

Avoiding the Semiconductor Shortage

ADD | Fair Value: €3.68 (€3.68) | Current Price: €2.25 | Upside: +64%

Research Update

August 1, 2022 – 7.00 h

€ Million	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Total Revenues	22.6	18.2	19.1	19.7	21.5	28.0	34.5
EBITDA	3.8	3.4	3.5	3.2	2.9	5.0	7.1
margin	16.7%	18.4%	18.5%	16.0%	13.7%	17.7%	20.7%
Net Profit	0.8	0.8	1.7	0.9	0.6	1.9	3.4
margin	3.3%	4.6%	8.8%	4.3%	3.0%	6.9%	9.7%
EPS	n.a.	0.08	0.15	0.06	0.05	0.14	0.25
NFP/(Cash)	4.9	2.1	(0.5)	(3.2)	(2.3)	(4.3)	(8.0)

Source: Company data, KT&Partners' elaboration

1H22 preliminary sales slightly above 1H21 and in line with our estimates. Nonetheless the uncertain scenario related to the worldwide shortage on semiconductor components with the consequence of: i) delivery times delay, ii) electronic components and basic materials price increase, Eles reported 1H22 sales at €10.1mn, showing an increase of +5% YoY comparing with the €9.7mn in the 1H21. According to our estimates, we expect 1H22 revenues at €10.2mn, in line with Eles preliminary results. Looking at sales' breakdown, Service business line, the part of Eles' offer that mitigates the cyclical nature of the Semiconductors market, amounted to approximately €5.4mn, representing the 53% of revenues (vs €6.9mn and 72% of sales in the 1H21). Moreover, Eles confirms its expansion also in foreign areas, increasing its revenues coming from abroad with the exports at 79% of sales (vs the 65% in the 1H21). Given the uncertain macroeconomic scenario, Eles will continue to monitor the situation regarding the shortage which may force rescheduling of the delivery times, taking all necessary actions to mitigate its effects.

Consolidating the external growth strategy. Eles, on July 29th, 2022, announced the acquisition of the remaining 33.3% of CBL Electronics share capital. The Transaction follows the signing, on May 10th, 2022, of a contract for the acquisition of the 66.7% of CBL. Following the completion of both transactions, Eles would thus hold the 100% of CBL's share capital. Consolidating CBL, Eles is expected to strengthen its presence in the Aerospace and Defense sector, which is strategic both for its relevant growth prospects and for its anti-cyclical characteristics.

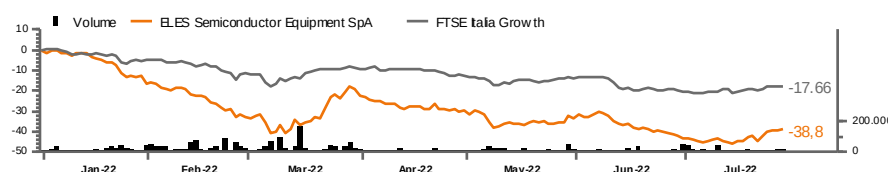
1H22 Preliminary Sales vs KT&Partners' estimates

€ Million	1H19	1H20	1H21	1H22 Preliminary	YoY Growth	1H22E	A vs E %
Sales Revenues	9.8	8.3	9.7	10.1	4.6%	10.2	-0.6%

Source: Company data, KT&Partners' elaboration

Estimates and valuation confirmed. Given 1H22 Eles preliminary result almost aligned with our expectations and waiting for 1H22 audited results and CBL Electronic consolidation, we confirmed our latest estimates updated on April 28th, 2022. Regarding our 2022E-2024E projections, we expect sales revenues to grow at a CAGR21–24 of 21.4% reaching almost €34mn in 2024. Looking at the EBITDA, we estimated an increase at a higher pace than sales revenues (+31.2% CAGR21–24) as a result of the economy of scale and an expected decrease in raw material costs, reaching €7.1mn in FY24. It should be noted that in FY22, we estimate an EBITDA slight below FY21, mainly due to: i) the persisting global shortage that is affecting the semiconductor market, leading to higher costs of raw materials and ii) the energy crisis that is expected to negatively impact production costs in FY22E. Finally, we forecast FY22W net cash position going from €2.3mn in FY22E to €8mn in FY24E. We will update our estimates and valuation following the publication of 1H22 audited financial results. On the back of our current projections, we still see a potential upside of +64% on the current price.

