

23 March 2022

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Price (€)	8.6
Shares in issue (m)	25
Mkt Cap (€m)	215
Net debt (€m)	116
EV (€m)	331
BVPS (€)	6.2

Share price performance

1m	-4.7%
3m	-19.1%
12m	19.2%
12 m high/low	12/6.8
Ave daily vol (30D)	12,745

Shareholders

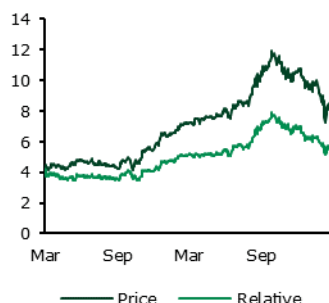
Sit Technologies Spa	74.6%
Canaccord Genuity	1.8%
Azimut Capital	0.7%
Kairos Partners	0.7%
Amber Capital	0.6%
ZENIT	0.5%
Norges Bank	0.5%
Az Legan	0.4%
Pharus Management	0.2%
River & Mercantile	0.1%
Total for top 10	79.9%
Free float	25.4%

Next news

Ints Q3

Business description

Gas heating components and smart gas and water meters



HEATING CONTINUES TO GROW

SIT's full year results were ahead of our forecasts at all levels and principally reflect strong growth in heating and water metering offsetting a well-signalled slow-down in gas metering. The company also continues to manage supply chain well and is maintaining margin. We expect to see continued strong growth in heating and have increased our forecasts for FY 23 and FY 24 accordingly. Our base case valuation rises from €12.1 to €13.0 as a result.

Heating and water metering deliver growth

The SIT full year results had already been foreshadowed at the sales level with the sales update in January. Overall, sales increased by 18.6% to €380.5m with heating up 19.8% to €298.3m and metering up 12.1% to €76.9m. Metering growth has been driven by the acquisition of the Janz water metering business with gas metering dropping 16.7% as the Italian smart metering programme comes to an end. The underlying growth in water metering was 24.1%.

Margin maintained

At the group level the EBITDA margin has remained flat at 13.5%. The company has been able to use its pricing power to offset supply chain cost increases. With SIT components typically representing 10% to 15% of the final product bill of materials we do not expect this to have a material impact on demand. Finance charges include €10m of one-off non-cash items with €9m of this the change in fair value of warrants. These redeem in the current year so this will not be repeated. Net income was €8.2m but after adjusting for the one-off items including an additional €1.8m patent box tax benefit the adjusted net income was €16.3m, up 21.6%. The company has announced a full year dividend of €0.30 up 7%.

Uncertainties well managed

While the year has been strong, there are clear uncertainties in the market. SIT has some exposure to sales of heating components in Ukraine and Russia but these are less than 5% of the total. There is also a supplier based in Ukraine supplying c.25% of completed circuit boards to Heating. This is close to the Slovak border and the company is working to move to other sources including more rapid insourcing to the new Tunisian facility as a contingency. Q4 did see some supply chain impact on sales where final customer demand was held up by other suppliers and logistics costs saw a small rise in some areas. Overall, the company has continued to manage these issues well and the impact has not prevented the full year results beating our forecasts.

€,'000 Dec	2020a	2021a	2022e	2023e	2024e	2025e
Sales	320,731	380,521	397,799	418,214	431,368	445,360
EBITDA	43,622	51,246	51,649	56,766	61,678	67,850
PBT	15,991	11,706	17,877	21,984	25,808	30,809
EPS	53.6	33.4	55.0	67.7	79.4	94.8
CFPS	-61.0	107.8	47.8	115.7	134.0	151.6
DPS	28.0	30.0	32.0	33.6	35.3	37.1
Net Debt (Cash)	115,800	107,256	108,013	91,998	71,372	46,404
Debt/EBITDA	2.7	2.1	2.1	1.6	1.2	0.7
P/E	16.0	25.7	15.6	12.7	10.8	9.0
EV/EBITDA	7.6	6.3	6.3	5.4	4.7	3.9
EV/sales	1.0	0.9	0.8	0.8	0.8	0.7
FCF yield	-7.1%	12.6%	5.6%	13.5%	15.6%	17.7%
Div yield	3.3%	3.5%	3.7%	3.9%	4.1%	4.3%

FINANCIALS

FORECAST CHANGES

Given the strong progress in heating we have increased our sales growth assumptions for FY 22 with a knock-on impact into FY 23 and beyond. We have also slightly increased sales in water metering but have reduced our sales forecast for gas metering. While the company reports that it expects new sales in the UK and India, until these start to become material we think caution is sensible. We have also assumed a slight reduction in EBITDA margin to 13.0% from 13.5% driven by higher logistics costs and slower metering sales.

