

Company Note
MID CORPORATE
SIT
3Q/9M22 Results in Line, in a Slowing End-Market

SIT's 3Q/9M22 results were overall in line but the FY22 outlook was slightly worsened due to the volatility of demand. We cut our 2022-24E top-line estimates by around 3% per year and our net income assumptions by 13% on average. Our new TP of EUR 8.4/share still points to 33% upside potential and we confirm our positive stance on the stock.

3Q/9M22 results

3Q/9M22 results were in line with our estimates, with a better than expected adjusted EBITDA. The Heating division sales grew by 1% yoy while the Metering division sales declined by 8.4% in 3Q22. The adjusted EBITDA margin stood at 12.3% in 3Q22, with the negative volumes mix being only partially compensated by the positive price and forex impact. Moreover, higher opex weighed on profitability. The net result was sharply down at EUR -3.7M, after around EUR 9M of negative one-offs. On an adjusted basis, the net result was positive for EUR 2.1M. Net debt increased to EUR 138.7M, due to trade working capital dynamics, as the company is securing its supply chain to satisfy the demand.

Outlook and estimates revision

SIT further reduced its outlook for 2022: guidance is now for flat sales vs. 2021 (vs. sales up 3-5% in the previous guidance) and for an EBITDA margin slightly below 12% (from 12-13% in the previous guidance). SIT stated that there is high market volatility and a slowdown in demand in Europe. For 2023, the company sees sales up at a low-to-mid single digit, although no outlook was provided for 2023 EBITDA. We adjusted our estimates to incorporate the new scenario: we cut our 2022-24E top-line estimates by around 3% per year and net income by 13% on average.

Valuation

Following our estimates fine/tuning, we set a **new target price of EUR 8.4/share** (from EUR 9.3/share). Given the 33% potential upside, **we confirm our BUY rating**. We continue to see SIT as undervalued vs. peers (vs. foreign peers, with a >50% discount on 2024E P/E and EV/EBITDA and vs. Italian peers at >20% on 2024E P/E and EV/EBITDA). SIT is a multi-technology player active not only in the gas, biogas or hybrid fuel field, but it is also well equipped, in our view, to face the new challenge of hydrogen in the heating domain. Overall, we continue to see SIT as a promising leader in its sector, with opportunities in terms of product enrichment and new geographies.

15 November 2022: 7:59 CET

Date and time of production

BUY
Target Price: EUR 8.4

(from EUR 9.3)

 Italy/Engineering & Machinery
Results

MTA
Price Performance

(RIC: SIT.MI, BB: SIT IM)


SIT - Key Data

Price date (market close)	11/11/2022		
Target price (EUR)	8.4		
Target upside (%)	33.33		
Market price (EUR)	6.30		
Market cap (EUR M)	158.06		
52Wk range (EUR)	11.2/5.8		
Price performance %	1M	3M	12M
Absolute	1.3	-7.4	-43.2
Rel. to FTSE IT All Sh	-13.9	-12.6	-35.1

Y/E Dec (EUR M)	FY21A	FY22E	FY23E
Revenues	380.5	380.5	397.8
EBITDA	51.22	36.09	48.14
EBIT	24.33	8.00	19.20
Net income	8.24	11.51	12.69
EPS (EUR)	0.65	0.45	0.51
Net debt/-cash	106.7	129.7	110.2
Adj P/E (x)	13.1	14.2	12.5
EV/EBITDA (x)	6.3	8.0	5.6
EV/EBIT (x)	13.2	36.0	14.0
Div ord yield (%)	3.5	4.8	4.8

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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3Q/9M22 Results

3Q/9M22 results were in line with our estimates, with a better than expected adjusted EBITDA. The company further slightly reduced its 2022 guidance for the second time in a year. The key points of the results were:

