

Company Update

Buy (maintained)

10 November 2020 – 5:30 PM

MARKET PRICE: 4.80

TARGET PRICE: 10.36 (from EUR9.89)

Heating, Smart gas metering

Data

Shares Outstanding (m):	25.01
Market Cap. (EURm):	120.0
Enterprise Value (EURm):	233.9
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

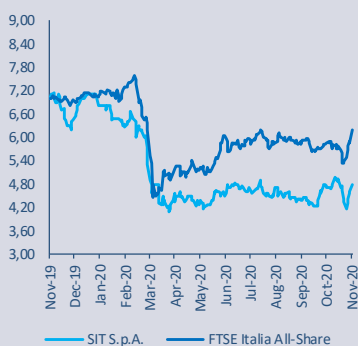
Source: Factset, UBI Banca estimates

Performance

	1m	3m	12m
Absolute	1.9%	2.1%	-31.4%
Rel. to FTSE IT	5.1%	5.5%	-11.8%

Source: Factset

Graph area Absolute/Relative 12 M



Source: Factset

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## Sales in line but stunning profitability in 3Q20

3Q20 results were in line with our expectations as for sales but much better as for profitability (EBITDA margin reached 18.4% or the highest since 2016) thanks to the sales recovery of the heating division (+3%, but with a remarkable rebound in Italy and in the rest of Europe), effective cost cutting actions (service costs decline from 9.9% of sales to 8.8%), lower raw material price and the postponement of some costs (for example employees bonus) which should be accounted in 4Q20. In a nutshell, the news flow has improved, also thanks to the recent Janz acquisition, but the share had a limited reaction and is now trading at an average discount to peers of >60% on 2020-22 EV/EBITDA and P/E. We increased our 2020 estimates with a limited impact on EBITDA (+5.5%) but much higher the bottom line (+26%). We simply fine-tuned our 2021-22 estimates with a minimal impact on our forecasts. Our target price is now EUR10.36 (from EUR9.89). Positive stance confirmed.

- > 9M20 revenues decreased by 13.6% with Smart Gas Metering down 27.3% and Heating division down 8.63%. Despite the volume drop EBITDA margin improved to 14.3% (from 14.1%) also on adjusted basis (14.1% from 13.2%) confirming the resilience of the company in front of the COVID-19 outbreak. Net result declined by nearly 30% but was down just 13% on adjusted basis. Net debt slightly increased to EUR96.7 million from EUR88.9 million at June-20 due NWC absorption (higher inventories and trade receivables linked to growing volumes).
- > SIT anticipated a last quarter of the year in line with 4Q19, excluding potential shutdown of its industrial network. with a growing profitability compared with 1H20, excluding further breakdowns period. Capex plan has been confirmed at around EUR15 million in 2020 (EUR9.2 million already accounted in 9M20) and net debt is expected to decrease at high-single digit rate as NWC is released.
- > We remain buyers of the stock due to its technological leadership, its strong free cash flow generation, its diversification strategy (recent acquisition in the water smart meters), potential reduction of production costs thanks to the new plant in Tunisia, a robust balance sheet and the current significant undervaluation with an average discount to peers of >60%.

Financials

	2019	2020E	2021E	2022E
Revenues (EURm)	352,2	313,2	341,1	366,7
EBITDA (EURm)	48,7	41,2	46,1	53,6
EBITDA margin (%)	13,8%	13,2%	13,5%	14,6%
EBIT (EURm)	24,7	18,2	20,1	25,1
EPS (EUR)	0,80	0,48	0,55	0,67
CFPS (EUR)	0,78	0,75	1,48	1,95
DPS (EUR)	0,14	0,14	0,20	0,30

Source: Combanv Data. UBI Banca estimates

Ratios

	priced on 9 November 2020			
	2019 *	2020E	2021E	2022E
P/E(x)	9,8	10,0	8,7	7,1
P/CF(x)	10,0	6,4	3,3	2,5
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	5,7	4,8	3,8
Debt/Equity (x)	0,53	0,69	0,57	0,43
Debt/EBITDA (x)	1,6	2,4	1,5	0,9

