

Company update
Buy (maintained)

15 October 2020 – 5:30 PM

MARKET PRICE: EUR4.68

TARGET PRICE: EUR9.89 (from EUR9.20)

Heating, Smart gas metering
Data

Shares Outstanding (m):	25.01
Market Cap. (EURm):	117.9
Enterprise Value (EURm):	232.a
Free Float (%):	26.1%
Av. Daily Trad. Vol. (m):	0.01
Main Shareholder:	SIT Technologies 73.4%
Reuters/Bloomberg:	SIT.MI SIT IM
52-Week Range (EUR)	4.1 7.2

Source: Factset, UBI Banca estimates

Performance

	1m	3m	12m
Absolute	4.7%	1.1%	-31.7%
Rel. to FTSE IT	5.6%	2.0%	-20.9%

Source: Factset

Graph area Absolute/Relative 12 M


Source: Factset

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Strategic acquisition

SIT signed a binding agreement for the acquisition of Janz, a Portuguese producer of residential volumetric water meters for a total consideration of EUR28 million plus an earnout of up to EUR0.8 million based on specific 2021 targets. The acquisition will be funded by a new credit line and should be closed by the end of the year. Even if the deal has a limited size adding around 6% of sales to SIT, we believe the acquisition is very important for SIT from a strategic standpoint: 1) it will enable a further development of the Smart Gas Metering division, bringing to the water sector the know-how gained and recognised by the market, 2) with Janz, SIT extends its product portfolio to water meters, a market which is forecast to grow strongly over the coming years (10.3% CAGR up to 2024 according to MarketsandMarkets) particularly for “smart” meters connected to the communication networks, thanks to significant investments planned by the Utilities to reduce losses on the water distribution network and increase the billing accuracy, 3) SIT and Janz should exploit the respective commercial network (for example selling gas meters in South America or distributing Janz water meters in Italy), 4) we see also potential synergies in the product development. After better than expected results in the first half of the year, an upgraded guidance and this long-awaited acquisition, we believe SIT has all the reasons to overperform the market. We reiterate our Buy recommendation with a new target price of EUR9.89 (from EUR9.20) which offers a remarkable upside.

- > The company acquired reported EUR18.6 million of sales (5-years CAGR of 9%) in 2019 with an EBITDA of EUR4.0 million, or 21.5% margin and a net profit of EUR2.3 million. With 250 employees, Janz is present in Portugal (36% of sales, 50% market share), Spain (15% of sales, 20% market share), the rest of Europe (27% of sales), South America (12% of sales) and Asia (10%).
- > The acquisition implies an EV/EBITDA multiple of 7.0x which compares with 5.2x of SIT, a P/E of 12.2x (in line with SIT) and an EV/Sales of 1.50x vs. 0.65x of SIT and will add around EUR20 million of revenues or around 6% of SIT expected 2021 sales improving the EBITDA margin. We believe that the deal will be immediately earning enhancing considering that the additional net profit in 2021 (we estimate around EUR1.8 million) should be significantly higher than the cost of financing (around EUR0.6 million assuming 2% interest rate).
- > Our new target price of EUR9.89 (from EUR9.20) reflects the addition of Janz to our estimates and implies upside of >100%. SIT is trading 62% below industry rates on 2020-22 EV/EBITDA and at a P/E discount of 59%. But rating strongly reiterated.

Financials

	2019	2020E	2021E	2022E
Revenues (EURm)	352,2	313,2	341,1	366,7
EBITDA (EURm)	48,7	39,1	46,0	53,5
EBITDA margin (%)	13,8%	12,5%	13,5%	14,6%
EBIT (EURm)	24,7	15,1	19,0	24,5
EPS (EUR)	0,80	0,38	0,52	0,66
CFPS (EUR)	0,78	0,69	1,48	1,96
DPS (EUR)	0,14	0,14	0,20	0,30

