5.4mn, and up 8% YoY. Excluding a €0.5mn IFRS16 effect, EBITDA would have grown +11% YoY. The EBIT margin decreased YoY by 86bps as there was no contribution to profitability from MonaLisa and government grants for R&D activity were lower, while positive income from FOREX drove net income to €6.4mn, above our expectation. Finally, the net financial position was positive for €61mn, in line if a €4.5mn IFRS16 impact is excluded, and stable vs YE18

EI.En. – 1Q19 Results

(Eu mn)	1Q18A	1Q19A	1Q19E	A v E	2018A	2019E
Sales	69.6	83.9	75.0	11.8%	346.0	387.5
YoY growth %	6.8%	20.6%	7.8%		12.9%	12.0%
EBITDA	6.4	7.7	6.8	12.9%	35.6	42.5
Ebitda margin %	9.2%	9.2%	9.1%		10.3%	12.3%
YoY growth %	-1.7%	19.5%	5.8%		-1.4%	19.3%
Total D&A	(1.1)	(2.0)	(1.4)		(5.6)	(6.3)
EBIT	5.3	5.7	5.4	6.0%	30.0	36.2
Ebit margin %	7.7%	6.8%	7.2%		8.7%	9.3%
YoY growth %		7.1%	1.0%			20.7%
Net financials & Participations	(0.7)	0.7	0.0		(0.4)	0.8
Pretax Profit	4.6	6.4	5.4	19.2%	29.5	37.0
Pretax margin %	6.7%	7.7%	7.2%		8.5%	9.5%
YoY growth %		39.0%	16.7%			25.3%
Net financial position	72.6	61.1	65.0	(6%)	62.5	66.4
Source: Intermonte SIM and company data						

Source: Intermonte SIM and Company data

Change in estimates

Chinese market picking up again. FY19 sales guidance raised to over 10% YoY growth. 1Q19 saw the Chinese market return to healthy growth after the slowdown in 2H18: Chinese sales are estimated to have increased in the quarter by over 30% YoY. The company confirmed the recovery of significant momentum, supported by very rapid innovation of the product offering and an increase in the power of laser sources. In light of this good trend, guidance for 2019 revenues has been raised to >+10% YoY, above the previous range of 5-10% given at the start of 2019. EBIT guidance was confirmed in expectation of positive YoY growth, therefore with no indications on margin evolution.

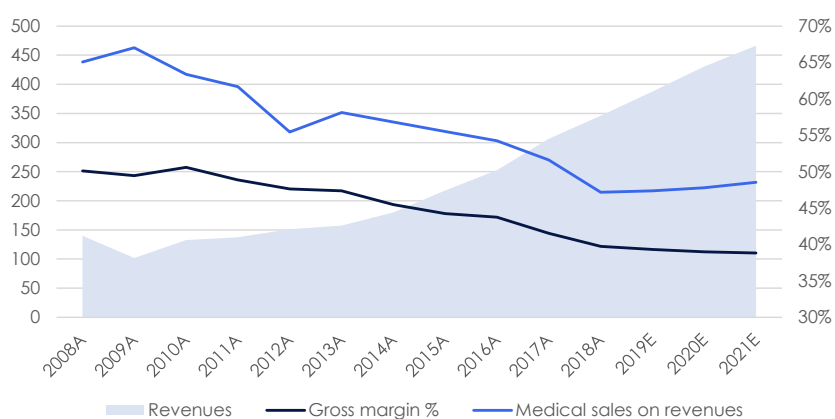
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El.En. – Change in estimates

(Eu mn)	2018A	2019E	2020E	2021E
Sales new	346.0	387.5	430.6	466.3
Sales old		387.5	430.6	466.3
% change		0.0%	0.0%	0.0%
YoY Growth		12.0%	11.1%	8.3%
EBITDA new	35.6	44.4	50.8	55.1
EBITDA old		42.5	48.8	53.0
% change		4.5%	4.1%	4.0%
YoY Growth		24.6%	14.5%	8.4%
EBIT new	30.0	35.9	42.2	46.0
Adjusted EBIT old		36.2	42.2	46.0
% change		-0.9%	0.0%	0.1%
YoY Growth		19.7%	17.4%	9.2%
Pretax Profit new	29.5	36.9	43.0	46.8
Pretax Profit old		37.0	43.0	46.8
% change		-0.3%	0.0%	0.0%
Group Net profit new	16.8	21.3	24.8	27.0
Group Net Profit old		21.4	24.8	27.0
% change		-0.3%	0.0%	0.0%
YoY Growth		26.8%	16.4%	8.9%

