

EL.EN.

OUTPERFORM

Price (Eu):

18.92

Target Price (Eu):

26.00

SECTOR: Industrials

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Quarterly Sales Match Expectations, FY19 Guidance Targets Another +10%

Strong revenue and operating result growth in 4Q18: +17% and +21% YoY respectively.

El.En. reported a strong quarter with sales increasing as expected by 17% YoY to Eu102.6mn (vs Eu102.9mn exp). Both the Industrial and Medical sectors contributed positively, each with double-digit growth, in particular the Surgery and Aesthetic segments for Medical, and Cutting for Industrial. In terms of geography, (i) China performed positively, despite the headwind from the trade war and the uncertain economic outlook, (ii) European sales were particularly strong (+26% YoY) in both segments, and Italy increased by +15% YoY, after +7% in 9M18. The gross margin decreased slightly more than expected, and EBITDA came to Eu11.6mn, still reporting +21% YoY growth. Lower D&A let the EBIT margin improve by 32bps YoY, translating into a result of Eu10mn (vs Eu10.6mn exp). Higher financial expenses, related to stakes in other companies, affected pretax, which was lower than expected at Eu9.6mn (+18% YoY). Net profit in FY18 (data available only at half-year) was Eu17mn (vs. Eu18mn expected), which increased +7.4% YoY. The financial position was positive at Eu63mn, higher than expected, while DPS for 2018 was in line at Eu0.40.

Positive indications from the conference call, company guidance for sales +10% in 2019.

It was a difficult 2018 with (i) a tough Chinese market hindered by tariff war concerns and the related uncertainty on the local economic outlook, and (ii) the FDA issue that suffocated Monalisa Touch sales just as they were rebounding in 1H18. In addition, (iii) ForEx was a headwind (USD, CNY, JPY). However, even in this challenging environment, El.En. was able to beat the sales guidance given at the start of 2018 (+10%), but could not halt margin dilution resulting from (i) higher operating expenses in China to sustain growth, (ii) higher personnel costs to keep up with expansion plans in China and (iii) a weaker sales mix from higher but less profitable Industrial sales and the missing Monalisa contribution. Looking at the future, El.En. again confirmed guidance of +10% in 2019, with Chinese sales as the main driver, (the Chinese market picking up again according to management) and a well-performing Onda adding turnover. In terms of segments, both Industrial (mainly Cutting) and medical (thanks to new launches) should perform very well. Geographically, not only China but also Europe should increase considerably.

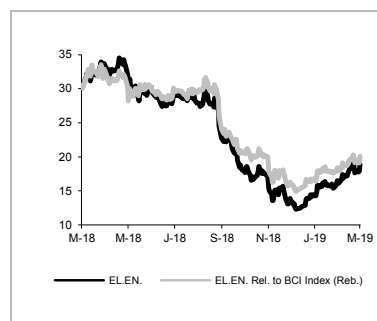
Estimates basically unchanged. FY18 results were broadly in line for revenues and operating profit, we have therefore fine-tuned our estimates for FY19-20 and publish 2021 numbers. We forecast healthy and strong revenue growth, with profitability improving slightly, as we expect a structural gross margin decrease, due to the sales mix weakening, counterbalanced by improving operating expenses.

OUTPERFORM and target price of Eu26 reiterated. After minor adjustments to our estimates we confirm the target price at Eu26, resulting from a DCF model. In light of underlying market growth coupled to new product launches, among which Onda, we reiterate our OUTPERFORM recommendation.

Key Figures	2017A	2018A	2019E	2020E	2021E
Sales (Eu mn)	306	346	388	431	466
Ebitda (Eu mn)	36	36	42	49	53
Net profit (Eu mn)	16	17	21	25	27
EPS - New Adj.(Eu)	0.810	0.870	1.107	1.285	1.400
EPS - Old Adj.(Eu)	0.810	0.947	1.118	1.277	
DPS (Eu)	0.400	0.400	0.400	0.400	0.400

Ratios & Multiples	2017A	2018A	2019E	2020E	2021E
P/E Adj.	23.4	21.7	17.1	14.7	13.5
Div. Yield	2.1%	2.1%	2.1%	2.1%	2.1%
EV/Ebitda Adj.	8.2	9.0	7.8	6.6	5.9
ROCE	26.5%	21.7%	21.8%	23.6%	25.2%

