

ELES

Sector: Industrials

OUTPERFORM

Price: Eu3.53 - Target: Eu4.60

View Confirmed; Aligning Estimates to New Guidance

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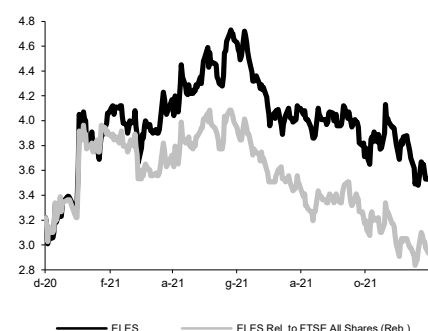
Stock Rating

Rating: Unchanged

Target Price (Eu): from 5.30 to 4.60

	2021E	2022E	2023E
Chg in Adj EPS	-30.5%	-23.7%	-6.3%

ELES - 12M Performance



Stock Data

Reuters code: ELES.MI

Bloomberg code: ELES IM

Performance	1M	3M	12M
Absolute	-7.3%	-13.1%	7.0%
Relative	-2.5%	-13.4%	-13.5%
12M (H/L)		4.73/3.01	
3M Average Volume (th):		40.20	

Shareholder Data

No. of Ord shares (mn):	14
Total no. of shares (mn):	14
Mkt Cap Ord (Eu mn):	48
Total Mkt Cap (Eu mn):	48
Mkt Float - Ord (Eu mn):	22
Mkt Float (in %):	45.4%
Main Shareholder:	
Zaffarini Family	44.0%

Balance Sheet Data

Book Value (Eu mn):	20
BVPS (Eu):	1.50
P/BV:	2.4
Net Financial Position (Eu mn):	3
Enterprise Value (Eu mn):	45

■ **2021 guidance revision driven by the global chip shortage.** The ongoing semiconductor shortage is causing longer waiting times for chips, extending to ~22 weeks as of October, almost double the ~13 weeks in the pre-pandemic year according to industry pools. The situation has prompted ELES suppliers to delay delivery of materials ordered months ago which are necessary to complete the assembly of testing machines scheduled for delivery to customers in 2021 (including two new-generation machines). As a consequence, ELES has revised its 2021 guidance, and now expects net sales of €20-21mn (vs €23mn prev.) and EBITDA of €3.5-3.8mn (17.3%-18.3% margin, vs €4.5mn prev.). Importantly, there have been no cancellations of orders while clients (i.e. chip makers) clearly understand the situation as they are at the heart of the issue.

■ **Spillover to 2022, but long-term trends merely reinforced.** While the situation is causing short-term pressure, with the shortage foreseen persisting throughout 2022 but some easing from 2H, we believe it also highlights that end-market demand remains strong. Digitalization and electrification are imposing profound transformation on sectors such as automotive, industrial, consumer electronics and telecommunications, creating additional and permanent market layers. Indeed, the global semiconductor market is seen up +26% YoY in 2021 to \$553bn and to more than \$1tn by 2030 (+9% CAGR vs 2020). The higher number of semiconductors along with greater complexity, functionality, and reliability requirements are raising the importance of chip testing.

■ **Management acting to mitigate the issues.** In order to mitigate the issues and ensure high levels of service for clients, ELES management is taking action: i) on-boarding of new suppliers; ii) the creation of stocks of key components thanks to the standardisation of solutions offered; iii) redesign of specific parts based on use of more readily available components; iv) price rises from 2022. We believe the first three actions will increase inventories, absorbing some cash; however, they will ensure ELES maintains a strong relationship with customers and mitigates risks. On pricing, discussions are going in the right direction with clients open to acceptance.

■ **Changes to estimates.** In light of the developments described above (extension of lead times), we are lowering our estimates for 2021. As we foresee the tension continuing at least through 1H22 before returning to a more normal situation from 2023, we also reduce 2022 forecast.