Source: Intermonte SIM and Company data

El.En. – Sales mix and gross margin evolution



Source: Intermonte SIM and Company data

El.En. – Revenue breakdown by division

El.En Sales by division (Eu mn)	2012A	2013A	2014A	2015A	2016A	2017A	2018A
Sales	151.2	157.4	180.0	217.7	252.6	306.5	346.0
YoY growth %			14.4%	20.9%	16.1%	21.3%	12.9%
of which Medical	87.9	89.4	99.9	118.1	130.4	144.6	164.0
YoY growth %			11.8%	18.1%	10.4%	10.9%	13.4%
of which Industrial	35.6	42.3	50.0	62.7	78.3	123.7	138.6
YoY growth %			18.1%	25.5%	24.8%	58.0%	12.0%
of which Services	27.8	25.6	29.0	36.9	44.0	38.2	43.5
YoY growth %			13.1%	27.1%	19.2%	-13.2%	14.0%
Sales mix - Industrial/Total revenues	59.6%	58.3%	58.1%	55.1%	54.2%	48.2%	50.2%

Source: Intermonte SIM and Company data

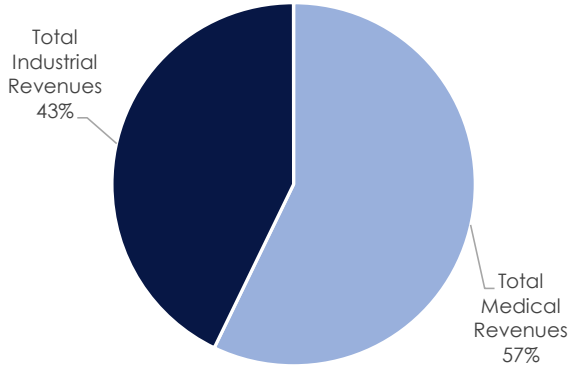
El.En. – Peer group performance since the end of July 2018



