Milan, 13 September 2024

Italian Equity Research – 2Q24 Results

EL.EN.

OUTPERFORM

Sector: Industrials

Price: Eu9.71 - **Target: Eu13.30**

Resilient Margins and Cash Flow Help Offset Turnover Decline

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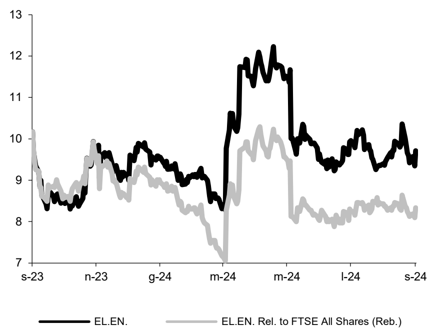
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-0.9%	-3.6%	-4.6%

EL.EN. - 12M Performance



Stock Data			
Reuters code:			ELEN.MI
Bloomberg code:			ELN IM
Performance	**1M**	**3M**	**12M**
Absolute	3.3%	0.8%	-4.5%
Relative	-1.2%	3.6%	-20.9%
12M (H/L)			12.23/8.29
3M Average Volume (th):			87.50

Shareholder Data	
No. of Ord shares (mn):	78
Total no. of shares (mn):	78
Mkt Cap Ord (Eu mn):	761
Total Mkt Cap (Eu mn):	761
Mkt Float - Ord (Eu mn):	403
Mkt Float (in %):	53.0%
Main Shareholder:	
Cangioli Andrea	14.8%

Balance Sheet Data	
Book Value (Eu mn):	372
BVPS (Eu):	4.74
P/BV:	2.0
Net Financial Position (Eu mn):	89
Enterprise Value (Eu mn):	713

- **Turnover slowed more than expected...**turnover came to €163.4mn, down 11.3% and below our €183.6mn estimate, marking a deterioration from the -7.3% posted in 1Q despite the rebound of the Aesthetic business. Indeed, while the Medical segment, as expected, posted an improving turnover trend QoQ (+1.7% in 2Q vs. -5.3% in 1Q), especially thanks to anti-aging applications, the Industrial segment slowed further, posting -27.2% vs. -10.4% in 1Q mainly due to the slowdown registered in the cutting business in China and Italy, with the latter penalised by regulatory uncertainty linked to Industry 5.0 fiscal incentives, which caused a delay in client investments.
- **...but margins showed greater resilience and cash generation remained robust.** Despite the declining turnover, the company's gross margin improved significantly (+2.4 pp YoY), rising from 38.2% to 40.6%, largely due to the favourable mix both in products, which are more skewed towards medical, and geographically. This led to EBIT of €19.9mn, a much more limited gap vs. our estimate (€21.1mn) than at top line, coming in just 5.7% shy of our numbers, basically half of the top line gap thanks to margins holding up much better than expected**.** Pre-tax profit exceeded expectations, hitting €24.1mn versus the projected €20.7mn due to a one-off gain of €5mn, tied to the lapsing of an earn-out obligation for the Chinese subsidiary. Finally, the company's net cash position was a standout, surging to €68.7mn, far above the expected €10mn. This was driven by an improved NWC trend YoY, the sale of non-current assets for €16.3mn, and the elimination of the aforementioned earn-out obligation from liabilities (€5mn).
- **Italian market livelier after approval of Industry 5.0 incentives:** among the messages that emerged from the call, we believe the most interesting is that following the approval of Industry 5.0 incentives, the company is finally seeing a more vibrant Italian market, with the order intake recovering. Moreover, despite the challenging Chinese environment, during 1H the company was able to halve its net loss in the country, going from €-4mn in 1H23 to €-2mn in 1H24.
- **Estimates:** in light of 1H results and more recent trends, management has updated its guidance as it does not envisage the 2H turnover recovery being enough to enable it to exceed last year's figure, as indicated in previous guidance, while thanks to a better mix the target for higher EBIT in 2024 than 2023 was confirmed. We are revising our estimates to incorporate a 3.4% decline in turnover in 2024 (from +3.3% previously), while EBIT is expected to reach €76mn (from €78.6mn), a €3.3mn YoY improvement.
- **OUTPERFORM; target kept at €13.3**. We maintain a positive view on the stock. 2Q results demonstrate how the company is able to deliver encouraging results even in an adverse scenario, as it is able to react rapidly to external shocks. In our view, the long-awaited approval of Industry 5.0 incentives and the decline in interest rates should improve conditions in the company's reference markets, helping it reverse its current earnings momentum in the near future. Our target price remains unchanged at €13.3.

Key Figures & Ratios	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Sales (Eu mn)	674	692	669	715	766
EBITDA Adj (Eu mn)	95	91	91	96	105
Net Profit Adj (Eu mn)	55	48	52	55	61
EPS New Adj (Eu)	0.703	0.615	0.663	0.705	0.775
EPS Old Adj (Eu)	0.703	0.615	0.669	0.731	0.812
DPS (Eu)	0.220	0.200	0.220	0.230	0.250
EV/EBITDA Adj	10.5	9.7	7.8	7.0	6.1
EV/EBIT Adj	12.4	12.1	9.4	8.3	7.1
P/E Adj	13.8	15.8	14.6	13.8	12.5
Div. Yield	2.3%	2.1%	2.3%	2.4%	2.6%
Net Debt/EBITDA Adj	-0.8	-0.6	-1.0	-1.3	-1.6

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- 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 4.0% and a risk premium of 5.5% 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.
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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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OUTPERFORM:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
SELL:	00.00 %

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

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Emittente	%	Long/Short

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