

SIT (BUY)**Acquisition of NGA Product Line from Emerson Electric**

Market Mover	Positive	Neutral	Negative
--------------	----------	---------	----------

What's up? SIT announced a binding agreement with Emerson Electric to acquire its activities in the electronic valves for gas storage water heaters (called NGA). The activities acquired are based in Mexico and include the products (which will be rebranded as SIT), related patents (around 10) and production lines (but not the employees), which will be installed at SIT's production facility in Monterrey (Mexico). The end-user's market is primarily in the US and SIT targets to reach a market share of 10-15% in three years from the current 3-4%. The acquisition will also allow the expansion of the current storage heater product range, an area in which SIT is already present through mechanical valves, where the company has a market share of >50%. The closing of the deal is expected by 3Q21 and the terms of the deal were not disclosed. However, we understood that the activities acquired have a limited turnover (we believe around EUR 3-4M) with an EBITDA margin broadly in line with those of SIT and therefore the acquisition price should be immaterial for SIT (assuming SIT's current EV/EBITDA multiple, we would estimate an acquisition price around EUR 3.2M).

What we think: In our view, the acquisition is a further step to enlarge its product range, consistent with the company's strategy and is mainly technology driven. The storage water heaters market is concentrated in the US with around 5M devices sold every year. This market is growing at a single-digit growth rate and is evolving towards electronic valves (currently electronic valves account for around 73% of the market). SIT targets to reach EUR 15M sales in the next three years in this market segment and we see potential cross-selling opportunities, as SIT already supplies gas storage water heaters producers. **We confirm our positive stance and our EUR 12.1/sh target price.**

SIT - Key Data

16/07/2021	Engineering		
Target Price (EUR)	12.1		
Rating	BUY		
Mkt price (EUR)	8.42		
Mkt cap (EUR M)	211		
Main Metrics (€ M)	2021E	2022E	2023E
Revenues	358.4	370.8	383.8
EBITDA	48.24	49.32	54.34
EPS (EUR)	0.70	0.61	0.72
Net debt/-cash	113.2	90.62	76.84
Ratios (x)	2021E	2022E	2023E
Adj. P/E	12.0	13.9	11.7
EV/EBITDA	6.7	6.1	5.3
EV/EBIT	14.4	14.5	11.5
Debt/EBITDA	2.3	1.8	1.4
Div yield (%)	3.6	4.2	4.8
Performance (%)	1M	3M	12M
Absolute	9.9	12.3	80.3
Rel. to FTSE IT All Sh	13.7	10.2	45.8

Source: FactSet, Company data, Intesa Sanpaolo Research estimates

Intesa Sanpaolo is Corporate Broker to SIT

Marco Cristofori - Research Analyst
+39 02 6275 3015
marco.cristofori@intesasnpaolo.com