

Analyst:

 Roberto Letizia | r.letizia@equita.eu |
 +39 02 6204 473

BUY (Unchanged)

Target: € 10 (Unchanged) | Risk: High

EQUITY RESEARCH

Italy | Industrials

STOCK DATA

Price € (Ind Stars of Italy 2)	6.90
Bloomberg code	SIT IM
Market Cap. (€ mn)	172.6
Free Float	28%
Shares Out. (mn)	25.0
52-week range	6.75 - 9.46
Daily Volumes ('000)	1.54

PERFORMANCE	1M	3M	12M
Absolute	-5%	-18%	-27%
Rel. to FTSE all shares	-7%	-20%	-32%

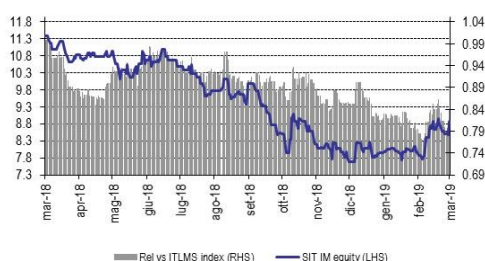
MAIN METRICS*	2018	2019E	2020E
Revenues	359.7	346.9	353.0
Adjusted EBITDA	50.4	46.1	49.7
Adj. net income	24.2	16.8	21.1
Adj. EPS - € cents	91	65	81
DPS ord - € cents	28	28	28

MARKET RATIO*	2018	2019E	2020E
P/E adj (FD)	7.6 x	10.7 x	8.5 x
EV/EBITDA adj (FD)	5.1 x	5.9 x	5.3 x
ROCE	8.3%	7.6%	8.1%

REMUNERATION*	2018	2019E	2020E
Div. Yield ord	4.1%	4.1%	4.1%
FCF yield	-5.0%	-3.6%	6.7%

INDEBTEDNESS*	2018	2019E	2020E
NFP	-71	-85	-80
Debt/EBITDA (adj)	1.4 x	1.8 x	1.6 x
Interests cov (adj)	n.m.	6.1 x	9.5 x

*fully diluted

PRICE ORD LAST 365 DAYS

PLANT VISIT IN THE ROVIGO FACILITIES

We run a plant visit in SIT's Rovigo facilities. We found the presentation as highly helpful to understand SIT position in its reference markets as well as the relevant technological content of both final products and assembly lines. Management has anticipated the main strategic pillars of the upcoming strategy presentation (which we expected to be held in 1H2020) including some numeric guidelines that are basically in line with our expectations. Product line enhancement, "servitization", improving technological content, integrated and multi-fuel offer as well as new data management solutions, will lead the company through the next decade.

■ Anticipating the main strategic guidelines

We run yesterday a visit through SIT production facilities in Rovigo, which we found highly interesting to better understand group's position in the reference market as well as the high technological content of both final products and assembly lines. Sit's management anticipated also some of the strategic pillars that will be presented in the next strategy presentation, which we expect to be held in 1H2020. More in details:

1. The gas contribution to the Heating and Cooking gas sub-segments is expected to remain strong in the next decade (through 2030);
2. Opportunities will emerge for Sit, considering the more sophisticated request from clients, which are demanding high level of performance, multi-fuel management, higher integrated solutions, low energy consumption and higher communication skills across different platforms;
3. Opportunities may also arise in the "service" provided to clients, including data management and IoT intelligent solutions.

Within this framework Sit will focus on:

1. **R&D and new product offering**, thus completing the product line-up;
2. **Increasing share of wallet**, exploiting the global platform;
3. **Increase technological content** in integrated solutions;
4. **Revisit production lines** with lean management projects;
5. **Consolidate the presence in the metering** in new countries (UK and India) and possibly new fuels in the futures (ie Hydrogen)

In front of a challenging market (mainly in the heating) we believe the strategy appears clear and well addressed to position SIT for the next cycle.

■ Guidance in line with our expectations

Sit has also anticipated some "qualitative" guidance which we find almost in line with our expectations. **In the coming years SIT expects:**

- **Organic top line increase in the range of low single digit growth**
- **Ebitda margin in line with recent years average**
- **Capex in line with last 3 years average**
- **Nfp stable / improving**

■ Investment case

We have recently confirmed our BUY recommendation as we believe Sit has:

1. **A good position in its reference market**, with a relevant global market share (up to 50% in the mechanical controls);
2. **Attractive underlying market drivers and visible outlook in metering**, thanks to a good mix of regulatory requirements, continued urbanization/gas penetration and higher technological requirements;
3. **An attractive valuation**. SIT is currently trading 2020E at 8.5x PE adj. (ex PPA); 5.3x EV/EBITDA with a 14% Ebitda margin, and a yield of 4.1%. This is some -30%/-35% discount vs industrial peers.

