Milan, 21 March 2023

Italian Equity Research – 4Q22 Results

EL.EN.

OUTPERFORM

Sector: Industrials

Price: Eu12.25 - **Target: Eu14.50**

Caution on 2023 although solid short-term growth drivers remain

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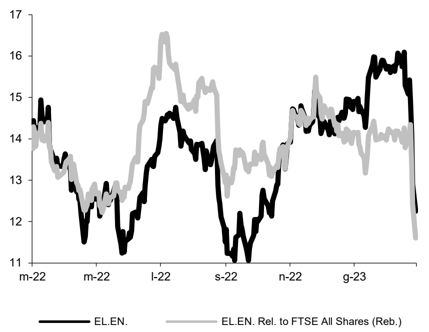
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 15.80 to 14.50
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-15.3%	-6.9%	

EL.EN. - 12M Performance



Stock Data			
Reuters code:			ELEN.MI
Bloomberg code:			ELN IM
Performance	**1M**	**3M**	**12M**
Absolute	-21.9%	-13.3%	-12.6%
Relative	-15.9%	-22.4%	-18.5%
12M (H/L)			16.09/11.06
3M Average Volume (th):			69.15

Shareholder Data	
No. of Ord shares (mn):	78
Total no. of shares (mn):	78
Mkt Cap Ord (Eu mn):	960
Total Mkt Cap (Eu mn):	960
Mkt Float - Ord (Eu mn):	508
Mkt Float (in %):	53.0%
Main Shareholder:	
Cangioli Andrea	14.8%

Balance Sheet Data	
Book Value (Eu mn):	338
BVPS (Eu):	4.31
P/BV:	2.8
Net Financial Position (Eu mn):	99
Enterprise Value (Eu mn):	925

- **4Q meets guidance, cash flow satisfactory.** 4Q results came a touch below our (above-guidance) forecasts, with i) sales of €189mn, up +14.5% (vs our est €191mn/ +15% - guidance ≥€174mn), driven by Medical (+23%), while Industrial remained impacted by continued weakness in China (+3%). EBIT was €23mn, a 12.2% margin, flat YoY but up +1.7pp QoQ (vs Inte. €25mn/12.9%), in line with guidance for c.12%, as the positive sales mix was again offset by cost inflation. After two disappointing quarters, cash flow was finally satisfactory in 4Q with the positive NFP increasing €57mn QoQ to €89mn, helped by the €13mn net cash-in from the combined M&A/minority stake sales in China.
- **2023 guidance cautious amid prudent demand expectations for 2H23.** ELN's FY23 guidance includes: i) sales seen growing YoY (no quantification); and ii) the confirmation of 2022 EBIT as an ambitious target. Positive top-line growth expectations are fuelled by continuing positive demand expected for some medical products (urology, dermatology) and on the industrial side by the Chinese recovery and higher sales to the US, offsetting decline in demand in Italy as Industria 4.0 incentives end. The caution embedded in guidance shows primarily on the EBIT side and was motivated by i) a tough comparison base as FY22 record EBIT benefitted from a €3mn FX tailwind, not expected to recur in 2023; ii) a less favourable sales mix in 2023 as Industrial should be the main growth driver and has lower embedded margins vs medical. The cautious indications on growth relate to the still low visibility on 2H medical demand amid tougher financing conditions for clients. However, we note that messages on ELN's strategy for inventory sourcing (re-iterating the 2022 approach to increase advance inventory purchases to satisfy growing customer demand) hint that management sees some upside risk to cautious indications. The pricing lever could also be pulled in the event of demand slowdown.
- **Changes to estimates.** We have cut our estimates in line with the company's indications, expecting 2023 turnover to increase by 6% YoY (from 12%) and EBIT to come to Eu78mn, 4% below the level reached in 2022, or flat excluding the Eu3mn positive ForEx contribution. Below the line, higher financial charges and a slightly lower tax rate take the cut at EPS level to 15% for 2023. The cut in estimates is more limited on the following year, with a cut in EPS equal to 7%.
- **Outperform confirmed, TP Eu14.5 from Eu15.8.** We maintain our positive view on the stock as we believe that despite some short-term bumps the company's exposure to structural growth trends such as an ageing population and the shift toward cost-efficient solutions in healthcare systems offer good visibility on medium to long term opportunities. The main downside risk to our recommendation is a worsening of the global financial situation causing a credit tightening, potentially hindering growth and profitability at the Aesthetic business. In any case, we note the guidance already include this potential adverse scenario to some degree, so that if the situation does not significantly worsen, the recent stock reaction should already have priced in this possibility. Our target price decreases from Eu15.8 to Eu14.5 following the cut in estimates made in the report, offering 19% upside at the current market price.

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	53	62	68
EPS New Adj (Eu)	0.580	0.703	0.679	0.793	0.861
EPS Old Adj (Eu)	0.580	0.728	0.801	0.852	
DPS (Eu)	0.200	0.220	0.210	0.220	0.230
EV/EBITDA Adj	10.6	10.6	10.0	8.4	7.5
EV/EBIT Adj	13.1	12.5	11.9	9.8	8.6
P/E Adj	21.1	17.4	18.0	15.4	14.2
Div. Yield	1.6%	1.8%	1.7%	1.8%	1.9%
Net Debt/EBITDA Adj	-1.4	-0.9	-1.1	-1.3	-1.6