Source: UBI Banca estimates \* based on 2019 average price

Figure 1 – 3Q20 and 9M20 consolidated results

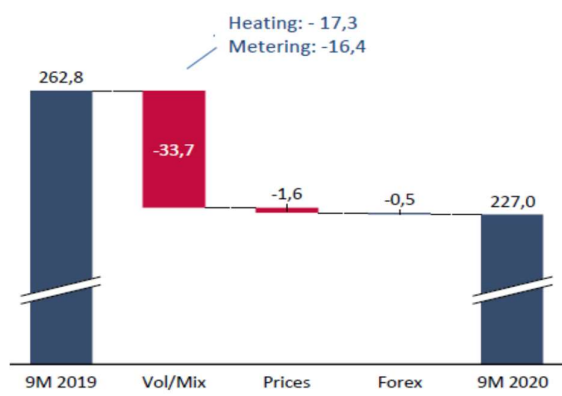
SIT reported 3Q20 results with revenues in line with our estimates but with a much better profitability. Sales declined by 2% in the quarter (-13.6% in 9M20) but with a different trend: while Heating was up 3% with sound recovery in Italy and the rest of Europe particularly in UK (+20%), Gas Smart Metering dropped by 13.5%. The market scenario was much better than in 2Q20 but we were impressed by the EBITDA margin recovery which topped 18.4% in 3Q20 compared with 16.7% last year and 11.4% in 1H20. This terrific boost was possible thanks to lower raw material prices (54.7% of sales vs. 56% in 3Q19) and effective cost cutting measures which reduced the impact of services costs. After EUR1.7 million of financial charges and EUR2 million of taxes, the bottom line came to EUR7.6 million, well above our estimate, even if lower than in 3Q19. Net debt increased to EUR96.7 million from EUR88.9 million at June-20 due to the seasonal NWC absorption, also caused by higher trade receivables tied to the sales increase of the quarter and lower factoring, and capex for EUR5.1 million of which EUR2.9 million related to the new plant in Tunisia.

(EURm)	3Q19A	3Q20A	% Chg.	9M19A	9M20A	% Chg.
Heating	67,6	69,6	3,0%	190,7	174,3	-8,6%
Smart metering	27,1	23,4	-13,5%	69,5	50,6	-27,3%
Total sales	95,5	93,6	-2,0%	262,8	227,0	-13,6%
<b>EBITDA Adj.</b>	<b>15,6</b>	<b>16,8</b>	<b>8,0%</b>	<b>34,7</b>	<b>32,0</b>	<b>-7,8%</b>
<b>Margin (%)</b>	<b>16,3%</b>	<b>18,0%</b>		<b>13,2%</b>	<b>14,1%</b>	
<b>EBITDA</b>	<b>16,0</b>	<b>17,2</b>	<b>7,8%</b>	<b>37,1</b>	<b>32,4</b>	<b>-12,7%</b>
<b>Margin (%)</b>	<b>16,7%</b>	<b>18,4%</b>		<b>14,1%</b>	<b>14,3%</b>	
D&A	(5,8)	(5,9)	2,5%	(16,8)	(17,3)	2,9%
EBIT	10,2	11,3	10,9%	20,3	15,1	-25,6%
Margin (%)	10,7%	12,1%		7,7%	6,7%	
Pre tax result	10,6	9,6	-9,7%	17,0	13,2	-22,4%
<b>Net Result attr.</b>	<b>11,7</b>	<b>7,6</b>	<b>-35,3%</b>	<b>16,2</b>	<b>11,4</b>	<b>-29,8%</b>
<b>Net debt</b>	<b>86,9</b>	<b>96,7</b>	<b>11,3%</b>	<b>86,9</b>	<b>96,7</b>	<b>11,3%</b>

Source: Company data

Figure 2 – Revenues bridge (EURm)

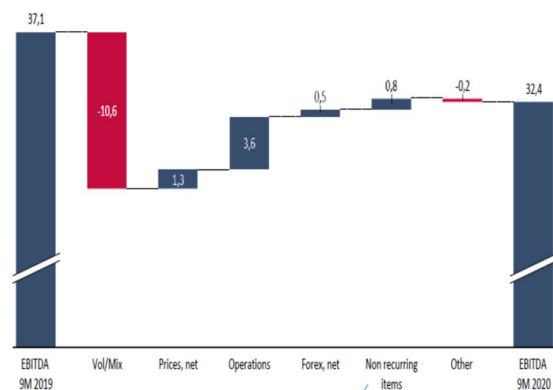
The main reason behind the 13.7% sales drop in 9M20 is the sharp volume decline caused by the COVID-19 outbreak.



Source: Company data

Figure 3 – EBITDA bridge (EURm)

EBITDA was penalized by worsening volumes but a positive pricing coupled with cost cutting actions mitigated the impact.