MAIN FIGURES € mn	2016	2017	2018	2019E	2020E	2021E
Revenues	288.1	324.0	359.7	346.9	353.0	355.7
Growth	9%	12%	11%	-4%	2%	1%
EBITDA	43.5	44.2	44.0	46.7	49.7	50.6
Growth	35%	2%	-1%	6%	7%	2%
Adjusted EBITDA	44.6	45.8	50.4	46.1	49.7	50.6
Growth	26%	3%	10%	-9%	8%	2%
EBIT	23.5	25.2	24.0	23.7	25.8	26.2
Growth	95%	7%	-5%	-1%	9%	2%
Profit before tax	5.1	-21.4	32.2	16.2	20.5	23.1
Growth	nm	nm	nm	-50%	27%	13%
Net income	1.7	-23.3	24.4	12.4	16.4	17.0
Growth	302%	nm	nm	-49%	32%	4%
Adj. net income	5.2	19.2	24.2	16.8	21.1	21.3
Growth	11%	268%	26%	-30%	26%	1%
MARGIN	2016	2017	2018	2019E	2020E	2021E
Ebitda Margin	15.1%	13.6%	12.2%	13.5%	14.1%	14.2%
Ebitda adj Margin	15.5%	14.2%	14.0%	13.3%	14.1%	14.2%
Ebit margin	8.1%	7.8%	6.7%	6.8%	7.3%	7.4%
Pbt margin	1.8%	-6.6%	9.0%	4.7%	5.8%	6.5%
Ni rep margin	0.6%	-7.2%	6.8%	3.6%	4.6%	4.8%
Ni adj margin	1.8%	5.9%	6.7%	4.8%	6.0%	6.0%
SHARE DATA	2016	2017	2018	2019E	2020E	2021E
EPS - € cents	6.9	-92.4	92.1	47.7	62.9	65.5
Growth	n.m.	nm	nm	-48%	32%	4%
Adj. EPS - € cents	20.6	75.9	91.1	64.5	81.1	81.8
Growth	-	268%	20%	-29%	26%	1%
DPS ord - € cents	0.0	24.7	28.0	28.3	28.3	28.3
BVPS - €	2.7	4.2	4.7	5.0	5.4	5.7
VARIOUS - € mn	2016	2017	2018	2019E	2020E	2021E
Capital employed	203	180	207	226	230	223
FCF	20	0	-9	-6	12	25
Capex	-9	-17	-38	-36	-29	-22
Working capital assets	15	15	19	24	24	19
INDEBTNESS - €mn	2016	2017	2018	2019E	2020E	2021E
NFP	-125	-65	-71	-85	-80	-63
D/E (adj)	1.80 x	0.62 x	0.57 x	0.65 x	0.57 x	0.42 x
Debt/EBITDA (adj)	2.8 x	1.4 x	1.4 x	1.8 x	1.6 x	1.2 x
Interests cov (adj)	2.4 x	1.0 x	n.m.	6.1 x	9.5 x	16.7 x
MARKET RATIOS	2016	2017	2018	2019E	2020E	2021E
P/E ord	142.4 x	-7.5 x	7.5 x	14.5 x	11.0 x	10.5 x
P/E ord Adj	47.6 x	9.1 x	7.6 x	10.7 x	8.5 x	8.4 x
PBV	3.6 x	1.6 x	1.5 x	1.4 x	1.3 x	1.2 x
P/CF	11.4 x	-40.7 x	4.1 x	5.1 x	4.5 x	4.3 x
EV FIGURES	2016	2017	2018	2019E	2020E	2021E
EV/Sales (Fully Diluted)	1.3 x	0.8 x	0.7 x	0.8 x	0.8 x	0.7 x
EV/EBITDA (Fully Diluted)	8.7 x	5.5 x	5.9 x	5.8 x	5.3 x	4.9 x
EV/EBIT (Fully Diluted)	16.0 x	9.7 x	10.8 x	11.4 x	10.3 x	9.5 x
EV/CE (Fully Diluted)	1.9 x	1.4 x	1.3 x	1.2 x	1.2 x	1.1 x
REMUNERATION	2016	2017	2018	2019E	2020E	2021E
Div. Yield ord	0.0%	3.6%	4.1%	4.1%	4.1%	4.1%
FCF yield	8.0%	-0.1%	-5.0%	-3.6%	6.7%	13.8%
ROE	2.5%	-22.1%	19.5%	9.5%	11.7%	11.4%
ROCE	8.3%	10.1%	8.3%	7.6%	8.1%	8.5%

Source: Company data and EQUITA SIM estimates

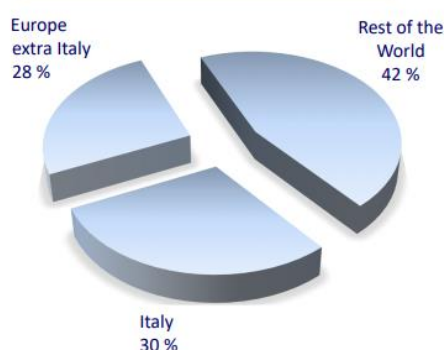
BUSINESS DESCRIPTION

“SIT”, established in 1953 by the “de’ Stefani” family, is an “Industrial Player” active in the manufacturing of “systems and components” for the gas equipment. Headquartered in Padova (PD), “SIT” is a multinational company which annually deals with 30 mn of produced units, out of which 75% are sold internationally.

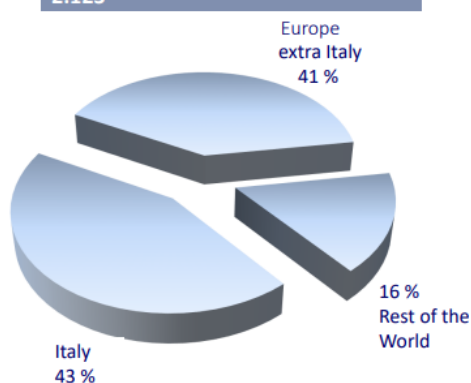
The above described activities are organized and managed in two business units:

1. The “Heating Division” (75% of sales) which designs, produces and distributes systems and components, for the safety, regulation, comfort and performance of the gas equipment used in the domestic heating, in the cooking facilities as well as in domestic appliances and water heaters.
2. The “Smart Gas Metering” division (25% of sales) which designs, engineers and produces meters for the gas market, with smart functionalities including the “remote” control, measurement, readership and communication of gas consumptions.

