

Company Note

SIT

1Q22 Results

While revenues were in line with our expectations, profitability was much better as SIT was able to pass through the bulk of the cost inflation in the quarter. The company now has more visibility for FY22 and expects revenues up 4/5% with an EBITDA margin at around 13% despite the impact of the Russia/Ukraine conflict and the constraints of the supply chain. We left substantially unchanged our 2022-24E estimates. BUY confirmed with a new TP at EUR 11.4/sh.

1Q22 results

Overall, 1Q22 results were above our expectations and we highlight SIT's capacity to transfer at least growing raw material costs to customers. The trend of the Heating business remains positive and the Water Meters business performed above expectations. On the negative side, we underline the weak performance of the Gas Smart Metering division and the difficulties in penetrating new markets. 1Q22 should be the worst of the year and the company's outlook supports our estimates for the full year.

Outlook and estimates

SIT provided an outlook for 2022 which includes the impact of the Russia-Ukraine conflict and the current constraints on the supply chain. Sales are expected to grow by around 4/5%, approaching EUR 400M, with an EBITDA margin at around 13%. These numbers are substantially in line with our FY22E expectations. We marginally revise our estimates factoring in the impact of the fair value of warrants on 2022 net result and higher NWC due to mounting inventories to face possible difficulties in the supply chain, thus increasing our net debt forecasts.

Valuation

We believe the share price drop (-40% YTD) represents an attractive opportunity for investors. **Our target price has been reduced to EUR 11.4/sh** (from EUR 12.4/sh) reflecting a higher risk-free rate and equity risk premium. With a >75% upside, **we confirm our BUY rating**.

16 May 2022: 12:14 CET  
Date and time of production

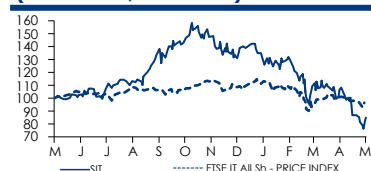
BUY

Target Price: EUR 11.4  
(from EUR 12.4)

Italy/Engineering & Machinery  
Update

MTA

Price Performance  
(RIC: SIT.MI, BB: SIT IM)



SIT - Key Data

Price date (market close)	13/05/2022
Target price (EUR)	11.4
Target upside (%)	77.57
Market price (EUR)	6.42
Market cap (EUR M)	161.07
52Wk range (EUR)	12.0/5.8

Price performance %	1M	3M	12M
Absolute	-20.5	-35.7	-15.1
Rel. to FTSE IT All Sh	-18.3	-28.0	-13.2

Y/E Dec (EUR M)	FY21A	FY22E	FY23E
Revenues	380.5	399.5	418.7
EBITDA	51.22	51.73	59.24
EBIT	24.33	23.14	29.79
Net income	8.24	23.25	20.74
EPS (EUR)	0.65	0.58	0.83
Net debt/-cash	106.7	113.9	93.63
Adj P/E (x)	13.1	11.1	7.8
EV/EBITDA (x)	6.3	5.3	4.3
EV/EBIT (x)	13.2	11.9	8.6
Div ord yield (%)	3.5	4.7	6.2

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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## 1Q22 Results

Overall, SIT reported revenues in line with our estimates but with a better profitability. The key points of results were:

■ **Revenues up 1.2%.** SIT reported revenues in line with our estimates in 1Q22. In detail:

- **Heating** increased by 7.9% (+6% at the same forex) thanks to the good performance of direct and central heating and the jump of the catering segment, which was up 77%. Italy was up 4.3%, Europe 4.8% (with Russia, which represented 4.1% of divisional sales, down 10.4% offset by the strong performance of Central Europe and Turkey), the US 8.9% (with storage water heating down 11.1% due to the shortage of electronic components) while Asia (mostly China, which was up 38%) increased by 30.6%;
- **Gas Smart Metering** was strongly down (-37.3%) due to the end of the rollout in Italy and the low penetration of foreign markets (just 9.3% of divisional sales). Gas Metering backlog was EUR 27.6M (vs. EUR 31.4M at March-21), corresponding to 48% of 2021A revenues, of which EUR 2.2M in foreign markets (Greece, India, Croatia);
- **Water Metering** (Janz) performed above expectations with a revenue increase of nearly 30%. Management confirmed that the EBITDA margin of Janz is around 20%, or higher than the average of SIT.