EL.EN. - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): Unchanged

Ch. in Adj.EPS est:	2019E	2020E
	-1.0%	0.6%

STOCK DATA

 Reuters code: ELEN.MI
 Bloomberg code: ELN IM

Performance	1m	3m	12m
Absolute	17.1%	39.2%	-37.9%
Relative	12.7%	27.3%	-32.2%
12 months H/L:	34.54/12.29		

SHAREHOLDER DATA

 No. of Ord. shares (mn): 19
 Total No. of shares (mn): 19
 Mkt Cap Ord (Eu mn): 365
 Total Mkt Cap (Eu mn): 365
 Mkt Float - ord (Eu mn): 189
 Mkt Float (in %): 51.7%
 Main shareholder:
 Cangjoli 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): 56
 Enterprise value (Eu mn): 330

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	42	49	53
	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	42	49	53
	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	1.107	1.285	1.400
	EPS restated fd	0.810	0.870	1.107	1.285	1.400
	BVPS fd	9.862	10.467	10.941	11.560	12.273
	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%	36.1%	31.1%	28.6%
CASH FLOW (Eu mn)	Gross cash flow	26	27	34	38	42
	Change in NWC	(9)	(17)	(9)	(9)	(9)
	Capital expenditure	(8)	(26)	(23)	(10)	(10)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	10	(16)	2	20	23
	Acquisitions, divestments & others	(0)	3	0	0	0
	Dividend	(8)	(8)	(8)	(8)	(8)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	2	(22)	(6)	12	14	
BALANCE SHEET (Eu mn)	Total fixed assets	47	68	85	88	90
	Net working capital	63	80	89	98	107
	Long term liabilities	10	9	2	(5)	(12)
	Net capital employed	120	157	176	181	185
	Net financial position	85	63	56	68	83
	Group equity	204	219	232	249	268
	Minorities	14	17	21	26	31
Net equity	190	202	211	223	237	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	365	365	365	365	365
	Adjustments (associate & minorities)	(14)	(17)	(21)	(26)	(31)
	Net financial position	85	63	56	68	83
	Enterprise value	295	320	330	323	313
RATIOS(%)	EBITDA margin*	11.8%	10.3%	11.0%	11.3%	11.4%
	EBIT margin*	9.9%	8.7%	9.3%	9.8%	9.9%
	Gearing - Debt/equity	-41.4%	-28.5%	-24.3%	-27.4%	-30.9%
	Interest cover on EBIT	9.0	nm	nm	nm	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	26.5%	21.7%	21.8%	23.6%	25.2%
	ROE*	8.4%	8.6%	10.3%	11.4%	11.7%
	EV/CE	2.6	2.3	2.0	1.8	1.7
	EV/Sales	1.0	0.9	0.9	0.7	0.7
	EV/Ebit	9.7	10.7	9.1	7.7	6.8
Free Cash Flow Yield	2.5%	-4.2%	0.6%	5.2%	5.8%	
GROWTH RATES (%)	Sales	21.3%	12.9%	12.0%	11.1%	8.3%
	EBITDA*	11.5%	-1.4%	19.3%	14.9%	8.5%
	EBIT*	10.4%	-1.5%	20.8%	16.4%	9.1%
	Net profit	-61.3%	7.4%	27.2%	16.0%	9.0%
	EPS restated	-10.1%	7.4%	27.2%	16.0%	9.0%

* Excluding extraordinary items

Source: Intermonte SIM estimates

4Q18 Results

Strong revenue and operating result growth in 4Q18: +17% and +21% YoY respectively. El.En. reported a strong quarter with sales increasing as expected by 17% YoY to Eu102.6mn (vs Eu102.9mn exp). Both the Industrial and Medical sectors contributed positively, each with double-digit growth, in particular the Surgery and Aesthetic segments for Medical, and Cutting for Industrial. In terms of geography, (i) China performed positively, despite the headwind from the trade war and the uncertain economic outlook, (ii) European sales were particularly strong (+26% YoY) in both segments, and Italy increased by +15% YoY, after +7% in 9M18. The gross margin decreased slightly more than expected and EBITDA came to Eu11.6mn, still reporting a +21% YoY growth. Lower D&A let the EBIT margin improve by 32bps YoY, translating into a result of Eu10mn (vs Eu10.6mn exp). Higher financial expenses, related to stakes in other companies, affected pretax that was lower than expected at Eu9.6mn (+18% YoY). Net profit in FY18 (data available only at half-year) was Eu17mn (vs. Eu18mn expected), which increased +7.4% YoY. The financial position was positive at Eu63mn, higher than expected, while the DPS for 2018 was in line at Eu0.40.

