

21 November 2022

Industrials

Change in Recommendation

Price: € 6.40

Target price: € 7.60 (from € 9.20)

Neutral (from Outperform)

Growth outlook paused by OEM de-stocking

Guidance cut on top-line and margins following 3Q22A results below MBe

SIT's 3Q results were weaker than MBe on profitability and cash absorption, while overall in line on revenues. Top-line stood at €96m (MBe €98m), recording an YoY flattish trend, with persistent reduction in Gas Metering (-16% YoY) offsetting positive performances in Heating (+1% YoY) and Water Metering (+11% YoY). EBITDA adj. came out at €11.8m, implying an YoY decrease of 10% and an adj. EBITDA margin of 12.3%. This compares to last year adj. EBITDA margin of 13.6% and MBe of 12.7%. SIT underlined that profitability was mainly impacted by higher logistics and transport costs. NFP sequentially increased QoQ to €139m (€126m MBe), from €123m, mainly reflecting a further inventory build-up. SIT lowered its guidance, now targeting i) consolidated sales flat YoY from previous +3-5% YoY and ii) adj. EBITDA margin slightly below 12%, from 12-13%. New targets reflect high market volatility, limited visibility and slow-down of European end-markets.

-15% in 22-24E adj. EPS on avg. to reflect softer demand and delays in efficiencies

Factoring in 9M22 results and the new guidance, we trimmed our FY22 forecast, with revenues now seen at €384m (+1% YoY) from €396m, implying an YoY flat 4Q, and adj. EBITDA margin at 11.8% (from previous 12.1%), in line with the new company's targets. Beyond 22E, we project only moderate growth in Heating, reflecting demand headwinds implied in the new guidance and OEMs' destocking in the first part of 23E, persistent positive trend in Water Metering and a gradual recovery in Gas Metering. As a result, we forecast +4.5% in 23E revenues (slightly below indications from the management) and +2.0% in 24E. We also reviewed our profitability forecast for 23E (EBITDA margin of 12.0% from 12.4%) and 24E (EBITDA margin of 12.9% from 13.4%), despite positive contribution from Water Metering and more effective pricing policies in Gas Metering, as we factor in some delays in the involvement of the Tunisian plant in the company's production processes and an only partial easing in supply chain bottlenecks. Reflecting higher than expected NWC at 9M22, we now project 22E NFP/adj. EBITDA of 3.0x.

Short-term headwinds lower business visibility. Downgrade to Neutral, €7.60 TP

Decarbonization in buildings has been having a key role in the green transition, boosting the penetration of energy efficient heating solutions. Despite the regulatory support provided to electrification, we continue to see room for a switch to gas efficient appliances, from old and inefficient solutions, and for an acceleration in the adoption of green gas technologies. SIT remains a major gateway to these trends thanks to i) its diversified offer in high-efficiency gas solutions and gas smart meters, and ii) its leading positioning in hydrogen and biomethane. On the other side, messages coming from the last result releases, coupled with an increasingly uncertain macro picture, hint a lower business visibility, a potential weakening in demand in the short-term, and a slower recovery in profitability. Based on our new estimates, we cut our TP from €9.2/sh. to €7.6/sh. resulting from the average of DCF and EVA. Despite the double-digit upside, we downgrade the stock from Outperform to Neutral, as we see short-term headwinds ahead, burdening top-line growth and margin recovery. SIT trades at 5.8x 23E EV/EBITDA and 12.1x PE, we do not see organic catalysts for multiples' re-rating.

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	2021	2022E	2023E	2024E
EPS Adj (€)	0.65	0.41	0.53	0.67
DPS (€)	0.30	0.31	0.32	0.33
BVPS (€)	6.15	6.36	6.59	6.95
EV/Ebitda(x)	6.4	8.2	5.8	4.9
P/E adj (x)	13.1	15.6	12.1	9.5
Div.Yield(%)	3.5%	4.8%	5.0%	5.1%
OpFCF Yield(%)	5.4%	-8.2%	9.2%	10.6%

Market Data

Market Cap (€m)	161
Shares Out (m)	25
SIT Technologies (%)	75%
Free Float (%)	23%
52 week range (€)	10.85-5.78
Rel Perf vs DJGL Italy DJ Total Market Italy (%)	
-1m	-10.1%
-3m	-11.9%
-12m	-31.2%
21dd Avg. Vol.	1,829
Reuters/Bloomberg	SITT.MI / SIT IM