**Sales in line, better profitability**

**Positive trend for Heating**

**Weak Smart Gas Metering**

**Strong growth in Water Metering**

### SIT – Revenues breakdown in 1Q22

EUR M	1Q21A	1Q22A	% Chg.
Italy	28.9	24.6	-15.0
Rest of Europe	39.6	41.4	4.7
America	18.0	19.5	8.1
APAC	6.2	8.3	34.9
Heating	70.5	76.1	7.9
Gas Metering	16.5	10.3	-37.1
Water Metering	4.8	6.2	29.2

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

- **EBITDA margin reached 15.6% vs. 16.2% in 1Q21 and our 13.2% expectation**, thanks to: 1) the positive impact of selling prices (EUR 1.9M), which offset higher raw material costs; 2) a positive forex impact for EUR 1.1M; and 3) higher logistic and transport costs for around EUR 1.6M and higher R&D costs. EBIT reached EUR 8M and EUR 6.6M D&A costs;

**EBITDA margin sustained by higher selling prices and forex**

- **Net result at EUR 12.4M (+60%)**, thanks to a positive impact stemming from the fair value of the warrants of EUR 7.1M. Net result on an adjusted basis was EUR 5.3M, down 26.8% vs. 1Q21 but still above our expectations;

- **Net debt was up to EUR 124.8M** (from EUR 106.7M at Dec-21), slightly above our estimates due to the sharp increase of NWC now at 18.5% of sales vs. 14.2% at March 21. This was due to the strategic increase of inventories YTD to face potential bottlenecks in the supply chain and maintain high customer service levels. Capex was EUR 5.4M, in line.

**Higher inventories increased net debt**

- **Strategy update:** SIT confirmed its commitment towards potential M&A. In detail: in water metering to penetrate new markets and accelerate on new technologies (ultrasonic meters), in the heating business the strategy is to increase the weight of

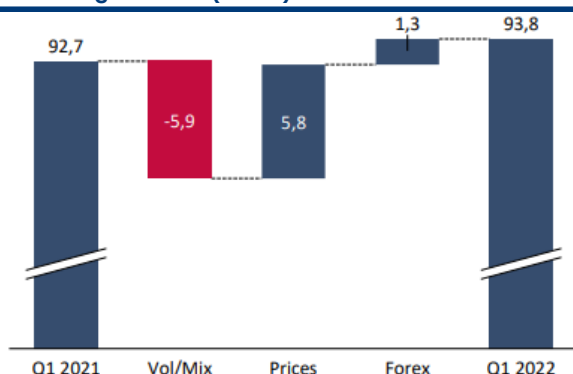
non-gas products (now at around 20%) and potential acquisitions could accelerate the introduction of new products, such as Hybrid heating systems (heat-pump and gas heating systems together) and hydrogen-ready boilers, which could become compulsory in Europe from 2028. As for Gas Smart Metering, the strategy is to penetrate new markets and, in the long-term, moves from a product supplier business model to a service supplier business model.

### SIT – 1Q22 results

EUR M	1Q21A	FY21A	1Q22E	1Q22A	1Q A/E %	1Q yoy %
Revenues	92.7	380.5	92.0	93.8	2.0	1.2
o/w Heating	70.5	298.3	75.0	76.1	1.4	7.9
o/w Smart Metering	21.3	76.9	16.0	16.5	3.4	-22.2
EBITDA	15.0	51.2	12.16	14.7	20.7	-2.2
Margin (%)	16.2	13.5	13.2	15.6		
EBIT	8.9	24.3	5.16	8.0	55.6	-10.1
Margin (%)	9.6	6.4	5.6	8.6		
Pre tax	7.4	11.7	3.2	14.1	346.5	89.9
Net Result	7.8	16.3	2.7	12.4	361.2	59.8
Net Result Adj.	7.2	16.3	2.7	5.3	97.3	-26.4
Net debt	101.4	106.7	124.0	124.8	0.6	23.1

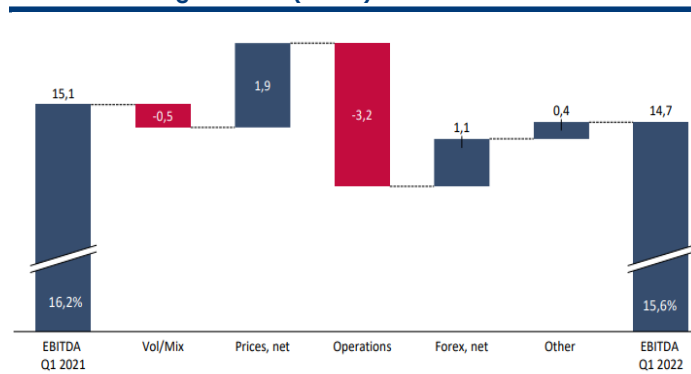
A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