Turnover by geographical areas:
324 M€



Employees by geographical areas:
2.123



5 YEARS HISTORICALS RESULTS

MAIN METRICS	2013	2014	2015	2016	2017	2018
Heating Revenues	239.9	235.6	247.2	249.8	274.0	287.0
Smart Meters Revenues	5.9	20.0	15.6	37.8	49.5	72.1
REVENUES - €mn	245.8	258.4	264.1	288.1	324.0	359.7
Growth %	-	5.1%	2.2%	9.1%	12.4%	11%
EBITDA adj - €mn	35.4	34.3	35.3	44.6	45.8	50.4
Growth %	-	-3.0%	2.8%	26.4%	2.7%	9.9%
Ebitda margin %	14.4%	13.3%	13.4%	15.5%	14.2%	14.0%
NET INCOME adj (Ex ppa)	9.5	-6.0	4.7	5.2	12.2	23.3
Growth %	-	nm	nm	10.6%	135.3%	90.6%

Source: Company data and EQUITA SIM estimates

■ Pillars of the equity story and summary of the expected growth

Considering the success of the past 60 years, we believe the future strategy of the group will mainly be addressed to:

1. **Increase the “share of wallet”** of SIT’s product within the same device, also providing more integrated solution to its own clients
2. **Consolidate its geographical presence** (mainly in Europe for the metering)
3. **Increase market share in America & Asia** also through new products and functionalities
4. **Entering new countries** thanks to an already well established logistic platform
5. **Exploit the regulatory framework allowances in the metering system** (mainly in Europe short term but also in other areas – ie Middle East)
6. **Improving capital structure and debt refinancing process** to allow for significant lower interest charges going forward
7. **Exploit eventual M&A opportunities** thanks to relevant FCF generation

Strengths / Opportunities

- Consolidated long term presence in the industry with premium market share in the main products
- Global presence both with strong logistic platform
- High technological content and highly automated process, in critical components for gas equipment
- Regulatory requirements helping business development
- Increasing penetration of gas usage at global level
- Increase “Share of Wallet” of SIT components in SIT’s product
- M&A opportunities on more balance capital structure
- Increasing regulatory requirements (on polluting issue and energy savings) driving product substitution

Weaknesses / Threats

- Complex logistics
- Time to market requirements (sector characteristic)
- Short term visibility
- Highly specific products in certain markets (ie US)
- Low share of complete solutions
- Increasing competition in mature markets, and in china (especially in the direct Heating)
- Higher penetration of the “District” heating systems
- Exposure to regulatory frameworks (regulatory risk)
- Exposure to currency fluctuation

COMPANY VISIT FEEDBACK

Yesterday we run a company visit in Sit’s production facilities of Rovigo. We have found the field trip as very interesting to better understand Sit’s positioning in its reference market, the high technological content of both final products and assembly lines as well as the relevant dimension of the group’s factory.

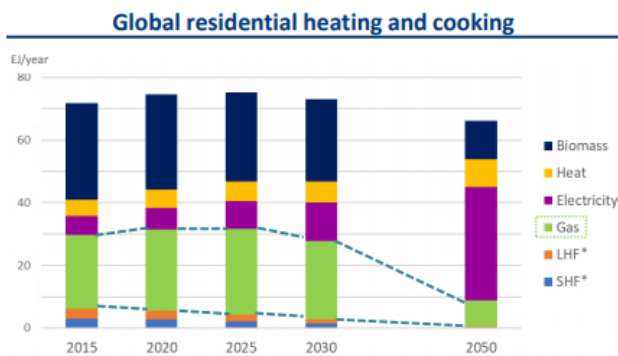
Beside the site visit, Sit has also provided for some anticipation of the strategic guidelines that will be included in the upcoming strategy presentation, which we expect to be held in the 1H of 2020.

Sit provided for the following indications and market references:

1. Despite the global de-carbonisation trends, the role of gas in the Heating and cooking sub-segments is expected to remain strong up to 2030, with a decline (in favour of electricity) expected to happen only in the subsequent 20 years.

DECARBONIZATION TRENDS

Scenario macro trends



Implications and priorities for SIT

- Gas will maintain a key role at least for the next decade
- Maximize return from current profit pool
- Evaluate adjacencies not linked to gas consumption for mid-long term opportunities

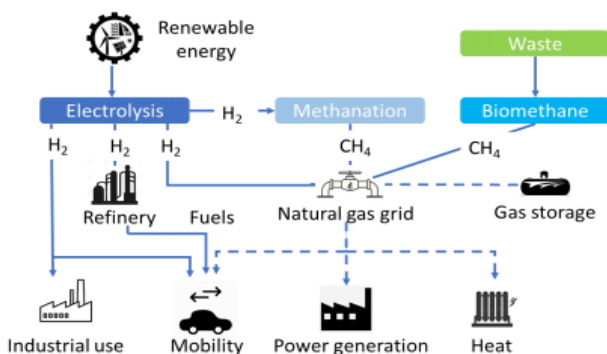
*LHF: Liquid Hydrocarbon Fuel - *SHF: Solid Hydrocarbon Fuel
Source: company presentation

2. Hydrogen is increasing its presence in mobility, industrial processes, power generation, power to gas and retail distribution usage, thus opening up to a new cycle of substitutions into products able to manage both gas and Hydrogen or Hydrogen as a stand-alone fuel (Sit has recently been selected as a preferred partner for the development of Hydrogen meters by the UK Government)

POWER TO GAS OPPORTUNITY

Scenario macro trends

Power to gas and H₂ role



Implications and priorities for SIT

- Hydrogen and biomethane will be injected into the network
- Adapt and prepare products for H₂ / biomethane

Source: company presentation

3. **New solutions are opening up beyond pure devices distribution. “Servitization” is a new opportunity which include big data analytics as well as “IoT” and intelligent solutions.** As indicated, clients request is progressively more sophisticated in terms of “performance” improvement, multi-fuel management, energy efficiency and savings, interoperability and stronger communication capacities across multi-platforms

SERVITIZATION OPPORTUNITY

Scenario macro trends	Implications and priorities for SIT
<p style="text-align: center;">From devices to services</p> <p>Expected growth*</p> <ul style="list-style-type: none"> > 10% High single digit Low single digit <p>* Next 3-5 years</p>	<ul style="list-style-type: none"> • Market growth led by network solutions, new services and big data analytics • Investigate opportunities for servitization • From devices to IoT and intelligent equipment, data management and services