Source: Mediobanca Securities

Valuation Matrix

Profit & Loss account (€ m)	2021	2022E	2023E	2024E	Multiples	2021	2022E	2023E	2024E
Turnover	381	384	402	410	P/E Adj.	13.1	15.6	12.1	9.5
Turnover growth %	18.6%	1.0%	4.5%	2.0%	P/CEPS	6.1	5.6	4.1	3.8
EBITDA	51	37	48	53	P/BV	1.4	1.0	1.0	0.9
EBITDA margin (%)	13.5%	9.5%	12.0%	12.9%	EV/ Sales	0.9	0.8	0.7	0.6
EBITDA growth (%)	17.4%	-28.7%	32.3%	9.7%	EV/EBITDA	6.4	8.2	5.8	4.9
Depreciation & Amortization	-27	-27	-28	-28	EV/EBIT	13.4	32.0	13.6	10.4
EBIT	24	9	21	25	EV/Cap. Employed	1.1	1.0	0.9	0.9
EBIT margin (%)	6.4%	2.4%	5.2%	6.1%	Yield (%)	3.4%	4.7%	4.8%	5.0%
EBIT growth (%)	24.0%	-61.5%	nm	21.3%	OpFCF Yield(%)	5.4%	-8.2%	9.2%	10.6%
Net Fin. Income (charges)	-13	5	-4	-3	FCF Yield (%)	8.7%	-8.4%	17.2%	18.7%
Non-Operating Items	0	0	0	0					
Extraordinary Items	0	0	0	0					
Pre-tax Profit	12	14	17	22	Per Share Data (€)	2021	2022E	2023E	2024E
Tax	-3	-1	-4	-5	EPS	0.33	0.50	0.53	0.67
Tax rate (%)	29.6%	9.2%	23.0%	23.0%	EPS growth (%)	-37.7%	52.8%	5.2%	26.8%
Minorities	0	0	0	0	EPS Adj.	0.65	0.41	0.53	0.67
Net Profit	8	13	13	17	EPS Adj. growth (%)	16.9%	-37.0%	29.0%	26.8%
Net Profit growth (%)	-37.7%	52.8%	5.2%	26.8%	CEPS	1.40	1.14	1.56	1.70
Adjusted Net Profit	16	10	13	17	BVPS	6.15	6.36	6.59	6.95
Adj. Net Profit growth (%)	16.9%	-37.0%	29.0%	26.8%	DPS Ord	0.30	0.31	0.32	0.33

Balance Sheet (€ m)	2021	2022E	2023E	2024E	Key Figures & Ratios	2021	2022E	2023E	2024E
Working Capital	38	66	61	58	Avg. N° of Shares (m)	25	25	25	25
Net Fixed Assets	250	247	240	233	EoP N° of Shares (m)	25	25	25	25
Total Capital Employed	288	313	301	290	Avg. Market Cap. (m)	214	160	160	160
Shareholders' Funds	154	159	165	174	Enterprise Value (m)	326	301	282	262
Minorities	0	0	0	0	Adjustments (m)	6	6	6	6
Provisions	27	19	20	20	Labour Costs/Turnover	22%	20%	20%	20%
Net Debt (-) Cash (+)	-107	-135	-117	-97	Depr. & Amort./Turnover	7%	7%	7%	7%
					Turnover / Op.Costs	1.2	1.1	1.1	1.1

Cash Flow (€ m)	2021	2022E	2023E	2024E	Gearing (Debt / Equity)	69%	85%	71%	56%
Cash Earnings	35	29	39	42	EBITDA / Fin. Charges	-4.1	8.1	-13.8	-16.1
Working Capital Needs	9	-28	5	3	Net Debt / EBITDA	2.1	3.7	2.4	1.8
Capex (-)	-26	-25	-18	-18	Cap. Employed/Turnover	76%	81%	75%	71%
Financial Investments (-)	0	0	0	0	Capex / Turnover	7%	7%	4%	4%
Dividends (-)	-7	-7	-8	-8	Pay out	89%	60%	58%	47%
Other Sources / Uses	-2	4	0	0	ROE	5%	8%	8%	10%
Ch. in Net Debt (-) Cash (+)	9	-28	18	20	ROCE (pre tax)	8%	3%	7%	9%
					ROCE (after tax)	6%	3%	5%	7%

Source: Mediobanca Securities



Source: Mediobanca Securities

3Q22A below MBe on profitability and cash absorption

SIT's 3Q22A results were weaker than MBe on profitability and cash absorption while overall in line on revenues. Top line stood at €96m (MBe €98m), recording an YoY flattish trend with persistent reduction in Gas Metering (-16% YoY) offsetting positive performances in Heating (+1% YoY) and Water Metering (+11% YoY). EBITDA adj. came out at €11.8m, implying an YoY decrease of 10% and an adj. EBITDA margin of 12.3%. This compares to last year adj. EBITDA margin of 13.6% and to our estimate of 12.7%. The press release underlined that profitability was impacted by higher logistics and transport costs. EBITDA adjustments in the quarter (€8.8m) are relative to settlement costs for a dispute with a customer concerning a supply. At the bottom-line level, Adj. net profit stood at €2.1m, below our estimate of €3.9m, mainly reflecting the EBIT dynamic and higher than expected net exchange losses. NFP sequentially increased to €139m (€126m MBe) from €123m at June 30 mainly embedding further inventories build-up which reflects the electronic component procurement policy implemented to offset the impact of shortages and ensure service to customers.