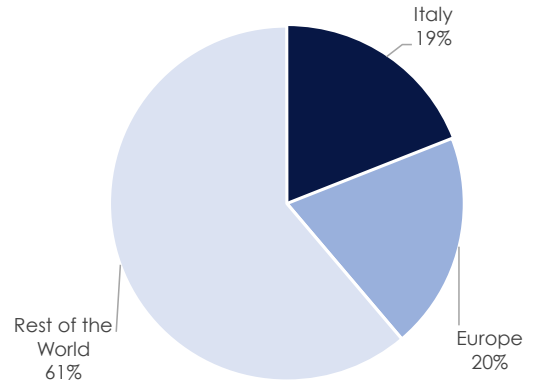
Source: Factset

El.En. – Breakdown of full-year 2018 figures

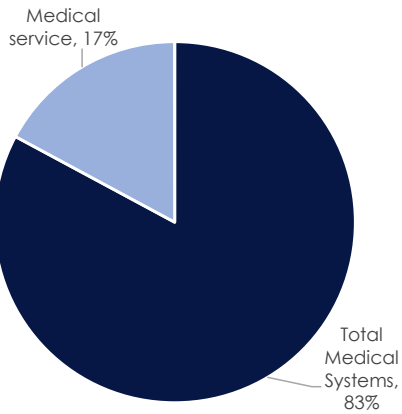
Sales by main segment



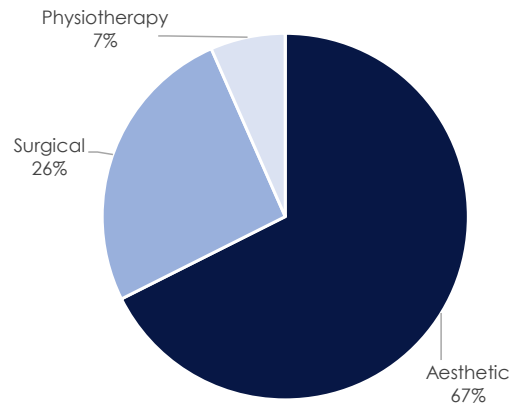
Sales by geographical area



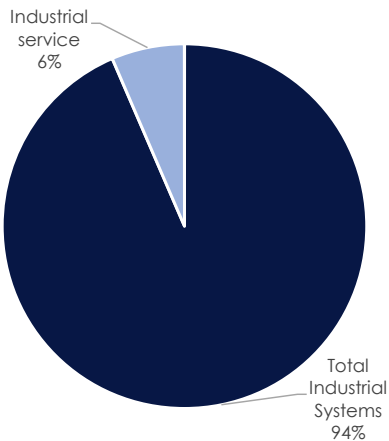
Medical segment – Sales breakdown



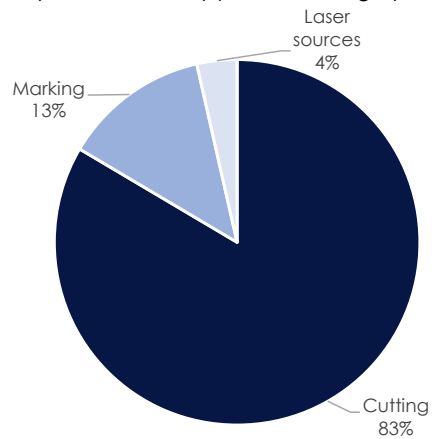
Medical systems – Sales by product category



Industrial segment – Sales breakdown



Industrial systems – Sales by product category



Source: Company Data

Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
EL.EN.	18.40	EUR	355	-3.2%	13.9%	22.5%	45.2%	-40.6%	-44.3%
AMADA CO.	1115.00	JPY	397,622	-9.1%	-1.1%	-4.9%	12.9%	-15.4%	-16.9%
BIOLASE	2.01	USD	43	-8.2%	-6.5%	55.8%	103.0%	53.4%	-66.2%
CUTERA	17.97	USD	252	6.8%	14.8%	-15.6%	5.6%	-52.9%	-12.1%
HAN'S LASER TECH IND.	34.99	CNY	37,337	-18.1%	-4.0%	-0.4%	15.3%	-35.0%	3.8%
IPG PHOTONICS	138.01	USD	7,334	-19.8%	-10.9%	-0.3%	21.8%	-45.3%	-2.5%
PRIMA INDUSTRIE	16.70	EUR	175	-18.9%	-20.7%	-9.7%	-2.9%	-55.5%	-42.6%
SISRAM MEDICAL	4.45	HKD	1,968	-11.5%	5.2%	-10.6%	11.5%	-28.3%	---
Mean performance				-10.2%	-1.2%	4.6%	26.5%	-27.5%	-25.8%
Italy FTSE Mib	21,151.8	EUR		-3.5%	4.6%	12.0%	15.4%	-10.9%	-2.9%

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
				2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
EL.EN.	18.40	EUR	355	0.8	0.7	7.0	5.9	8.7	7.1	16.7	14.3	2.2%	2.2%
AMADA CO.	1115.00	JPY	397,622	1.0	1.0	6.2	5.9	8.0	7.8	12.7	12.5	4.2%	4.3%
BIOLASE	2.01	USD	43		1.0								
CUTERA	17.97	USD	252										
HAN'S LASER TECH IND.	34.99	CNY	37,337	3.0	2.5	17.8	13.3	20.6	15.1	22.2	16.2	0.9%	1.2%
IPG PHOTONICS	138.01	USD	7,334	4.3	3.8	12.4	9.9	15.3	11.8	23.7	19.4	0.0%	0.0%
PRIMA INDUSTRIE	16.70	EUR	175	0.5	0.5	4.6	4.1	7.0	6.0	8.0	7.0	2.7%	2.9%
SISRAM MEDICAL	4.45	HKD	1,968										
Median				2.0	1.0	9.3	7.9	11.6	9.8	17.4	14.4	1.8%	2.0%

