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<b>Price (p)</b>	<b>6.10</b>
Shares in issue (m)	25
Mkt Cap (£m)	153
Net debt (£m)	107
EV (£m)	260
BVPS (p)	620.6

**Share price performance**

1m	-6.4%
3m	-12.4%
12m	-46.5%
12 m high/low	11.8/5.7
Ave daily vol (30D)	1,370

**Shareholders**

Sit Technologies	74.6%
Marlborough Fund	1.8%
Mediolanum Gest'	1.0%
Azimut Holding Spa	0.7%
Julius Baer Group Lt	0.5%
Zenit Sgr Spa	0.5%
Norges Bank	0.5%
B. Degroof Peter	0.4%
Aviva Investors	0.2%
Kbc Group Nv	0.2%
Total for top 10	80.3%
Free float	25.4%
Source: Bloomberg	03 Nov 22

**Next news** Q3's Q4

**Business description**

Gas heating components and smart gas and water meters industry



## HEATING AND WATER STILL GROWING

**SIT's Q3 results see growth in heating and water metering offset by the continued decline in gas metering. We have tempered our forecasts given a slightly more volatile environment but continue to see potentially strong opportunity as the company rolls out a broader product portfolio and continues to grow the water metering business.**

### Q3 results see growth tempered by gas metering

SIT's Q3 results to 30 September 2022 show continued growth in the heating and water metering businesses tempered by the continued slow-down in gas metering. Sales for the nine-month period were €290.4m, up 1.5% on the same period in 2021 and EBITDA adjusted for the non-cash warranty provision was €35.6m down 15.2%. The Q3 numbers show sales at €95.7m virtually unchanged against Q3 21, with heating up 1%, water metering up 11.2% but gas metering down 16.1%. Adjusted EBITDA was €11.8m down 9.9%. The company ended the period with net debt of €138.7m against €106.7m as of 31<sup>st</sup> December 2021. Capex was €21.1m in the nine-month period and net working capital burn was €34.0m. Working capital is now 21% of revenue, up from 16% as the company manages supply chain risks, allowing it to continue to supply customers now and going forward.

### A continuation of Q2

Overall, we see the third quarter as having been a continuation of the second quarter with continued progress in heating and water metering being offset by gas metering. Heating has been a bit slower with non-Italian Europe and Turkey in particular continuing to suffer from weak OEM demand in central heating. Heating in Asia, and especially China and Australia, has been strong although from low bases. In metering the slowing of Italian residential smart metering programmes continues to be the main brake on growth. Water metering however has continued to show strong growth especially in component sales to OEMs.

### Caution and opportunity in outlook

The outlook has some caution around the full year outturn given the considerable volatility seen in these Q3 numbers. FY 22 revenue is now expected to be unchanged from FY21 at €380m and the adjusted EBITDA margin now slightly under 12%. We were very slightly above this guidance and have revised our forecasts to bring them in line. FY 23 may see some impact of inflation and we have slightly amended our forecast, but we still see opportunity with water and the impact of a broader product portfolio creating overall growth.

€,'000 Dec	2020a	2021a	2022e	2023e	2024e	2025e
Sales	320,731	380,521	383,301	408,136	424,028	437,838
EBITDA	43,622	51,246	45,753	49,119	56,855	64,533
PBT	15,991	11,706	11,792	13,951	20,397	26,697
EPS	53.6	33.4	36.3	42.9	62.8	82.2
CFPS	-61.0	107.8	28.1	79.5	107.5	131.4
DPS	28.0	30.0	32.0	33.6	35.3	37.1
Net Debt (Cash)	115,800	107,256	112,861	105,766	91,690	71,726
Debt/EBITDA	2.7	2.1	2.5	2.2	1.6	1.1
P/E	0.1	0.2	0.2	0.1	0.1	0.1
EV/EBITDA	6.2	5.1	5.8	5.3	4.3	3.5
EV/sales	0.8	0.7	0.7	0.7	0.6	0.6
FCF yield	-10.0%	17.7%	4.6%	13.0%	17.6%	21.5%
Div yield	4.6%	4.9%	5.2%	5.5%	5.8%	6.1%

## FINANCIAL MODEL

### FORECAST CHANGES

We have revised our FY 22 forecast to reflect the company outlook statement. We also assume some greater conservatism in FY 23 and FY24 with a slightly slower growth and some additional restraint on the EBTIDA margin in line with FY 22.

