Intermonte

Milan, 14 September 2022

Italian Equity Research – 2Q22 Results

EL.EN.

OUTPERFORM

Sector: Industrials

Price: Eu12.88 - **Target: 15.70**

Continuation of Strong Demand Trends Fuels Better Guidance

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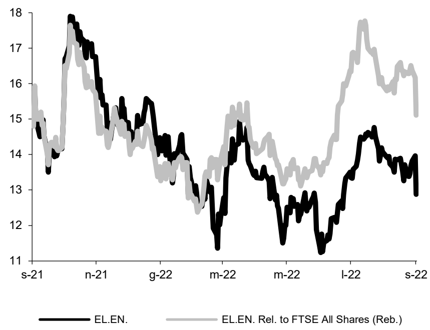
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 17.10 to 15.70
	2022E	**2023E**	**2024E**
Chg in Adj EPS	2.0%	0.4%	0.4%

Next Event

3Q22 Results Out November 14th 2022

El.En. - 12M Performance



Stock Data			
Reuters code:			ELEN.MI
Bloomberg code:			ELN IM
Performance	**1M**	**3M**	**12M**
Absolute	-8.5%	12.6%	-13.8%
Relative	-5.1%	11.3%	1.0%
12M (H/L)			17.90/11.24
3M Average Volume (th):			63.59

Shareholder Data	
No. of Ord shares (mn):	78
Total no. of shares (mn):	78
Mkt Cap Ord (Eu mn):	1,010
Total Mkt Cap (Eu mn):	1,010
Mkt Float - Ord (Eu mn):	535
Mkt Float (in %):	53.0%
Main Shareholder:	
Cangioli Andrea	14.8%

Balance Sheet Data	
Book Value (Eu mn):	303
BVPS (Eu):	3.86
P/BV:	3.3
Net Financial Position (Eu mn):	95
Enterprise Value (Eu mn):	981

- **Continued strong sales growth and solid margins in 2Q, as expected:** sales rose +16% YoY to €183mn (our estimate €182mn/+15%). Medical segment sales grew +21% to €96mn (vs. our €96mn/+20%), primarily driven by strong Surgical sales (+47%) and another great performance outside Europe (ROW +26%), but ongoing weakness in Japan. Industrial sales also grew +11%, with Italy & EU (+48%) offsetting Covid-hit China (ROW -8%). EBITDA was in line with our forecast at €27mn (+15%), a 14.9% margin (flat) as cost inflation and the normalisation of marketing activities drove fixed costs up, offsetting the better sales mix; higher growth in Medical activities drove a +0.9pp YoY gross margin gain. 2Q EBIT (€24mn/+1.9pp margin YoY) and 1H net income (€28mn/+9% YoY) were also in line with our forecast.
- **Efforts to ensure steady component supply magnify seasonal 2Q cash burn:** NFP shrank markedly in 2Q to a still-positive €44mn (vs. €86/116mn in 1Q22/FY21). ELN invested heavily in WC in 2Q (€-32mn total) to ensure continuity of production by stockpiling components (raw mat. inventories up €15mn) and ensuring priority in sourcing (€14mn impact in 1H of higher advances paid to suppliers and lower advances from clients, mainly in China). Tax (€7mn impact on WC in 1H), dividends (€17mn) and higher CapEx (€5mn net in 2Q) added to the cash burn, outweighing robust earnings. NFP does not include €21mn of liquid financial assets. WC should partly normalise as a % of sales in 2H (vs. the high 1H level), supporting 2H FCF.
- **Sales guidance lifted amid as demand remains strong:** ELN lifted its FY22 sales guidance, pointing to "over €660mn" i.e. >+15.5% growth (a c.+6% upgrade vs. previous guidance for "above +10%"). This was motivated by still-high backlogs (notwithstanding rising production) and a reiterated positive outlook on demand strength despite the macroeconomic environment and supply chain difficulties. The broad EBIT guidance was confirmed (up YoY), with the 2H22 margin seen just below 1H (12.7%). This reflects a continuation of Medical trends and still-lower activity in China, hindering ELN's ability to fully tap into potential operating leverage. Any sign of a return to normal business conditions in China would increase the chances of a further guidance upgrade.
- **Change in estimates:** we are slightly lifting our FY22 sales forecast to €665mn in light of the strengthened positive outlook, while fine-tuning our EBIT margin to 12.1% (implying a 2H22 EBIT margin of 11.5% vs. 12.7% in 1H22, 11.4% in 2H21). We are lowering our NFP forecast to €95mn (from €124mn) reflecting higher CapEx and a partial recovery of the 1H cash burn in 2H22, amid some WC normalisation.
- **OUTPERFORM; TP €15.7 (from €17.1) on higher risk-free rate:** we remain positive as we appreciate the ongoing robust growth and re-affirmed positive outlook. The market has penalised the high 2Q cash burn (the stock fell -7.7% yesterday), ignoring i) the raised guidance, set to contribute further to earnings momentum as reflected in our new estimates, and ii) the expected (at least partial) WC reversal in 2H22. We are lowering our DCF-based TP to reflect a higher risk-free rate (+0.5pp). The stock trades at 18.0x/16.6x P/E '22/'23, a c.20% discount to 3Y average multiples following a c.40% de-rating since November 2021.

Key Figures & Ratios	**2020A**	**2021A**	**2022E**	**2023E**	**2024E**
Sales (Eu mn)	408	571	665	720	775
EBITDA Adj (Eu mn)	43	80	94	101	108
Net Profit Adj (Eu mn)	19	45	56	61	65
EPS New Adj (Eu)	0.244	0.580	0.715	0.775	0.834
EPS Old Adj (Eu)	0.244	0.580	0.701	0.772	0.831
DPS (Eu)	0.100	0.200	0.200	0.200	0.200
EV/EBITDA Adj	10.5	10.6	10.4	9.1	8.2
EV/EBIT Adj	13.9	13.1	12.2	10.6	9.4
P/E Adj	52.7	22.2	18.0	16.6	15.4
Div. Yield	0.8%	1.6%	1.6%	1.6%	1.6%
Net Debt/EBITDA Adj	-1.6	-1.4	-1.0	-1.5	-1.7

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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&PMIB40 Index, most of those on the MIDEX 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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As at 30 June 2022 Intermonte's Research Department covered 120 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	21.95 %
OUTPERFORM:	48.78 %
NEUTRAL:	27.64 %
UNDERPERFORM	01.63 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (53 in total) is as follows:

BUY:	25.00 %
OUTPERFORM:	57.69 %
NEUTRAL:	17.31 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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Further information is available