

SIT (BUY)

3Q/9M22 Results

Vs. our estimates	Above	In Line	Below
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Results. 3Q22 results were overall in line with our estimates, with a better EBITDA adj. than expected. The company further reduced its 2022 guidance slightly, after doing it after 1H22 results. The key points of results were:

- **Revenues were flat in 3Q22 vs. 3Q21. The Heating division grew by 1%** (a little less than our expectations; it was down by 3.3% at the same forex). Sales in Italy increased by 6% (in acceleration vs. 1H22), Europe declined by 7.5%, basically due to Turkey (10.7% of Heating division in 9M22) and the UK (whose slowdown was less than in 1H22; UK accounted for 6% of the Heating division in 9M22). The US faced a tough comparison base and sales were down 1.7%. APAC continued to grow strongly (+ 39% in 3Q22). As far as the **Metering division** is concerned, revenues declined by 8.4% (better than our expectations). Sales were driven by Janz, which continued to perform well (it contributed for EUR 6M in 3Q22), while sales in the Smart Gas Metering dropped by 16% (7.7% of sales are abroad: Greece, Central Europe, UK, India). In 3Q22, total sales were EUR 95.7M, after EUR 10.7M negative volume/mix, EUR 7.1M positive end price contribution and EUR 3.3M positive forex;
- **The adjusted EBITDA margin was 12.3% in 3Q22 vs. 9.2% expected and 13.7% in 3Q21.** EBITDA was penalised by EUR 8.8M one-off accrual related to a dispute settlement with a customer. 3Q22 EBITDA reported was EUR 3M. The main dynamics implied in 9M22 EBITDA: 1) negative volume mix (EUR -7.8M); 2) positive price effect (EUR 4.5M); 3) opex increase (EUR 6M increase), basically logistic and transport costs and R&D costs; and 4) positive forex (EUR 2.7M). EBIT was negative for EUR 4M in 3Q22;
- **Adjusted net result came in at EUR 2M in 3Q22 (estimate of EUR 0.9M):** it basically includes adjustments at the EBITDA level. Net income was negative for EUR 3.7M in 3Q22 and includes the fair value of the warrants and positive taxes;
- **Net debt up to EUR 138.7M** (from EUR 106.7M at Dec-21), slightly higher than our estimates due to adverse net working capital dynamics, which burned EUR 34M. This was due to higher inventories (to EUR 28.8M, from EUR 12.6M in 9M21) following the procurement strategy to solve especially electronic components shortage. Capex was EUR 21M.

SIT - Key Data

04/11/2022	Engineering		
Target Price (EUR)	9.3		
Rating	BUY		
Mkt price (EUR)	6.10		
Mkt cap (EUR M)	153		
Main Metrics (€ M)	2022E	2023E	2024E
Revenues	393.5	410.5	430.6
EBITDA	48.59	52.74	57.49
EPS (EUR)	0.50	0.64	0.76
Net debt/-cash	117.4	100.7	84.12
Ratios (x)	2022E	2023E	2024E
Adj. P/E	12.3	9.5	8.0
EV/EBITDA	5.6	4.8	4.1
EV/EBIT	13.2	10.7	8.6
Debt/EBITDA	2.4	1.9	1.5
Div yield (%)	4.9	4.9	6.6
Performance (%)	1M	3M	12M
Absolute	-6.4	-12.4	-46.5
Rel. to FTSE IT All Sh	-13.3	-12.0	-34.7

Source: FactSet, Company data, Intesa Sanpaolo Research estimates

Intesa Sanpaolo is Corporate Broker to SIT

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Outlook. SIT further fine-tuned its outlook for 2022: expectations are for flat sales vs. 2021 (vs. sales up 3-5% of the previous guidance) and for an EBITDA margin slightly below 12% (from 12-13% of the previous guidance). Our FY22 estimates are higher than the numbers implied in the new guidance. SIT stated that there is high market volatility and a slowdown of demand in Europe. Whilst the order portfolio is resilient, there could be a destocking from customers. For 2023, expectations are by far rosier than for 2022, since the company expects sales up mid to high single digit (in an inflationary environment), helped by growing market shares in some product categories, product portfolio enhancement and new tenders (domestic and international) in the metering business.

The main takeaways from the conference call: we understood that the main driver for 2023 growth should be the Metering division, where SIT expects to increase its market share for some products; it is already investing in new technologies. There will be new tenders in Italy and abroad. 2023 growth (in an inflationary environment) is expected to be driven by both price and volume mix. No outlook was provided for 2023 EBITDA. Heat pumps are seen as a mid-term opportunity.

What we think: Despite the reduction of 2022 guidance, 2023 perspectives look good in terms of sales, which should be up low single digit. However, a sizeable improvement of profitability is likely to materialise only in 2024, when the new plant in Tunisia will be at regime. In the light of the revised guidance, we see our 2022 estimates as optimistic.

SIT - 3Q22 results

EUR M	3Q21A	9M21A	FY21A	3Q22A	3Q22E	A/E %	yoy %	9M22A	9M22E
Revenues	96.0	286.2	380.5	95.7	95.0	0.7	-0.3	290.4	289.7
o/w Heating	76.2	220.9	298.3	77.0	80.0	-3.8	1.0	234.8	237.8
o/w Smart Metering	18.8	62.0	76.9	17.3	15.0	15.1	-8.4	51.4	49.1
EBITDA Adj.	13.1	42.0	51.2	11.8	8.7	34.4	-10.0	35.6	32.6
Margin (%)	13.6	14.7	13.7	12.3	9.2			12.3	11.2
EBIT	6.8	23.1	24.3	-4.0	1.7	NM	-158.0	6.5	12.3
Margin (%)	7.1	8.1	6.4	-4.1	1.8			2.3	4.2
Pre tax	0.7	12.1	11.7	-5.4	1.2	NM	-843.2	11.4	18.1
Net Result attr.	-0.3	9.2	16.3	-3.7	0.9	NM	NM	10.5	15.1
Net Result adjusted	5.3	15.8	16.3	2.1	0.9	131.1	-60.8	8.2	7.1
Net debt	123.7	123.7	106.7	138.7	135	2.7	12.1	138.7	135

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