SIT - 3Q/9M22 results vs Mediobanca estimates

€m	3Q22A	3Q21A	YoY chg.	3Q22E	A/E	9M22A	9M21A	YoY chg.	9M22E	A/E
Total sales	95.7	96.0	0%	98.5	-3%	290.4	286.2	1%	293.2	-1%
Adj. EBITDA	11.8	13.1	-10%	12.5	-6%	35.6	42.0	-15%	36.3	-2%
Adj. EBITDA margin	12.3%	13.6%		12.7%		12.3%	14.7%		12.4%	
Adj. EBIT	4.9	6.8	-29%	5.4	-11%	15.4	23.1	-33%	16.0	-4%
Adj. EBIT margin	5.1%	7.1%		5.5%		5.3%	8.1%		5.4%	
Adj. Net profit	2.1	5.3	-61%	3.9	-46%	8.2	15.8	-48%	10.1	-18%
Net Debt/(Cash)	138.7	123.6		126.3		138.7	123.6		126.3	

Source: Mediobanca Securities

22-24E adj. EPS down 15% on average to reflect new guidance, softening demand and delays in expected efficiencies

With the release of 9M22 results, SIT lowered its guidance, now targeting i) consolidated sales flat YoY from previous +3-5% YoY and ii) adj. EBITDA margin slightly below 12%, from previous 12-13%. Factoring in 9M22 results and the new guidance, we trimmed our FY22 forecast, with revenues now seen at €384m (+1% YoY) from €396m, implying an YoY flat 4Q, and adj. EBITDA margin at 11.8% (from previous 12.1%), in line with the new company's targets. Beyond 22E, we project only moderate growth in Heating, reflecting demand headwinds implied in the new guidance and OEMs' destocking in the first part of 23E, persistent positive trend in Water Metering and a gradual recovery in Gas Metering. As a result, we forecast +4.5% in 23E revenues (slightly below indications from the management) and +2.0% in 24E. We also reviewed our profitability forecast for 23E (EBITDA margin of 12.0% from 12.4%) and 24E (EBITDA margin of 12.9% from 13.4%), despite positive contribution from Water Metering and more effective pricing policies in Gas Metering, as we factor in some delays in the involvement of the Tunisian plant in the company's production processes and an only partial easing in supply chain bottlenecks. Reflecting higher than expected NWC at 9M22, we now project 22E NFP/adj. EBITDA of 3.0x.

SIT - Summary of 2022-24E change in estimates

€m	New FY22	Old FY22	% chg.	New FY23	Old FY23	% chg.	New FY24	Old FY24	% chg.
Total sales	384.4	396.1	-3%	401.5	401.5	0%	409.7	410.4	0%
Adj. EBITDA	45.3	47.8	-5%	48.3	49.9	-3%	53.0	55.1	-4%
Adj. EBITDA margin	11.8%	12.1%		12.0%	12.4%		12.9%	13.4%	
Adj. EBIT	18.2	20.4	-11%	20.7	22.4	-7%	25.1	27.5	-9%
Adj. EBIT margin	4.7%	5.2%		5.2%	5.6%		6.1%	6.7%	
Adj. Net profit	10.3	13.3	-23%	13.2	14.9	-11%	16.8	19.2	-13%
Net Debt/(Cash)	134.9	116.7		116.6	99.1		96.6	77.5	

Source: Mediobanca Securities

Short-term headwinds lower business visibility. Downgrade to Neutral, New TP at €7.60/sh.

We believe that decarbonization in buildings will continue to have a key role in supporting global CO₂ emission reduction targets and that this will continue to underpin the increasing penetration of energy efficient heating solutions. In this context, despite the solid regulatory support provided to electrifications, we see room for a wider adoption of gas efficient appliances, mainly in case of replacement of old and inefficient solutions, and for an acceleration in the deployment of green gases. In our view SIT remains a major gateway to these trends thanks to i) its highly diversified offer, including components for high-efficiency gas solutions and gas smart meters, and ii) its leading positioning in the production of components for hydrogen and biomethane appliances. Thanks to the acquisition of Janz, completed at the end of 2020, SIT also provides exposure to the secular growth trend of Water Metering.

On the other side, messages coming from the last result releases, coupled with an increasingly uncertain macro picture, hint a lower business visibility, a potential weakening in demand in the short-term, and a slower recovery in profitability. Based on our new estimates, we cut our TP from €9.2/sh. to €7.6/sh. resulting from the average of DCF and EVA. Despite the double-digit upside, we downgrade the stock from Outperform to Neutral, as we see short-term headwinds ahead, burdening top-line growth and margin recovery. SIT trades at 5.8x 23E EV/EBITDA and 12.1x PE, we do not see organic catalysts for multiples' re-rating.

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Outperform	Neutral	Underperform	Not Rated	Restricted	Coverage suspended
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