Source: Combanv Data. UBI Banca estimates

Ratios

	priced on 14 October 2020			
	2019 *	2020E	2021E	2022E
P/E(x)	9,8	12,3	9,1	7,1
P/CF(x)	10,0	6,7	3,2	2,4
P/BV(x)	1,3	0,8	0,7	0,7
Dividend Yield	1,8%	0,0%	3,4%	5,0%
EV/EBITDA(x)	5,7	5,9	4,8	3,7
Debt/Equity (x)	0,53	0,71	0,59	0,43
Debt/EBITDA (x)	1,6	2,4	1,5	0,9

Source: UBI Banca estimates * based on 2019 average price

Figure 1 – Janz financial performance

(EURm)	2014A	2015A	2016A	2017A	2018A	2019A
Net Revenues	12,1	13,4	13,9	15,9	16,1	18,6
% growth		11,0%	3,7%	14,5%	1,0%	15,6%
EBITDA	1,4	1,6	1,9	2,3	2,4	4,0
EBITDA margin	11,8%	12,1%	13,8%	14,6%	15,1%	21,5%
Net Income	0,3	0,5	0,5	1,1	1,2	2,3

Source: SIT presentation

Figure 2 - Old vs. new estimates

The acquisition of Janz has no impact on our 2020 estimates, except the net debt which is now expected to reach EUR110 million. On 2021 and 2022 the Portuguese company should increase consolidated revenues by around 6% and EBITDA by around 8-9% thanks to its higher profitability. We estimate net earnings to increase by 5.4% in 2021 and by 8.6% in 2022. Our new estimates do not take into account potential cost and cross-selling synergies.

(EUR)	2019A	2020E		2021E		2022E	
		Old	New	Old	New	New	New
Revenues	352,2	313,2	313,2	323,1	341,1	346,7	366,7
% change			0,0%		5,6%		5,8%
EBITDA	48,7	39,1	39,1	42,6	46,0	49,2	53,5
% change			0,0%		8,0%		8,7%
EBITDA adjusted	48,3	39,1	39,1	42,6	46,0	49,2	53,5
% change			0,0%		8,0%		8,7%
EBIT	24,7	15,1	15,1	17,6	19,0	22,2	24,5
% change			0,0%		7,9%		10,4%
EBIT adjusted	24,9	15,1	15,1	17,6	19,0	22,2	24,5
% change			0,0%		7,9%		10,4%
Pre-tax profit	21,3	11,9	11,9	15,3	16,1	20,2	21,9
% change			0,0%		5,4%		8,6%
Net profit attributable	19,9	9,5	9,5	12,2	12,9	15,1	16,4
% change			0,0%		5,4%		8,6%
Net financial debt (cash)	78,4	81,5	109,5	66,8	96,3	48,8	75,7
% change			34,3%		44,2%		55,2%
EBITDA margin	13,8%	12,5%	12,5%	13,2%	13,5%	14,2%	14,6%
EBITDA margin adj	13,7%	12,5%	12,5%	13,2%	13,5%	14,2%	14,6%
EBIT margin	7,0%	4,8%	4,8%	5,4%	5,6%	6,4%	6,7%

Source: Company data, UBI Banca estimates

Figure 3 – Valuation summary

(EUR)		Weight	5/10/2020	Delta
DCF	9,06	33%	7,94	14,1%
Italian companies (10% discount)	8,29	33%	8,01	3,4%
International companies (30% discount)	12,33	33%	11,64	6,0%
Target price	9,89		9,20	7,6%
Current price	4,68		4,58	2,2%
Potential upside		111,4%	100,8%	

Source: Company data, UBI Banca estimates

Figure 4 – DCF Valuation

Our DCF valuation is based on a WACC of 6.9% and implies an EV/EBITDA of 5.3x at terminal value

	Valuation (EUR m)	% Weight	Per share (EUR)
Sum of PV 2020-28 FCF	83,2	27%	3,33
Terminal value	228,0	73%	9,12
Total Enterprise value	311,2	100%	12,44
- Pension Provision	(6,2)		(0,25)
- Net cash (debt)	(78,4)		(3,13)
Total Equity value	226,6		9,06
Number of shares outstanding (m)	25,0		
Fair value per share (EUR)	9,06		

Source: UBI Banca estimates

Figure 5 - Relative valuation based on International companies (priced on 14 October 2020)

SIT is trading at an average discount of 62% on 2020-22 EV/EBITDA and at an average discount of 59% on P/E.