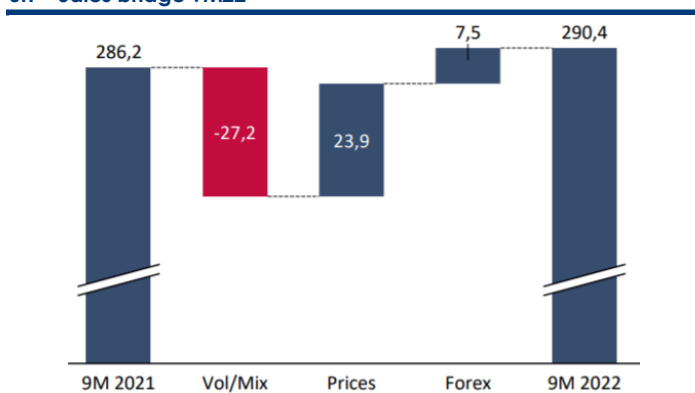
- **Revenues were flat in 3Q22 vs. 3Q21**, in line with our estimates and reached EUR 95.7M, after EUR 10.7M negative volume/mix, EUR 7.1M positive end price contribution and EUR 3.3M positive forex. In 9M22, revenues were EUR 290.4M, up by 1.5% yoy. By division:
 - **The Heating division** sales grew by 1% to EUR 77M in 3Q22 (a touch below our expectations; down by 3.3% at the same forex). The main drivers: sales in Italy (20% of Heating division sales) increased by 6% (in acceleration vs. 1H22), still driven by catering and direct heating, while central heating was still down. Europe (43% of Heating division) declined by 7.5%, basically due to Turkey (10.7% of Heating division in 9M22, here the OEM demand was weak in central heating) and the UK (whose slowdown was less than in 1H22; the UK accounted for 6% of the Heating division in 9M22). The US (23% of the Heating division) faced a tough comparison base and sales were down by 1.7%. APAC (14% of Heating division sales) continued to grow strongly (+39% in 3Q22), with China (7.4% of Heating division) and Australia delivering well;
 - **The Metering division** sales declined by 8.4% yoy to EUR 17.3M (slightly better than our expectations). Sales were driven by Janz, which continued to perform well (it contributed for EUR 6M in 3Q22, or +9.3%), while Smart Gas Metering dropped by 16% yoy (7.7% of sales were abroad: Greece, Central Europe, the UK, India).
- **The adjusted EBITDA margin was 12.3% in 3Q22 vs. 9.2% expected and 13.6% in 3Q21**. EBITDA was penalised by a EUR 8.8M one-off accrual related to a dispute settlement with an American customer. 3Q22 EBITDA reported was EUR 3M. The main dynamics implied in 9M22 EBITDA were: 1) a negative volumes mix (EUR -7.8M); 2) a 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 at EUR 2M in 3Q22 (estimate of EUR 0.9M)** basically includes adjustments at the EBITDA level. Net result reported was negative for EUR 3.7M in 3Q22 and includes the fair value of the warrants and positive taxes;
- **Net debt was 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 deal with the electronic components' shortage. Capex was EUR 21M.

SIT – 3Q/9M22 results

EUR M	3Q21A	9M21A	FY21A	3Q22A	3Q22E	A/E %	yoy %	9M22A	9M22E	A/E %	yoy %
Revenues	96.0	286.2	380.5	95.7	95.0	0.7	-0.3	290.4	289.7	0.2	1.5
o/w Heating	76.2	220.9	298.3	77.0	80.0	-3.8	1.0	234.8	237.8	-1.3	6.3
o/w Smart Metering	18.8	62.0	76.9	17.3	15.0	15.1	-8.4	51.4	49.1	4.6	-17.1
EBITDA Adj.	13.1	42.0	51.2	11.8	8.7	34.4	-10.0	35.6	32.6	9.2	-15.2
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	-46.6	-71.6
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	-36.6	-5.5
Net Result attr.	-0.3	9.2	16.3	-3.7	0.9	NM	NM	10.5	15.1	-30.7	14.2
Net Result adjusted	5.3	15.8	16.3	2.1	0.9	131.1	-60.8	8.2	7.1	16.7	-47.8
Net debt	123.7	123.7	106.7	138.7	135.0	2.7	12.1	138.7	135.0	2.7	12.1

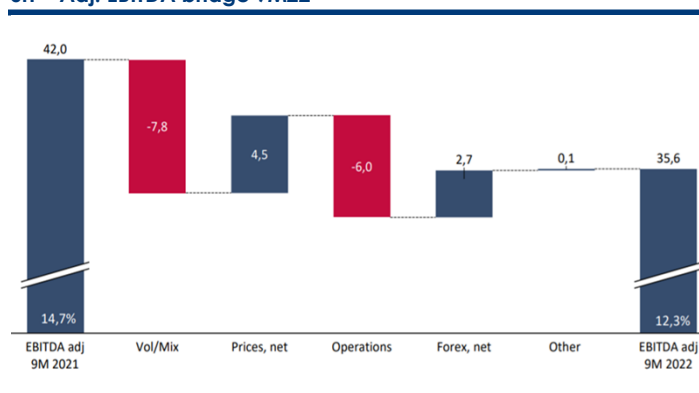
A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