Source: company presentation

4. **The “metering” market will offer increasing opportunities in UK and INDIA in the short term,** but also good opportunities in the Electricity and water segments which are today still low penetrated by smart technologies in the global market (cited only 30% in electricity, 10% in gas, and 10% in water). **Although not expected in the short term Sit may diversify in the long run to capture the opportunities in a rising market for “smart solutions”**

METERING ADRESSABLE MARKET

Global endpoints	European gas delivery points	MeterSIT target markets																								
<p>Global endpoints (Bln)</p> <p>Smart meter penetration</p> <table border="1"> <tr> <td>Electricity</td> <td>1,4</td> <td>~30%</td> <td>⬆</td> </tr> <tr> <td>Gas</td> <td>0,5</td> <td>~10%</td> <td>⬆</td> </tr> <tr> <td>Water</td> <td>1,0</td> <td>~10%</td> <td>⬆</td> </tr> </table> <p>Market expected growth*</p> <ul style="list-style-type: none"> ⬆ Single digit growth ⬆ Flat ⬆ Single digit decrease 	Electricity	1,4	~30%	⬆	Gas	0,5	~10%	⬆	Water	1,0	~10%	⬆	<p>Delivery points (Mln)</p> <p>Smart meter penetration</p> <table border="1"> <tr> <td>Italy</td> <td>23,2</td> </tr> <tr> <td>UK</td> <td>23,0</td> </tr> <tr> <td>Germany</td> <td>20,9</td> </tr> <tr> <td>France</td> <td>11,3</td> </tr> <tr> <td>Spain</td> <td>7,5</td> </tr> <tr> <td>Netherlands</td> <td>7,1</td> </tr> </table>	Italy	23,2	UK	23,0	Germany	20,9	France	11,3	Spain	7,5	Netherlands	7,1	<p>Mln endpoints</p> <p>'13 '14 '15 '16 '17 '18 '19 '20 '21 '22 '23 '24</p> <p>■ Italy ■ UK ■ India</p>
Electricity	1,4	~30%	⬆																							
Gas	0,5	~10%	⬆																							
Water	1,0	~10%	⬆																							
Italy	23,2																									
UK	23,0																									
Germany	20,9																									
France	11,3																									
Spain	7,5																									
Netherlands	7,1																									
<ul style="list-style-type: none"> • On global scale, smart penetration will continue with moderate but constant growth expected in all market segments (+2-4% per year) 	<ul style="list-style-type: none"> • Confirmed development opportunities in European Markets for new installations of smart meters and replacements 	<ul style="list-style-type: none"> • UK market deployment will peak over the next 3 years • Italian market expected to recover from 2023 thanks to replacement • Indian opportunity in pre-paid and walk-by smart meters 																								

Source: company presentation

ANTICIPATING THE UPCOMING STRATEGY PRESENTATION








Although not in full details, SIT has anticipated the main pillars of the upcoming strategy presentation, which we expect to be probably disclosed in the 1H of 2020.

Within the above described market scenario, and for what regards the HEATING business, Sits aims to:

1. **Enlarge the product offering**, by introducing and reinforcing gas adaptive and combustion management solutions (to boost energy savings) as well as integrated systems able to better fulfil the demand for higher performance and communication skills of the devices;
2. **Renew the “fan” product line up**, which has showed an increasing revenue contribution as well as new application fields (ie the 70kw product which is not covered by the company);
3. **Increase the US presence** with new integrated offerings mainly in the “furnaces” and “heating boilers” segments, currently not covered by the group;
4. **Reinforce aftermarket channel.**

For what regards the METERING divisions, Sit aims to:

1. **Achieve the certification for the UK market at the beginning of 2020** (Sit has been officially published in the list of companies asking for certification in the UK market). Sit is entering the region in JV with a local partner who has already secured some tenders for meters deployment in the coming years;
2. **Start penetrating the Indian market** also through new technologies such as the NBloT (Narrow Band Internet of things)
3. **Prepare for the next generation of meters able to sustain both gas and hydrogen gas flows**

METERING PRIORITIES	HEATING PRIORITIES
<p>Metering development priorities</p>  <ul style="list-style-type: none"> • Residential Meter Zigbee SMETS 2 for UK • Residential Meter Walk-by for India • NBloT (Narrow Band Internet of Things)  <ul style="list-style-type: none"> • New Platform (New Mechanics and Electronics)  <ul style="list-style-type: none"> • Explore H2 opportunities and prepare meters for H2/CH4 blends (Hy4Heat award from BEIS - Department for Business, Energy & Industrial Strategy – UK Government) 	<p>Heating development priorities</p>  <ul style="list-style-type: none"> • Gas adaptive and combustion management solutions • Integrated systems  <ul style="list-style-type: none"> • Renewal of fan product line-up (improved performance and new applications)  <ul style="list-style-type: none"> • New products development to strengthen offering for North America  <ul style="list-style-type: none"> • Aftermarket

Source: Company presentation

As indicated by the group, key enabling factors to be successful in the above designed strategy will be:

1. **A strong technological transformation** with sustained R&D in the digital process reengineering, including 3D printing, CRM, digital solutions, services
2. **A streamlined manufacturing process** through Lean management deployment tools (company confirmed the possibility to save 3-4mn through the efficiencies in the production facilities)
3. **Digitalization of the processes** through the industry 4.0
4. **Internalization of external laboratories** in the field of Hydrogen research
5. **After market reinforcement**

All in all, SIT will try to lever its worldwide footprint, to exploit global product platforms and to complete the product solutions offering also partnering with foreign players (ie in the UK market for the smart meters) introducing also higher range of offered services and data management solutions

HIGH TECHNOLOGICAL CONTENT OF THE PRODUCTION ACTIVITIES

Although we were expecting SIT's production facilities to be based on high-tech skills, we have been surprised by the dimension and the level of technological penetration in each phase of the production in both Heating and Metering division.

