Milan, 17 May 2024

Italian Equity Research – 1Q24 Results

EL.EN.

OUTPERFORM

Sector: Industrials

Price: Eu10.01 - **Target: Eu13.30**

Overreaction Offers Attractive Entry Point

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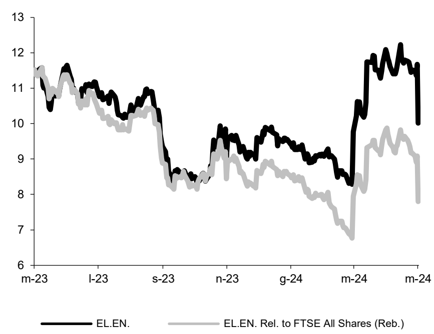
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 13.60 to 13.30
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-3.8%	-3.6%	-2.7%

EL.EN. - 12M Performance



Stock Data			
Reuters code:			ELEN.MI
Bloomberg code:			ELN IM
Performance	**1M**	**3M**	**12M**
Absolute	-16.4%	10.3%	-13.1%
Relative	-22.3%	-0.8%	-41.4%
12M (H/L)			12.23/8.29
3M Average Volume (th):			172.43

Shareholder Data	
No. of Ord shares (mn):	78
Total no. of shares (mn):	78
Mkt Cap Ord (Eu mn):	785
Total Mkt Cap (Eu mn):	785
Mkt Float - Ord (Eu mn):	415
Mkt Float (in %):	53.0%
Main Shareholder:	
Cangioli Andrea	14.8%

Balance Sheet Data	
Book Value (Eu mn):	368
BVPS (Eu):	4.70
P/BV:	2.1
Net Financial Position (Eu mn):	81
Enterprise Value (Eu mn):	778

- **A soft start to the year.** Although the company had already indicated a weak start to 2024 on release of annual results, the decrease was more conspicuous than we expected. Specifically, turnover came to Eu149.5mn, down 7.3% YoY and 5.5% below our estimate of Eu158.2mn. The medical business contracted (-5.5%), penalised by prolonged weakness in the Aesthetic segment (-12.9%, mainly due to hair removal), only partly offset by good trends at Surgical (+4.1%) and Services (+7.2%). In the industrial sector, Cutting contracted by -14.9%, penalised by weakness in Italy (ending of Industry 4.0 incentives and postponement of clients' investments awaiting greater clarity on Industry 5.0 incentives), while China was flattish, although the US and Brazil grew well.
- **Gross margin on the rise thanks to mix.** The gross margin benefitted from a more favourable mix (lower incidence of hair removal, higher incidence of Medical vs Industrial and lower incidence of Italy) and therefore rose by 3.9pp YoY, reaching 41.7%. Net of a Eu1.9mn positive one-off (insurance reimbursement for flood damage), it would have improved in any case (+2.5pp to 40.4%). As for EBIT, it was Eu14.3mn, below our estimate of Eu16.4mn, mainly due to higher sales&marketing and personnel costs. We note that the positive Eu1.9mn positive one-off at gross margin level was almost entirely compensated by a Eu1.6 provision (for credit risks at the Japanese subsidiary) thus the effect of extraordinary items was rather limited. Finally, the net cash position as at end-March was Eu46.2mn, better than our expectation (Eu25.5mn) thanks to lower cash absorption compared to previous years (Eu9mn NWC absorption vs Eu26mn last year).
- **Estimates fine-tuned.** As the expected easing of interest rates and of geopolitical tensions seems to be taking longer than expected, management stated that the guidance indicated for 2024, namely an improvement in turnover and EBIT vs 2023, looks more difficult to achieve. However, during the presentation management provided more colour on the expected trends for 2024, stating that the expectation for the next quarters is a sequential improvement, with 2Q24 already expected to be above 2Q23 results. The messages on the recovery in the following quarters give us confidence that the company can deliver growing results compared to last year, with EBIT very close to the 2022 record (also thanks to the recovery of Eu5mn in negative one-offs that impacted 2023 results). We have fine-tuned our estimates, and we now assume the Medical business will grow by 3.5% in 2024, and Industrial by 3.0%, with the EBIT margin still expected at ~11%. The result is a cut to our EBIT estimate of merely 3% for 2024 and following years.
- **OUTPERFORM; target from Eu13.6 to Eu13.3**. We believe that the stock weakness following the results was linked to an incorrect interpretation of management comments on yearly outlook, which led investors to believe that 2024 could be a year without growth and therefore with a potential cut to consensus estimates of more than 10%. Given that in our understanding management outlook remains more constructive and that changes to estimates can be limited, we believe that the current price represents an interesting entry point. Our valuation, the result of a DCF model, yields a target price of Eu13.3, down from Eu13.6 on the back of revised estimates.

Key Figures & Ratios	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Sales (Eu mn)	674	692	715	764	818
EBITDA Adj (Eu mn)	95	91	95	100	109
Net Profit Adj (Eu mn)	55	48	52	57	64
EPS New Adj (Eu)	0.703	0.615	0.669	0.731	0.812
EPS Old Adj (Eu)	0.703	0.615	0.696	0.759	0.835
DPS (Eu)	0.220	0.200	0.220	0.230	0.250
EV/EBITDA Adj	10.9	10.0	8.2	7.4	6.4
EV/EBIT Adj	12.8	12.5	9.9	8.7	7.5
P/E Adj	14.2	16.3	15.0	13.7	12.3
Div. Yield	2.2%	2.0%	2.2%	2.3%	2.5%
Net Debt/EBITDA Adj	-0.8	-0.6	-0.9	-1.2	-1.4

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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 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.

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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BUY:	25.21 %
OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (50 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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