

**Company Update**
**Buy (maintained)**

11 November 2019 – 5:30 PM

MARKET PRICE: **EUR7.00**

TARGET PRICE: **EUR10.43 (from 9.70)**
**Heating, Smart gas metering**
**Data**

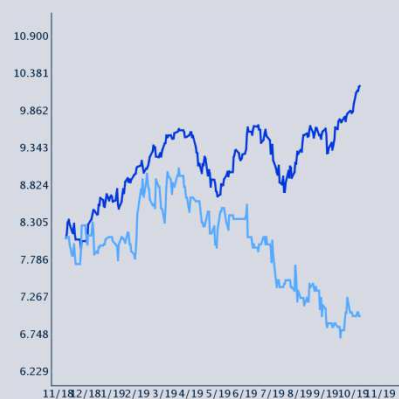
Shares Outstanding (m):	25.01
Market Cap. (EURm):	175.05
Enterprise Value (EURm):	247.08
Free Float (%):	26.1%
Av. Daily Trad. Vol. (m):	0.001
Main Shareholder:	SIT Technologies 73.4%
Reuters/Bloomberg:	SIT.MI SIT IM
52-Week Range (EUR)	6.7 9.0

Source: Factset, UBI Banca estimates

**Performance**

	1m	3m	12m
Absolute	2.2%	-6.7%	-21.9%
Rel. to FTSE IT	-6.7%	-16.8%	-34.6%

Source: Factset

**Graph area Absolute/Relative 12 M**


Source: Factset

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**Positive signals in 3Q19**

3Q19 results were slightly above our expectations and gave some positive signals for the future: 1) contrary to the first half of the year when Heating division revenues dropped by 12.8%, 3Q19 saw limited sales erosion (-2.2%). This was possible thanks to the recovery of China (+13.4%), a better trend in Turkey (-3.1% vs. -46.1% in 1H19) and further growth in the US (+20.6%) pushed up by market share and forex gains, 2) EBITDA margin improved, even on adjusted basis, due to a better product mix and further reduction of services costs, 3) Smart Gas Metering continued to grow (+12.7% in the quarter) and should easily reach EUR90 million revenues in the full year, 4) the company slightly improved its guidance anticipating EBITDA growing at a mid-single digit rate and a further net debt reduction. In front of these improvements the share did not react and is now trading at an average discount to peers of >50% on 2019-21 EV/EBITDA and 37% on P/E. We simply fine-tuned our estimates with a minimal impact on EBITDA (+1.0% on average in 2019-21) but a sharp increase of the bottom line (+38% in 2019 and +1.8% in 2020-21) reflecting EUR3.7 million of non-recurring fiscal benefit reported at Sept-19. We also lowered our net debt projections as the company postponed some investments for the new headquarter and the new laboratories. Our target price is now EUR10.43 (vs. EUR9.70 before) implying nearly 50% upside. Positive stance confirmed.

- > 9M19 revenues decreased by 2.5% with Smart Gas Metering growing by 22.5% while Heating division declined by 9.3%. EBITDA margin improved to 14.1% (from 12.9%) but on adjusted basis declined to 13.8% (from 14.3%). Net result was broadly in line with the first nine months of 2018 (at EUR16.2 million) being sustained by EUR3.7 million of non-recurring fiscal benefit reported at Sept-19 but on adjusted basis was down to EUR13.1 million from EUR14.8 million in 9M18. Net debt slightly declined to EUR86.9 million from EUR87.6 million at June-19 as SIT postponed some capex following a capital management review.
- > We remain buyers of the stock due to its technological leadership, its strong free cash flow generation (EUR18 million p.a. expected in 2019-21), a robust balance sheet and the current significant undervaluation with an average discount to peers of >45%.