We report some images of the production phases of the Rovigo plant.

ROVIGO PLANT



Source: Equita SIM

ROVIGO PLANT



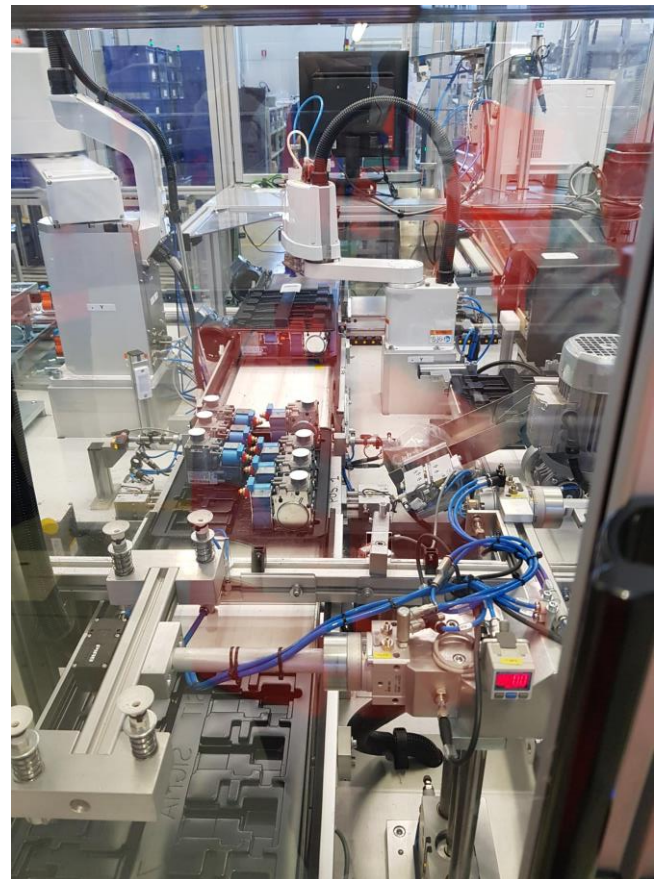
Source: Web image

ASSEMBLY LINES



Source: Equita SIM

ASSEMBLY LINES



ROBOTIC TRANSPORTS



ROBOTIC TRANSPORT



Source: Equita SIM

ASSEMBLY LINE



Source: Equita SIM

ASSEMBLY LINE

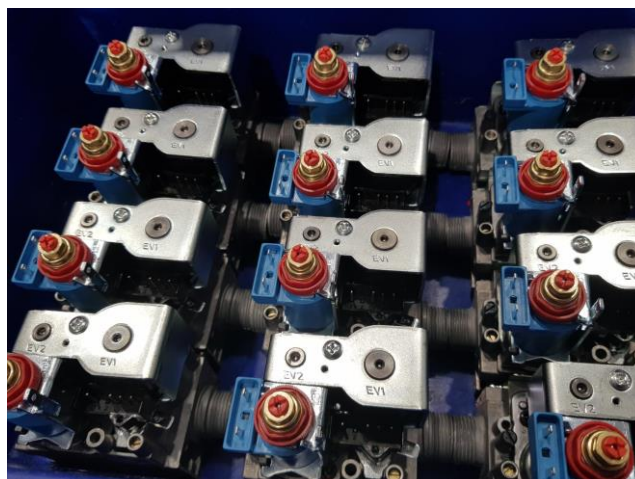


AUTOMATION



Source: Equita SIM

GAS VALVE



ASSEMBLY LINES

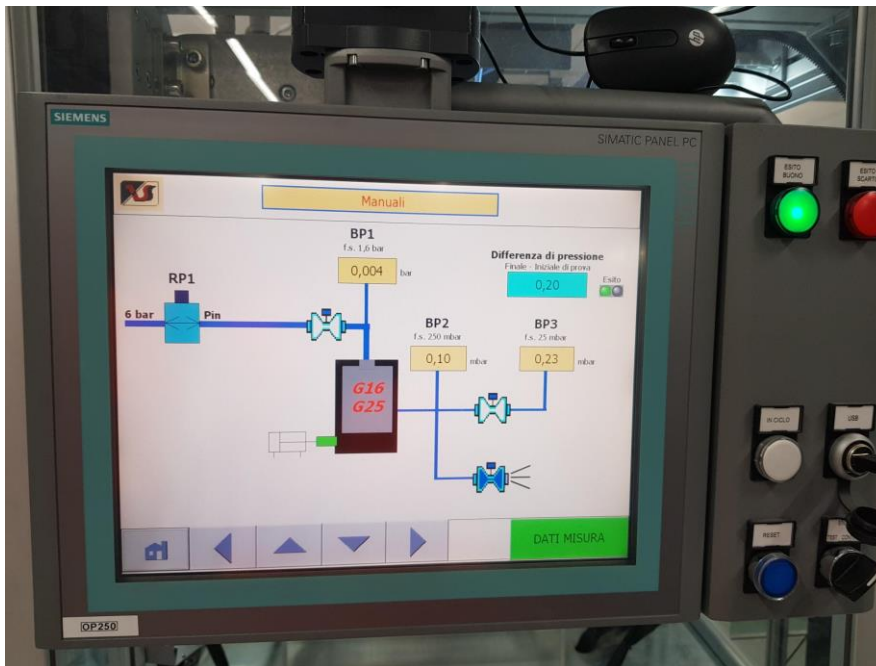


Source: Equita SIM

ASSEMBLY LINE



CONTROLS



Source: Equita SIM

BATTERIES



ANTICIPATION OF GENERAL GUIDANCE

In the presentation which followed the plant visit, Sit has also anticipated some of the guideline that will be included in the next strategy presentation. **The guidance are mainly qualitative and almost in line with our expectations. In the coming years (with period that will be better specified in the future) SIT expects:**

1. Organic top line increase in the range of low single digit growth;
2. Ebitda margin in line with recent years average;
3. Capex in line with last 3 years average;
4. Nfp stable / improving.