Source: Company data

Figure 4 – 3Q20 and 9M20 geographic breakdown

(EURm)	3Q19A	3Q20A	% Chg.	9M19A	9M20A	% Chg.
Italy	38,6	34,8	-9,8%	106,9	81,7	-23,6%
Rest of Europe	33,6	36,5	8,6%	88,8	84,9	-4,4%
America	16,3	15,4	-5,5%	45,1	39,7	-12,0%
APAC	7,1	6,9	-2,8%	19,4	18,7	-3,6%

Source: Company data

Figure 5 - Old vs. new estimates

SIT confirmed its guidance which anticipates a low double-digit revenues decline in the full year. The Heating division should improve on the back of the costumers' restocking actions and national incentives (for example the "110% Ecobonus" in Italy), while Smart Gas Metering should be weaker as the rollout of meters is blocked by the lockdown. EBITDA margin should be slightly below 2019. As a result, we have confirmed our sales projections and marginally increased EBITDA forecasts for 2020.

(EUR)	2019A	2020E		2021E		2022E	
		Old	New	Old	New	New	New
Revenues	352,2	313,2	313,2	341,1	341,1	366,7	366,7
% change			0,0%		0,0%		0,0%
EBITDA	48,7	39,1	41,2	46,0	46,1	53,5	53,6
% change			5,5%		0,2%		0,2%
EBITDA adjusted	48,3	39,1	42,2	46,0	46,1	53,5	53,6
% change			8,0%		0,2%		0,2%
EBIT	24,7	15,1	18,2	19,0	20,1	24,5	25,1
% change			20,8%		5,7%		2,4%
Pre-tax profit	21,3	11,9	15,0	16,1	17,2	21,9	22,5
% change			26,3%		6,8%		2,7%
Net profit attributable	19,9	9,5	12,0	12,9	13,8	16,4	16,9
% change			26,3%		6,8%		2,7%
Net financial debt (cash)	78,4	109,5	108,0	96,3	94,9	75,7	74,4
% change			-1,4%		-1,4%		-1,7%
EBITDA margin	13,8%	12,5%	13,2%	13,5%	13,5%	14,6%	14,6%
EBITDA margin adj	13,7%	12,5%	13,5%	13,5%	13,5%	14,6%	14,6%
EBIT margin	7,0%	4,8%	5,8%	5,6%	5,9%	6,7%	6,8%

Source: Company data, UBI Banca estimates

Figure 6 – 4Q20E estimates

(EURm)	4Q19A	4Q20E	% Chg.
Heating	69,3	69,9	0,9%
Smart metering	19,1	18,4	-3,5%
Total sales	89,4	86,3	-3,5%
<b>EBITDA Adj.</b>	<b>11,6</b>	<b>10,2</b>	<b>-12,0%</b>
<b>Margin (%)</b>	<b>13,0%</b>	<b>11,9%</b>	
<b>EBITDA</b>	<b>11,6</b>	<b>8,8</b>	<b>-24,1%</b>
<b>Margin (%)</b>	<b>13,0%</b>	<b>10,2%</b>	
EBIT	4,4	3,1	-29,6%
Margin (%)	4,9%	3,6%	
<b>Net Result attributable</b>	<b>3,7</b>	<b>0,6</b>	<b>-82,8%</b>

Source: Company data, UBI Banca estimates

Figure 7 – Valuation summary

**Our target price is based on the average of a DCF and relative valuations based on both the average of the multiples of international companies (applying a 30% 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	15/10/2020	Delta	
DCF	9,21	33%	9,06	1,6%
Italian companies (10% discount)	8,79	33%	8,29	6,0%
International companies (30% discount)	13,09	33%	12,33	6,1%
<b>Target price</b>	<b>10,36</b>		<b>9,89</b>	<b>4,7%</b>
Current price	4,80		4,68	2,6%
Potential upside	115,8%		111,4%	

Source: Company data, UBI Banca estimates

Figure 8 – DCF Valuation

**Our DCF valuation is based on a WACC of 6.9% and implies an EV/EBITDA of 5.4x at terminal value.**

	Valuation (EUR m)	% Weight	Per share (EUR)
Sum of PV 2020-28 FCF	85,0	27%	3,40
Terminal value	229,9	73%	9,19
<b>Total Enterprise value</b>	<b>314,9</b>	<b>100%</b>	<b>12,59</b>
- Pension Provision	(6,2)		(0,25)
- Net cash (debt)	(78,4)		(3,13)
<b>Total Equity value</b>	<b>230,3</b>		<b>9,21</b>
Number of shares outstanding (m)	25,0		
<b>Fair value per share (EUR)</b>	<b>9,21</b>		

