

12 May 2022

Adam Forsyth

adam.forsyth@longspur.com

+44 (0) 131 357 6770

Price (€)	6.0
Shares in issue (m)	25
Mkt Cap (€m)	151
Net debt (€m)	107
EV (€m)	258
BVPS (€)	6.2

Share price performance

1m	-21.4%
3m	-39.7%
12m	-20.0%
12 m high/low	12/5.7
Ave daily vol (30D)	14,076

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



Q1s SEE CONTINUED GROWTH

SIT's Q1 results show the company shrugging off the expected slow down in Italian metering sales with strong growth in heating and even stronger growth in water metering. Margins have held well and SIT continues to manage supply chain risk effectively. Guidance remains comfortable giving us confidence in our forecasts.

Heating and water offset Italian metering slowdown

SIT's Q1 results saw sales continue to grow overall, rising 1.2% to €93.8m. This was despite the continued saturation of the gas metering opportunity in Italy. This saw gas metering sales drop 37% year on year but this was offset by good growth in heating up 8% and exceptional growth in water metering up 30%. This latter is entirely organic and shows the value in the acquisition of that business in our view. In heating there is growth in most areas with catering growth very strongly, up 77% as this sector sees business return to normal following the impacts of COVID 19. Some UK heating sales and US storage water heater sales were delayed as a result of other suppliers impacting customer demand levels. Sales to China continue to see positive momentum and Central Europe was also strong, up 30%.

Margins remain strong

EBITDA margin remains strong at 15.6% just slightly down on last year's 16.2% and showing resilience in the face of supply chain cost pressure. The company has also been able to pass on the costs of inventory increases as the company has deliberately grown stock levels rising to manage supply chain risk. This has seen SIT add €16.1m to inventory in the quarter with less than €3m of that due to cost inflation.

Outlook in line with our forecasts

Outlook guidance notes uncertainties related to the geopolitical and general economic situations but remains comfortable with an expectation of full year sales growth of 4% to 5% and an EBTIDA margin of 13%. Our forecasts remain consistent with this guidance and we remain comfortable with our numbers as a result.

€,'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	0.1	0.2	0.1	0.1	0.1	0.1
EV/EBITDA	6.1	5.0	5.0	4.3	3.6	2.9
EV/sales	0.8	0.7	0.7	0.6	0.6	0.6
FCF yield	-1013.4%	1790.1%	793.7%	1921.3%	2226.7%	2518.6%
Div yield	465.1%	498.3%	531.6%	558.1%	586.4%	616.3%

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

Equity Research Disclaimers

Non-independent research

This report has been commissioned by the issuer and prepared and issued by Longspur Research, in consideration of a fee payable by the issuer. It is Non-Independent Research and a marketing communication under the FCA's Conduct of Business Rules. It is not Investment Research as defined by the FCA's Rules and has not been prepared in accordance with legal requirements designed to promote Investment Research independence and is also not subject to any legal prohibition on dealing ahead of the dissemination of Investment Research. We do not hold out this research material as an impartial assessment of the values or prospects of the company.

Notwithstanding this, Longspur Research has procedures in place to manage conflicts of interest which may arise in the production of Research, which include measures designed to prevent dealing ahead of Research.

Minor non-monetary benefit

This Research is a minor non-monetary benefit as set out in Article 12 (3) of the Commission Delegated Directive (EU) 2017/593. The Research is paid for by a corporate client of Longspur Research) and can be distributed free of charge.

Copyright

Copyright 2019 Longspur Capital. This Communication is being supplied to you solely for your information and may not be reproduced, redistributed or passed to any other person or published in whole or in part for any purpose without the prior consent of Longspur Research. Additional information is available upon request.

Regulated by the FCA

Longspur Research Longspur Research is a trading name of Longspur Capital Limited, authorised and regulated by the Financial Conduct Authority (FRN 839313). Longspur Capital is registered in England, company number 11011596.

No warranty as to accuracy or completeness

All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified.

Opinions contained in this report represent those of the Longspur Research analyst at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. No representation or warranty is made as to the accuracy or completeness of the information included in this Research and opinions expressed may be subject to change without notice. Longspur Research does not undertake any obligation to revise such forward-looking statements to reflect the occurrence of unanticipated events or changed circumstances.

This report is solely for informational purposes and is not intended to be used as the primary basis of investment decisions. Longspur Research has not assessed the suitability of the subject company for any person. Because of individual client requirements, it is not, and it should not be construed as, advice designed to meet the particular investment needs of any investor. This report is not an offer or the solicitation of an offer to sell or buy any security.

Longspur Research has no authority whatsoever to make any representation or warranty on behalf of any of its corporate finance clients, their shareholders or any other persons similarly connected.

Information purposes only

This Research is designed for information purposes only. Neither the information included herein, nor any opinion expressed, are deemed to constitute an offer or invitation to make an offer, to buy or sell any financial instrument or any option, futures or other related derivatives. Investors should consider this Research as only a single factor in making any investment decision. This Research is published on the basis that Longspur Research is not acting in a fiduciary capacity. It is also published without regard to the recipient's specific investment objectives of recipients and is not a personal recommendation. The value of any financial instrument, or the income derived from it, may fluctuate.

Take own advice

The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Longspur Research's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Longspur Research may have a position

At any time, Longspur Research or its employees may have a position in the securities and derivatives (including options or warrants) of the companies researched and this may impair the objectivity of this report. Longspur Research may act as principal in transactions in any relevant securities, or provide advisory or other services to any issuer of relevant securities or any company connected therewith.

Only for eligible counterparties and professional clients. Not for retail

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document (nor will such persons be able to purchase shares in the placing).

MAR Formal disclosure of conflicts

This report has been commissioned by the issuer and prepared and issued by Longspur Research in consideration of a fee payable by the issuer. Fees are paid upfront in cash without recourse. A draft has been sent to the issuer for comment and it has been appropriately amended.

Neither Longspur Research nor the analyst have any holdings in the issuer. Longspur Research may from time to time provide the issuer with of consultancy advice.

See webpage for additional MAR disclosures.

GDPR

For further information about the way we use your personal data please see our Third Party Privacy Notice at <https://longspur.com/privacypolicy.html> or at such other place as we may provide notice of from time to time. We may contact you about industry news, offers and information relating to our products and services which we think would be of interest to you. You can tell us you do not wish to receive such communications by emailing michelle.elsmore@longspur.com.

Laven Consulting Limited (incorporated and registered in England and Wales with company number 10918441) (“Laven”) acting through its Paris branch located at 128 Rue La Boetie 75008, Paris, France as designated representative of Two Sigma Investments LP (“Company”), in accordance with art. 27 of the General Data Protection Regulation (the Regulation (EU) 2016/679) (“GDPR”). The Company has mandated Laven to be the European representative of the Company with regards to any communications or enquiry from the Supervisory Authority and/or data subjects on all issues related to the processing of personal data. Please contact Laven on info@eurorep.eu; the postal address is FAO EuroRep, c/o Laven Partners, 128 Rue La Boetie 75008, Paris, France. When contacting Laven regarding the Company please quote the name of the company and the Ref: 0085.

Severability Applicable law

Exclusion of Liability: To the fullest extent allowed by law, Longspur Research shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

Longspur Research
10 Castle Street,
Edinburgh. EH2 3AT
UK

Longspur Capital
20 North Audley Street,
London. W1K 6WE
UK