As indicated, above, the guidance are almost in line with our forecasts as showed in the following table.

MAIN FIGURES € mn	2016	2017	2018	2019E	2020E	2021E
Revenues	288.1	324.0	359.7	346.9	353.0	355.7
Growth	9%	12%	11%	-4%	2%	1%
EBITDA	43.5	44.2	44.0	46.6	49.7	50.6
Growth	35%	2%	-1%	6%	7%	2%
Adjusted EBITDA	44.6	45.8	50.4	46.0	49.7	50.6
Growth	26%	3%	10%	-9%	8%	2%
EBIT	23.5	25.2	24.0	23.6	25.7	26.1
Growth	95%	7%	-5%	-1%	9%	2%
Profit before tax	5.1	-21.4	32.2	16.1	20.5	23.1
Growth	-194%	-520%	-251%	-50%	27%	13%
Net income	1.7	-23.3	24.4	12.4	16.3	17.0
Growth	302%	-1442%	-205%	-49%	32%	4%
Adj. net income	5.2	19.2	24.2	16.8	21.1	21.2
Growth	11%	268%	26%	-31%	26%	1%
MARGIN	2016	2017	2018	2019E	2020E	2021E
Ebitda Margin	15.1%	13.6%	12.2%	13.4%	14.1%	14.2%
Ebitda adj Margin	15.5%	14.2%	14.0%	13.3%	14.1%	14.2%
Ebit margin	8.1%	7.8%	6.7%	6.8%	7.3%	7.3%
Pbt margin	1.8%	-6.6%	9.0%	4.6%	5.8%	6.5%
Ni rep margin	0.6%	-7.2%	6.8%	3.6%	4.6%	4.8%
Ni adj margin	1.8%	5.9%	6.7%	4.8%	6.0%	6.0%
VARIOUS - € mn	2016	2017	2018	2019E	2020E	2021E
Capital employed	203	180	207	226	230	223
FCF	20	0	-9	-7	12	25
Capex	-9	-17	-38	-36	-29	-22
Working capital assets	15	15	19	24	24	19
INDEBTNESS - €mn	2016	2017	2018	2019E	2020E	2021E
NFP	-125	-65	-71	-85	-80	-63
D/E (adj)	1.80 x	0.62 x	0.57 x	0.65 x	0.57 x	0.42 x
Debt/EBITDA (adj)	2.8 x	1.4 x	1.4 x	1.8 x	1.6 x	1.2 x
Interests cov (adj)	2.4 x	1.0 x	n.m.	6.1 x	9.5 x	16.6 x

VIEW AND VALUATION

We have recently confirmed our BUY recommendation. Despite the worse outlook in Heating, in fact, the metering is performing above expectations and we believe that, at 8.5x adjusted PE in 2020, the group already discounted the short term negative outlook in Heating.

The valuation summary is shown in the following table. Our target price implies a 14.9x PE as measured on 2020.

SUMMARY VALUATION					
	TGT	Weight	Valuation	VALUE	Consideration
EV @ P/E RATIO	313.9	50%	PE 2020:	11.0 x	Avg PE 2020
EV @ DCF METHOD	386.0	50%	EXIT ROCE:	8%	1.0% G; 5.6% Wacc
AVERAGE ENTERPRISE VALUE	350.0	nm	nm	nm	
Nfp	-84.0	nm	End of 2019 Nfp inc IFRS16		
Minorities	0.0	nm	Nm		
Provisions	-5.2	nm	50% BV		
EQUITY VALUE	260.8	nm			
Shares	26.1	nm			
TARGET PRICE	10.0	nm	Implied 2020 PE:	14.9 x	
Upside	45%				

Source: EQUITA SIM estimates

We believe SIT has:

1. **A good position in its reference market**, with a relevant global market share (up to 50% in the mechanical controls), in a rising market
2. **Attractive underlying market drivers and visible outlook**, thanks to a good mix of regulatory requirements, continued urbanization/gas penetration and higher technological requirements which sustain an expected prolonged trend of gas equipment substitution/expansion.
3. **An attractive valuation**. SIT is currently trading at 8.5x PE adj. (ex PPA); 5.3x EV/EBITDA with a 14% Ebitda margin, and a yield of 4.1% as measured on 2020. This is some -30%/-35% discount vs industrial peers

In the following table we report a peer analysis with the main reference metrics

PEERS COMPARISON															
Stock	PE Adj.			EV EBITDA			EBITDA MARGIN			Dvd Yield			D / Ebitda		
	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E
Brembo	13.9 x	14.0 x	13.3 x	6.5 x	6.2 x	5.7 x	19.3%	19.0%	19.0%	2.5%	2.7%	3.0%	0.6 x	0.4 x	0.2 x
Interpump	17.7 x	16.5 x	15.6 x	10.8 x	9.5 x	8.7 x	23.0%	23.1%	23.2%	1.0%	1.1%	1.3%	1.0 x	0.6 x	0.2 x
Datalogic	12.1 x	11.3 x	10.4 x	7.2 x	6.6 x	5.8 x	15.7%	16.2%	16.5%	3.5%	3.7%	4.1%	-0.2 x	-0.4 x	-0.7 x
Sabaf	16.3 x	13.8 x	12.9 x	7.7 x	6.7 x	6.4 x	17.3%	17.1%	17.4%	4.2%	4.2%	4.4%	2.5 x	2.3 x	2.1 x
Elica	21.1 x	15.0 x	11.0 x	6.0 x	5.2 x	4.6 x	9.0%	10.1%	10.6%	1.4%	2.0%	2.7%	1.5 x	1.1 x	0.8 x
Ima	19.5 x	16.0 x	14.6 x	10.3 x	8.7 x	8.0 x	17.9%	18.8%	19.0%	3.3%	3.5%	3.6%	2.0 x	1.5 x	nm
Carel	27.6 x	25.6 x	21.0 x	19.1 x	17.2 x	15.5 x	20.9%	21.2%	na	1.2%	1.3%	na	0.4 x	0.1 x	na
Industrials panel	18.3 x	16.1 x	14.1 x	9.7 x	8.6 x	7.8 x	17.6%	17.9%	17.6%	2.4%	2.7%	3.2%	1.1 x	0.8 x	0.5 x
SIT (FD)	7.6 x	10.7 x	8.5 x	5.1 x	5.9 x	5.3 x	14.0%	13.3%	14.1%	4.1%	4.1%	4.1%	1.4 x	1.8 x	1.6 x
Implied Discount	-59%	-33%	-40%	-47%	-32%	-32%	nm	nm	nm	nm	nm	nm	nm	nm	nm