#### Key forecast changes

€'000	2022		2023		2024	
	Old	Revised	Old	Revised	Old	Revised
Revenue	392,653	383,301	412,296	408,136	425,241	424,028
Adj EBITDA	48,794	45,753	56,291	49,119	61,133	56,855
EPS	46.24	36.30	66.21	42.94	77.76	62.78

Source: Longspur Research

### VALUATION

To capture the growth potential of the post COVID recovery and also speculative exposure to the hydrogen economy we have undertaken DCF valuations on three scenarios. The base case assumes no benefit from hydrogen and values the shares at €11.9, down from €12.7 on our revised forecasts. Our low hydrogen case assumes hydrogen demand based on a weak policy scenario and shows a value of €17.1. A strong hydrogen policy scenario drives our high case and a valuation of €25.0.

#### Valuation scenarios

Scenario	H2 market size (€ bn)	Terminal growth	Terminal EV/EBITDA	DCF valuation (€)	Previous valuation (€)
Base no hydrogen	0.0	0.0%	5.3	11.9	12.7
Low hydrogen	7.8	1.5%	6.6	17.1	17.8
High hydrogen	19.6	2.5%	7.9	25.0	25.7

Source: Longspur Research

### RISKS

The key risks to our valuations include the risk of policy change on markets largely driven by policy concerns. These risks are mitigated by SIT's global spread and mix of businesses. One specific policy risk is that of substitution by electric heating rather than hydrogen heating. While electric heating will be a major part of the low carbon heating solution, the development of hydrogen networks suggests a reasonable role for hydrogen and SIT heating and metering solutions. Competition is always a risk but strong IP and relationships with major customers give the company a strong degree of protection in our view. Liquidity and limited free float are also risk to the share price, but we note a number of successful companies with low free floats in the clean energy space and we think that as long as the company can deliver this is not a major issue.

## Profit and Loss Account

€,'000, Dec	2020a	2021a	2022e	2023e	2024e	2025e
<b>Turnover</b>						
Heating	249,003	298,251	308,566	323,994	330,474	337,084
Smart Gas Metering	68,634	57,113	45,465	50,011	55,013	57,213
Smart Water Metering	0	19,800	23,934	28,493	32,730	37,597
Other	3,094	5,357	5,337	5,638	5,811	5,944
<b>Total</b>	<b>320,731</b>	<b>380,521</b>	<b>383,301</b>	<b>408,136</b>	<b>424,028</b>	<b>437,838</b>
<b>Operating profit</b>						
Heating	14,125	17,375	12,034	12,960	16,524	20,225
Smart Gas Metering	5,491	4,855	2,273	2,501	4,126	5,721
Smart Water Metering	0	2,100	2,633	3,134	3,928	4,512
Other	0	0	0	0	0	0
<b>Operating profit</b>	<b>19,616</b>	<b>24,330</b>	<b>16,940</b>	<b>18,595</b>	<b>24,577</b>	<b>30,458</b>
<b>P&amp;L Account</b>	<b>2020a</b>	<b>2021a</b>	<b>2022e</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
Turnover	320,731	380,521	383,301	408,136	424,028	437,838
Operating Profit	19,616	24,330	16,940	18,595	24,577	30,458
Investment income	0	31	0	0	0	0
Net Interest	-3,625	-12,655	-5,148	-4,643	-4,181	-3,761
Pre Tax Profit (UKSIP)	15,991	11,706	11,792	13,951	20,397	26,697
Goodwill amortisation	0	0	0	0	0	0
Exceptional Items	0	0	0	0	0	0
Pre Tax Profit (IFRS)	15,991	11,706	11,792	13,951	20,397	26,697
Tax	-2,766	-3,462	-2,830	-3,348	-4,895	-6,407
Post tax exceptionals	0	0	0	0	0	0
Minorities	0	0	0	0	0	0
Net Profit	13,225	8,243	8,962	10,603	15,501	20,290
Dividend	-3,476	-6,890	-7,407	-7,901	-8,296	-8,716
Retained	9,749	1,353	1,555	2,702	7,205	11,574
EBITDA	43,622	51,246	45,753	49,119	56,855	64,533
EPS (p) (UKSIP)	53.56	33.39	36.30	42.94	62.78	82.17
EPS (p) (IFRS)	53.56	33.39	36.30	42.94	62.78	82.17
FCFPS (p)	-61.01	107.76	28.15	79.54	107.54	131.39
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 up
- FY 22 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 24 onwards

