

EL.EN.

Sector: Industrials

OUTPERFORM

Price: Eu11.52 - Target: Eu14.50

Mixed S/T Outlook Confirmed, Strong M/T Opportunities

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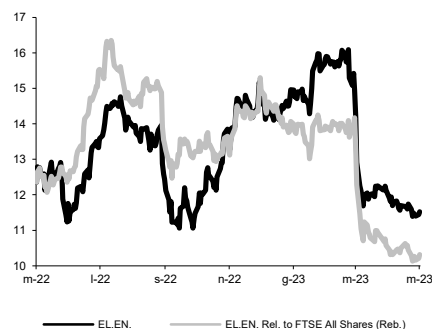
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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	-1.4%	-0.7%	-0.7%

EL.EN. - 12M Performance



Stock Data

Reuters code: ELEN.MI

Bloomberg code: ELN IM

Performance	1M	3M	12M
Absolute	-5.0%	-27.5%	-6.8%
Relative	-2.6%	-25.0%	-18.7%
12M (H/L)	16.09/11.06		
3M Average Volume (th):	110.10		

Shareholder Data

No. of Ord shares (mn):	78
Total no. of shares (mn):	78
Mkt Cap Ord (Eu mn):	903
Total Mkt Cap (Eu mn):	903
Mkt Float - Ord (Eu mn):	478
Mkt Float (in %):	53.0%
Main Shareholder:	
Cangioli Andrea	14.8%

Balance Sheet Data

Book Value (Eu mn):	337
BVPS (Eu):	4.30
P/BV:	2.7
Net Financial Position (Eu mn):	100
Enterprise Value (Eu mn):	866

■ **Both divisions grew well in 1Q23.** El.En. reported a set of results substantially aligned to our estimates, with revenues coming to Eu161.4mn, up +11.8% YoY (vs. Eu158.3mn and +9.6% expected), thanks not only to ongoing strong growth in the medical business (+11.3% YoY), but also an acceleration in the industrial business after a weak 4Q (+12.8% vs. +3.2% in 4Q22), an impressive result considering that the contribution from the Chinese market remained negative (-31.8%). A decrease in the gross margin at the Industrial business due to weakness in the Chinese market coupled to rising marketing and staff costs, as well as D&A, led to EBIT of Eu17mn, basically unchanged YoY. Finally, the NFP was lower QoQ at Eu56.7mn (vs Eu85 exp.) as a result of ~Eu27mn of working capital absorption (vs. Eu10mn estimated), as a consequence of business seasonality and the company's focus on keeping high inventory levels in order to avoid any difficulties caused by slow supply of some components.

■ **The Cutting business IPO remains a potential positive catalyst, but not to happen in the short term.** Management confirmed that the lower-than-expected results of the Chinese business in recent quarters (largely due to covid implications) have held back preparatory activity on the listing, for which most of the necessary steps have already been done. Before arriving at the formalization of the listing process, for a successful IPO it will be necessary to see a recovery of results in China as well as an improvement in the outlook. Order intake in China has recently started to improve and the effects should be seen starting from 2Q and a solid volume recovery is expected to continue in the remainder of the year. Management appeared willing to wait for the publication of FY23 results before filing for the IPO, thus implying it may take at least 12 months.

■ **Outlook reaffirmed.** Guidance for 2023 has been confirmed, indicating EBIT in line with 2022, with consolidated revenues growing due to the contribution of both the Medical and Industrial sectors. The indications are based on order intake that has remained satisfactory in recent months at both divisions, with intake in the Medical business cooling a little after a very strong 2022 while Industrial, as mentioned before, is benefitting from the reopening of China. As a potential positive catalyst in the short-medium term we highlight the start of the early adoption program of the Accure Acne treatment (material contribution expected not before 2024), offering interesting growth prospects in a promising market where only one competitor is operating with a similar technology, even if the go-to-market will differ (the Accure device should have a higher unit cost, while rival Cutera adopted a pay per use approach).

■ **Estimates substantially confirmed.** At this stage we confirm our estimates, acknowledging that on the one hand there could be some upside on the Industrial business top-line estimates based on when China's full recovery will materialize, but, on the other hand, more pressure on the gross margin could counterbalance this upside.

■ **Outperform confirmed, target kept at Eu14.50.** We confirm our positive view on the stock, as we believe the recent stock correction offers an interesting entry point for a story that combines exposure to visible macro trends (aging population, focus on physical appearance in Medical; product traceability and increasing power in Industrial) and potential corporate action (listing of the Cutting business).

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	571	674	714	781	837
EBITDA Adj (Eu mn)	80	95	93	105	113
Net Profit Adj (Eu mn)	45	55	52	62	67
EPS New Adj (Eu)	0.580	0.703	0.669	0.787	0.855
EPS Old Adj (Eu)	0.580	0.703	0.679	0.793	0.861
DPS (Eu)	0.200	0.220	0.210	0.220	0.230
EV/EBITDA Adj	10.6	10.6	9.3	7.8	6.9
EV/EBIT Adj	13.1	12.5	11.1	9.1	7.9
P/E Adj	19.9	16.4	17.2	14.6	13.5
Div. Yield	1.7%	1.9%	1.8%	1.9%	2.0%
Net Debt/EBITDA Adj	-1.4	-0.9	-1.1	-1.4	-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)

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Frequency of research: quarterly.

Reports on all companies listed on the S&P500 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.

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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:	20.83 %
OUTPERFORM:	51.67 %
NEUTRAL:	25.83 %
UNDERPERFORM	01.67 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (49 in total) is as follows:

BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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