FY 22 sales increase to €398m from €371m and EBITDA goes to €52m from €49m. In FY 23 sales increases to €418m from €387m and EBITDA to €57m from €54m.

VALUATION

Our DCF based valuation continues to be based on the assumption that the company makes limited progress in hydrogen metering with no material market. Recent policy moves in the EU and elsewhere aimed at improving energy security in reaction to the war in Ukraine have raised the possibility of hydrogen-based solutions and we continue to offer low and a high hydrogen take up scenarios on top of our base case. Our new forecasts result in the base case valuation rising to €12.1 from €13.0. The full scenario valuations are shown below.

Valuation scenarios

Scenario	H2 market size (€ bn)	Terminal growth	Terminal EV/EBITDA	DCF valuation (€)
Base no hydrogen	0.0	0.0%	5.4	13.0
Low hydrogen	7.8	1.5%	6.7	18.1
High hydrogen	19.6	2.5%	8.0	26.1

Source: Longspur Research

RISKS

Risks to our valuations include the risk of policy change on markets largely driven by policy concerns. These risks are mitigated by SIT's global spread and mix of businesses. One specific policy risk is that of substitution by electric heating rather than hydrogen heating. While electric heating will be a major part of the low carbon heating solution, the development of hydrogen networks suggests a reasonable role for hydrogen and SIT heating and metering solutions. Competition is always a risk but strong IP and relationships with major customers give the company a strong degree of protection in our view. Liquidity and limited free float are also risk to the share price, but we note a number of successful companies with low free floats in the clean energy space and we think that as long as the company can deliver this is not a major issue.

FINANCIAL MODEL

Profit and Loss Account

€,'000, Dec	2020a	2021a	2022e	2023e	2024e	2025e
Turnover						
Heating	249,003	298,251	316,981	323,321	329,788	336,383
Smart Gas Metering	68,634	57,113	51,331	61,597	64,062	66,624
Smart Water Metering	0	19,800	23,934	27,493	31,581	36,277
Other	3,094	5,357	5,552	5,803	5,937	6,075
Total	320,731	380,521	397,799	418,214	431,368	445,360
Operating profit						
Heating	14,125	17,375	16,166	17,783	19,787	23,547
Smart Gas Metering	5,491	4,855	4,106	5,544	6,406	6,662
Smart Water Metering	0	2,100	2,752	3,299	3,790	4,353
Other	0	0	0	0	0	0
Operating profit	19,616	24,330	23,025	26,626	29,983	34,563
P&L Account						
Turnover	320,731	380,521	397,799	418,214	431,368	445,360
Operating Profit	19,616	24,330	23,025	26,626	29,983	34,563
Investment income	0	31	0	0	0	0
Net Interest	-3,625	-12,655	-5,148	-4,641	-4,175	-3,753
Pre Tax Profit (UKSIP)	15,991	11,706	17,877	21,984	25,808	30,809
Goodwill amortisation	0	0	0	0	0	0
Exceptional Items	0	0	0	0	0	0
Pre Tax Profit (IFRS)	15,991	11,706	17,877	21,984	25,808	30,809
Tax	-2,766	-3,462	-4,290	-5,276	-6,194	-7,394
Post tax exceptionals	0	0	0	0	0	0
Minorities	0	0	0	0	0	0
Net Profit	13,225	8,243	13,587	16,708	19,614	23,415
Dividend	-3,476	-6,890	-7,407	-7,901	-8,296	-8,716
Retained	9,749	1,353	6,179	8,807	11,318	14,699
EBITDA	43,622	51,246	51,649	56,766	61,678	67,850
EPS (p) (UKSIP)	53.56	33.39	55.03	67.67	79.44	94.83
EPS (p) (IFRS)	53.56	33.39	55.03	67.67	79.44	94.83
FCFPS (p)	-61.01	107.76	47.78	115.66	134.05	151.62
Dividend (p)	28.00	30.00	32.00	33.60	35.30	37.10