YTD Relative Performance Chart



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Market Data

Main Shareholders	
Zaffarami Antonio	31.0%
Franceschin Carla	8.0%
Zaffarami Francesca	5.1%
Mkt Cap (€ mn)	34.9
EV (€ mn)	31.7
Shares issued (mn)	13.63
Free Float (%)	56%

Market multiples	2021	2022	2023
EV/EBITDA			
ELES	10.0x	10.8x	6.4x
Comps median	13.9x	12.2x	10.2x
ELES vs Median	-28%	-12%	-37%

Stock Data

52 Wk High (€)	4.18
52 Wk Low (€)	1.98
Avg. Daily Trading 90d	15,470
Price Change 1w (%)	-8.6%
Price Change 1m (%)	-30.1%

Key charts

Chart 1: Sales Revenues and EBITDA margin 2018-21 (€mn)

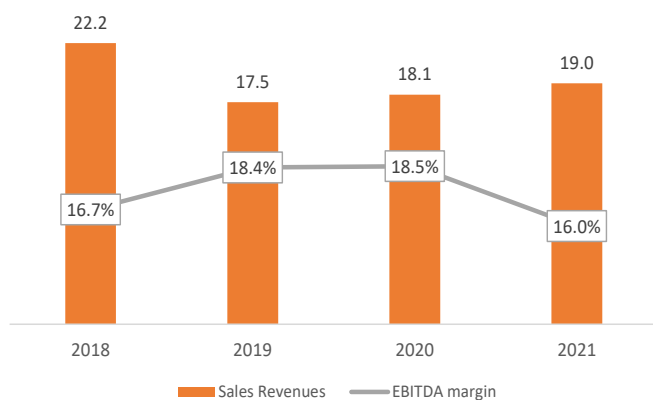


Chart 2: 2018-2021 Sales Revenues by product line (€mn)