Performances of the underlying sub-sectors in the quarter:

At the **Medical division**: Aesthetics (33% of total sales) increased by +13% YoY, Surgical (12% of sales) was up +22% YoY and Physiotherapy (3% of sales) grew +21% YoY.

At the **Industrial division**: Cutting (33% of sales) increased by +12% YoY, Marking (6% of sales) was up +11% YoY, and Laser Sources (1.5% of sales) grew +58% YoY.

In particular, according to management, the new fibre laser technology sold by El.En., which enables higher power and flexibility in the manufacturing process, has started to widen the customer base, as this new laser has additional applications in new industrial sectors.

El.En. – 4Q18 Results

(Eu mn)	4Q17A	4Q18E	4Q18E	A v E	2017A	2018A	2018E	A v E
Sales	88.0	102.6	102.9	(0.3%)	306.5	346.0	346.3	(0.1%)
YoY growth %	20.5%	16.5%	16.8%		21.3%	12.9%	13.0%	
EBITDA	9.6	11.6	12.6	(8.2%)	36.1	35.6	36.7	(2.8%)
Ebitda margin %	10.9%	11.3%	12.3%		11.8%	10.3%	10.6%	
YoY growth %	1.6%	20.9%	31.8%		11.5%	-1.4%	1.5%	
Total D&A	(1.3)	(1.6)	(2.0)		(5.7)	(5.6)	(6.1)	
EBIT	8.3	10.0	10.6	(5.8%)	30.4	30.0	30.6	(2.0%)
Ebit margin %	9.4%	9.7%	10.3%		9.9%	8.7%	8.8%	
YoY growth %		20.4%	27.9%			-1.5%	0.5%	
Net financials & Participations	(0.2)	(0.3)	0.9		(3.2)	(0.4)	0.8	
Pretax Profit	8.1	9.6	11.5	(16.2%)	27.2	29.5	31.4	(5.9%)
Pretax margin %	9.2%	9.4%	11.2%		8.9%	8.5%	9.1%	
YoY growth %		18.8%	41.8%			8.5%	15.4%	
Taxes					-6.8	-7.7	-8.6	
tax rate					(25.0%)	(26.1%)	(27.3%)	
Minorities and disc. Operations					-4.8	-5.0	-4.6	
Group net profit					15.6	16.8	18.3	(8%)
YoY growth %						7.4%	16.9%	
Net financial position	84.5	62.5	55.6	12%	84.5	62.5	55.6	12%

Source: Intermonte SIM and company data

Source: Intermonte SIM and Company data

Change in estimates

Positive indications from conference call, company guidance: +10% of sales in 2019. It was a difficult 2018, with (i) a tough Chinese market hindered by tariff war concerns and related uncertainty on the local economic outlook, and (ii) the FDA issue that suffocated MonaLisa Touch sales just as they were rebounding in 1H18. In addition, (iii) ForEx was a headwind (USD, CNY, JPY). However, even in this challenging environment, El.En. was able to beat the sales guidance given at the start of 2018 (+10%), but could not halt margin dilution resulting from (i) higher operating expenses in China to sustain growth, (ii) higher personnel costs to keep up with expansion plans in China, and (iii) a weaker sales mix from higher but less profitable Industrial sales, and a missing MonaLisa contribution. Looking at the future, El.En. again confirmed guidance of +10% for 2019, with Chinese sales the main driver, (the Chinese market picking up again according to management) and a well-performing Onda adding turnover. In terms of segments, both Industrial (mainly Cutting) and medical (thanks to new launches) should perform very well. Geographically, not only China but also Europe should increase considerably.

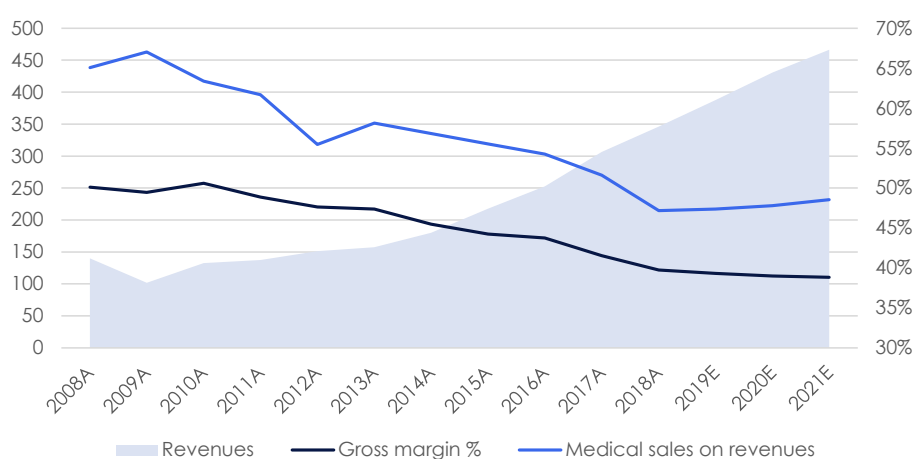
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El.En. – Change in estimates