### SIT – Sales bridge in 1Q22 (EUR M)



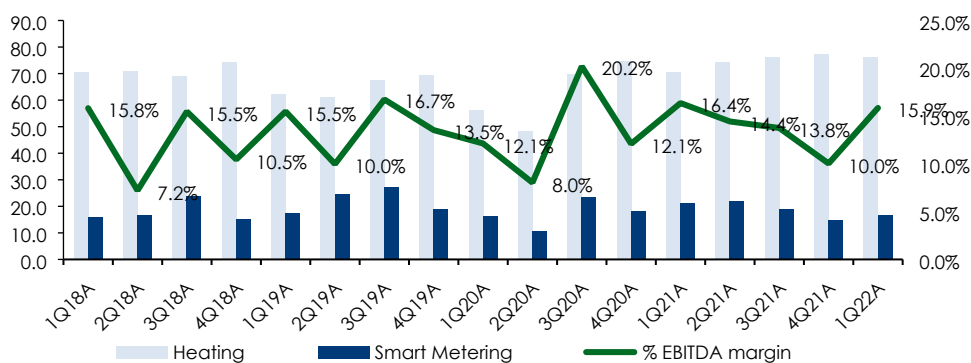
Source: Company data

### SIT – EBITDA bridge in 1Q22 (EUR M)



Source: Company data

### SIT – Quarterly sales and EBITDA trend (EUR M)



A: actual; Source: Intesa Sanpaolo Research elaboration on Company data

## Earnings Outlook

Despite the impact of the Russia/Ukraine conflict, higher cost inflation and the shortage of electronic components, the visibility on FY22 has increased and SIT provided an outlook for 2022. Sales are expected to grow by around 4/5%, approaching EUR 400M, with no sales expected from Russia and Ukraine from May and taking into account the shortage of components and potential disruption and logistic issues coming from the strict Covid lockdown applied by the Chinese authorities. In other words, customers would be ready to acquire higher volumes if current production constraints are softened. The EBITDA margin is expected at around 13%. SIT's main assumptions are:

- **Heating:** The positive trend reported in 1Q22 (sales up 7.9%) should continue at least in the next two quarters, according to the current order backlog, driven by incentives and higher gas prices, which are accelerating the replacement of old heating systems (a new heating system can save >20% of the gas bill). The company increased its selling prices from Jan-22 reversing higher raw material prices to customers;
- **Gas smart Metering:** The weak results reported in 1Q22 (sales down 37%) were also caused by the shortage of electronic components but revenues should recover in the coming quarters with an expected decline of around 15% in the full year. The main target remains to penetrate the UK market (with a total market of 23M of meters) leveraging on SIT's high-quality products, which are currently in the certification phase from utilities. India is still strategic as the country needs to replace 40M meters (of which 4M should be smart). UK and India together can generate EUR 8M sales in 2022 and potentially EUR 15M in 2023. Finally, the company is confident that a new rollout of gas meters should start in Italy from 2024 replacing GPRS with 5G and with new gas meters containing new features (for example earthquake sensors) tailored to clients' requests;
- **Water Metering:** Janz should continue to perform well and should further accelerate when the ultrasonic technology will be introduced. The first products should be introduced in Italy in 2023/24;

The outlook released by SIT is substantially in line with our FY22 expectations which remain unchanged at the operating level. We increased our net profit forecast to include the fair value of the warrant at maturity, which had a fair value of EUR 8.7M at Dec-21. Given that warrants will expire in July-22 and are currently strongly out of the money (EUR 9.3 strike price), SIT should record EUR 8.7M of non-recurring financial gains. Clearly, our adjusted net profit does not have any impact from this item. We also increased our net debt estimate at Dec-22 as we now incorporate higher inventories though the year. On 2023E and 2024E we left our estimates unchanged, but increased our net debt projections for the same reason.

**SIT expects sales up 4/5% in FY22 with EBITDA margin around 13%**

**Our estimates at operating level are confirmed. We raise net profit to incorporate the fair value of the warrants and increase net debt due to rising NWC**

## SIT - Estimates revision (FY22E-24E)

EUR M	2022E	2022E	2022E	2023E	2023E	2023E	2024E	2024E	2024E
	Old	New	New/Old %	Old	New	New/Old %	Old	New	New/Old %
Total sales	399.5	399.5	0.0	418.7	418.7	0.0	439.3	439.3	0.0
Core sales	394.0	394.0	0.0	413.1	413.1	0.0	433.6	433.6	0.0
o/w Heating	322.0	322.0	0.0	338.1	338.1	0.0	351.6	351.6	0.0
o/w Smart Metering	72.0	72.0	0.0	75.0	75.0	0.0	82.0	82.0	0.0
EBITDA Adj.	51.7	51.7	0.0	59.2	59.2	0.0	63.9	63.9	0.0
% margin	13.1	13.1		14.3	14.3		14.7	14.7	
EBIT	23.1	23.1	0.0	29.8	29.8	0.0	33.6	33.6	0.0
% margin	5.9	5.9		7.2	7.2		7.7	7.7	
Net result	14.5	23.2	60.3	20.7	20.7	0.0	23.6	23.6	0.0
Net result Adj.	14.5	14.5	0.0	20.7	20.7	0.0	23.6	23.6	0.0
Net Debt/(Cash)	99.7	113.9	14.3	81.0	93.6	15.6	59.8	64.6	8.1