■ **OUTPERFORM, TP to €4.6.** Ironically, while the chip shortage has highlighted the importance of chips, raising long-term prospects, it is impairing short-term delivery. Nevertheless, strong end-market demand looks set to continue for chip-hungry products and services; this, along with the increasing importance of the testing phase, bodes well for demand for ELES solutions. The cut to estimates prompts us to reduce our TP to €4.6 from €5.3 as we also adopt a valuation framework based only on our estimates (vs the previous 70%/30% weighting of our estimates/business plan targets), partly offset by the roll-over to 2022.

Key Figures & Ratios	2019A	2020A	2021E	2022E	2023E
Sales (Eu mn)	18	19	21	27	33
EBITDA Adj (Eu mn)	3	4	4	5	7
Net Profit Adj (Eu mn)	1	2	1	2	3
EPS New Adj (Eu)	0.090	0.150	0.064	0.128	0.208
EPS Old Adj (Eu)	0.090	0.150	0.092	0.167	0.221
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	16.9	10.0	12.2	8.4	6.0
EV/EBIT Adj	nm	22.8	30.3	15.6	9.4
P/E Adj	39.0	23.5	55.0	27.7	17.0
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	0.6	-0.1	-0.8	-0.8	-0.8

ELES – Key Figures						
Profit & Loss (Eu mn)	2018A	2019A	2020A	2021E	2022E	2023E
Sales	23	18	19	21	27	33
EBITDA	4	3	4	4	5	7
EBIT	1	1	2	1	3	4
Financial Income (charges)	-0	-0	-0	-0	-0	-0
Associates & Others						
Pre-tax Profit	1	1	1	1	3	4
Taxes	-0	-0	0	-0	-1	-2
Tax rate	38.7%	17.1%	-16.0%	35.0%	35.0%	35.0%
Minorities & Discontinued Operations	0	0	0	0	0	0
Net Profit	1	1	2	1	2	3
EBITDA Adj	4	3	4	4	5	7
EBIT Adj	1	1	2	1	3	4
Net Profit Adj	1	1	2	1	2	3
Per Share Data (Eu)	2018A	2019A	2020A	2021E	2022E	2023E
Total Shares Outstanding (mn) - Average	11	11	11	14	14	14
Total Shares Outstanding (mn) - Year End	11	11	11	14	14	14
EPS f.d	0.068	0.075	0.150	0.064	0.128	0.208
EPS Adj f.d	0.068	0.090	0.150	0.064	0.128	0.208
BVPS f.d	0.586	1.121	1.284	1.497	1.625	1.832
Dividend per Share ORD	0.000	0.000	0.000	0.000	0.000	0.000
Dividend per Share SAV						
Dividend Payout Ratio (%)						
Cash Flow (Eu mn)	2018A	2019A	2020A	2021E	2022E	2023E
Gross Cash Flow	3	3	3	3	4	5
Change in NWC	-0	-3	0	-2	-0	-1
Capital Expenditure	-1	-2	-2	-3	-2	-3
Other Cash Items	0	0	1	0	0	0
Free Cash Flow (FCF)	2	-2	1	-3	1	1
Acquisitions, Divestments & Other Items	0	0	0	0	0	0
Dividends	0	0	0	0	0	0
Equity Financing/Buy-back	0	6	0	5	0	0
Change in Net Financial Position	2	3	3	3	1	1
Balance Sheet (Eu mn)	2018A	2019A	2020A	2021E	2022E	2023E
Total Fixed Assets	8	9	9	11	11	11
Net Working Capital	5	6	6	8	8	10
Long term Liabilities	2	1	1	1	1	1
Net Capital Employed	11	15	14	17	18	19
Net Cash (Debt)	-5	-2	1	3	4	6
Group Equity	7	13	14	20	22	25
Minorities	0	0	0	0	0	0
Net Equity	7	13	14	20	22	25
Enterprise Value (Eu mn)	2018A	2019A	2020A	2021E	2022E	2023E
Average Mkt Cap		55	36	48	48	48
Adjustments (Associate & Minorities)	0	0	0	0	0	0
Net Cash (Debt)	-5	-2	1	3	4	6
Enterprise Value		57	35	45	44	42
Ratios (%)	2018A	2019A	2020A	2021E	2022E	2023E
EBITDA Adj Margin	16.7%	18.4%	18.5%	17.4%	19.4%	21.4%
EBIT Adj Margin	6.5%	7.5%	8.2%	7.0%	10.5%	13.5%
Gearing - Debt/Equity	74.5%	16.7%	-3.7%	-15.1%	-19.6%	-23.1%
Interest Cover on EBIT	6.7	8.7	15.0	10.6	20.7	33.7
Net Debt/EBITDA Adj	1.3	0.6	-0.1	-0.8	-0.8	-0.8
ROACE*	12.3%	10.5%	10.9%	9.5%	16.0%	24.2%
ROE*	12.3%	10.6%	12.5%	5.0%	8.2%	12.0%
EV/CE		4.4	2.5	2.9	2.5	2.3
EV/Sales		3.1	1.9	2.1	1.6	1.3
EV/EBITDA Adj		16.9	10.0	12.2	8.4	6.0
EV/EBIT Adj		nm	22.8	30.3	15.6	9.4
Free Cash Flow Yield	3.3%	-5.2%	3.0%	-5.3%	2.6%	3.0%
Growth Rates (%)	2018A	2019A	2020A	2021E	2022E	2023E
Sales	57.0%	-19.4%	4.8%	11.1%	26.4%	24.3%
EBITDA Adj	35.2%	-11.1%	5.1%	4.6%	40.8%	36.9%
EBIT Adj	142.7%	-7.0%	14.1%	-4.4%	89.1%	59.5%
Net Profit Adj	305.4%	10.9%	101.6%	-48.1%	98.8%	62.6%
EPS Adj	305.4%	33.8%	65.8%	-57.2%	98.8%	62.6%
DPS						