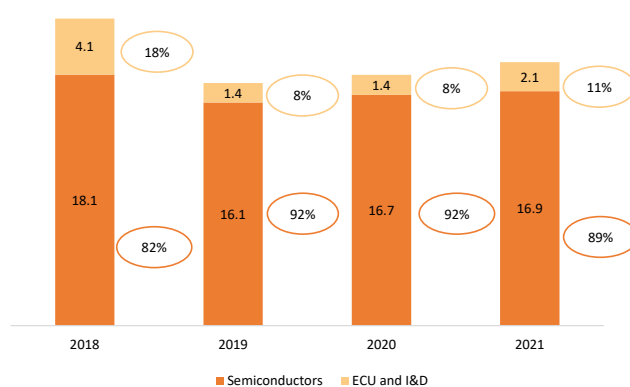


Chart 3: 2018-2021 Semiconductors Sales revenues

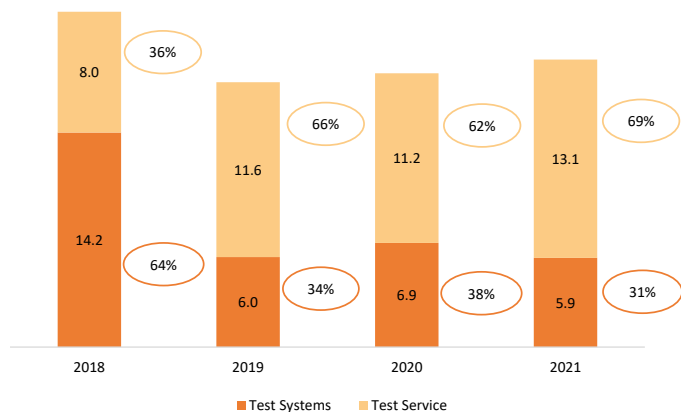


Chart 4: 2018-2021 Sales Revenues by geographic area

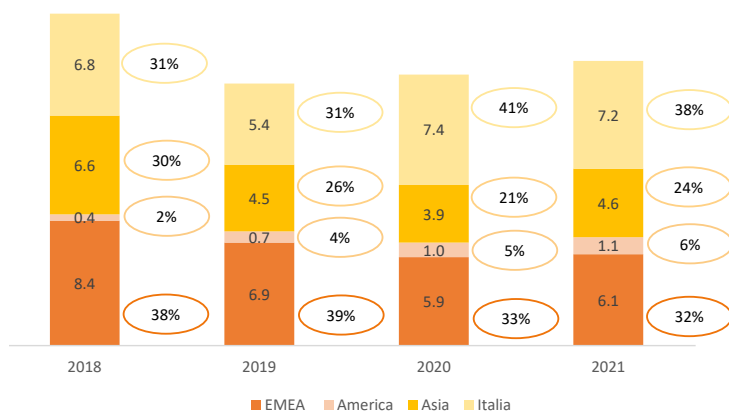
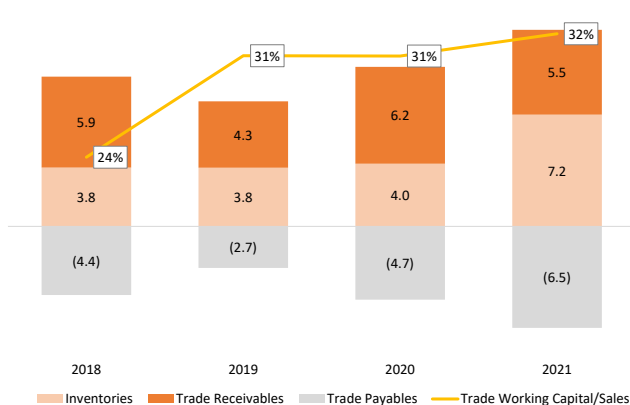
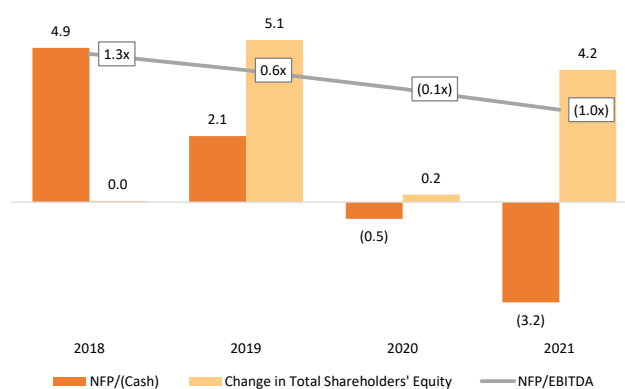


Chart 5: 2019-21 Trade Working Capital (€mn, %)



2019-21 NFP and NFP/EBITDA (€mn)



Overview

Company description

ELES is an Italian company active since 1988 in the reliability testing equipment market for semiconductors. ELES has developed an innovative semiconductor testing solution (**RETE**) – based on Test-During-Burn-In approach – which allows for the testing of both reliability and performance of semiconductor devices, with important advantages in terms of timing and costs savings with respect to traditional tests. The company produced also Electronic Control Unit (ECU) testing market for the Automotive and Aerospace & Defense industries.

On June 19th, 2019, ELES went listed on EGM market, raising €6mn. Benefiting from an increased brand awareness in Italy and abroad, the company has used IPO proceeds to support its innovation process and market share expansion through internal and external growth.

Investment case

- **RETE approach to support customers in achieving the “zero-defect” goal.** The RETE approach allows to carry out up to 80% of the functional test during the Burn-In phase (*Test-During-Burn-In*) with important advantages in terms of time and cost savings. Future strategies entail further increase coverage of the functional test up to 100% (Total Test) on TDBI platform.
- **Constantly innovating and developing new solutions to remain competitive.** Thanks to its 30 years of experience, ELES boasts a rich and continuously updated IP library which forms the basis of the software used to test different semiconductor devices and families. Thanks to an **R&D team with strong know-how** that continually innovates and designs testing machines solutions, ELES is able to meet market's needs and anticipate competitors' moves.
- **Kept expanding customer base and portfolio of orders.** Over the years, ELES has acquired new strategic clients in Europe, Far-East, USA and Israel, increasing its international presence while diversifying its customer base.

Recent developments

- **On July 29, 2022, Eles announced the acquisition of the remaining 33.3% of CBL Electronics** share capital. Following the completion of the two transactions, **Eles would thus hold the 100% of CBL's share capital.**
- **On May 2022, Eles announced the acquisition of a 62.66% stake in CBL Electronics**, a Todi-based company focused on the design and production of hardware and software for testing semiconductors, boards, and electronic systems.
- In February 2022, ELES received a **new order worth about \$700k** from one of the top five worldwide foundries for a site in Asia for the qualification of technology to produce Non-Volatile Memories.
- **Acquisition of Campera Electronic Systems in January 2022.** Campera is a Livorno based Company, operating in the Aerospace & Defense sectors since 2014, providing design and Intellectual Property (IP) for Video, Radar, Mission and Safety Critical systems on the latest FPGA and System on Chip technologies.
- Achievement of two certifications in August 2021– **UNI 14001 and UNI 45001** – attesting company's respect for the environment, safety, and health of its employees.

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KT&PARTNERS PREVIOUSLY RELEASED RELATECH EQUITY RESEARCH UPDATE ON 28/04/2021 WITH A FAIR VALUE OF €3.68PS.

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IN THIS STUDY DCF AND MULTIPLE VALUATION MODELS HAVE BEEN USED. RECOMMENDATIONS FOLLOW THE FOLLOWING RULES:

- ADD – FOR A FAIR VALUE > 15% ON CURRENT PRICE
- HOLD – FOR A FAIR VALUE <15% AND >-15% ON CURRENT PRICE
- REDUCE – FOR A FAIR VALUE < -15% ON CURRENT PRICE



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