(Eu mn)	2018A	2019E	2020E	2021E
Sales new	346.0	387.5	430.6	466.3
Sales old		379.2	413.3	
% change		2.2%	4.2%	
YoY Growth		12.0%	11.1%	8.3%
EBITDA new	35.6	42.5	48.8	53.0
EBITDA old		42.7	48.3	
% change		-0.5%	1.0%	
YoY Growth		19.3%	14.9%	8.5%
EBIT new	30.0	36.2	42.2	46.0
Adjusted EBIT old		36.3	41.3	
% change		-0.1%	2.1%	
YoY Growth		20.8%	16.4%	9.1%
Pretax Profit new	29.5	37.0	43.0	46.8
Pretax Profit old		37.1	42.3	
% change		-0.1%	1.6%	
Group Net profit new	16.8	21.4	24.8	27.0
Group Net Profit old		21.6	24.6	24.6
% change		-1.0%	0.6%	
YoY Growth		27.2%	16.0%	9.0%

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

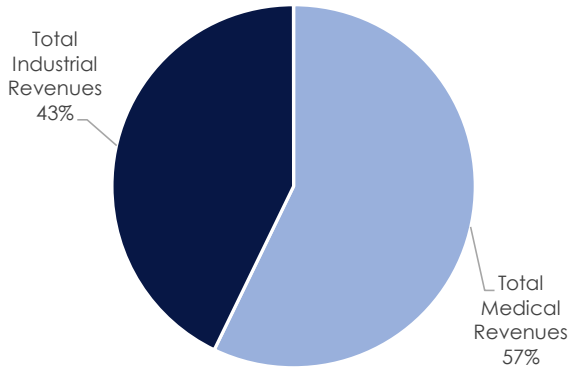
El.En. – Peer group performance since the end of July 2018



