

EL.EN.

Sector: Industrials

OUTPERFORM

Price: Eu9.70 - Target: Eu13.00

Outlook Remains Positive, Despite Some Short-Term Bumps

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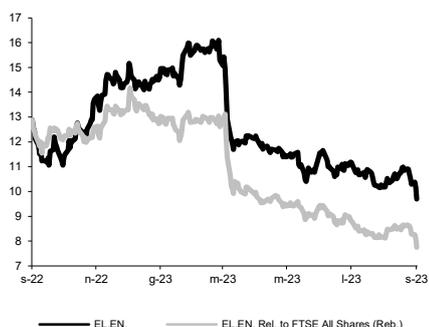
Stock Rating

Rating: Unchanged

Target Price (Eu): from 14.50 to 13.00

	2023E	2024E	2025E
Chg in Adj EPS	-3.8%	-6.9%	-6.4%

EL.EN. - 12M Performance



Stock Data

Reuters code: ELEN.MI

Bloomberg code: ELN IM

Performance	1M	3M	12M
Absolute	-4.7%	-16.0%	-24.7%
Relative	-5.2%	-18.4%	-50.0%
12M (H/L)	16.09/9.70		
3M Average Volume (th):	81.79		

Shareholder Data

No. of Ord shares (mn): 78

Total no. of shares (mn): 78

Mkt Cap Ord (Eu mn): 760

Total Mkt Cap (Eu mn): 760

Mkt Float - Ord (Eu mn): 403

Mkt Float (in %): 53.0%

 Main Shareholder:
 Canglioli Andrea 14.8%

Balance Sheet Data

Book Value (Eu mn): 335

BVPS (Eu): 4.27

P/BV: 2.3

Net Financial Position (Eu mn): 55

Enterprise Value (Eu mn): 768

■ **2Q slightly below expectations.** The company reported 2Q revenues of Eu184.3mn, up 0.9% YoY and below our estimate of Eu199.3mn, as the continuing good indications from the Medical business (+6.2% YoY, with particularly healthy trends in the Surgical segment) were counterbalanced by a weak performance by the Industrial sector (-4.9% YoY vs our +12.5% estimate), which was penalized by the continuation of the weakness in the Chinese market, although this showed some softening of the negative trend (around -20% in 1H vs -31.8% in 1Q, implying ~-10% in 2Q). In terms of profitability, a mix more skewed towards the Medical business enabled an expansion of the gross margin YoY (~+160bps to 38.2%), although this was neutralized by higher personnel costs, with the upshot being EBIT at Eu21.8mn (margin down 140bps YoY to 11.9%), not far off our Eu23.2mn. Finally, 1H net profit (no quarterly figure given) was Eu25.8mn, substantially in line with our estimate of Eu26.6mn.

■ **NWC absorption still high in 1H but set to revert in 2H.** The NFP as at end-June was positive at Eu10.2mn, while we were expecting a figure of Eu41.8mn. The difference is mainly explained by NWC absorption that remained high in 2Q at Eu32mn (vs Eu10mn exp.). However, for the remainder of the year an inversion of the NWC trend is foreseen because conditions in the supply chain are returning to normal as are payment conditions. Also worth noting a circa Eu13mn hit from purely accounting items related to the capital increases by PE funds finalized last year at the Chinese subsidiary.

■ **Outlook still healthy for Medical business, more prudent for Industrial.** During the call, management provided more detail on expectations for the remainder of the year. Among the positives, we note the expectations of a continuation of the good trends in the Surgical (Medical) and Marking (Industrial) businesses, as well as the launch of a series of new products that should start to make a material contribution from 2024. As for the laser cutting business in China, it will start to benefit from a much easier comparison base in 2H: market conditions are set to remain weak but results should be in line with or slightly up on 2H22. Bearing in mind these expectations, for 2023 management confirms the expectations for a slight increase in revenues compared to 2022, while EBIT is expected to decline in the same proportion registered in 1H23 due to the performance achieved and expected in China.

■ **Estimates aligned to guidance.** We are bringing our 2023 estimates into line with the updated guidance, while taking a more prudent approach for 2024 as well, assuming a slower-than-previously-expected ramp-up of activities at the Chinese laser cutting business. Overall, we are reducing our EPS by 3.8%/6.9%/6.4% for the next three years.

■ **Outperform, TP Eu13.0 from Eu14.5.** In our view, 2Q results confirm some temporary weaknesses such as lower-than-expected performance in China, which means recent investments in production capacity will realistically be underutilized even in 2024, and a slight impact on the aesthetic business due to the economic slowdown, but at the same time they also confirm the group's strengths deriving from the great differentiation of revenues and products (especially in the medical field) and the ability to bring important innovations to the market (e.g. ACNE treatment products, redesign of body shaping products) which give us confidence on the group's future prospects.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	571	674	706	755	808
EBITDA Adj (Eu mn)	80	95	91	100	107
Net Profit Adj (Eu mn)	45	55	50	57	63
EPS New Adj (Eu)	0.580	0.703	0.644	0.733	0.801
EPS Old Adj (Eu)	0.580	0.703	0.669	0.787	0.855
DPS (Eu)	0.200	0.220	0.210	0.220	0.230
EV/EBITDA Adj	10.6	10.8	8.4	7.2	6.3
EV/EBIT Adj	13.1	12.7	10.1	8.4	7.3
P/E Adj	16.7	13.8	15.1	13.2	12.1
Div. Yield	2.1%	2.3%	2.2%	2.3%	2.4%
Net Debt/EBITDA Adj	-1.4	-0.8	-0.6	-1.0	-1.4