SIT – Sales bridge 9M22



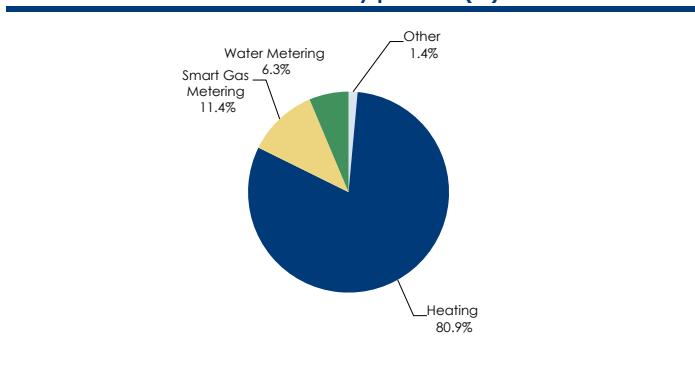
Source: Company data

SIT – Adj. EBITDA bridge 9M22



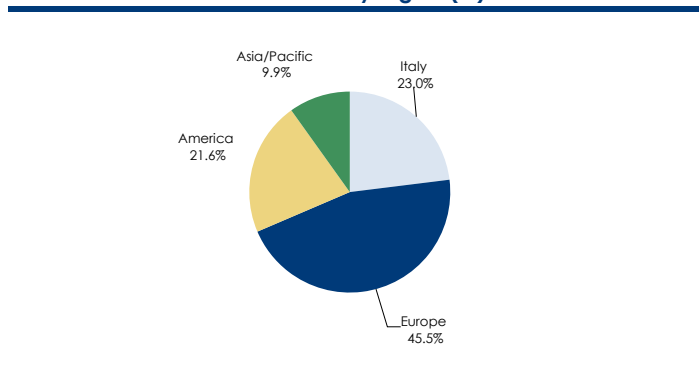
Source: Company data

SIT – 9M22 revenues breakdown by product (%)



Source: Company data

SIT – 9M22 revenues breakdown by region (%)



Source: Company data

Earnings Outlook

SIT is now looking for flat sales vs. 2021 (vs. sales up 3-5% in the previous guidance) and an EBITDA margin slightly below 12% (from 12-13% in the previous guidance). Management pointed to high market volatility, a slowdown in demand in Europe and, while the order portfolio remains resilient, the risk of destocking by customers. For 2023, the company expects sales up at a low-to-mid single digit (in an inflationary environment), helped by growing market shares in some product categories, a product portfolio enhancement and new tenders (domestic and international) in the metering business. No indications were given on 2023 EBITDA.

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. New tenders are expected in Italy and abroad. 2023 growth (in an inflationary environment) is expected to be driven by both price and volumes mix. Heat pumps are seen as a mid-term opportunity.

Despite the 2022 guidance cut, 2023 prospects were confirmed as solid in terms of sales, seen up at a low single digit. However, a sizeable improvement in profitability is likely to materialise only in 2024, when the new plant in Tunisia will be at regime.

Estimates fine tuning

In the light of the new guidance, we fine-tune our estimates.

Our new 2022E estimates incorporate flat sales yoy vs. our previous assumption for an increase of 3.4%, with an implied 3.8% drop in 4Q22E: this reflects market volatility in Europe and the beginning of some destocking by customers. We cut sales in both divisions by around the same percentage. We now see the Heating division up by 4.3% yoy, while the overall Metering division should be down 17% yoy, with Janz growing and contributing for EUR 25M to sales (+24% yoy). We also cut our 2022E adj. EBITDA by 7.6% vs. our previous estimate, which would lead to a 12% adj. EBITDA margin (50bps lower than in our previous estimates) and to a 10% adj. EBITDA margin in 4Q22E. 2022E EBIT is down to EUR 8M in our new estimates, as it incorporates EUR 8.8M one-off accrual related to a dispute settlement with a customer in 3Q22. As such, 2022E net income is down by 46% vs. our previous estimate to EUR 11.5M. We also worsen our 2022E net debt projections, given the cash burn of 9M22 (EUR 34M).

For 2023E, we see some top-line improvement, with revenues growing 4.6% yoy (but down 3% vs. our previous estimate). Growth should be driven by both volumes and prices. New tenders in Water Metering (i.e. in Europe and South America) should help (with more favourable prices vs. 2022). Moreover, the pass-through of cost inflation will be more likely than in 2022, especially in Water Metering. We cut our 2023E EBITDA by 9% vs. our previous estimate: we expect only a marginal improvement yoy (+30bps).

For 2024E, we expect a 5% top-line increase, with a growth acceleration in the Metering division. In the Smart Gas Metering, SIT focuses on key markets, such as the UK and Italy, but there are some tactical opportunities also in other markets, such as Greece, India and Croatia. Looking at 2024E, this division could benefit from the advances, requested by utility companies, for the second roll-out of gas meters substitution, in Italy. We expect a 110bps adj. EBITDA margin jump yoy (to 13.4%) thanks to the new plant in Tunisia, which should be at regime at that time.