**Financials**

	2018	2019E	2020E	2021E
Revenues (EURm)	359.69	350.57	358.03	365.99
EBITDA (EURm)	43.82	45.93	48.69	51.60
EBITDA margin (%)	12.2%	13.1%	13.6%	14.1%
EBIT (EURm)	23.96	22.93	23.49	25.80
EPS (EUR)	1.02	0.69	0.59	0.70
CFPS (EUR)	1.57	1.20	1.80	1.74
DPS (EUR)	0.28	0.28	0.30	0.32

Source: Company Data, UBI Banca estimates

**Ratios**

	priced on 8 November 2019			
	2018 *	2019E	2020E	2021E
P/E(x)	10.0	10.2	11.8	10.1
P/CF(x)	5.7	4.7	4.6	4.2
P/BV(x)	2.0	1.3	1.2	1.1
Dividend Yield	2.8%	4.0%	4.3%	4.6%
EV/EBITDA(x)	7.3	5.4	4.8	4.2
Debt/Equity (x)	0.6	0.5	0.4	0.2
Debt/EBITDA (x)	1.6	1.4	1.1	0.7

Source: UBI Banca estimates \* based on 2018 average price

*Figure 1 – 3Q19 and 9M19 consolidated results*

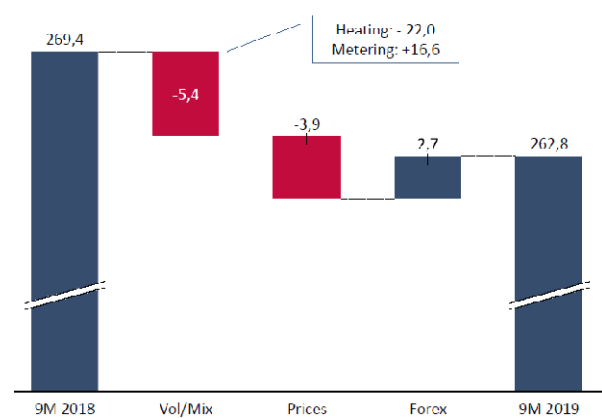
Overall, 3Q19 results were above our expectations. In details, we were surprised by the improvement of the Heating division after the drop of the first half, when revenues declined by 13.5%. This clearly helped EBITDA which resulted above last year. We highlight the reduction of service costs (down from 10.9% to 9.9% in the third quarter) which, in our view, clearly shows that the accelerated capex plan is finally bearing fruits. EBITDA also benefitted from a positive forex impact and the first time adoption of IFRS 16 (+EUR0.4 million in 3Q19). Stripping out these positive impacts, EBITDA margin would have been 16.3% in 3Q19 from 16.1% in 3Q18. Smart Gas Metering division was up 12.7% in the quarter but should accelerate in 4Q19 on the back of the EUR89 million backlog at Sept-19. The bottom line benefitted from EUR3.7 million of non-recurring fiscal benefit related to the release of costs accounted in 2017-18 for the fair value of the outstanding warrants. Net debt was also below our estimates but this is due to SIT's decision to postpone to 2020-21 the investments for the new laboratories and headquarter.

(EURm)	3Q18A	3Q19A	% Chg.	9M18A	9M19A	% Chg.
Heating	69.1	67.6	-2.2%	210.3	190.7	-9.3%
Smart metering	24.0	27.1	12.7%	56.8	69.5	22.5%
Total sales	94.0	95.5	1.6%	269.4	262.8	-2.5%
EBITDA Adj.	15.2	15.6	2.8%	38.5	36.2	-5.9%
Margin (%)	16.1%	16.3%		14.3%	13.8%	
EBITDA	14.5	16.0	9.9%	34.7	37.1	6.9%
Margin (%)	15.4%	16.7%		12.9%	14.1%	
D&A	-5.0	-5.8	15.7%	-14.2	-16.8	18.6%
EBIT	9.6	10.2	7.0%	20.6	20.3	-1.1%
Margin (%)	10.2%	10.7%		7.6%	7.7%	
Net Result attr.	8.1	11.7	43.9%	16.5	16.2	-2.0%
Net debt	92.4	86.9	-6.0%	92.4	86.9	-6.0%

Source: Company data

*Figure 2 – Revenues bridge (EURm)*

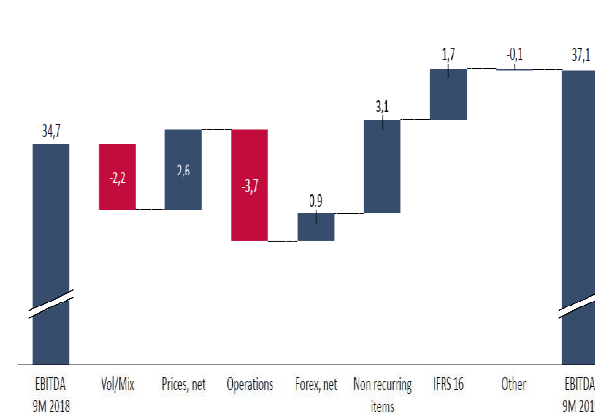
Both volumes and prices contributed to the revenues slowdown of 9M19. Forex had a slight positive impact.