	Market Cap. (EURm)	P/E			EV/EBITDA		
		2020E	2021E	2022E	2020E	2021E	2022E
Bucher Industries	3.432	29,9 x	20,7 x	16,2 x	13,6 x	10,3 x	9,1 x
Beijer Ref	3.761	52,4 x	41,5 x	36,9 x	27,9 x	23,5 x	21,1 x
Emerson Electric	35.257	21,0 x	20,3 x	17,8 x	13,0 x	12,4 x	11,5 x
Honeywell International	103.523	25,3 x	22,3 x	20,1 x	17,2 x	15,7 x	14,5 x
Ingersoll-Rand	26.501	33,5 x	27,5 x	23,6 x	19,1 x	16,8 x	15,3 x
Landis +Gyr Group	1.410	24,0 x	13,8 x	12,4 x	11,2 x	7,8 x	7,2 x
Lindab International	1.230	19,9 x	17,8 x	16,6 x	11,4 x	10,2 x	9,3 x
NIBE Industrier	11.589	50,1 x	44,8 x	42,3 x	28,7 x	26,2 x	24,7 x
Schneider Electric	63.228	27,8 x	22,2 x	19,5 x	16,5 x	14,0 x	12,3 x
SPX Corporation	1.878	17,9 x	16,4 x	15,1 x	11,6 x	10,1 x	8,6 x
Sulzer	2.420	19,5 x	13,3 x	11,5 x	8,2 x	6,1 x	5,3 x
TT Electronics	386	18,7 x	13,4 x	10,9 x	10,1 x	8,2 x	7,0 x
Weir Group	4.618	23,7 x	20,0 x	18,0 x	13,2 x	11,8 x	10,7 x
Average		28,0 x	22,6 x	20,1 x	15,5 x	13,3 x	12,0 x
SIT at market price	117	12,3 x	9,1 x	7,1 x	5,9 x	4,8 x	3,7 x
% premium (discount)		-56,0%	-59,9%	-64,5%	-61,7%	-64,3%	-69,2%

Source: Factset, UBI Banca estimates

Figure 6 - Relative valuation based on Italian companies (priced on 14 October 2020)

	Market Cap. (EURm)	P/E			EV/EBITDA		
		2020E	2021E	2022E	2020E	2021E	2022E
Gefran	65	28,8 x	10,7 x	7,7 x	4,8 x	3,7 x	3,0 x
Interpump	3.761	28,5 x	22,5 x	20,3 x	14,8 x	12,6 x	11,2 x
LU-VE	288	23,5 x	14,4 x	11,5 x	9,1 x	7,2 x	6,0 x
Sabaf	155	18,7 x	12,3 x	11,5 x	7,0 x	5,8 x	5,6 x
Average		24,9 x	14,9 x	12,7 x	8,9 x	7,3 x	6,5 x
SIT at market price		12,3 x	9,1 x	7,1 x	5,9 x	4,8 x	3,7 x
% premium (discount)		-50,6%	-39,3%	-44,1%	-33,4%	-34,9%	-42,6%

Source: Factset, UBI Banca estimates

Figure 7 – Implicit multiples based on our EUR9.89 target price

At the target price, the company would trade at **7.6x 2021 EV/EBITDA**, which is still well below the average multiple of our international companies peer sample (13.3x) and in line with Italian companies, and on **19.2x P/E** (22.6x for international companies and 14.9x for Italian companies).

	2020E	2021E	2022E
P/E	26,0	19,2	15,1
EV/EBITDA	9,3	7,6	6,1
EV/EBIT	24,0	18,4	13,4
EV/Sales	1,16	1,02	0,90
EV/CE	1,38	1,35	1,31
P/BV	1,61	1,52	1,42
P/CF	14,26	6,68	5,06