*Excluding extraordinary items

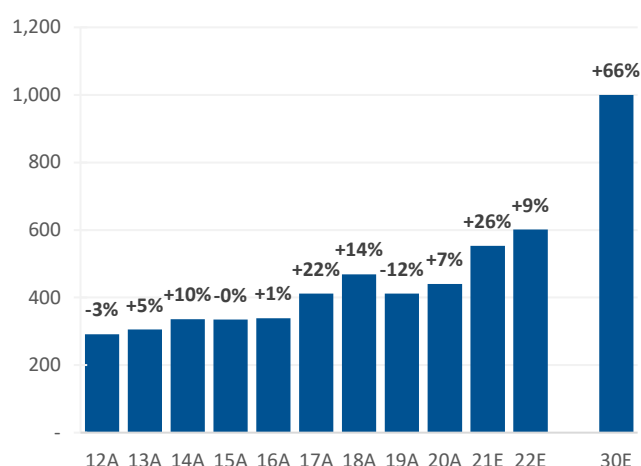
Source: Intermonte SIM estimates

2021 guidance revision driven by the global chip shortage

The ongoing semiconductor shortage is causing longer waiting times for chips, extending to ~22 weeks as of October, almost double the ~13 weeks in the pre-pandemic year according to industry pools. The situation has prompted ELES suppliers to delay delivery of materials ordered months ago which are necessary to complete the assembly of testing machines scheduled for delivery to customers in 2021 (including two new-generation machines). As a consequence, ELES has revised its 2021 guidance, and now expects net sales of €20-21mn (vs €23mn prev.) and EBITDA of €3.5-3.8mn (17.3%-18.3% margin, vs €4.5mn prev.). Importantly, there have been no cancellations of orders while clients (i.e. chip makers) clearly understand the situation as they are at the heart of the issue.