Source: Company data

*Figure 3 – EBITDA bridge (EURm)*

The improvement of the EBITDA in 9M19 is mostly due to non-recurring items and the first time adoption of IFRS16.



Source: Company data

Figure 4 – 3Q19 and 9M19 geographic breakdown

(EURm)	3Q18A	3Q19A	% Chg.	9M18A	9M19A	% Chg.
Italy	37.8	38.6	2.1%	97.7	103.8	6.2%
Rest of Europe	35.1	33.7	-4.0%	111.1	95.2	-14.3%
America	13.7	16.3	19.0%	38.7	45.4	17.3%
APAC	7.4	7.1	-4.1%	21.9	18.5	-15.5%

Source: Company data

Figure 5 - Old vs. new estimates

SIT guidance confirmed some revenues erosion in the full year with a trend in 4Q19 similar to the first nine months. The Heating division should remain weak, even if at lower pace thanks to better conditions in China and Turkey, while Smart Gas Metering should grow at least by 23% according to the current backlog (EUR89 million at Sept-19, substantially stable vs. 1H19). EBITDA should grow at mid single digit. As a result, we have confirmed our sales projections and marginally increased EBITDA forecasts. At bottom line level, we incorporated EUR3.7 million of non-recurring tax benefit recorded in 3Q19 while net debt has been lowered factoring in SIT's decision to postpone some capex to 2020-21.

(EUR)	2018A	2019E		2020E		2021E	
		Old	New	Old	New	New	New
Revenues	359.7	350.6	350.6	358.0	358.0	366.0	366.0
% change			0.0%		0.0%		0.0%
EBITDA	43.8	45.2	45.9	48.3	48.7	51.2	51.6
% change			1.6%		0.7%		0.7%
EBITDA adjusted	50.4	43.3	43.7	48.3	48.7	51.2	51.6
% change			0.9%		0.7%		0.7%
EBIT	24.0	22.7	22.9	23.1	23.5	25.4	25.8
% change			0.9%		1.5%		1.4%
EBIT adjusted	30.5	22.7	20.7	23.1	23.5	25.4	25.8
% change			-8.8%		1.5%		1.4%
Pre-tax profit	32.2	17.0	17.9	19.6	20.0	23.1	23.5
% change			5.3%		1.8%		1.6%
Net profit attributable	24.4	12.4	17.1	14.5	14.8	17.1	17.4
% change			38.0%		1.8%		1.6%
Net financial debt (cash)	71.3	80.1	66.4	64.0	54.3	42.0	36.1
% change			-17.1%		-15.1%		-14.1%
EBITDA margin	12.2%	12.9%	13.1%	13.5%	13.6%	14.0%	14.1%
EBITDA margin adj	14.0%	12.4%	12.5%	13.5%	13.6%	14.0%	14.1%
EBIT margin	6.7%	6.5%	6.5%	6.5%	6.6%	7.0%	7.1%

Source: Company data, UBI Banca estimates

Figure 6 – 4Q19E estimates

(EURm)	4Q18A	4Q19E	% Chg.
Heating	76.7	70.4	-8.2%
Smart metering	15.3	19.9	29.7%
Total sales	90.3	87.8	-2.8%
<b>EBITDA Adj.</b>	<b>11.9</b>	<b>9.0</b>	<b>-23.9%</b>
<b>Margin (%)</b>	<b>13.2%</b>	<b>10.3%</b>	
<b>EBITDA</b>	<b>9.1</b>	<b>8.8</b>	<b>-3.3%</b>
<b>Margin (%)</b>	<b>10.1%</b>	<b>10.0%</b>	
EBIT	3.4	2.6	-23.7%
Margin (%)	3.8%	3.0%	
<b>Net Result attributable</b>	<b>7.9</b>	<b>0.9</b>	<b>-88.0%</b>

Source: Company data, UBI Banca estimates

Figure 7 – Valuation summary

Our target price is based on the average of a DCF, an EV/CE versus ROACE/WACC and relative valuations based on both the average of the multiples of international companies (applying a 20% discount to reflect the company's low liquidity and its smaller size compared to other listed companies) and the average of certain Italian industrial companies (applying a 10% discount).

