

El. En. (ELN.IM)

Sector: Medical & Industrial Laser

9M18: Growth expectations confirmed but decreasing margins

November 29th, 2018

Investment overview

- El.En. Group is active in the design, production, R&D, distribution and sale worldwide of laser systems. There are two main areas of application, MEDICAL laser devices for medicine and aesthetics and INDUSTRIAL laser solutions for industry manufacturing and restoration.
- The group reached an established market share in its fields of competence through a growth for external and internal lines. The Italian market remained a crucial point for the group's growth, but the foreign market generated the most sizeable share of revenues (80% of the overall sales).
- During 2018 the Group carried out relevant investments in operational assets, including the purchase of two industrial buildings, respectively in Samarate (Quanta System, 3.2M€ in July) and Prato (Cutlite Penta Srl, 6.2M€ in November).

Latest results

- Consolidated revenues on September 30th amounted to 243.4M€, up 11.5% yoy and greater than expectations; the two business sectors showed a similar double-digit growth driven by a positive trend regarding all the reference markets. The top performing medical area was Surgery, particularly in the OEM segment; Cutting and Laser sources realized positive results in the industrial side.
- The 9M2018 profitability worsened compared to 2017 because of lower sales contribution margin and higher commercial costs (+17.5% yoy). EBITDA was 24M€; its incidence on sales decreased from 12.2% to 9.9%. EBIT was worth 20.0M€ (-9.7% yoy), its marginality on sales declined to 8%.
- The NFP recorded on September was positive (cash) for 54.8M€; dividends worth 8.4M€ and were paid in May, capex for 16M€ and an increase in NWC determined the worsening compared to the surplus of 85M€ of December 2017.

Valuation

- El.En. can rely on a strong market positioning in both medical and industrial sector, consolidated by the R&D relevant expenses carried out every year.
- In light of 9M2018 results, we updated our valuation using the renewed SGAP model, which now returns a fair value of 28.2€ per share.
- With reference to the share price performance, three factors influenced it: the Monnalisa Touch issue in US, the performance of China (market price reflects the potential difficulties of the next months) and a lower contribution margin due to a different sales mix in the medical sector and higher sales & marketing costs.

Risks

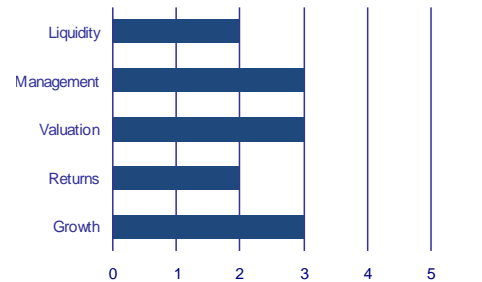
- Company turnover and profitability depend on USD exchange rates trend and the demand trends in the reference markets.

Forecast	17A	18E	19E	20E
Sales (€M)	306.5	340.0	377.0	416.3
EBITDA (€M)	36.1	35.7	41.4	47.8
NR before min. (€M)	20.4	21.9	25.7	30.4
NFP (€M)	-84.4	-62.4	-69.4	-83.1
Valuation	17A	18E	19E	20E
SHARE PRICE	26.3	14.4	29.8	31.5
EV/EBITDA	11.8	6.2	12.3	11.1
P/E	24.8	12.7	22.4	20.0
Dividend yield	1.5%	3.0%	1.4%	1.3%

Key Data

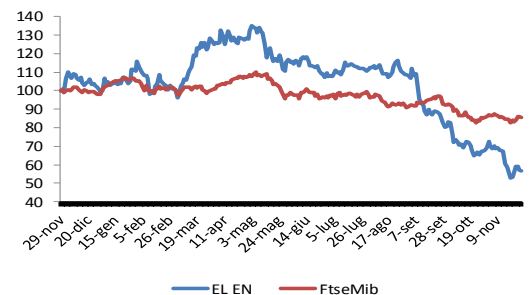
Price (€)	14.4
Market cap (€M)	278.5
Equity Value (€M)	544.3
Fair Value (€)	28.20
P/E LTM	12.7
P/E TTM	13.6

Investment Profile from 1 worst to 5 best



Stock data

Ticker Bloomberg	ELN.IM
N° of shares (M)	19.3
Free float	45.9%
Main shareholder	Andrea Cangoli (15.2%)
Daily trading volume	82,219 shares