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

EL.EN. - Estimates Comparison with Consensus

(Eu mn)	2019			2020		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
Revenues	387.5	371.8	4.2%	430.6	395.7	8.8%
Ebitda	44.4	39.0	13.7%	50.8	42.2	20.5%
Net Profit	21.3	19.9	7.1%	24.8	21.7	14.1%
EPS	1.104	1.029	7.2%	1.285	1.123	14.4%
Net Debt	64.0	65.2	-1.9%	82.8	72.8	13.8%

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):	26.00
Current Price (Eu):	18.40		Previous Price (Eu):	18.92
Date of report:	17/05/2019		Date of last report:	18/03/2019

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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.

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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

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 2019 IntermonTE's Research Department covered 135 companies. IntermonTE's distribution of stock ratings is as follows:

BUY:	14,89 %
OUTPERFORM:	42,55 %
NEUTRAL:	36,89 %
UNDERPERFORM	05,67 %
SELL:	00,00 %

The distribution of stock ratings for companies which have received corporate finance services from IntermonTE in the last 12 months (50 in total) is as follows:

BUY:	20,00 %
OUTPERFORM:	56,00 %
NEUTRAL:	24,00 %
UNDERPERFORM	00,00 %
SELL:	00,00 %

CONFLICT OF INTEREST

In order to disclose its possible conflicts of interest IntermonTE SIM states that:

within the last year, **IntermonTE SIM** managed or co-managed/is managing or is co-managing an Institutional Offering and/or managed or co-managed/is managing or is co-managing an offering with firm commitment underwriting of the securities of the following Companies: Alkemy, Banca Ifis, Banca Sistema, Cattolica Assicurazioni, Capital For Progress 2, Emak, Nova RE, Space4, Somec, Techedge.

IntermonTE SIM 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 has provided in the last 12 months / provides/may provide investment banking services to the following companies: Aedes, Aeroporto di Bologna, Banca Ifis, Banca Sistema, Carraro, Conafi, Gamenet, Hitachi (on Ansaldo STS shares), M&C, Il Sole 24 Ore, Italiaonline, Retelit, Saras, Witi.

IntermonTE SIM is Specialist and/or Corporate Broker and/or Sponsor and/or Broker in charge of the share buy back activity of the following Companies: Abitare In, Aedes, Alkemy, Aquafil, ASTM, Avio, Azimut, B&C Speakers, Banca Ifis, Banca Sistema, Be, Cattolica Assicurazioni, CFT, Cellular Line, DeA Capital, DigiTouch, ELEn, Emak, Energy-Lab, ePrice, Falck Renewables, Fimit Fondo Alpha, First Capital, Gamenet, Gefran, GO Internet, GPI, H-Farm, Indel B, Industrial Star of Italy 3, italiaonline, LU-VE, Notorious Picture, Nova RE, Openjobmetis, QF Alpha Immobiliare, Reno de Medici, Reply, Restart, Retelit, Saes Getters, Servizi Italia, Sesa, Snaitech, Somec, Tamburi Investment Partners, Tesmec, Tinexta, TXT e-solutions, Vetrya, Witi

IntermonTE SIM has a contractual commitment to act as liquidity provider on behalf of third parties for the following companies: Aedes, Banca Sistema, Cattolica.

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 FTMB, Intesa Sanpaolo, Intesa Sanpaolo Risp, Leonardo-Finmeccanica, Luxottica Group, Mediaset, Mediobanca, Prysman, Saipem, Snam, Stmicroelectronics, Telecom Italia, Telecom Italia Risparmio, Tenaris, Terna, Ubi Banca, Unicredit, Unipol, Unipolsai.

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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	0,81	LONG
Gambero Rosso	0,58	LONG
LIFE CARE CAPITAL	0,57	LONG
SPACTIV	0,69	LONG
THESPAC	1,34	LONG
VEI 1	0,72	LONG
WASTE ITALIA	0,65	SHORT

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