(EUR)		Weight	17/09/2019	Delta
DCF	11.29	25%	10.98	2.8%
Italian companies (10% discount)	10.00	25%	9.41	6.3%
International companies (20% discount)	12.84	25%	11.30	13.6%
EV/ROACE	7.58	25%	7.09	6.9%
<b>Target price</b>	<b>10.43</b>		<b>9.70</b>	<b>7.5%</b>
Current price	7.00		7.45	-6.0%
Potential upside	49.0%		30.1%	

Source: Company data, UBI Banca estimates

Figure 8 – DCF Valuation

Our DCF valuation is based on a WACC of 7.3% and implies an EV/EBITDA of 6.1x at terminal value.

	Valuation (EUR m)	% Weight	Per share (EUR)
Sum of PV 2019-27 FCF	134.9	38%	5.39
Terminal value	218.9	62%	8.75
<b>Total Enterprise value</b>	<b>353.7</b>	<b>100%</b>	<b>14.15</b>
- Pension Provision	(6.4)		(0.25)
- Net cash (debt)	(65.1)		(2.60)
<b>Total Equity value</b>	<b>282.3</b>		<b>11.29</b>
Number of shares outstanding (m)	25.0		
<b>Fair value per share (EUR)</b>	<b>11.29</b>		

Source: UBI Banca estimates

Figure 9 – ROACE fair value estimate

<b>Average ROACE (2019-2021)</b>	<b>8.8%</b>
Average WACC (2019-2021)	7.1%
EV / Invested Capital	1.23
Average CE 2019-21	196.3
<b>Enterprise Value (EUR million)</b>	<b>241.9</b>
Less:	
Average net debt 2019-21 (EUR million)	52.3
<b>Equity Value (EUR million)</b>	<b>189.6</b>
number of shares	25.0
<b>Fair value per ordinary share (EUR)</b>	<b>7.58</b>

Source: UBI Banca estimates

Figure 10 - Relative valuation based on International companies (priced on 8 November 2019)

SIT is trading at an average discount of 58% on 2019-21 EV/EBITDA and at an average discount of 40% on P/E.

	Market Cap. (EURm)	P/E			EV/EBITDA		
		2019E	2020E	2021E	2019E	2020E	2021E
Bucher Industries	3,058	15.5 x	16.1 x	15.1 x	8.4 x	8.3 x	7.6 x
Beijer Ref	3,060	37.6 x	33.5 x	30.5 x	21.6 x	19.5 x	17.9 x
Emerson Electric	41,234	20.0 x	20.3 x	18.3 x	12.8 x	12.6 x	11.9 x
Honeywell	117,485	22.3 x	20.5 x	18.8 x	15.4 x	14.4 x	13.5 x
Ingersoll-Rand	28,358	20.4 x	18.8 x	17.2 x	13.4 x	12.2 x	11.6 x
Landis + Gyr	2,553	17.8 x	16.3 x	15.3 x	10.8 x	10.1 x	9.7 x
Lindab International	795	11.5 x	11.7 x	11.0 x	7.6 x	7.2 x	6.5 x
NIBE Industrier	6,475	30.2 x	27.6 x	25.7 x	18.8 x	17.0 x	15.7 x
Resideo Technologies	1,070	10.0 x	7.5 x	8.7 x			
Schneider Electric	50,900	18.0 x	16.3 x	15.0 x	12.0 x	11.0 x	10.0 x
SPX Corporation	1,857	17.2 x	15.8 x	14.9 x	10.7 x	11.2 x	8.8 x
Sulzer	3,309	18.0 x	14.8 x	13.9 x	9.1 x	7.7 x	7.1 x
Weir Group	473	13.7 x	12.4 x	11.3 x	8.3 x	7.5 x	6.8 x
<b>Average</b>		<b>19.4 x</b>	<b>17.8 x</b>	<b>16.6 x</b>	<b>12.4 x</b>	<b>11.6 x</b>	<b>10.6 x</b>
<b>SIT at market price</b>	<b>175</b>	<b>10.2 x</b>	<b>11.8 x</b>	<b>10.1 x</b>	<b>5.4 x</b>	<b>4.8 x</b>	<b>4.2 x</b>
<b>% premium (discount)</b>		<b>-47.3%</b>	<b>-33.6%</b>	<b>-39.4%</b>	<b>-56.7%</b>	<b>-58.3%</b>	<b>-60.4%</b>
<b>SIT Group valuation on multiples (EUR)</b>		<b>13.3</b>	<b>10.5</b>	<b>11.5</b>	<b>20.2</b>	<b>20.4</b>	<b>20.4</b>

