EL.EN.

OUTPERFORM

Sector: Industrials

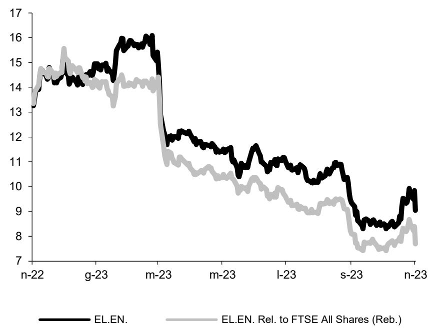
Price: Eu9.05 - **Target: Eu12.20**

New Products Bolster Confidence on 2024 after Transitional 2023

Andrea Randone +39-02-77115.364
andrea.randone@intermonte.it
Carlo Maritano: +39-02-77115.358
carlo.maritano@intermonte.it

Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 13.00 to 12.20
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-5.4%	-5.2%	-5.2%

EL.EN. - 12M Performance



Stock Data			
Reuters code:			ELEN.MI
Bloomberg code:			ELN IM
Performance	**1M**	**3M**	**12M**
Absolute	7.2%	-11.1%	-32.9%
Relative	2.6%	-14.3%	-50.5%
12M (H/L)			16.09/8.30
3M Average Volume (th):			129.89

Shareholder Data	
No. of Ord shares (mn):	78
Total no. of shares (mn):	78
Mkt Cap Ord (Eu mn):	709
Total Mkt Cap (Eu mn):	709
Mkt Float - Ord (Eu mn):	376
Mkt Float (in %):	53.0%
Main Shareholder:	
Cangioli Andrea	14.8%

Balance Sheet Data	
Book Value (Eu mn):	332
BVPS (Eu):	4.24
P/BV:	2.1
Net Financial Position (Eu mn):	59
Enterprise Value (Eu mn):	713

- **3Q below our estimates, but cash generation better:** ELN reported 3Q turnover and margins that fell short of our expectations, while cash generation was higher than expected. Specifically, revenues came to Eu147.4mn, down 8.1% YoY and below our Eu160.4mn estimate. As expected, the medical business continued to perform much better than the industrial business, at +2.1% (vs. our +5.7% estimate) due to another strong quarter of growth in the surgical segment, up 27.2%, while the aesthetic business posted -7.8% in 3Q. Weakness in the industrial business continued, with revenues of Eu57.9mn, down 17% YoY. We note that the Rest of the World (largely represented by China) remained the weakest area, falling 20.9%, while Italy fell 17% from the record level posted this time last year, mainly due to the expiry of the fiscal benefits linked to Industria 4.0. The business mix more skewed towards the Medical side allowed for an expansion of the gross margin, increasing by 120bp YoY to 37.8%, but due to the lower volumes of activity, EBIT came in at Eu12.9mn (vs. Eu15.6 est.), down 22% YoY and showing a margin decline by 1.7pp. Finally, the main positive from 3Q was cash generation, which turned positive thanks to the reversal of the NWC trend and lower investments. The NFP at the end of September was positive to the tune of Eu32mn, increasing by ~Eu20mn compared to the end of June.
- **An important flow of new products ready to be launched on the market.** During the conference call, management provided more colour on the pipeline of new products that will shortly be coming to market, supporting their confidence for 2024. In the industrial sector a new range of products in the cutting business will be launched, combining the cost-effectiveness of the Chinese footprint and the design and technology of the Italian one. In the Medical business 2H23 and 2024 will see a number of new products introduced on the market (e.g. hair removal, body shaping), resuming the path of innovation that has always characterised ELN. As for its innovative acne treatment product, clients' overall acceptance and satisfaction is high and all the conditions are in place to embark upon the next stage, which will be to launch on a larger scale.
- **Estimates consistent with guidance:** for FY23, management aims to deliver slight YoY revenue growth, keeping the EBIT decline to the same level as 9M (-10.6% YoY). The outlook therefore implies 2023 EBIT of ~Eu73mn, which compares to our previous estimate of Eu76mn. We are aligning our 2023 estimates to company indications, thus cutting our EBIT estimate by ~5%. As for 2024 and 2025, we are leaving our growth estimates unchanged, resulting in an EBIT cut of ~4.7% due to the lower starting point.
- **OUTPERFORM, target from Eu13.0 to Eu12.2.** In our view, 3Q results confirm some temporary weaknesses, such as disappointing performance in China, meaning recent investments in production capacity will realistically be underused even in 2024, and a slight impact on the aesthetic business from the economic slowdown, while at the same time demonstrating the group's strengths, which derive from the great differentiation of revenues and products (especially in the medical field) and the ability to bring important innovations to market (e.g. acne treatment products, redesign of body shaping products) which give us confidence on the group's future prospects. Our TP is reduced to Eu12.2 due to the higher risk-free rate incorporated in our models, as well as lower estimates.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	571	674	687	735	786
EBITDA Adj (Eu mn)	80	95	87	96	103
Net Profit Adj (Eu mn)	45	55	48	54	60
EPS New Adj (Eu)	0.580	0.703	0.609	0.695	0.759
EPS Old Adj (Eu)	0.580	0.703	0.644	0.733	0.801
DPS (Eu)	0.200	0.220	0.210	0.220	0.230
EV/EBITDA Adj	10.6	10.8	8.2	7.0	6.1
EV/EBIT Adj	13.1	12.7	9.8	8.2	7.1
P/E Adj	15.6	12.9	14.9	13.0	11.9
Div. Yield	2.2%	2.4%	2.3%	2.4%	2.5%
Net Debt/EBITDA Adj	-1.4	-0.8	-0.7	-1.1	-1.4