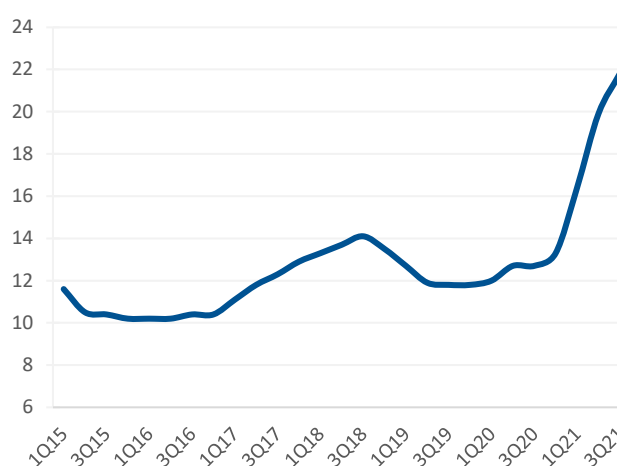
Spillover effect to 2022, but long-term trends merely reinforced. While the situation is causing short-term pressure, with the shortage foreseen persisting throughout 2022 but some easing from 2H, we believe it also highlights that end-market demand remains strong. Digitalization and electrification are imposing profound transformation on sectors such as automotive, industrial, consumer electronics and telecommunications, creating additional and permanent market layers. Indeed, the global semiconductor market is seen up +26% YoY in 2021 to \$553bn and to more than \$1tn by 2030 (+9% CAGR vs 2020). The higher number of semiconductors along with greater complexity, functionality, and reliability requirements are raising the importance of chip testing.

Net sales breakdown by geographical area (2020 PF)



Source: WSTS

Average semiconductor lead times per quarter (weeks)



Source: Susquehanna Financial Group

Financials

Income statement

	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Revenue	12.5	14.4	22.6	18.2	19.1	21.2	26.8	33.3
YoY growth	+0.0%	+15.3%	+57.0%	-19.4%	+4.8%	+11.1%	+26.4%	+24.3%
- Material purchase	(5.1)	(5.3)	(9.4)	(7.1)	(7.6)	(8.4)	(10.5)	(12.8)
Gross profit	7.4	9.1	13.2	11.2	11.5	12.8	16.3	20.5
YoY growth	+0.0%	+23.2%	+44.5%	-15.4%	+2.9%	+11.5%	+27.3%	+25.8%
Gross margin %	59.4%	63.4%	58.4%	61.3%	60.2%	60.4%	60.8%	61.6%
- Total operating expenses	(4.9)	(6.3)	(9.4)	(7.8)	(8.0)	(9.1)	(11.1)	(13.4)
Adj. EBITDA	2.5	2.8	3.8	3.4	3.5	3.7	5.2	7.1
YoY growth	+0.0%	+12.7%	+35.2%	-11.1%	+5.1%	+4.6%	+40.8%	+36.9%
Adj. EBITDA margin %	19.9%	19.4%	16.7%	18.4%	18.5%	17.4%	19.4%	21.4%
- D&A and others	(2.1)	(2.2)	(2.3)	(2.0)	(2.0)	(2.2)	(2.4)	(2.6)
Adj. EBIT	0.4	0.6	1.5	1.4	1.6	1.5	2.8	4.5
YoY growth	+0.0%	+46.6%	+142.7%	-7.0%	+14.1%	-4.4%	+89.1%	+59.5%
Adj. EBIT margin %	3.3%	4.2%	6.5%	7.5%	8.2%	7.0%	10.5%	13.5%
- Non-recurring costs	0.0	0.0	0.0	(0.2)	0.0	0.0	0.0	0.0
-/+ Net fin. (exp.)/inc.	(0.3)	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
- Profit/Losses on exchange rates	0.0	(0.0)	(0.0)	(0.0)	0.0	0.0	0.0	0.0
Profit before tax	0.1	0.4	1.2	1.0	1.5	1.3	2.7	4.4
- Tax income	(0.1)	(0.2)	(0.5)	(0.2)	0.2	(0.5)	(0.9)	(1.5)
Tax rate %	83.8%	47.3%	38.7%	17.1%	-16.0%	35.0%	35.0%	35.0%
Net income	0.0	0.2	0.8	0.8	1.7	0.9	1.7	2.8
YoY growth	+0.0%	+675.0%	+305.4%	+10.9%	+101.6%	-48.1%	+98.8%	+62.6%
Net income margin %	0.2%	1.3%	3.3%	4.6%	8.8%	4.1%	6.5%	8.5%
- Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income attr. to shareholders	0.0	0.2	0.8	0.8	1.7	0.9	1.7	2.8

