

Eles: TP updated following warrant distribution

January, 21st 2020 at 19:00

Fully diluted TP at €6.0/share to reflect warrant distribution occurred on January, the 13th

At IPO, the Group issued 1 warrant each 2 ordinary shares. Furthermore, on January, the 13th, the Group distributed further 5.578.500 warrants (1 each 2 ordinary shares).

Therefore, with this note we are updating our Initial Coverage TP published on December, the 16th to reflect the last warrant distribution and therefore the potential conversion into ordinary shares of the warrant in the ratio of 2 warrants per share. In order to provide the potential dilution coming from the warrant exercise, we assumed the 100% conversion of the warrant held by the market (5.061.192) at a strike price of €2/warrant. This would lead to a decrease in Zaffarami's family controlling stake to 44.5% (from previous 54.6%) and into a dilution effect of 22.7%.

Consequently, while our valuation methods and investment conclusions remain unchanged, our fully diluted target price decreases to €6.0/share (from previous €6.45/share), obtained by: a DCF valuation leading to €6.5/share; a market multiple valuation leading to €5.5/share.

Regarding Eles' 2019E-2022E strategy and our estimates please refer to the Initial Coverage published on December 2019, the 16th.

Target Price (€)	6.0
Recommendation	BUY

Price as of January 20 th	4.52
Number of shares (mln)	11.16
Market capitalization (€mln)	50.4
Market segment	FTSE AIM ITALIA

Performance	from IPO
Absolute	+137%
Max / Min	6.0/1.9
Average daily volumes ('000)	85.7

(€mln)	2018	2019E	2020E	2021E
Revenue	22.2	17.2	22.1	30.1
yoy change	56.6%	-22.2%	28.2%	36.3%
EBITDA	3.8	3.0	4.3	6.7
margin	17.0%	17.3%	19.5%	22.1%
EBIT	1.5	1.2	1.8	3.5
margin	6.6%	7.1%	7.9%	11.6%
Net income	0.8	0.5	1.0	2.1
margin	3.4%	2.9%	4.3%	6.9%
NIC	11.4	13.2	11.4	14.9
Net debt (cash)	4.9	1.0	(8.8)	(10.5)
Equity	6.5	12.2	23.3	25.4
FCF	2.2	(0.9)	(0.2)	1.8

Source: Banca Profilo estimates and elaborations, Company data.

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Eles "ID Card"

Recommendation

BUY

Target Price

6.00 €

Upside

33%

Company Overview

Eles Semiconductor Equipment S.p.A. ("Eles") was founded in 1988 by Antonio Zaffarami (ELES' current Chairman and main shareholder) as a specialized company in the production and distribution of test solutions for semiconductors. Since its inception, Eles collaborates with major semiconductor players such as STMicroelectronics by realizing specific tests on its semiconductors. The Group is controlled by its founder Antonio Zaffarami (Chairman), which owns a 34.2% stake of the Company, followed by his daughter Francesca Zaffarami (CEO) with a 14.1% stake and Carla Franceschin with a 10.4% stake. The remaining voting rights are held by the market (41%). Worldwide semiconductor market value is expected to drop by a 13% yoy in 2019E mainly due to the continuing uncertainty above US-China trade war. Despite this, the market is seen increasing on average, in particular in 2020E is expected at +5% yoy. In terms of product category, Integrated Circuits represents the biggest portion with almost a \$350bn market value in 2020E. In 2030, 35% of cars sold will have conditional automation and 15% will have high automation. The introduction of new technological features such as innovative sensors, mapping application, connectivity platforms will increase the demand for automotive semiconductors and provide a major long-term growth engine. In 2018, the Group Value of Production (VoP) grew by 54% yoy to €23.3mln. Semiconductors represent the majority of sales with an average weight of 85% over the 2016-2018 period, while the rest is made by ECU (Electronic Central Unit) and I&D (Industrial and Defence). In our estimates, we project a 14% Value of Production CAGR (2018-2022E) for the Group to reach €39mln. In 2022E we estimate EBITDA of €9.8mln (25% margin), €3.7mln Net income and a Net cash of about €16mln (including expected cash from warrant conversion to occur in 2020E). The business plan execution risk is partially limited by a shareholders lock up period of 36 months after the listing.

