

16 May 2022

Industrials

Change in Estimates

Price: € 6.42

Target price: € 10.00 (from € 12.00)

Outperform

## Positive start supporting re-rating in a tough context

### 1Q22: better than expected profitability; NFP reflecting inventories build-up

SIT reported its 1Q22 results on May 11. Looking at the P&L, results were a beat on our estimates, while cash generation turned out to be weaker than expected due to a meaningful increase in inventories. Regarding top line, 1Q22 sales amounted to €93.8m, in line with 1Q21 and with our estimate. In greater details, we observe a strong performance from the heating division and the water metering business, growing yoy by 8% and 30% respectively, while gas metering, as expected, posted a weaker quarter (down 37% yoy) reflecting the incoming conclusion of the rollout period in Italy and some delays in the penetration of international markets. In terms of profitability, EBITDA margin was 15.6% (above MBe at 14.0%) from 16.2% in 1Q21, which represents a tough comparison base due to top line rebound and non-recurring costs savings. Finally, the NFP sequentially increased from €107m at YE21 to €125m (MBe at €117m), reflecting the inventories build-up process implemented to mitigate impacts from shortages.

Emanuele Negri

Equity Analyst

+39 02 8829 855

Emanuele.Negri@mediobanca.com

Andrea Balloni

Equity Analyst

+39 02 8829 541

Andrea.Balloni@mediobanca.com

Marco Vitale

Equity Analyst

+39 02 8829 444

Marco.Vitale@mediobanca.com

### 22E estimates in line with company outlook; cautious approach on 23-24E

SIT provided an outlook for 2022E, including a consolidated yoy growth in sales of 4-5% and an EBITDA margin around 13%. These targets are in line with our overall unchanged estimates, implying a yoy growth of 4.1% and an EBITDA margin of 12.9%. For the following years, we adopted a cautious approach to factor in potential weaknesses on the demand of gas-related appliances, given the need to achieve independence from Russian gas in Europe and the expected increased contribution of electricity in the global energy mix. However, on the other hand, we expect the demand to be furtherly supported by replacement of installed condensing boilers, aimed at increasing heating efficiency. As a result, we decrease our 23-24E sales by c.2% in 23-24E. In terms of profitability, we continue to see the company as able to deliver margin expansion in the 23-24E leveraging a gradual easing of supply chain pressures and the progressive increase in operations in the Tunisian plan. This translated into an average 23-24E EPS 5% cut.

### Attractive entry point in gas efficiency and hydrogen after de-rating: O, TP €10.0

In this report, we decrease our TP to €10.0/sh. from €12.0/sh. as a result of the previously outlined revision in estimates and of a fine-tuning of our DCF and EVA assumptions. In greater details, we i) increased our WACC to 7.5% (from 7.2%), reflecting higher riskiness of the underlying business in the current macro environment, and ii) decreased our perpetual growth rate to 0.5% (from 1%), reflecting negative impacts on the demand side, resulting from a lower contribution of gas in the global energy mix in the medium-long term. In our view, gas efficiency solutions should continue to support short-term prospects while delivery of hydrogen and biomethane technologies may increase visibility on the mid-term growth profile. After the weak ytd performance (-c.40%), based on our estimates, factoring in a prudent approach, the stock currently trades at 5.4x EV/EBITDA and 10.1x P/E on 22E numbers, a valuation that, in our view, is overly discounting the aforementioned potential threats and offers an attractive entry point. We confirm therefore our Outperform rating on the name.

	2021	2022E	2023E	2024E
EPS Adj (€)	0.65	0.64	0.71	0.80
DPS (€)	0.30	0.31	0.32	0.33
BVPS (€)	6.15	6.82	7.23	7.72
EV/Ebitda(x)	6.4	5.4	4.8	4.2
P/E adj (x)	13.1	10.1	9.1	8.0
Div.Yield(%)	3.5%	4.8%	5.0%	5.1%
OpFCF Yield(%)	5.4%	1.2%	9.6%	12.8%

#### Market Data

Market Cap (€m)	161
Shares Out (m)	25
SIT Technologies (%)	75%
Free Float (%)	23%
52 week range (€)	11.95-5.78
Rel Perf vs DJGL Italy DJ Total Market Italy (%)	
-1m	-16.6%
-3m	-26.2%
-12m	-11.4%
21dd Avg. Vol.	12,704
Reuters/Bloomberg	SITT.MI / SIT IM