Source: Company data & Intermonte SIM Estimates

Balance sheet

	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Trade net working capital	3.5	4.8	5.2	5.4	5.5	7.8	8.2	9.4
Other current asset/(liab.)	0.0	(0.6)	(0.6)	1.1	0.1	0.1	0.1	0.1
Net working capital	3.5	4.2	4.6	6.5	5.7	7.9	8.3	9.6
Net fixed assets	10.8	9.7	8.4	9.2	9.4	10.5	10.6	10.8
Non-current liabilities	(2.4)	(1.5)	(1.5)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Non-current asset/(liab.)	8.4	8.2	6.8	8.1	8.3	9.4	9.5	9.7
Net capital employed	11.9	12.4	11.4	14.6	13.9	17.3	17.8	19.2
Net debt/(cash)	6.3	6.6	4.9	2.1	(0.5)	(3.1)	(4.3)	(5.8)
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity	5.6	5.8	6.5	12.5	14.4	20.4	22.2	25.0
Invested capital	11.9	12.4	11.4	14.6	13.9	17.3	17.8	19.2

Source: Company data & Intermonte SIM Estimates

Cash flow statement

	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Net Income		0.2	0.8	0.8	1.7	0.9	1.7	2.8
D&A		2.2	2.2	1.9	1.8	2.1	2.3	2.5
Change in working capital & Others		(1.7)	(0.7)	(2.9)	0.1	(2.3)	(0.4)	(1.3)
Cash flow from operations		0.6	2.3	(0.1)	3.6	0.7	3.6	4.1
Capex		(0.9)	(0.7)	(2.4)	(2.1)	(3.3)	(2.4)	(2.6)
FCF (ex. acq)		(0.3)	1.6	(2.5)	1.5	(2.5)	1.2	1.4
Acquisitions		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Div., buyb. and equity fin.		0.0	0.0	6.0	0.3	5.1	0.0	0.0
Others (incl. IFRS 16)		(0.0)	0.1	(0.7)	0.9	0.0	0.0	0.0
Change in NFP		(0.3)	1.7	2.8	2.6	2.6	1.2	1.4
NFP end of the period		(6.6)	(4.9)	(2.1)	0.5	3.1	4.3	5.8

Source: Company data & Intermonte SIM Estimates

Market multiples and performance

Market multiples

	EV/EBITDA			EV/EBIT			PE		
	2020A	2021E	2022E	2020A	2021E	2022E	2020A	2021E	2022E
ELES @ our TP	16.9x	15.4x	10.7x	38.2x	38.3x	19.8x	30.7x	71.7x	36.1x
ELES @ our est.	12.9x	11.6x	8.0x	29.3x	28.9x	14.8x	23.5x	55.0x	27.7x
TERADYNE	22.9x	18.2x	16.6x	25.6x	19.6x	18.0x	33.0x	25.9x	23.6x
COHU		7.2x	6.4x		7.6x	7.1x	27.2x	10.7x	11.0x
AEHR TEST SYSTEMS								35.5x	21.6x
ADVANTEST	22.4x	14.7x	11.8x	26.1x	16.6x	13.7x	28.1x	23.2x	19.3x
CHROMA ATE	25.7x	21.0x	14.7x	29.5x	24.3x	16.2x	33.9x	18.5x	18.8x
AVERAGE (EX-AEHR)	23.7x	15.3x	12.4x	27.1x	17.0x	13.8x	30.6x	19.6x	18.2x
Disc. vs our est. AVG	-45%	-24%	-35%	8%	69%	8%	-23%	181%	52%

Source: FactSet

Performance (total return)