SWOT Analysis

Strengths

- High innovation capability (RETE Approach)
- Sophisticated IP Libraries (Entry barriers)
- Zero Defect Reliability as a requirement
- Highly educated personnel
- Flexible cost structure

Weaknesses

- High customer concentration
- Geographic presence not yet sufficient
- Level of managerialization can be enhanced
- Commercial structure to be reinforced

Opportunities

- Automotive and Semiconductor macrotrend (Requirement Zero Defect)
- M&A opportunities in US and Asia
- New materials and technologies for semiconductors (need for reliability test)
- Scalable & replicable offer

Threats

- Geopolitical factors such as trade war
- Sector consolidation
- Resistance to innovation from semiconductor companies
- Alternative products

Main catalysts

- 👍 M&A deals to enter new geographies and new market niches
- Quicker or higher margins improvement driven by NWC optimization
- Stronger than expected revenue boost coming from autonomous driving macrotrend

Main risks

- 👎 Rising price competition from international semiconductor testing players
- Less than expected growth of foreign markets
- Loss of control over NWC during internationalization



Eles "ID Card"

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Recommendation

BUY

Target Price

6.00 €

Upside

33%

Main Financials

(€ mln)	2017	2018	2019E	2020E	2021E
Revenues	14.2	22.2	17.2	22.1	30.1
yoy change		56.6%	-22.2%	28.2%	36.3%
EBITDA	2.8	3.8	3.0	4.3	6.7
yoy change		35.2%	-21.0%	44.1%	54.8%
margin (%)	19.7%	17.0%	17.3%	19.5%	22.1%
EBIT	0.6	1.5	1.2	1.8	3.5
margin (%)	4.3%	6.6%	7.1%	7.9%	11.6%
EBT	0.4	1.2	0.8	1.6	3.4
margin (%)	2.5%	5.6%	4.8%	7.1%	11.3%
Net income	0.2	0.8	0.5	1.0	2.1
margin (%)	1.3%	3.4%	2.9%	4.3%	6.9%
Net Debt (cash)	6.6	4.9	1.0	(8.8)	(10.5)
Shareholders Equity	5.8	6.5	12.2	23.3	25.4
Operating Net Working Capital	4.8	5.2	6.3	6.6	7.8
Fixed assets	9.6	8.3	8.8	10.2	10.0
Net invested capital	12.3	11.4	13.2	14.4	14.9
Operating Free Cash Flow	2.6	3.2	2.6	3.6	5.3
Capex and acquisitions	(0.9)	(0.7)	(2.2)	(3.9)	(2.9)
Free Cash Flow	0.4	2.2	(0.9)	(0.2)	1.8

Company Description

Company Sector	Semiconductor testing
Price (€)	4.52
Number of shares (mln)	11.157
Market Cap (€mln)	50.4
Reference Index	FTSE AIM Italia
Main Shareholders	Zaffarami's family
Main Shareholder stake	59%
Free Float	41%
Average Daily Volumes ('000)	85.7
Sample of comparables	Aehr Test Systems, Advantest, Chroma ATE, Cohu, Teradyne.

Costs and business scalability analysis

	2017	2018	2019E	2020E	2021E
Operative costs					
Total operative costs	(12.4)	(19.5)	(14.6)	(18.1)	(23.8)
of which variable	70.0%	75.0%	73.8%	74.8%	76.3%
of which fixed	30.0%	25.0%	26.2%	25.2%	23.7%
% on sales	87.2%	88.1%	84.6%	82.0%	79.0%
Most relevant costs					
Raw materials	(6.0)	(10.1)	(7.6)	(9.6)	(12.8)
% on sales	42.5%	45.6%	44.1%	43.6%	42.6%
Labor costs	(3.4)	(4.4)	(3.5)	(4.3)	(5.3)
% on sales	23.9%	20.0%	20.4%	19.3%	17.7%

Solvability ratios

	2017	2018	2019E	2020E	2021E
Net debt (cash) / EBITDA	2.4x	1.3x	0.3x	-2.1x	-1.6x
Net debt (cash) / Equity	1.1x	0.7x	0.1x	-0.4x	-0.4x
Net debt (cash) / Net Invested Capital	53.3%	42.6%	7.2%	-61.2%	-70.4%

Financial and Operative ratios

	2017	2018	2019E	2020E	2021E
Days of receivables	117	79	95	90	75
Days of payables	132	90	85	85	70
Inventories on sales	21.7%	17.1%	22.5%	16.5%	14.5%
Tax rate	47.4%	38.7%	38.7%	38.7%	38.7%
ROIC	1.5%	6.6%	3.9%	6.6%	14.0%
ROE	3.2%	11.5%	4.2%	4.1%	8.2%
Capex/Sales	6.4%	3.2%	12.7%	17.6%	9.6%
D&A to capex	238.0%	308.5%	78.0%	63.9%	106.1%
NWC to sales	34.0%	23.5%	36.5%	29.7%	25.9%

Source: Bloomberg, Banca Profilo estimates and elaborations

Fixtures manufacturing: data of peers

	2018	2019E	2020E
Revenue Growth (yoy)	14.7%	3.6%	15.7%
EBITDA margin	19.6%	20.7%	23.4%
Net Debt / Equity		0.1x	

Average data

Fixtures manufacturing: multiples of peers

	2019E	2020E
EV / Sales	3.6x	3.2x
EV / EBITDA	19.8x	15.4x

Average data

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