Source: Company data and EQUITA SIM estimates

SENSITIVITY

SENSITIVITY ANALYSIS						
		PE MULTIPLE 2020				
		9 x	10 x	11 x	12 x	13 x
EXIT ROCE	10.0%	10.2	10.6	10.9	11.5	11.9
	9.0%	9.8	10.2	10.5	11.0	11.4
	8.0%	9.3	9.7	10.0	10.5	10.9
	7.0%	8.6	9.0	9.3	9.8	10.2
	6.0%	7.7	8.1	8.4	8.9	9.3

Source: EQUITA SIM estimates

STATEMENT OF RISK

The primary elements that could positively/negatively impact SIT include:

- Negative changes in the sector's regulatory framework
- Increasing competition in the reference markets
- Significant increase in interest rates
- Fluctuation in exchange rates

P&L	2016	2017	2018	2019E	2020E	2021E
Revenues	288	324	360	347	353	356
Growth	9%	12%	11%	-4%	2%	1%
Total opex	-244	-278	-309	-301	-303	-305
Growth	6%	14%	11%	-3%	1%	1%
Margin	-85%	-86%	-86%	-87%	-86%	-86%
Adjusted EBITDA	44.6	45.8	50.4	46.1	49.7	50.6
Growth	26%	3%	10%	-8.6%	8%	2%
Margin	15%	14%	14%	13%	14%	14%
Depreciation& amortization	-20	-19	-20	-23	-24	-24
Provisions	0	0	0	0	0	0
Depreciation&provision	-20.0	-19.0	-20.0	-23.0	-24.0	-24.5
EBIT	23.5	25.2	24.0	23.7	25.8	26.2
Growth	95%	7%	-5%	-1%	9%	2%
Margin	8%	8%	7%	7%	7%	7%
Net financial profit/Expenses	-18.4	-46.5	8.3	-7.5	-5.2	-3.0
Profits/exp from equity inv	0.0	0.0	0.0	0.0	0.0	0.0
Other financial profit/Exp	0.0	0.0	0.0	0.0	0.0	0.0
Total financial expenses	-18.4	-46.5	8.3	-7.5	-5.2	-3.0
Non recurring pre tax	0.0	0.0	0.0	0.0	0.0	0.0
Profit before tax	5.1	-21.4	32.2	16.2	20.5	23.1
Growth	-194%	-520%	-251%	-50%	27%	13%
Taxes	-3.4	-2.0	-7.8	-3.8	-4.2	-6.1
Tax rate	32%	32%	32%	33%	33%	33%
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Non recurring post tax	0.0	0.0	0.0	0.0	0.0	0.0
Net income	1.7	-23.3	24.4	12.4	16.4	17.0
Growth	302%	-1442%	-205%	-49%	32%	4%
Margin	1%	-7%	7%	4%	5%	5%
Adj. net income	5.2	19.2	24.2	16.8	21.1	21.3
Growth	11%	268%	26%	-30%	26%	1%
Margin	2%	6%	7%	5%	6%	6%

CF Statement	2016	2017	2018	2019E	2020E	2021E
Cash Flow from Operations	19	18	32.4	34.9	40.7	41.7
(Increase) decrease in OWC	10	0	-3.5	-5.3	0.3	5.2
(Purchase of fixed assets)	-9	-17	-38.0	-36.0	-29.0	-22.0
(Other net investments)	0	0	0.0	0.0	0.0	0.0
(Distribution of dividends)	0	0	-6.0	-7.0	-7.4	-7.4
Rights issue	14	52	0.0	0.0	0.0	0.0
Other	0	0	0.0	0.0	0.0	0.0
(Increase) Decrease in Net Debt	34	52	-15.2	-13.5	4.6	17.5

Source: Company data and EQUITA SIM estimates

INFORMATION PURSUANT TO EU REGULATION 2016/958 supplementing Regulation EU 596/2014 (c.d. MAR)

This publication has been prepared by Roberto Letizia as a financial analyst on behalf of EQUITA SIM SpA (licensed to practice by CONSOB resolution no. 11761 of December 22nd 1998 and registered as no. 67 in the Italian central register of investment service companies and financial intermediaries) to which he is bound by an employment contract.

In the past EQUITA SIM has published studies on SIT Group.

EQUITA SIM is distributing this publication via e-mail to more than 700 qualified operators today: Wednesday, 02 October 2019 at 11:02 AM

The prices of the financial instruments shown in the report are the reference prices posted on the day before publication of the same.

EQUITA SIM intends to provide continuous coverage of the financial instrument forming the subject of the present publication, with a semi-annual frequency and, in any case, with a frequency consistent with the timing of the issuer's periodical financial reporting and of any exceptional event occurring in the issuer's sphere of activity.