	PX (Lcl Cny)	MKT C. (€ mn)	-1m	-3m	-6m	YTD	-1y	-2y	19/06/19
ELES	3.5	46	-7.3%	-13.1%	-24.1%	+4.4%	+7.0%	-31.3%	-6.9%
TERADYNE	152.6	22,072	+5.9%	+25.3%	+16.1%	+27.3%	+31.9%	+140.6%	+239.4%
COHU	32.3	1,396	-10.0%	-9.1%	-12.9%	-15.4%	-16.0%	+72.0%	+107.0%
AEHR TEST SYSTEMS	14.9	351	-42.1%	+77.5%	+445.4%	+536.3%	+605.7%	+679.6%	+824.5%
ADVANTEST	9,950.0	15,527	-0.7%	-3.9%	-3.1%	+30.4%	+35.0%	+89.2%	+288.7%
CHROMA ATE	188.0	2,536	-0.5%	+2.5%	-0.0%	+13.2%	+22.2%	+37.9%	+43.5%
MARKET FTSE MIB			-4.7%	+0.9%	+3.6%	+19.2%	+19.5%	+14.3%	+24.9%
PEERS			-9.5%	+18.4%	+89.1%	+118.4%	+135.7%	+203.9%	+300.6%
ELES vs MARKET FTSE MIB			-2.7%	-13.9%	-27.7%	-14.7%	-12.5%	-45.6%	-31.7%
ELES vs PEERS			+2.1%	-31.5%	-113.2%	-113.9%	-128.8%	-235.2%	-307.5%

Source: FactSet

Changes to estimates

Changes to estimates

	New			Old			Diff. %		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Revenue	21.2	26.8	33.3	23.7	30.3	36.5	-11%	-12%	-9%
YoY growth	11.1%	26.4%	24.3%	24.2%	27.8%	20.5%	-1310 bps	-143 bps	379 bps
Adj. EBITDA	3.7	5.2	7.1	4.4	6.4	7.8	-16%	-19%	-8%
YoY growth	4.6%	40.8%	36.9%	25.2%	46.0%	20.5%			
Adj. EBITDA margin %	17.4%	19.4%	21.4%	18.6%	21.3%	21.3%	-122 bps	-189 bps	9 bps
Adj. EBIT	1.5	2.8	4.5	2.2	3.8	4.9	-32%	-25%	-8%
YoY growth	-4.4%	89.1%	59.5%	40.6%	71.4%	30.2%			
Adj. EBIT margin %	7.0%	10.5%	13.5%	9.2%	12.4%	13.4%	-222 bps	-189 bps	9 bps
NOSH	13.6	13.6	13.6	13.6	13.6	13.6	0%	0%	0%
Adj. EPS	0.06	0.13	0.21	0.09	0.17	0.22	-31%	-24%	-6%
YoY growth	-57.2%	98.8%	62.6%	-38.4%	81.0%	32.4%			
Net debt/(cash)	(3.1)	(4.3)	(5.8)	(4.0)	(6.5)	(8.0)	-22%	-33%	-28%
Net debt/EBITDA	(0.8 x)	(0.8 x)	(0.8 x)	(0.9 x)	(1.0 x)	(1.0 x)			

Source: Intermonte SIM

ELES in brief

Company description

ELES operates in the business of testing systems for integrated circuits, offering testing solutions for microelectronics components. The company offers a solution consisting of an internally developed and assembled modular testing machine and more stable and visible support activities (38%/62% of turnover respectively). The business has an international footprint: 73% is in EMEA, 21% in APAC, and 5% in USA. Clients belong to the semiconductor value chain (92% of turnover), while 8% of turnover comes from ECU suppliers. Customer concentration is high, although it has decreased in 2020 thanks to the addition of new customers, as the top 3 clients represent ~78% of turnover.

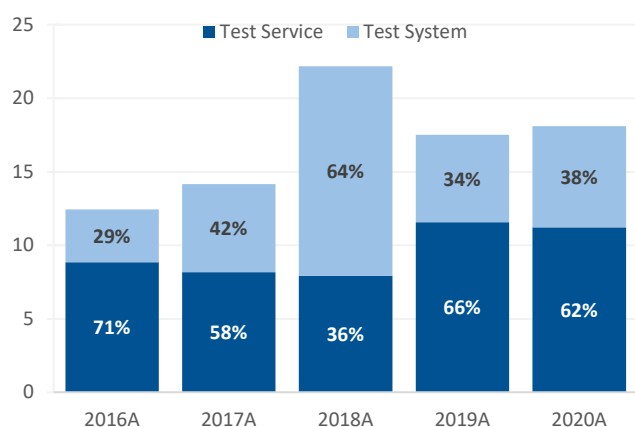
Management

CEO: F. Zaffarami
Chairman: A. Zaffarami
CFO: R. Scappito
Next BoD renewal: Spring, 2022
BoD independent members: 3/5