Source: Mediobanca Securities

## Valuation Matrix

Income Statement (€ m)					Profitability Ratios				
	2021	2022E	2023E			2021	2022E	2023E	
Revenue	381	396	400		Adj. EPS	13.1	10.1	9.1	
Revenue growth %	18.6%	4.1%	1.0%	1.9%	CEPS	6.1	3.9	3.7	3.5
Operating Profit	51	51	54		Sales	1.4	0.9	0.9	
Operating margin (%)	13.5%	12.9%	13.4%		Employed	0.9	0.7	0.6	
Operating growth (%)	17.4%	-0.3%	5.2%		(%)	6.4	5.4	4.8	
Operating & Amortization	-27	-28	-28	-	FCF Yield(%)	13.4	11.8	10.0	
Operating margin (%)	6.4%	5.9%	6.5%		Yield (%)	1.1	0.9	0.9	
Operating growth (%)	24.0%	-3.5%	10.5%	11.6%		3.4%	4.7%	4.8%	
Fin. Income (charges)	-13	5	-3			5.4%	1.2%	9.6%	12.8%
Net Profit	0	0	0			8.7%	8.4%	17.1%	
Net Profit growth (%)	0	0	0						
Net Profit growth (%)	12	29	23						
Net Profit growth (%)	-3	-5	-6						
Net Profit growth (%)	29.6%	16.4%	24.0%						
Net Profit growth (%)	0	0	0	0					
Net Profit growth (%)	8	24	18						
Net Profit growth (%)	-37.7%	nm	-26.8%						
Net Profit growth (%)	16	16	18						
Net Profit growth (%)	16.9%	-2.4%	11.4%						

Balance Sheet (€ m)					Share Data				
	2021	2022E	2023E	2024E		2021	2022E	2023E	
Capital	38	54	54		growth (%)	0.33	0.97	0.71	
Fixed Assets	250	247	240		Adj.	-37.7%	nm	-26.8%	0.80
Capital Employed	288	301	294		Adj. growth (%)	0.65	0.64	0.71	
Funds	154	171	181			16.9%	-2.4%	11.4%	
	0	0	0			1.40	1.67	1.72	
	27	20	20			6.15	6.82	7.23	
Debt (-) Cash (+)	-107	-111	-93	-70		Ord	0.30	0.31	0.32

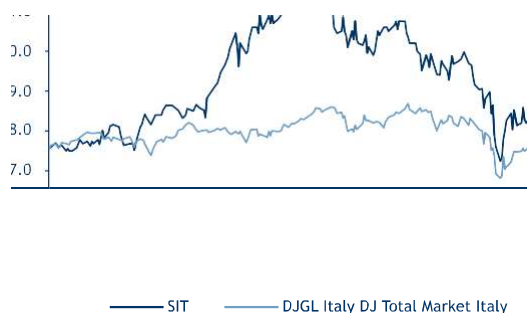
  

Flow (€ m)					Key Figures & Ratios				
	2021	2022E	2023E			2021	2022E	2023E	2024E
Earnings	35	42	43		N° of Shares (m)	25	25	25	
Capital Needs	9	-16	-0		N° of Shares (m)	25	25	25	
Investments (-)	-26	-22	-18	-18	Market Cap. (m)	214	161	161	
Investments (-)	0	0	0		Value (m)	327	277	260	
Sources / Uses	-7	-7	-8		(m)	6	6	6	
in Net Debt (-) Cash (+)	9	-4	18		Costs/Turnover	22%	21%	21%	

Key Figures & Ratios					Key Figures & Ratios				
	2021	2022E	2023E	2024E		2021	2022E	2023E	2024E
Debt / EBITDA	69%	65%	51%		Debt / EBITDA	-4.1	9.3	-20.7	-
Debt / EBITDA	7%	7%	7%	7%	Debt / EBITDA	2.1	2.2	1.7	
Debt / EBITDA	1.2	1.1	1.2		Debt / EBITDA	76%	76%	73%	
Debt / EBITDA					Debt / EBITDA	7%	6%	4%	4%
Debt / EBITDA					Debt / EBITDA	88%	31%	44%	
Debt / EBITDA					Debt / EBITDA	5%	14%	10%	
Debt / EBITDA					Debt / EBITDA	8%	8%	9%	
Debt / EBITDA					Debt / EBITDA	6%	7%	7%	

Source: Mediobanca Securities



Source: Mediobanca Securities

## 1Q22 results and change in estimates

A summary of 1Q22 results compared to our estimates is provided in the table below.

### 1Q22 results vs Mediobanca estimates

€m	1Q22A	1Q21A*	YoY chg.	1Q22E	A/E
Total sales	93.8	92.7	1%	92.8	1%
EBITDA	14.7	15.1	-3%	13.0	13%
EBITDA margin	15.6%	16.2%		14.0%	
EBIT	8.0	8.9	-10%	6.1	32%
EBIT margin	8.6%	9.6%		6.6%	
Adj. Net profit	5.3	7.2	-27%	4.4	19%
Net Debt/(Cash)	124.8	110.6		116.9	

Source: Mediobanca Securities, \*restated

A summary of our change in estimates 2022-24E is provided below.

### Change in 2022-24E estimates

€m	New FY22	Old FY22	% chg.	New FY23	Old FY23	% chg.	New FY24	Old FY24	% chg.
Total sales	396.1	396.7	0%	400.0	407.2	-2%	407.5	414.7	-2%
EBITDA	51.0	51.2	0%	53.7	54.9	-2%	56.7	57.9	-2%
EBITDA margin	12.9%	12.9%		13.4%	13.5%		13.9%	14.0%	
EBIT	23.5	23.7	-1%	25.9	27.2	-5%	28.9	30.1	-4%
EBIT margin	5.9%	6.0%		6.5%	6.7%		7.1%	7.3%	
Adj. Net profit	15.9	16.1	-1%	17.7	18.7	-5%	20.0	20.9	-4%
Net Debt/(Cash)	110.6	107.9		93.0	89.2		70.3	68.1	

Source: Mediobanca Securities