E: estimates; Source: Intesa Sanpaolo Research

## Valuation

Our **new target price of EUR 11.4/share** (from EUR 12.4/share) reflects our update of the parameters used in our DCF model. **Given a potential upside of >75%, we confirm our BUY rating.** In detail:

- We increased our risk-free rate to 2.50% replacing the previous 1.75% due to the rising trend in BTP-10 yields which has accelerated in recent months, following the sharp rise in consumer prices, the outbreak of the Russia-Ukraine war, and the widening of the BTP-Bund spread. The 1M average is 2.72%, and the current 10Y yield is 3.07%;
- We also raise our equity risk premium from 6.25% to 6.50% reflecting the above-mentioned concerns. Our equity risk premium is based on a three-stage DDM, which calculates the equity premium implied in the Euro Stoxx index. As of today, our risk premium stands at 7.25%, with its 20Y average at 6.50% and its 25Y average at 5.75%;
- Based on these new parameters, we calculated a WACC at 8.7% (from 7.8%) adopting a Beta of 1.62 (based on the average beta of European Machinery sector; Source: Damodaran Jan-22) and a sustainable D/E assumption of 40%.

We recall that our target price is based on the average of a DCF (fair value of EUR 9.2/share) 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 smaller size compared to other listed companies) and the average of certain Italian industrial companies. This returns a fair value of EUR 12.2/share using international companies and EUR 12.9/share using Italian companies.

### SIT – Valuation summary

Method - EUR	New valuation	Weighting %	29/03/2022	Delta %
DCF	9.2	33	11.7	-21.6
Italian companies	12.9	33	11.6	11.7
International companies (30% discount)	12.2	33	14.1	-13.6
<b>Target price</b>	<b>11.4</b>		<b>12.4</b>	<b>-8.3</b>
Current price	6.42		8.20	-21.7
Potential upside %	77.8		51.8	

Source: Intesa Sanpaolo Research estimates

### SIT – DCF valuation

	EUR M	% Weighting	Per share (EUR)
Sum of PV 2022-30E FCF	138.3	40.5	5.53
Terminal value	203.1	59.5	8.12
<b>Total Enterprise value</b>	<b>341.4</b>	100.0	<b>13.65</b>
- Pension Provisions	-5.8		-0.2
- Net cash (debt)	-106.7		-4.3
<b>Total Equity value</b>	<b>228.9</b>		<b>9.15</b>
Fully diluted number of shares (m)	25.0		
<b>Fair value per share (EUR)</b>	<b>9.15</b>		

Source: Intesa Sanpaolo Research estimates

## SIT – Peer comparison based on international peers

x	Mkt Price	Mkt Cap	P/E			EV/EBITDA		
	EUR	EUR M	2022E	2023E	2024E	2022E	2023E	2024E
Bucher Industries	320.1	3,281	12.5	12.2	12.5	6.3	5.9	6.4
Beijer Ref	14.7	5,616	43.4	37.1	33.3	25.9	22.6	21.2
Emerson Electric	80.5	47,819	16.6	15.5	14.2	11.0	10.0	9.9
Trane Technologies	132.7	31,043	19.6	17.4	15.9	13.6	12.5	12.5
Landis + Gyr	50.5	1,459	14.9	13.5	12.1	10.7	7.3	7.3
Lindab International	17.7	1,396	12.9	13.0	12.3	8.2	7.7	7.9
NIBE Industrier	8.6	17,325	48.5	42.2	38.6	28.8	25.2	23.8
Resideo Technologies	22.3	3,240	9.7	8.5	7.4	5.0	4.1	4.5
Schneider Electric	129.5	73,715	18.5	16.6	15.3	12.5	11.2	11.3
SPX Corporation	44.6	2,039	16.7	14.5	13.6	10.0	8.5	8.6
Sulzer	72.0	2,467	13.1	12.1	11.5	6.3	5.7	5.8
Weir Group	17.8	4,613	17.2	15.1	13.7	10.9	9.6	9.3
<b>Average</b>			<b>20.3</b>	<b>18.1</b>	<b>16.7</b>	<b>12.4</b>	<b>10.9</b>	<b>10.7</b>
SIT*	6.4	161	11.1**	7.8	6.8	5.4	4.4	3.6
<b>Premium/-discount %</b>			<b>-45.3</b>	<b>-57.1</b>	<b>-59.1</b>	<b>-56.3</b>	<b>-59.6</b>	<b>-66.3</b>

Price at market close on 13/05/2022; \*\* Adjusted; Source: FactSet and \*Intesa Sanpaolo Research estimates