Shareholders

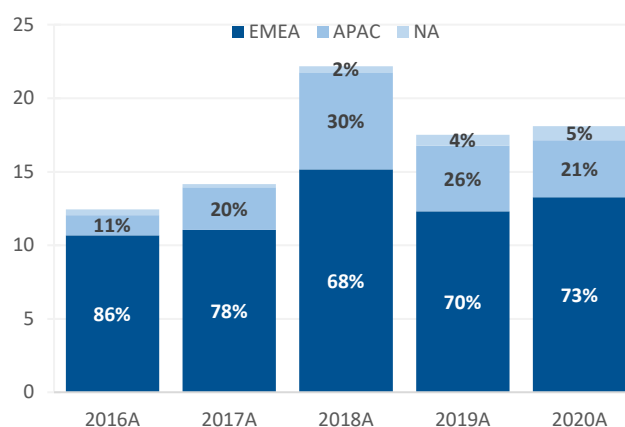
A. Zaffarami	31.0%
C. Franceschin	8.0%
F. Zaffarami	5.0%
Market	56.0%

Revenue, EBITDA and EBITDA margin % by division (2020A)



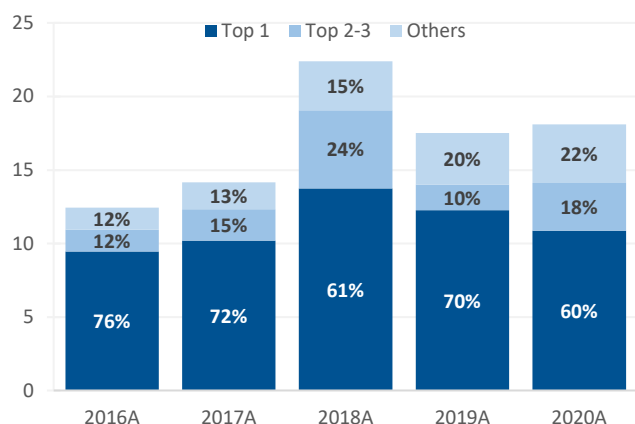
Source: company data (A))

Revenue breakdown by type of client (2020A)



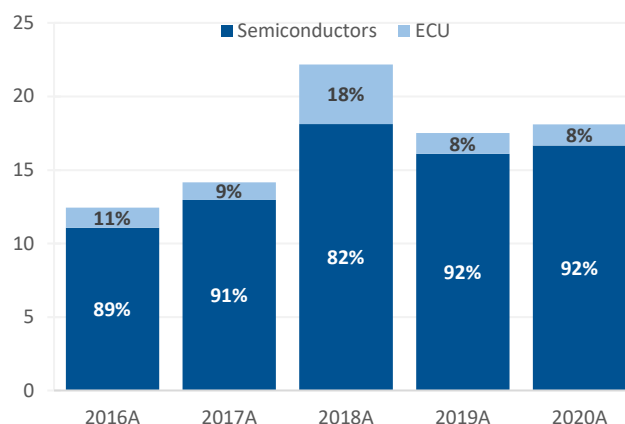
Source: company data (A)

Revenue, EBITDA and EBITDA margin % by division (2020A)



Source: company data (A))

Revenue breakdown by type of client (2020A)



Source: company data (A)

DETAILS ON STOCKS RECOMMENDATION			
Stock NAME	ELES		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	4.60	Previous Target (Eu):	5.30
Current Price (Eu):	3.53	Previous Price (Eu):	3.72
Date of report:	07/12/2021	Date of last report:	11/10/2021

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- 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 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

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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:	17,36 %
OUTPERFORM:	52,89 %
NEUTRAL:	25,62 %
UNDERPERFORM:	04,13 %
SELL:	00,00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (55 in total) is as follows:

BUY:	30,91 %
OUTPERFORM:	49,09 %
NEUTRAL:	20,00 %
UNDERPERFORM:	00,00 %
SELL:	00,00 %

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Emitteente	%	Long/Short
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COGEME SET SPA	1,6	SHORT
IKF	0,57	SHORT
OLIDATA	0,74	SHORT

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