Source: UBI Banca estimates

ESG PICTURE

Corporate Governance

Does the company have a combined Chair/CEO?	Yes
Percentage of independent directors	57.1% (4 out of 7)
Percentage of female directors	42.9% (3 out of 7)
Does the company have loyalty shares?	No
Does major shareholders (if any) have a “shareholders pact” in place?	Yes
Has the company adopted a “poison pill” or “change of control” clauses?	No
Potential dilution from stock options outstanding + not yet granted?	Yes
CEO remuneration detail (fixed salary)	EUR0.65 million
Chairman remuneration detail (fixed salary)	Combined Chair/CEO
Is the share price included in the MBO criteria?	Yes
Percentage of treasury shares	0.81%

Climate related risk

Has the company defined GHG-emissions targets?	Yes
How does the company assess climate-related risk?	SIT Group monitors on continuous basis the production activities commissioning to external laboratories to analyze and report the compliance to the environmental regulation

Social Responsibilities

Does the company publish a separated Sustainability report?	Yes
Does the company have a Chief SRI/CSR officer (or a committee)?	Yes
Does the Chief SRI/CSR officer votes in any of the company’s committee?	Yes
Is the Investor Relation officer a different person from CFO (or other officers)?	Yes
Is the ESG strategy integrated in the Business Plan (or in the group strategy)?	Yes
Does the company have an ethical code?	Yes
How is the cybersecurity issue managed?	The group recently updated the antivirus instruments in order to prevent cyberattacks and strengthen the firewall

Income Statement

(EURm)	2019	2020E	2021E	2022E
Net Revenues	352,2	313,2	341,1	366,7
EBITDA	48,7	39,1	46,0	53,5
EBITDA margin	13,8%	12,5%	13,5%	14,6%
EBIT	24,7	15,1	19,0	24,5
EBIT margin	7,0%	4,8%	5,6%	6,7%
Net financial income /expense	-4,2	-3,2	-2,9	-2,6
Associates & Others	0,8	0,0	0,0	0,0
Profit before taxes	21,3	11,9	16,1	21,9
Taxes	-1,4	-2,4	-3,2	-5,5
Minorities & discontinuing ops	0,0	0,0	0,0	0,0
Net Income	19,9	9,5	12,9	16,4

Source: Company data, UBI Banca estimates

Balance Sheet

(EURm)	2019	2020E	2021E	2022E
Net working capital	29,3	43,8	44,8	39,5
Net Fixed assets	223,3	244,4	241,2	237,1
M/L term funds	-26,7	-25,1	-26,8	-26,6
Capital employed	226,0	263,1	259,2	250,1
Shareholders' equity	147,6	153,6	163,0	174,4
Minorities	0,0	0,0	0,0	0,0
Shareholders' funds	147,6	153,6	163,0	174,4
Net financial debt/(cash)	78,4	109,5	96,3	75,7

Source: Company data, UBI Banca estimates

Cash Flow Statement

(EURm)	2019	2020E	2021E	2022E
NFP Beginning of Period	-71,3	-78,4	-109,5	-96,3
Group Net Profit	19,9	9,5	12,9	16,4
Minorities	0,0	0,0	0,0	0,0
D&A	24,0	24,0	27,0	29,0
Change in Funds & TFR	-2,7	-1,8	-1,8	-1,8
Gross Cash Flow	41,2	31,8	38,1	43,6
Change In Working Capital	-21,7	-14,4	-1,1	5,3
Other	0,0	0,0	0,0	0,0
Operating Cash Flow	19,5	17,3	37,0	48,9
Net Capex	-23,0	-15,8	-22,4	-23,4
Other Investments	0,0	-28,0	0,0	0,0
Free Cash Flow	-3,4	-26,5	14,6	25,5
Dividends Paid	-7,0	-3,5	-3,5	-5,0
Other & Chg in Consolid. Area	3,3	-1,1	2,2	0,1
Chg in Net Worth & Capital Incr.	0,0	0,0	0,0	0,0
Change in NFP	-7,1	-31,1	13,2	20,6
NFP End of Period	-78,4	-109,5	-96,3	-75,7