## SIT – Peer comparison based on Italian companies

	Market Cap. (EURm)	P/E			EV/EBITDA		
		2022E	2023E	2024E	2022E	2023E	2024E
Gefran	136	10.8	10.2		5.0	4.6	
Interpump	4,209	17.0	16.0	14.6	10.6	9.7	9.4
LU-VE*	441	22.1	16.5	13.6	9.5	7.9	7.0
Sabaf	283	10.9	10.0	9.5	6.6	5.8	5.8
Ariston*	3,142	19.5	17.2	15.2	10.8	9.8	8.9
<b>Average</b>		<b>16.1</b>	<b>14.0</b>	<b>13.2</b>	<b>8.5</b>	<b>7.6</b>	<b>7.8</b>
SIT at market price		11.1**	7.8	6.8	5.4	4.4	3.6
<b>% premium (discount)</b>		<b>-30.8</b>	<b>-44.4</b>	<b>-48.3</b>	<b>-36.2</b>	<b>-41.9</b>	<b>-53.6</b>

Price at market close on 13/05/2022; \*\* Adjusted; Source: FactSet and \*Intesa Sanpaolo Research estimates

## SIT – Valuation with trading multiples

X/EUR M	P/E			EV/EBITDA		
	2022E	2023E	2024E	2022E	2023E	2024E
<b>Average International peers</b>	<b>18.1</b>	<b>16.4</b>	<b>12.9</b>	<b>12.9</b>	<b>10.8</b>	<b>10.6</b>
Net profit	14.5	20.7	23.6			
EBITDA				51.7	59.2	63.9
EV				667.8	640.0	674.9
Net debt				-113.9	-93.6	-64.6
<b>Equity value</b>	<b>261.8</b>	<b>340.1</b>	<b>304.9</b>	<b>553.9</b>	<b>546.3</b>	<b>610.2</b>
<b>Value per share (EUR)</b>	<b>10.4</b>	<b>13.5</b>	<b>12.1</b>	<b>22.1</b>	<b>21.8</b>	<b>24.3</b>
<b>Average Italian companies</b>	<b>16.1</b>	<b>14.0</b>	<b>13.2</b>	<b>8.5</b>	<b>7.6</b>	<b>7.8</b>
Net profit adjusted	14.5	20.7	23.6			
EBITDA				51.7	59.2	63.9
EV				439.7	447.3	497.5
Net debt				-113.9	-93.6	-64.6
<b>Equity value</b>	<b>233.0</b>	<b>290.1</b>	<b>312.0</b>	<b>325.8</b>	<b>353.7</b>	<b>432.9</b>
<b>Value per share (EUR)</b>	<b>9.3</b>	<b>11.6</b>	<b>12.4</b>	<b>13.0</b>	<b>14.1</b>	<b>17.2</b>

Source: Intesa Sanpaolo Research estimates



At our target price, SIT would trade at 7.8x 2022E EV/EBITDA which is still below the average multiple of our peers' sample of international companies (12.4x) and also below the Italian companies (8.5x). P/E would stand at 12.3x vs. 20.3x for international companies and 16.1x for Italian companies.

**SIT – Implicit multiples in our EUR 11.4/sh target price**

x	2022E	2023E	2024E
P/E Adj.	12.3	13.8	12.1
EV/EBITDA	7.8	6.5	5.6
EV/EBIT	17.5	12.9	10.6
EV/Sales	1.03	0.93	0.82
EV/CE	1.48	1.44	1.41
P/BV	1.78	1.65	1.53
P/CF	8.30	6.05	4.81

Source: Intesa Sanpaolo Research estimates

## ESG Corner

Sustainability is part of SIT's mission and vision and, since 2018, the company publishes a sustainability report and monitors the environmental, social and economic impacts of its business activities, with a view to continuous improvements. In addition, SIT has begun numerous collaborations with leading institutions, universities and trade associations in order to define the near future for the use of alternative gases in domestic use. Hydrogen, particularly, is a leading driver of development. In this area, SIT is working alongside the most significant multinational firms, those for whom it has always been a strategic supplier.

### SIT – The road to sustainability



Source: Company data

On 4 May 2022, SIT presented its first ESG plan to 2025. The plan is backed by economic resources (Capex/Opex) of over EUR 8M and targets an 8% reduction in CO<sub>2</sub> emissions, the installation of new photovoltaic systems that will increase the company's share of renewable energy by 12%, the achievement of Gold EcoVadis score by 2024 (from Silver), the alignment with EU ESG Taxonomy and the global compact adherence by 2023. SIT has selected 11 Sustainable Development Goals of the UN 2030 Agenda and started more than 50 initiatives and projects, involving every area of the company, including new procedures for human rights, gender pay equality and a long-term incentive plan ESG-linked. A strong commitment is on sustainable product innovation (eco-design) and all the new products from this year must reduce the carbon footprint of the company (for example the transition to recycled plastic for 80% of the casing for gas meters has been planned). The company also highlighted its leadership in the development of H<sub>2</sub> ready solutions working with 100% green hydrogen and is tendering in other countries after the successful experience in UK. Finally, the Board of Directors established a Sustainability Governance system in 2021, appointing a Corporate Sustainability Director and a structure dedicated to defining, introducing and executing each of its ESG initiatives and projects.