The information contained in this publication is based on sources believed to be reliable. Although EQUITA SIM makes every reasonable endeavour to obtain information from sources that it deems to be reliable, it accepts no responsibility or liability as to the completeness, accuracy or exactitude of such information. If there are doubts in this respect, EQUITA SIM clearly highlights this circumstance. The most important sources of information used are the issuer's public corporate documentation (such as, for example, annual and interim reports, press releases, and presentations) besides information made available by financial service companies (such as, for example, Bloomberg and Reuters) and domestic and international business publications. It is EQUITA SIM's practice to submit a pre-publication draft of its reports for review to the Investor Relations Department of the issuer forming the subject of the report, solely for the purpose of correcting any inadvertent material inaccuracies. This note has not been submitted to the issuer.

The recommendation was produced using proprietary Excel models that are stored on company servers. The models are backed up at the end of each month.

EQUITA SIM has adopted internal procedures able to assure the independence of its financial analysts and that establish appropriate rules of conduct for them.

Furthermore, it is pointed out that EQUITA SIM SpA is an intermediary licensed to provide all investment services as per Italian Legislative Decree no. 58/1998. Given this, EQUITA SIM might hold positions in and execute transactions concerning the financial instruments covered by the present publication, or could provide, or wish to provide, investment and/or related services to the issuers of the financial instruments covered by this publication. Consequently, it might have a potential conflict of interest concerning the issuers, financial issuers and transactions forming the subject of the present publication.

Equita SIM S.p.A. performs or has performed in the last 12 months the role of intermediary in charge of the execution of the buy back plan approved by the shareholders' meeting of SIT S.p.A.

Equita SIM S.p.A. provides or has provided in the last 12 months investment banking services for SIT S.p.A.

In addition, it is also pointed out that, within the constraints of current internal procedures, EQUITA SIM's directors, employees and/or outside professionals might hold long or short positions in the financial instruments covered by this publication and buy or sell them at any time, both on their own account and that of third parties.

Research Division management alone determines the remuneration of the analysts who produced the publication, and their remuneration is not linked to Equita SIM's Investment Banking transactions. It is linked to Equita SIM's total revenue, which includes the revenue of the Investment Banking and Sales & Trading Divisions.

For more details on the policies and principles designed to ensure the integrity and independence of Equita SIM analysts, please refer to the policy on organizational mechanisms of the Research activity available at www.equita.eu on the "Legal notices" section.

The recommendations to BUY, HOLD and REDUCE are based on Expected Total Return (ETR – expected absolute performance in the next 12 months inclusive of the dividend paid out by the stock's issuer) and on the degree of risk associated with the stock, as per the matrix shown in the table. The level of risk is based on the stock's liquidity and volatility and on the analyst's opinion of the business model of the company being analysed. Due to fluctuations of the stock, the ETR might temporarily fall outside the ranges shown in the table.

EXPECTED TOTAL RETURN FOR THE VARIOUS CATEGORIES OF RECOMMENDATION AND RISK PROFILE

RECOMMENDATION/RATING	Low Risk	Medium Risk	High Risk
BUY	ETR >= 10%	ETR >= 15%	ETR >= 20%
HOLD	-5% <ETR < 10%	-5% <ETR < 15%	0% <ETR < 20%
REDUCE	ETR <= -5%	ETR <= -5%	ETR <= 0%

The methods preferred by EQUITA SIM to evaluate and set a value on the stocks forming the subject of the publication, and therefore the Expected Total Return in 12 months, are those most commonly used in market practice, i.e. multiples comparison (comparison with market ratios, e.g. P/E, EV/EBITDA, and others, expressed by stocks belonging to the same or similar sectors), or classical financial methods such as discounted cash flow (DCF) models, or others based on similar concepts. For financial stocks, EQUITA SIM also uses valuation methods based on comparison of ROE (ROEV – return on embedded value – in the case of insurance companies), cost of capital and P/BV (P/EV – ratio of price to embedded value – in the case of insurance companies).

MOST RECENT CHANGES IN RECOMMENDATION AND/OR IN TARGET PRICE (OLD ONES IN BRACKETS):

Date	Rec.	Target Price (€)	Risk	Comment
13 September 2019	BUY(BUY)	10 (11.4)	High	Change in estimates
November 23, 2018	BUY(BUY)	11.4 (14)	High	Change in estimates

DISCLAIMER

The purpose of this publication is merely to provide information that is up to date and as accurate as possible. The publication does not represent to be, nor can it be construed as being, an offer or solicitation to buy, subscribe or sell financial products or instruments, or to execute any operation whatsoever concerning such products or instruments.

EQUITA SIM does not guarantee any specific result as regards the information contained in the present publication, and accepts no responsibility or liability for the outcome of the transactions recommended therein or for the results produced by such transactions. Each and every investment/divestiture decision is the sole responsibility of the party receiving the advice and recommendations, who is free to decide whether or not to implement them. Therefore, EQUITA SIM and/or the author of the present publication cannot in any way be held liable for any losses, damage or lower earnings that the party using the publication might suffer following execution of transactions on the basis of the information and/or recommendations contained therein.

The estimates and opinions expressed in the publication may be subject to change without notice.

EQUITY RATING DISPERSION AS OF SEPTEMBER 30, 2019

(art. 6, par. 3 Delegated Regulation (EU) 2016/958 of 09 March 2016)

	COMPANIES COVERED	COMPANIES COVERED WITH BANKING RELATIONSHIP
BUY	38.5%	53.2%
HOLD	56.9%	42.9%
REDUCE	4.0%	2.6%
NOT RATED	0.6%	1.3%

The list of all conflicts of interest, rating dispersion, last 12 months recommendation made by Equita SIM's analysts and other important legal disclaimers are available on www.equita.eu in the "Legal notices" section.

This document has been provided to you solely for informational purposes and may not be reproduced or distributed, directly or indirectly, to any other person, nor may it be published, wholly or in part, for any reason, without EQUITA SIM's specific authorisation. By accepting this document, you agree to comply with the limitations indicated above.