Source: Company data, UBI Banca estimates

Financial Ratios

(%)	2019	2020E	2021E	2022E
ROE	14,6%	6,3%	8,1%	9,7%
ROI (pre-tax)	10,3%	5,6%	6,6%	8,7%
Net Fin. Debt/Equity (x)	0,53	0,71	0,59	0,43
Net Fin. Debt/EBITDA (x)	1,6	2,4	1,5	0,9
Interest Coverage	5,9	4,7	6,6	9,6
NWC/Sales	8,3%	14,0%	13,1%	10,8%
Capex/Sales	6,5%	5,0%	6,6%	6,4%
Pay Out Ratio	17,6%	36,8%	38,8%	45,7%

Source: Company data, UBI Banca estimates

Per Share Data

(EUR)	2019	2020E	2021E	2022E
EPS	0,80	0,38	0,52	0,66
DPS	0,14	0,14	0,20	0,30
Op. CFPS	0,78	0,69	1,48	1,96
Free CFPS	-0,14	-1,06	0,58	1,02
BVPS	5,90	6,14	6,52	6,97

Source: Company data, UBI Banca estimates

Stock Market Ratios

(x)	2019	2020E	2021E	2022E
P/E	9,8	12,3	9,1	7,1
P/OpCFPS	10,0	6,7	3,2	2,4
P/BV	1,3	0,8	0,7	0,7
Dividend Yield (%)	1,8%	0,0%	3,4%	5,0%
Free Cash Flow Yield (%)	-1,8%	-22,6%	12,5%	21,8%
EV (EURm)	279,8	232,4	218,9	198,0
EV/Sales	0,79	0,74	0,64	0,54
EV/EBITDA	5,7	5,9	4,8	3,7
EV/EBIT	11,3	15,4	11,5	8,1
EV/Capital Employed	1,24	0,88	0,84	0,79

Source: Company data, UBI Banca estimates

* Based on 2019 average price

Growth Rates

(%)	2019	2020E	2021E	2022E
Growth Group Net Sales	-2,1%	-11,1%	8,9%	7,5%
Growth EBITDA	11,2%	-19,8%	17,6%	16,3%
Growth EBIT	3,3%	-39,0%	25,7%	28,9%
Growth Net Profit	-18,4%	-52,3%	35,5%	27,4%

Source: Company data, UBI Banca estimates

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- > UBI Banca acts as Corporate Broker for SIT.
- > One or more of the companies of the Intesa Sanpaolo Banking Group have an equity stake of 3% or more in SIT SPA or in the Company that has a controlling interest in SIT SPA or are a major shareholder of SIT SPA
- > One or more of the companies of the Intesa Sanpaolo Banking Group have a long position larger than the 0.5% of the issued share capital of SIT SPA
- > UBI Banca has delivered corporate finance services to SIT S.p.A. in the last 12 months

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The analysts use the above valuation methods alternatively and/or jointly at their discretion. The assigned target price may differ from their fair value, as it also takes into account overall market/sector conditions, corporate/market events, and corporate specifics (i.e. holding discounts) reasonably considered to be possible drivers of the company's share price performance. These factors may also be assessed using the methodologies indicated above.

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UBI Banca's analysts use an "absolute" rating system, not related to market performance. The explanation of the rating system is listed below:

Buy: if the target price is 15% higher than the market price, over the next 12 months.

Hold: if the target price is 15% below or 15% above the market price, over the next 12 months.

Sell: if the target price is 15% lower than the market price, over the next 12 months.

No Rating: the investment rating and target price have been suspended as there is not sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect. Alternatively, No Rating is assigned in certain circumstances when UBI Banca is acting in any advisory capacity in a strategic transaction involving the Company.

Target price: the market price that the analyst believes that the share may reach within a one-year time horizon.

Market price: closing price on the day before the issue date of the report, appearing on the first page.

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Distribution of ratings

Equity rating dispersion in the past 12 months

Buy	Hold	Sell	No Rating
76.1%	19.3%	1.1%	3.4%

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

Buy	Hold	Sell	No Rating
62.7%	5.9%	100%	100%

For further information regarding yearly and quarterly rating statistics and descriptions, please refer to www.ubibanca.com/equity-research.

Historical ratings and target prices

Date	Rating	Target Price (EUR)	Market Price (EUR)
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
11 November 2019	BUY	10.43	7.00
14 May 2020	BUY	7.55	4.18
5 October 2020	BUY	9.20	4.58