### New ESG Plan

SIT – Sustainability plan up to 2025



Source: Company data

SIT – ESG green paper



Source: Company data

SIT Group monitors on a continuous basis the production activities commissioning to external laboratories to analyse and report the compliance to the environmental regulation and intends to adopt a Carbon Footprint Systematic Approach to assess its impact on the environment in terms of carbon dioxide (CO<sub>2</sub>) emissions resulting from the manufacture of three product categories: valves, electronic circuit boards, and fans. The company has implemented an Environmental Management System (EMS) at its production facilities in Rovigo (Italy), Monterrey (Mexico) and Brasov (Romania). The system defines specific monitoring and control procedures, assigns clear roles and responsibilities, and guarantees active communication with stakeholders and control bodies. The system also requires the production facilities to annually define initiatives to improve environmental performance.

Environmental sustainability

SIT is committed to guaranteeing respect for diversity, the rights of individuals, general well-being and professional growth. At the end of December 2020, the company has 2,484 employees, including the workforce of companies established and acquired by SIT in the second half of 2020 with a strong percentage of female (around 61% of the total workforce). Approximately 72% of group employees work in offices and facilities in Italy and Romania. Injury data for 2020 highlight the group's effective commitment to reducing its employee injury rate. Commitment takes the form of technical measures, such as increasing automation and designing appropriate workstations, as well as enlisting expert employees to provide specific training. A total of 11 workplace injuries

Social sustainability

(applying to both employees and external workers) occurred across the group sites during 2020. No injury occurred causing serious consequences for workers. A total of approximately 51,368 training hours were provided during 2020, of which 60% for health and safety training.

SIT's Board has 7 Directors, of which 4 are independent and 3 are female. One Director has been appointed in charge for ESG. The company also has a Code of Ethics and a Control, Risks and Sustainability Committee, which supports the evaluation and decision of the Board of Directors concerning the Internal Control and Risk Management System, in addition to those concerning the approval of the relative periodic financial reports and non-financial statements. In July 2021 was appointed an executive Director in charge for sustainability which introduced a new sustainability governance while SIT adopted a long-term incentive program with 20% of pay-out related to ESG KPI. We also highlight that the 2021 MBO program includes ESG targets with 20-25% weight on total KPI.

We also recall that in 2021 SIT signed two loans at favourable financial conditions related to the achievement of sustainability targets for a total value of EUR 130M.