Source: Factset, UBI Banca estimates

Figure 11 - Relative valuation based on Italian companies (priced on 8 November 2019)

	Market Cap. (EURm)	P/E			EV/EBITDA		
		2019E	2020E	2021E	2019E	2020E	2021E
Gefran	100	12.9 x	11.7 x	10.3 x	5.0 x	4.5 x	4.2 x
Interpump	2,975	17.6 x	16.7 x	15.8 x	10.7 x	9.6 x	9.0 x
LU-VE	235	12.1 x	9.3 x	8.7 x	7.3 x	6.3 x	5.7 x
Sabaf	146	15.8 x	13.4 x	12.5 x	7.7 x	6.8 x	6.4 x
<b>Average</b>		<b>14.6 x</b>	<b>12.8 x</b>	<b>11.8 x</b>	<b>7.7 x</b>	<b>6.8 x</b>	<b>6.3 x</b>
<b>SIT at market price</b>	<b>175</b>	<b>10.2 x</b>	<b>11.8 x</b>	<b>10.1 x</b>	<b>5.4 x</b>	<b>4.8 x</b>	<b>4.2 x</b>
<b>% premium (discount)</b>		<b>-30.2%</b>	<b>-7.3%</b>	<b>-14.8%</b>	<b>-30.0%</b>	<b>-29.2%</b>	<b>-34.0%</b>
<b>SIT Group valuation on multiples</b>		<b>10.0</b>	<b>7.6</b>	<b>8.2</b>	<b>11.5</b>	<b>11.1</b>	<b>11.7</b>

Source: Factset, UBI Banca estimates

*Figure 12 – Implicit multiples based on our EUR10.43 target price*

**At the target price, the company would trade at 7.2x 2019 EV/EBITDA, which is still well below the average multiple of our international peer sample (12.4x) and broadly in line with Italian peers (7.7x).**

	2019E	2020E	2021E
P/E	15.2	17.6	15.0
EV/EBITDA	7.2	6.6	5.9
EV/EBIT	14.5	13.6	11.7
EV/Sales	0.95	0.90	0.83
P/BV	1.92	1.82	1.70
P/CF	8.68	5.78	5.99

Source: UBI Banca estimates

### Income Statement

(EURm)	2018	2019E	2020E	2021E
Net Revenues	359.69	350.57	358.03	365.99
EBITDA	43.82	45.93	48.69	51.60
EBITDA margin	12.2%	13.1%	13.6%	14.1%
EBIT	23.96	22.93	23.49	25.80
EBIT margin	6.7%	6.5%	6.6%	7.1%
Net financial income /expense	-4.80	-5.00	-3.50	-2.30
Associates & Others	13.07	0.00	0.00	0.00
Profit before taxes	32.23	17.93	19.99	23.50
Taxes	-7.81	-0.78	-5.20	-6.11
Minorities & discontinuing ops	0.00	0.00	0.00	0.00
Net Income	24.42	17.14	14.79	17.39

Source: Company data, UBI Banca estimates

### Balance Sheet

(EURm)	2018	2019E	2020E	2021E
Net working capital	7.66	15.06	8.18	6.06
Net Fixed assets	218.50	209.83	214.02	209.54
M/L term funds	-29.42	-22.93	-24.55	-26.30
Capital employed	196.74	201.96	197.65	189.30
Shareholders' equity	125.40	135.54	143.34	153.23
Minorities	0.00	0.00	0.00	0.00
Shareholders' funds	125.40	135.54	143.34	153.23
Net financial debt/(cash)	71.33	66.41	54.31	36.07

