SIT (Outperform, New TP €9.20)

	Market Cap. €175.05m	Price: € 7.00			*(Emanuele Negri +39 02 8829 855)*
	Turnover	Net Profit	PE Adj.	PBV	Yield
2021	381	8	13.1	1.4	3.5
2022E	396	22	13.2	1.0	4.4
2023E	402	15	11.3	1.0	4.5

Source: Mediobanca Securities

Decarbonization in buildings ensuring LT support

2Q22: positive top line trend while increased freight costs weighed on margins

SIT disclosed a full set of 2Q/1H22 results which were above expectations on top-line, while below on profitability and in line on cash generation. The company, in 2Q, generated revenues for €101m (+3.4% YoY) vs MBe pointing to €98.4m. In greater detail, as in the first quarter, the heating and the water metering businesses posted positive performances YoY (+10% and +21% respectively) while gas metering, as expected, continued to decline (-32% YoY), with the development of business abroad only partially compensating the end of the rollout in Italy. On profitability, the EBITDA margin contracted YoY from 14.2% to 9.1% (MBe at 10.6%), significantly impacted by higher costs for logistics and transport. SIT finally closed the quarter with €0.9m adj. net profit which compares to MBe of €2.3m. On the balance sheet, NFP came out overall stable QoQ (€123m from €125m) and in line with MBe of €123m, with cash generation hindered by dividends and further build-up in inventories aimed at limiting impacts from shortages.

Guidance revised downwards. 22-24E adj. EPS reduced by 10% on average

SIT revised downwards its 22E guidance reflecting the increasingly challenging macro scenario, and now targets i) consolidated YoY growth in sales in the range 3-5% (from 4-5%) and ii) EBITDA margin in the range 12-13% (from approx. 13%). In this report, basing on the messages provided with 1H release, we reduce our expectations for 22-24E (with an avg. adj. EPS cut of 10%). In greater detail, for 22E, we maintain our expected top-line growth unchanged (+4.1% YoY), while trimming our EBITDA margin from 12.9% to 12.1%. For the next years, we cut the EBITDA margin from 13.4% to 12.6% in 23E and from 13.9% to 13.5% in 24E, reflecting an only gradual easing of supply chain pressures. Despite adopting a more cautious approach on profitability, we continue to see EBITDA margin expansion in 23-24E (70bps/year on average) underpinned by i) gradual acceleration in operations carried out in the Tunisian plant, ii) effectiveness of the implemented pricing policies and iii) expected increase of water metering's incidence on consolidated revenues. We expect the company to restart its de-leveraging path from 23E achieving NFP/EBITDA of 1.4x in 24E (from 2.1x in 21A).

High-efficiency in gas and H2 to play a key role in decarbonization: Outperform

As a result of the aforementioned changes in estimates, we reduce our TP from €10.0 to €9.2/sh. In our view, as we depicted in our last Mid Caps - Monthly Watch (click here to download), despite the strong regulatory support provided to electrification, there is no one-size-fits-all solution to enhance buildings' energy efficiency, in a context where natural gas appliances still represent the lion's share (being installed in c.60% of dwellings in EU). Beyond hydronic HPs, we see therefore room for the adoption of a diversified mix of technologies, including hybrid HPs, green gas solutions and gas condensing boilers. In this scenario, we believe that SIT may surf decarbonization trends, thanks to i) its offer including components for high-efficiency gas solutions and gas smart meters, ii) its positioning as a frontrunner in hydrogen and biomethane appliances and iii) potential development of new electric solutions, as management suggested during yesterday's conference call. We believe that the current valuation (<6x 1YR FWD EV/EBITDA) does not fully reflect these tailwinds and may therefore offer an interesting entry point. We confirm our Outperform rating on the name.

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