#### **Corporate governance**

#### **Savings from loans related to the achievement of ESG goals**

## SIT – Key Data

Rating	Target price (EUR/sh)		Mkt price (EUR/sh)		Sector	
BUY	Ord 11.4		Ord 6.42		Engineering & Machinery	
<b>Values per share (EUR)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
No. ordinary shares (M)	25.01	25.01	25.09	25.11	25.11	25.11
Total no. of shares (M)	25.01	25.01	25.09	25.11	25.11	25.11
Market cap (EUR M)	195.13	124.79	214.31	161.21	161.21	161.21
Adj. EPS	0.60	0.54	0.65	0.58	0.83	0.94
CFPS	0.78	0.74	1.5	1.4	1.9	2.4
BVPS	5.9	6.1	6.1	6.4	6.9	7.5
Dividend ord	0.14	0.28	0.30	0.30	0.40	0.45
<b>Income statement (EUR M)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
Revenues	352.2	320.7	380.5	399.5	418.7	439.3
EBITDA	48.74	43.62	51.22	51.73	59.24	63.92
EBIT	24.73	19.62	24.33	23.14	29.79	33.57
Pre-tax income	21.32	15.99	11.71	27.83	27.29	31.07
Net income	19.93	13.23	8.24	23.25	20.74	23.62
Adj. net income	14.90	13.41	16.31	14.50	20.74	23.62
<b>Cash flow (EUR M)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
Net income before minorities	19.9	13.2	8.2	23.2	20.7	23.6
Depreciation and provisions	24.0	24.0	26.9	28.6	29.5	30.3
Others/Uses of funds	-18.9	-3.8	-1.7	11.5	-1.3	-1.3
Change in working capital	-5.5	-14.8	4.4	-28.8	-1.6	6.9
Operating cash flow	19.5	18.6	37.8	34.5	47.3	59.5
Capital expenditure	-23.0	-12.7	-26.1	-25.4	-19.5	-20.5
Financial investments	0	0	0	0	0	0
Acquisitions and disposals	0	-28.4	0	0	0	0
Free cash flow	-3.4	-22.5	11.7	9.1	27.8	39.0
Dividends	-7.0	-3.5	-6.9	-7.5	-7.5	-10.0
Equity changes & Non-op items	3.3	-11.3	4.2	-8.7	0	0
Net cash flow	-7.1	-37.4	9.0	-7.2	20.3	29.0
<b>Balance sheet (EUR M)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
Net capital employed	226.0	269.0	260.4	274.6	267.5	252.1
of which associates	0	0	0	0	0	0
Net debt/-cash	78.4	115.8	106.7	113.9	93.6	64.6
Minorities	0	0	0	0	0	0
Net equity	147.6	153.2	153.7	160.6	173.9	187.4
Minorities value	0	0	0	0	0	0
Enterprise value	273.5	240.5	321.0	275.1	254.8	225.8
<b>Stock market ratios (x)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
Adj. P/E	13.1	9.3	13.1	11.1	7.8	6.8
P/CFPS	10.0	6.7	5.7	4.7	3.4	2.7
P/BVPS	1.3	0.81	1.4	1.0	0.93	0.86
Payout (%)	23	52	46	52	48	48
Dividend yield (% ord)	1.8	5.6	3.5	4.7	6.2	7.0
FCF yield (%)	-1.8	-18.0	5.5	5.6	17.3	24.2
EV/sales	0.78	0.75	0.84	0.69	0.61	0.51
EV/EBITDA	5.6	5.5	6.3	5.3	4.3	3.5
EV/EBIT	11.1	12.3	13.2	11.9	8.6	6.7
EV/CE	1.2	0.89	1.2	1.0	0.95	0.90
D/EBITDA	1.6	2.7	2.1	2.2	1.6	1.0
D/EBIT	3.2	5.9	4.4	4.9	3.1	1.9
<b>Profitability &amp; financial ratios (%)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
EBITDA margin	13.8	13.6	13.5	12.9	14.1	14.6
EBIT margin	7.0	6.1	6.4	5.8	7.1	7.6
Tax rate	6.5	17.3	29.6	16.5	24.0	24.0
Net income margin	5.7	4.1	2.2	5.8	5.0	5.4
ROCE	10.9	7.3	9.3	8.4	11.1	13.3
ROE	14.6	8.8	5.4	14.8	12.4	13.1
Interest cover	5.9	5.0	1.7	5.7	11.9	13.4
Debt/equity ratio	53.1	75.5	69.5	70.9	53.9	34.5
<b>Growth (%)</b>		<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
Sales		-8.9	18.6	5.0	4.8	4.9
EBITDA		-10.5	17.4	1.0	14.5	7.9
EBIT		-20.7	24.0	-4.9	28.7	12.7
Pre-tax income		-25.0	-26.8	NM	-1.9	13.9
Net income		-33.6	-37.7	NM	-10.8	13.9
Adj. net income		-10.0	21.6	-11.1	43.0	13.9

NM: not meaningful; NA: not available; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

## Company Snapshot

### Company Description

The SIT Group, through its two divisions Heating and Smart Metering, creates intelligent solutions for the control of environmental conditions and consumption measurement for a more sustainable world. A market-leading multinational company, listed on the MTA segment of Borsa Italiana, SIT aims to be the number one sustainable partner for energy and climate control solutions for its customers, focusing on experimentation and the use of alternative gases with low environmental profiles. The Group has production sites in Italy, Mexico, the Netherlands, Romania, China, Tunisia and Portugal, in addition to a commercial structure covering all global markets.

### Key data

Mkt price (EUR)	6.42	Free float (%)	25.4
No. of shares	25.09	Major shr	SIT Tech.
52Wk range (EUR)	12.0/5.8	(%)	73.4
Reuters	SIT.MI	Bloomberg	SIT IM
<b>Performance (%)</b>	<b>Absolute</b>		<b>Rel. FTSE IT All Sh</b>
-1M	-20.5	-1M	-18.3
-3M	-35.7	-3M	-28.0
-12M	-15.1	-12M	-13.2

### Key Risks

#### Company specific risks:

- End of the rollout of smart gas metering in Italy;
- Supply chain risk: in Ukraine there is a strategic supplier
- Potential shortage of components could reduce production
- Large component of goodwill (around 30% of capital employed);

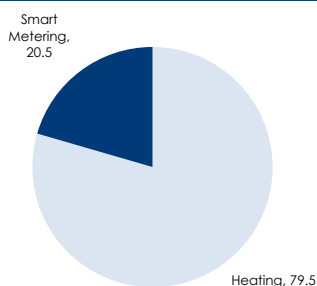
#### Sector generic risks:

- Inflation risk
- The substitution of gas heating systems with green-energy devices (i.e. heat pumps) is accelerating
- Lengthy time to market for new products due to the length of the testing and homologation process.