## Balance Sheet

€,000, Dec	2020a	2021a	2022e	2023e	2024e	2025e
Fixed Asset Cost	319,738	354,434	379,854	402,410	425,529	449,227
Fixed Asset Depreciation	-	-	-	-	-	-
Net Fixed Assets	229,510	256,395	285,209	315,733	348,010	382,086
Goodwill	90,228	98,039	94,646	86,677	77,519	67,141
Other intangibles	98,070	87,946	87,946	87,946	87,946	87,946
Investments	52,569	61,611	62,411	62,411	62,411	62,411
Stock	326	325	325	325	325	325
Trade Debtors	56,502	70,123	73,510	78,273	81,320	83,969
Other Debtors	65,518	56,052	63,008	67,091	69,703	71,973
Trade Creditors	26,293	29,273	29,273	29,273	29,273	29,273
Other Creditors <1yr	-72,203	-80,752	-81,342	-86,612	-89,985	-92,915
Creditors >1yr	-21,777	-35,178	-35,178	-35,178	-35,178	-35,178
Provisions	-15,670	-15,804	-15,804	-15,804	-15,804	-15,804
Pension	-4,740	-4,941	-4,941	-4,941	-4,941	-4,941
Capital Employed	-6,095	-5,762	-5,762	-5,762	-5,762	-5,762
Cash etc	269,021	260,932	268,092	263,699	256,828	248,438
Borrowing <1yr	42,328	46,667	16,304	10,483	12,934	22,435
Borrowing >1yr	51,542	24,758	12,917	11,625	10,462	9,416
Net Borrowing	106,586	129,165	116,249	104,624	94,161	84,745
Share Capital	115,800	107,256	112,861	105,766	91,690	71,726
Share Premium	96,152	96,162	96,162	96,162	96,162	96,162
Retained Earnings	9,586	5,676	5,676	5,676	5,676	5,676
Other	13,225	8,243	9,798	12,500	19,705	31,279
Minority interest	34,258	43,595	43,595	43,595	43,595	43,595
Capital Employed	0	0	0	0	0	0
Net Assets	269,021	260,932	268,092	263,699	256,828	248,438
Total Equity	153,221	153,676	155,231	157,933	165,138	176,712

Source: Company data, Longspur Research estimates

## KEY POINTS

- Net fixed assets expand with Tunisian development and Janz acquisition
- Working capital increases as company manages supply chain risks
- 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	16,940	18,595	24,577	30,458
Depreciation	24,006	26,885	28,813	30,524	32,278	34,075
Provisions	0	0	0	0	0	0
Other	3,939	963	0	0	0	0
Working capital	-13,964	7,554	-9,121	-4,093	-3,834	-3,500
Operating cash flow	33,597	59,731	36,632	45,026	53,021	61,033
Tax paid	-6,315	-6,475	-3,462	-2,830	-3,348	-4,895
Capex (less disposals)	-13,316	-22,361	-25,420	-22,556	-23,119	-23,697
Investments	-29,029	-4,288	-800	0	0	0
Net interest	-1,743	-2,975	-5,148	-4,643	-4,181	-3,761
Net dividends	-3,476	-6,890	-7,407	-7,901	-8,296	-8,716
Residual cash flow	-20,282	16,742	-5,605	7,095	14,076	19,964
Equity issued	-775	-3,912	0	0	0	0
Change in net borrowing	37,379	-8,544	5,605	-7,095	-14,076	-19,964
Adjustments	-16,782	-4,286	0	0	0	0
Total financing	19,822	-16,742	5,605	-7,095	-14,076	-19,964

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

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