Share Price perf (%)	3M	6M	1Y
Absolute	-48.5%	-48.8%	-43.5%
Rel. to FtseMib	-40.5%	-38.4%	-29.2%

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FINANCIALS

Income statement (€M)	17A	18E	19E	20E
Sales	306.5	340.0	377.0	416.3
COGS	179.2	200.6	226.2	249.8
Gross Profit	127.3	139.4	150.8	166.5
EBITDA	36.1	35.7	41.4	47.8
Depreciation, Amortization	5.7	6.0	6.4	6.4
EBIT	30.4	29.7	35.0	41.4
Net Financial Results	-3.2	0.4	0.3	0.3
Income tax	-6.8	-8.2	-9.6	-11.4
Net result before minorities	20.4	21.9	25.7	30.4
EPS (€)	1.06	1.14	1.33	1.57
DPS (€)	0.39	0.44	0.41	0.41

Margin (%)	17A	18E	19E	20E
Gross Margin	41.5%	41.0%	40.0%	40.0%
EBITDA Margin	11.8%	10.5%	11.0%	11.5%
EBIT Margin	9.9%	8.7%	9.3%	10.0%
Net Margin before minorities	6.7%	6.5%	6.8%	7.3%

Growth (%)	17A	18E	19E	20E
Sales growth	21.3%	10.9%	10.9%	10.4%
EBIT growth	10.3%	-2.6%	18.1%	18.3%
Net growth	52.5%	7.4%	17.2%	18.2%

Cash Flow statem (€M)	17A	18E	19E	20E
Cash Flow	26.1	27.9	32.1	36.8
+/- Var. Working Capital	-9.3	-21.5	-9.0	-9.9
Operating Cash Flow	16.8	6.4	23.1	26.9
Op. Cash Flow / Sales	5.5%	1.9%	6.1%	6.5%
Capex	-5.2	-20.0	-8.0	-5.2
FCF	11.6	-13.6	15.1	21.7
FCF / Sales	3.8%	-4.0%	4.0%	5.2%

Stock data	17A	18E	19E	20E
Number of Shares (M)	19.3	19.3	19.3	19.3
Share price	26.26	14.43	29.81	31.49
Market cap (€M)	506.8	278.5	575.4	607.7

Balance sheet (€M)	17A	18E	19E	20E
FIXED ASSETS	59.4	73.4	75.0	73.8
WC	68.6	90.1	99.1	109.1
CAPITAL EMPLOYED	128.0	163.5	174.1	182.9
EQUITY	190.3	203.9	221.6	244.0
MINORITY INTEREST	14.0	14.0	14.0	14.0
PROVISIONS	3.8	3.8	3.8	3.8
PENSIONS (e.g. TFR)	4.2	4.2	4.2	4.2
NET DEBT (*)	-84.4	-62.4	-69.4	-83.1
CAPITAL INVESTED	128.0	163.5	174.1	182.9

Ratios	17A	18E	19E	20E
ROCE after tax	14.3%	10.9%	12.1%	13.6%
ROE	10.7%	10.8%	11.6%	12.5%
Capital Turnover	2.4	2.1	2.2	2.3
Net Debt / EBITDA	-2.2	-1.6	-1.6	-1.6
Gearing	-42.1%	-28.5%	-29.4%	-32.3%
WC / Sales	22.4%	26.5%	26.3%	26.2%
Amortization / Sales	1.9%	1.8%	1.7%	1.5%
Capex / Sales	1.7%	5.9%	2.1%	1.2%
EPS growth	-52.5%	7.4%	17.2%	18.2%
PEG	-47.3	170.5	129.8	109.9

Valuation	17A	18E	19E	20E
EV/Sales	1.4	0.6	1.4	1.3
EV/EBITDA	11.8	6.2	12.3	11.1
EV/EBIT	14.0	7.4	14.6	12.8
P/E	24.8	12.7	22.4	20.0
P/B	2.7	1.4	2.6	2.5
EV/CE	3.3	1.3	2.9	2.9
FCF Yield	2.3%	-4.9%	2.6%	3.6%
Dividend yield	1.5%	3.0%	1.4%	1.3%

Source: Company data, Twice estimates

(*) The Group also holds insurance policies of around 11.5M€ that are not counted in the NFP but are included in the non-current assets. These are insurance policies with underlying bond and guaranteed capital that we can consider a temporary investment of liquidity.