Source: Company data, Longspur Research estimates

KEY POINTS

- FY 21 sees first year of contribution from Janz
- FY 22 sees gas heating and water metering sales strongly up
- FY 22 slightly weaker in gas metering as metering programme delays linger
- FY 23 sees gas heating continue and some growth returning in gas metering
- Some margin depression remains in FY 22 but broadly well managed
- Impact of Tunisian manufacturing improves gross margins from FY 23 onwards

Balance Sheet

€,000, Dec	2020a	2021a	2022e	2023e	2024e	2025e
Fixed Asset Cost	319,738	354,434	377,354	397,347	417,840	438,845
Fixed Asset	-	-	-	-	-	-
Depreciation	229,510	256,395	285,019	315,159	346,854	380,141
Net Fixed Assets	90,228	98,039	92,335	82,188	70,987	58,704
Goodwill	98,070	87,946	87,946	87,946	87,946	87,946
Other intangibles	52,569	61,611	62,411	62,411	62,411	62,411
Investments	326	325	325	325	325	325
Stock	56,502	70,123	76,290	80,205	82,728	85,412
Trade Debtors	65,518	56,052	65,392	68,747	70,910	73,210
Other Debtors	26,293	29,273	29,273	29,273	29,273	29,273
Trade Creditors	-72,203	-80,752	-84,419	-88,751	-91,542	-94,512
Other Creditors <1yr	-21,777	-35,178	-35,178	-35,178	-35,178	-35,178
Creditors >1yr	-15,670	-15,804	-15,804	-15,804	-15,804	-15,804
Provisions	-4,740	-4,941	-4,941	-4,941	-4,941	-4,941
Pension	-6,095	-5,762	-5,762	-5,762	-5,762	-5,762
Capital Employed	269,021	260,932	267,869	260,660	251,352	241,084
Cash etc	42,328	46,667	21,152	24,250	33,252	47,757
Borrowing <1yr	51,542	24,758	12,917	11,625	10,462	9,416
Borrowing >1yr	106,586	129,165	116,249	104,624	94,161	84,745
Net Borrowing	115,800	107,256	108,013	91,998	71,372	46,404
Share Capital	96,152	96,162	96,162	96,162	96,162	96,162
Share Premium	9,586	5,676	5,676	5,676	5,676	5,676
Retained Earnings	13,225	8,243	14,422	23,229	34,547	49,246
Other	34,258	43,595	43,595	43,595	43,595	43,595
Minority interest	0	0	0	0	0	0
Capital Employed	269,021	260,932	267,869	260,660	251,352	241,084
Net Assets	153,221	153,676	159,855	168,662	179,980	194,679
Total Equity	153,221	153,676	159,855	168,662	179,980	194,679

Source: Company data, Longspur Research estimates

KEY POINTS

- Net fixed assets expand with Tunisian development and Janz acquisition
- Working capital driven by turnover with slight margin on historic ratios as supply chain issues are managed
- Borrowing increases in FY 21 with Janz acquisition
- Refinancing assumed in FY 23

Cashflow

€,'000, Dec	2020a	2021a	2022e	2023e	2024e	2025e
Operating profit	19,616	24,330	23,025	26,626	29,983	34,563
Depreciation	24,006	26,885	28,624	30,140	31,695	33,288
Provisions	0	0	0	0	0	0
Other	3,939	963	0	0	0	0
Working capital	-13,964	7,554	-12,668	-3,924	-2,811	-3,215
Operating cash flow	33,597	59,731	38,980	52,841	58,867	64,636
Tax paid	-6,315	-6,475	-3,462	-4,290	-5,276	-6,194
Capex (less disposals)	-13,316	-22,361	-22,920	-19,993	-20,493	-21,005
Investments	-29,029	-4,288	-800	0	0	0
Net interest	-1,743	-2,975	-5,148	-4,641	-4,175	-3,753
Net dividends	-3,476	-6,890	-7,407	-7,901	-8,296	-8,716
Residual cash flow	-20,282	16,742	-757	16,015	20,626	24,968
Equity issued	-775	-3,912	0	0	0	0
Change in net borrowing	37,379	-8,544	757	-16,015	-20,626	-24,968
Adjustments	-16,782	-4,286	0	0	0	0
Total financing	19,822	-16,742	757	-16,015	-20,626	-24,968

Source: Company data, Longspur Research estimates

KEY POINTS

- Working capital remains negative as company experiences continued growth across forecast period
- Capex remains high as company continues to invest
- Additional Capex spend on Tunisia in FY 22
- FY20 shows Janz acquisition cost in investments

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