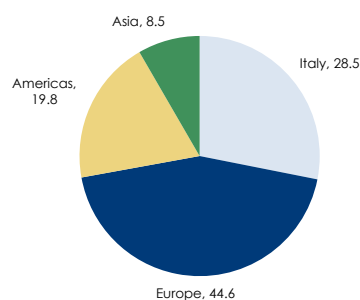
### Estimates vs. consensus

EUR M (Y/E Dec)	2021A	2022E	2023E	2024E
Sales	380.5	399.5	418.7	439.3
EBITDA	51.22	51.73	59.24	63.92
EBIT	24.33	23.14	29.79	33.57
Pre-tax income	11.71	27.83	27.29	31.07
Net income	8.24	23.25	20.74	23.62
EPS	0.65	0.58	0.83	0.94

### Sales breakdown by product (%)



### Sales breakdown by geography (%)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 13/05/2022)

## Our Mid Corporate Definition

Italy is characterised by a large number of non-listed and listed micro, small and medium-sized companies. Looking at the revenues of these Italian companies, around 5,000 companies eligible for listing have revenues below EUR 1,500M based on Intesa Sanpaolo elaborations. We define these companies as 'Mid Corporate'. Looking more specifically at Italian listed companies, we include in our Mid Corporate segment all STAR companies and those with a market capitalisation below EUR 1Bn.

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<https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/archive-of-intesa-sanpaolo-group-s-conflicts-of-interest0>

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We obtain a fair value using a number of valuation methodologies including: discounted cash flow method (DCF), dividend discount model (DDM), embedded value methodology, return on allocated capital, break-up value, asset-based valuation method, sum-of-the-parts, and multiples-based models (for example PE, P/BV, PCF, EV/Sales, EV/EBITDA, EV/EBIT, etc.). The financial analysts use the above valuation methods alternatively and/or jointly at their discretion. The assigned target price may differ from the fair value, as it also takes into account overall market/sector conditions, corporate/market events, and corporate specifics (ie, 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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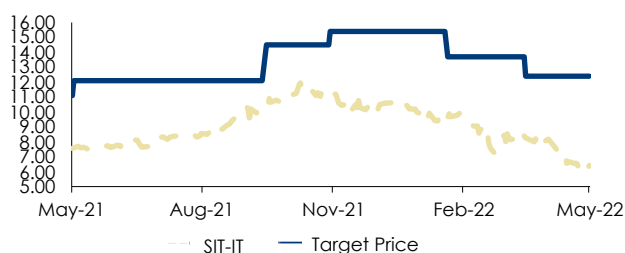


**Equity Rating Key (long-term horizon: 12M)**

Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.
NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances.
TENDER SHARES	We advise investors to tender the shares to the offer.
TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

**Historical recommendations and target price trends (long-term horizon: 12M)**

The 12M rating and target price history chart(s) for the companies currently under our coverage can also be found at Intesa Sanpaolo's website/Research/Regulatory disclosures: <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/tp-and-rating-history-12-months->. Note: please also refer to <https://group.intesasanpaolo.com/it/research/equity-credit-research/equity> in applicable cases for the ISP-UBI Equity Ratings Reconciliation Table, the archive of ex-UBI's previously published research reports and 12M historical recommendations.

**Target price and market price trend (-1Y)****Historical recommendations and target price trend (-1Y)**

Date	Rating	TP (EUR)	Mkt Price (EUR)
29-Mar-22	BUY	12.4	8.3
02-Feb-22	BUY	13.7	9.6
11-Nov-21	BUY	15.4	11.1
27-Sep-21	BUY	14.5	10.6

**Equity rating allocations (long-term horizon: 12M)****Intesa Sanpaolo Research Rating Distribution (at April 2022)**

Number of companies considered: 130	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)*	50	29	21	0	0
of which Intesa Sanpaolo's Clients (%)**	83	66	56	0	0

\* Last rating refers to rating as at end of the previous quarter; \*\* Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and investment banking services in the last 12 months; percentage of clients in each rating category

**Valuation methodology (short-term horizon: 3M)**

Our short-term investment ideas are based on ongoing special market situations, including among others: spreads between share categories; holding companies vs. subsidiaries; stub; control chain reshuffling; stressed capital situations; potential extraordinary deals (including capital increase/delisting/extraordinary dividends); and preys and predators. Investment ideas are presented either in relative terms (e.g. spread ordinary vs. savings; holding vs. subsidiaries) or in absolute terms (e.g. preys).

The companies to which we assign short-term ratings are under regular coverage by our research analysts and, as such, are subject to fundamental analysis and long-term recommendations. The main differences attain to the time horizon considered (monthly vs. yearly) and definitions (short-term 'long/short' vs. long-term 'buy/sell'). Note that the short-term relative recommendations of these investment ideas may differ from our long-term recommendations. We monitor the monthly performance of our short-term investment ideas and follow them until their closure.

### Equity rating key (short-term horizon: 3M)

Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

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- 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
- Intesa Sanpaolo acts as Corporate Broker relative to securities issued by SIT

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