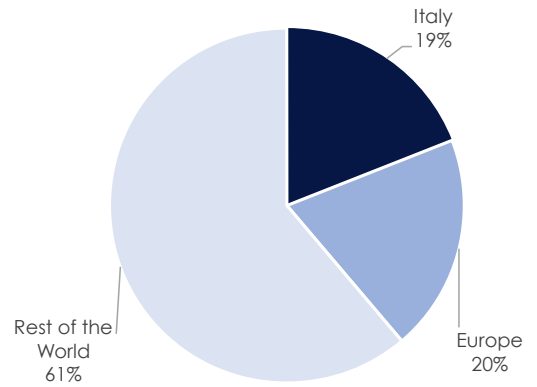
Source: Factset

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

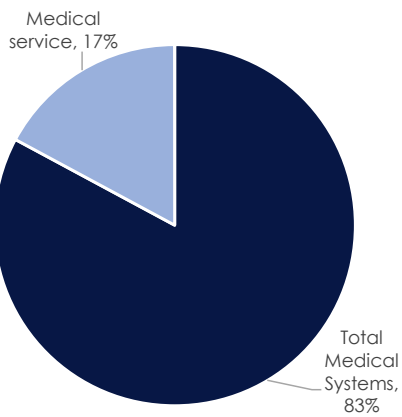
Sales by main segment



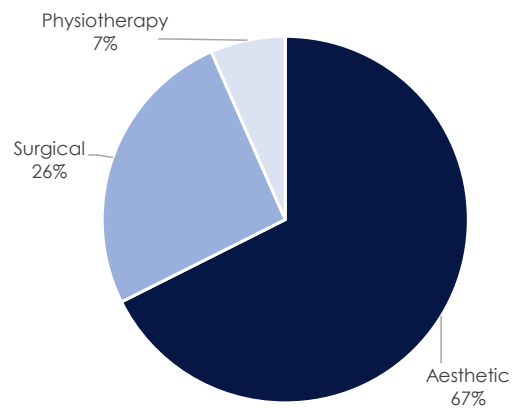
Sales by geographical area



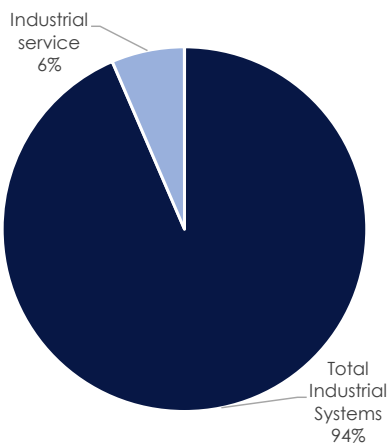
Medical segment – Sales breakdown



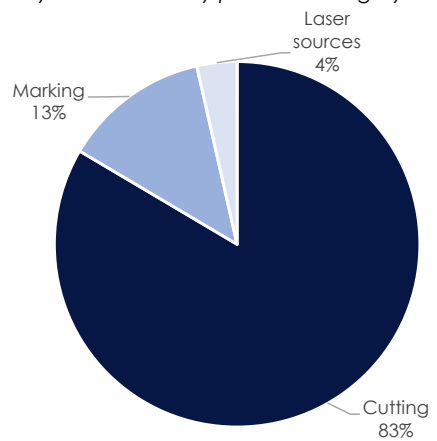
Medical systems – Sales by product category



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.	18.92	EUR	365	17.1%	39.2%	-16.7%	49.3%	-37.9%	-29.1%
AMADA CO.	1082.00	JPY	394,057	-4.0%	6.7%	-5.8%	9.5%	-20.1%	-17.1%
BIOLASE	2.42	USD	51	12.6%	139.6%	16.3%	144.4%	3.0%	-57.9%
CUTERA	18.30	USD	254	16.9%	10.8%	-42.1%	7.5%	-66.0%	-10.5%
HAN'S LASER TECH IND.	42.16	CNY	44,988	15.7%	33.1%	4.8%	38.9%	-27.3%	56.4%
IPG PHOTONICS	153.61	USD	8,135	-0.8%	30.2%	-3.6%	35.6%	-38.4%	28.6%
PRIMA INDUSTRIE	20.60	EUR	216	-2.1%	15.1%	-36.3%	19.8%	-48.5%	-1.4%
SISRAM MEDICAL	4.97	HKD	2,198	17.5%	10.9%	-1.2%	24.6%	-20.0%	---
Mean performance				9.1%	35.7%	-10.6%	41.2%	-31.9%	-4.4%
Italy FTSE Mib	21,045.4	EUR		4.1%	11.3%	0.8%	14.9%	-7.3%	6.4%

Source: FactSet

Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales		EV/Ebitda		EV/Ebit		P/E		Div Yield	
				2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
EL.EN.	18.92	EUR	365	0.9	0.7	7.8	6.6	9.1	7.7	17.1	14.7	2.1%	2.1%
AMADA CO.	1082.00	JPY	394,057	1.0	1.0	6.2	5.8	7.9	7.6	12.4	12.2	4.3%	4.4%
BIOLASE	2.42	USD	51										
CUTERA	18.30	USD	254										
HAN'S LASER TECH IND.	42.16	CNY	44,988	3.2	2.5	19.5	14.9	21.0	15.5	22.6	17.2	0.9%	1.1%
IPG PHOTONICS	153.61	USD	8,135	5.0	4.4	13.8	11.5	16.9	13.3	25.1	20.4	0.0%	0.0%
PRIMA INDUSTRIE	20.60	EUR	216	0.6	0.6	5.0	4.6	7.2	6.5	8.4	7.6	2.3%	2.5%
SISRAM MEDICAL	4.97	HKD	2,198										
Median				2.1	1.8	10.0	8.6	12.4	10.4	17.5	14.7	1.6%	1.8%

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	372.6	4.0%	430.6	401.5	7.2%
Ebitda	42.5	39.8	6.7%	48.8	44.0	10.9%
Net Profit	21.4	17.4	22.5%	24.8	18.4	35.0%
EPS	1.107	0.903	22.5%	1.285	0.952	35.0%
Net Debt	56.3	61.8	-8.8%	68.2	61.8	10.4%

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):	18.92		Previous Price (Eu):	15.02
Date of report:	18/03/2019		Date of last report:	19/11/2018

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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 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

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 December 2018 IntermonTE's Research Department covered 158 companies. IntermonTE's distribution of stock ratings is as follows:

BUY:	11.49 %
OUTPERFORM:	46.62 %
NEUTRAL:	34.46 %
UNDERPERFORM	07.43 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from IntermonTE in the last 12 months (48 in total) is as follows:

BUY:	20.83 %
OUTPERFORM:	56.25 %
NEUTRAL:	22.92 %
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.

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, Italoaonline, Retelit, Saras, Witi.

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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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