Source: UBI Banca estimates

Figure 9 - Relative valuation based on International companies (priced on 9 November 2020)

	Market Cap. (EURm)	P/E			EV/EBITDA		
		2020E	2021E	2022E	2020E	2021E	2022E
Bucher Industries	3.664	28,1 x	20,9 x	18,4 x	13,4 x	10,6 x	9,4 x
Beijer Ref	3.540	47,8 x	38,3 x	34,0 x	25,9 x	21,9 x	19,8 x
Emerson Electric	38.557	21,9 x	22,1 x	19,5 x	13,4 x	13,3 x	12,2 x
Honeywell	116.902	28,1 x	25,0 x	22,5 x	18,9 x	17,5 x	16,1 x
Ingersoll-Rand	29.583	34,2 x	28,8 x	25,2 x	19,9 x	17,5 x	16,1 x
Landis + Gyr	1.653	32,5 x	18,5 x	14,7 x	15,1 x	10,2 x	8,4 x
Lindab International	1.238	19,0 x	17,4 x	16,1 x	10,9 x	9,9 x	9,0 x
NIBE Industrier	12.169	50,5 x	45,6 x	42,9 x	29,4 x	26,8 x	25,1 x
Resideo Technologies	67.368	28,4 x	23,4 x	20,6 x	17,0 x	14,7 x	13,1 x
Schneider Electric	1.737	16,2 x	14,9 x	13,7 x	10,7 x	9,3 x	8,0 x
SPX Corporation	2.491	19,1 x	13,8 x	11,9 x	8,2 x	6,3 x	5,6 x
Sulzer	405	19,6 x	13,9 x	11,3 x	10,6 x	8,5 x	7,2 x
Weir Group	4.561	22,7 x	19,5 x	17,6 x	13,1 x	11,8 x	10,7 x
<b>Average</b>		<b>28,3 x</b>	<b>23,2 x</b>	<b>20,7 x</b>	<b>15,9 x</b>	<b>13,7 x</b>	<b>12,4 x</b>
<b>SIT at market price</b>	<b>120</b>	<b>10,0 x</b>	<b>8,7 x</b>	<b>7,1 x</b>	<b>5,7 x</b>	<b>4,8 x</b>	<b>3,8 x</b>
<b>% premium (discount)</b>		<b>-64,7%</b>	<b>-62,5%</b>	<b>-65,6%</b>	<b>-64,3%</b>	<b>-65,0%</b>	<b>-69,6%</b>

Source: Factset, UBI Banca estimates

Figure 10 - Relative valuation based on Italian companies (priced on 9 November 2020)

	Market Cap. (EURm)	P/E			EV/EBITDA		
		2019E	2020E	2021E	2019E	2020E	2021E
Gefran	65	28,9 x	10,7 x	7,8 x	4,8 x	3,7 x	3,0 x
Interpump	3.952	29,8 x	23,6 x	21,3 x	15,5 x	13,3 x	11,8 x
LU-VE	293	24,0 x	14,7 x	11,7 x	9,3 x	7,3 x	6,1 x
Sabaf	148	17,8 x	11,8 x	11,0 x	6,8 x	5,6 x	5,4 x
<b>Average</b>		<b>25,1 x</b>	<b>15,2 x</b>	<b>12,9 x</b>	<b>9,1 x</b>	<b>7,5 x</b>	<b>6,6 x</b>
<b>SIT at market price</b>		<b>10,0 x</b>	<b>8,7 x</b>	<b>7,1 x</b>	<b>5,7 x</b>	<b>4,8 x</b>	<b>3,8 x</b>
<b>% premium (discount)</b>		<b>-60,3%</b>	<b>-42,6%</b>	<b>-45,0%</b>	<b>-37,7%</b>	<b>-35,7%</b>	<b>-43,0%</b>

Source: Factset, UBI Banca estimates

Figure 11 - Implicit multiples based on our EUR10.36 target price

At the target price, the company would trade at 7.8x 2021 EV/EBITDA, which is still well below the average multiple of our international companies peer sample (13.7x) and in line with Italian companies, and on 18.8x P/E (23.2x for international companies and 15.2x for Italian companies).