Source: Company data, UBI Banca estimates

### Cash Flow Statement

(EURm)	2018	2019E	2020E	2021E
NFP Beginning of Period	-65.10	-71.33	-66.41	-54.31
Group Net Profit	24.42	17.14	14.79	17.39
Minorities	0.00	0.00	0.00	0.00
D&A	19.86	23.00	25.20	25.80
Change in Funds & TFR	-1.18	-2.71	-1.76	-1.80
Gross Cash Flow	43.10	37.44	38.23	41.40
Change In Working Capital	-5.33	-7.40	6.87	2.12
Other	0.00	0.00	0.00	0.00
Operating Cash Flow	37.77	30.04	45.11	43.52
Net Capex	-29.87	-17.34	-27.20	-18.99
Other Investments	0.00	0.00	0.00	0.00
Free Cash Flow	7.90	12.70	17.90	24.53
Dividends Paid	-6.00	-7.00	-7.00	-7.50
Other & Chg in Consolid. Area	-8.14	-0.77	1.20	1.21
Chg in Net Worth & Capital Incr.	0.00	0.00	0.00	0.00
Change in NFP	-6.23	4.92	12.10	18.24
NFP End of Period	-71.33	-66.41	-54.31	-36.07

Source: Company data, UBI Banca estimates

### Financial Ratios

(%)	2018	2019E	2020E	2021E
ROE	19.5%	12.6%	10.3%	11.4%
ROI (pre-tax)	11.2%	10.2%	10.5%	11.8%
Net Fin. Debt/Equity (x)	0.6	0.5	0.4	0.2
Net Fin. Debt/EBITDA (x)	1.6	1.4	1.1	0.7
Interest Coverage	5.0	4.6	6.7	11.2
NWC/Sales	2.1%	4.3%	2.3%	1.7%
Capex/Sales	8.3%	4.9%	7.6%	5.2%
Pay Out Ratio	27.5%	40.8%	50.7%	46.0%

Source: Company data, UBI Banca estimates

### Per Share Data

(EUR)	2018	2019E	2020E	2021E
EPS	1.02	0.69	0.59	0.70
DPS	0.28	0.28	0.30	0.32
Op. CFPS	1.57	1.20	1.80	1.74
Free CFPS	0.33	0.51	0.72	0.98
BVPS	5.22	5.42	5.73	6.13

Source: Company data, UBI Banca estimates

### Stock Market Ratios

(x)	2018 *	2019E	2020E	2021E
P/E	10.0	10.2	11.8	10.1
P/OpCFPS	13.3	5.8	3.9	4.0
P/BV	2.0	1.3	1.2	1.1
Dividend Yield (%)	2.2%	4.0%	4.3%	4.6%
Free Cash Flow Yield (%)	1.2%	7.3%	10.2%	14.0%
EV (EURm)	321.4	247.1	234.7	216.2
EV/Sales	0.9	0.7	0.7	0.6
EV/EBITDA	7.3	5.4	4.8	4.2
EV/EBIT	13.4	10.8	10.0	8.4
EV/Capital Employed	1.6	1.2	1.2	1.1

Source: Company data, UBI Banca estimates

\* Based on 2018 average price

### Growth Rates

(%)	2018	2019E	2020E	2021E
Growth Group Net Sales	11.2%	-2.5%	2.1%	2.2%
Growth EBITDA	-0.6%	4.8%	6.0%	6.0%
Growth EBIT	-4.8%	-4.3%	2.5%	9.8%
Growth Net Profit	nm	-29.8%	-13.7%	17.6%

Source: Company data, UBI Banca estimates



## Disclaimer

### Analyst Declaration

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#### Equity rating dispersion in the past 12 months

Buy	Hold	Sell	No Rating
90.7%	7.4%	1.9%	0.0%

#### Proportion on issuers to which UBI Banca has supplied investment banking services relating to the last 12 months

Buy	Hold	Sell	No Rating
83.3%	100%	100%	-

For further information regarding yearly and quarterly rating statistics and descriptions, please refer to [www.ubibanca.com/equity-research](http://www.ubibanca.com/equity-research).

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Date	Rating	Target Price (EUR)	Market Price (EUR)
4 October 2017	BUY	14.57	11.64
4 April 2018	BUY	13.34	11.10
12 September 2018	BUY	12.77	9.78
4 April 2019	BUY	11.55	8.30
18 June 2019	BUY	9.92	8.40
17 September 2019	BUY	9.51	6.90