	2020E	2021E	2022E
P/E	21,6	18,8	15,4
EV/EBITDA	9,0	7,8	6,4
EV/EBIT	20,5	18,0	13,6
EV/Sales	1,19	1,06	0,93
EV/CE	1,41	1,38	1,35
P/BV	1,66	1,56	1,45
P/CF	13,75	7,02	5,30

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	41,2	46,1	53,6
EBITDA margin	13,8%	13,2%	13,5%	14,6%
EBIT	24,7	18,2	20,1	25,1
EBIT margin	7,0%	5,8%	5,9%	6,8%
Net financial income /expense	-4,2	-4,2	-2,9	-2,6
Associates & Others	0,8	1,0	0,0	0,0
Profit before taxes	21,3	15,0	17,2	22,5
Taxes	-1,4	-3,0	-3,4	-5,6
Minorities & discontinuing ops	0,0	0,0	0,0	0,0
Net Income	19,9	12,0	13,8	16,9

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	245,4	243,2	239,6
M/L term funds	-26,7	-25,1	-26,8	-26,6
Capital employed	226,0	264,1	261,2	252,6
Shareholders' equity	147,6	156,1	166,3	178,2
Minorities	0,0	0,0	0,0	0,0
Shareholders' funds	147,6	156,1	166,3	178,2
Net financial debt/(cash)	78,4	108,0	95,6	75,9

Source: Company data, UBI Banca estimates

**Cash Flow Statement**

(EURm)	2019	2020E	2021E	2022E
NFP Beginning of Period	-71,3	-78,4	-108,0	-94,9
Group Net Profit	19,9	12,0	13,8	16,9
Minorities	0,0	0,0	0,0	0,0
D&A	24,0	23,0	26,0	28,5
Change in Funds & TFR	-2,7	-1,8	-1,8	-1,8
Gross Cash Flow	41,2	33,3	38,0	43,5
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	18,8	36,9	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	-25,0	14,5	25,4
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	-29,6	13,1	20,5
NFP End of Period	-78,4	-108,0	-94,9	-74,4

Source: Company data, UBI Banca estimates

**Financial Ratios**

(%)	2019	2020E	2021E	2022E
ROE	14,6%	7,9%	8,5%	9,8%
ROI (pre-tax)	10,3%	6,7%	7,0%	8,8%
Net Fin. Debt/Equity (x)	0,53	0,69	0,57	0,43
Net Fin. Debt/EBITDA (x)	1,6	2,4	1,5	0,9
Interest Coverage	5,9	4,3	7,0	9,8
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%	29,1%	36,3%	44,5%

Source: Company data, UBI Banca estimates

**Per Share Data**

(EUR)	2019	2020E	2021E	2022E
EPS	0,80	0,48	0,55	0,67
DPS	0,14	0,14	0,20	0,30
Op. CFPS	0,78	0,75	1,48	1,95
Free CFPS	-0,14	-1,00	0,58	1,02
BVPS	5,90	6,24	6,65	7,13

Source: Company data, UBI Banca estimates

**Stock Market Ratios**

(x)	2019	2020E	2021E	2022E
P/E	9,8	10,0	8,7	7,1
P/OpCFPS	10,0	6,4	3,3	2,5
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%	-20,8%	12,0%	21,2%
EV (EURm)	279,8	233,9	221,3	201,3
EV/Sales	0,79	0,75	0,65	0,55
EV/EBITDA	5,7	5,7	4,8	3,8
EV/EBIT	11,3	12,8	11,0	8,0
EV/Capital Employed	1,24	0,89	0,85	0,80

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%	-15,4%	11,7%	16,3%
Growth EBIT	3,3%	-26,3%	10,1%	24,9%
Growth Net Profit	-18,4%	-39,7%	14,5%	22,6%

Source: Company data, UBI Banca estimates



## Disclaimer

### Analyst Declaration

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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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**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.

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

Buy	Hold	Sell	No Rating
76.1%	19.6%	1.1%	3.3%

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

Buy	Hold	Sell	No Rating
61.4%	5.6%	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).

*Historical ratings and target prices*

<i>Date</i>	<i>Rating</i>	<i>Target Price (EUR)</i>	<i>Market Price (EUR)</i>
<i>4 April 2019</i>	<i>BUY</i>	<i>11.55</i>	<i>8.30</i>
<i>18 June 2019</i>	<i>BUY</i>	<i>9.92</i>	<i>8.40</i>
<i>17 September 2019</i>	<i>BUY</i>	<i>9.51</i>	<i>6.90</i>
<i>11 November 2019</i>	<i>BUY</i>	<i>10.43</i>	<i>7.00</i>
<i>14 May 2020</i>	<i>BUY</i>	<i>7.55</i>	<i>4.18</i>
<i>5 October 2020</i>	<i>BUY</i>	<i>9.20</i>	<i>4.58</i>
<i>15 October 2020</i>	<i>BUY</i>	<i>9.89</i>	<i>4.68</i>