SIT further fine-tuned its outlook for 2022

Main takeaways from the conference call

Despite the reduction in 2022 guidance, 2023 prospects look good

2022E estimates downwards revision

...2023E slightly better...

...and 2024E improving

We cut our 2022-24E top-line estimates by around 3% per year and net income by 13% on average.

SIT – Estimates revision (2022-24E)

EUR M	2022E Old	2022E New	2022E New/Old %	2023E Old	2023E New	2023E New/Old %	2024E Old	2024E New	2024E New/Old %
Total sales	393.5	380.5	-3.3	410.5	397.8	-3.1	430.6	416.6	-3.3
Core sales	388.0	375.0	-3.4	404.9	392.3	-3.1	424.9	410.9	-3.3
o/w Heating	322.0	311.0	-3.4	334.9	321.3	-4.1	344.9	330.9	-4.1
o/w Smart Metering	66.0	64.0	-3.0	70.0	71.0	1.4	80.0	80.0	0.0
EBITDA Adj.	48.6	44.9	-7.6	52.7	48.1	-8.7	57.5	55.2	-4.0
% margin	12.5	12.0		13.0	12.3		13.5	13.4	
EBIT	20.5	8.0	-61.0	23.8	19.2	-19.3	27.7	25.4	-8.3
% margin	5.3	2.1		5.9	4.9		6.5	6.2	
Net result	21.2	11.5	-45.8	16.2	12.7	-21.6	19.1	17.4	-9.1
Net result Adj.	12.5	11.2	-10.5	16.2	12.7	-21.6	19.1	17.4	-9.1
Net Debt/-cash	117.4	129.7	10.5	100.7	110.2	9.4	84.1	94.6	12.5

Source: Intesa Sanpaolo Research estimates

Valuation

Following our estimates fine tuning, we set a **new target price of EUR 8.4/share** (from EUR 9.3/share). Given a 33% potential upside, **we confirm our BUY rating**. Our target price is based on the average of a DCF (fair value of EUR 5.8/share) and relative valuations are based on both the average of the multiples of international companies (applying a 30% discount to reflect the company's low liquidity and its smaller size compared to other listed companies) and the average of certain Italian industrial companies. This returns a fair value of EUR 10.5/share using international companies and EUR 8.9/share using Italian companies.

Target price of EUR 8.4/share; BUY

SIT - Valuation summary

Method	New valuation	Weighting %	30/08/2022	Delta
DCF	5.8	33	7.3	-20.8
Italian companies	8.9	33	9.4	-15.6
International companies (30% discount)	10.5	33	11.3	-13.7
Target price	8.4		9.3	-16.2
Current price	6.3		6.86	-13.4
Potential upside %	33.5		36.1	

Source: Intesa Sanpaolo Research estimates

Our DCF valuation is also impacted by the increase of the risk-free rate to 3% from the 2.5% used previously. This translates into a WACC now at 9.1% vs. 8.7% previously.

WACC calculations (%)

Risk-free rate	3.0
Debt spread	1.0
Cost of debt [gross]	4.0
Tax shield	30
Cost of debt [net]	2.8
Market risk premium	6.5
Beta (x)	1.62
Cost of equity	13.5
Weight of Debt	41.0
Weight of Equity	59.0
WACC	9.13

Source: Intesa Sanpaolo Research estimates

SIT – DCF valuation

	Valuation (EUR M)	% Weight	Per share (EUR)
Sum of PV 2022-30 FCF	101.2	39.4	4.07
Terminal value	156.1	60.6	6.24
Total Enterprise value	257.8	100.0	10.31
- Pension Provision	-5.8		-0.2
- Net cash/-debt	-106.7		-4.3
Total Equity value	145.3		5.81
Fully diluted number of shares (M)	25.0		
Fair value per share (EUR)	5.81		

Source: Intesa Sanpaolo Research estimates

SIT – Peer comparison based on international peers

x	Mkt Price	Mkt Cap	P/E			EV/EBITDA		
	EUR	EUR M	2022E	2023E	2024E	2022E	2023E	2024E
Bucher Industries	385.2	3,948	12.9	13.5	13.5	6.9	6.9	7.6
Beijer Ref	16.9	6,470	46.7	38.7	34.6	28.3	23.6	21.7
Emerson Electric	92.4	54,649	17.4	22.3	20.1	12.5	13.3	14.0
Trane Technologies	170.5	39,270	24.5	22.4	20.4	16.4	15.4	15.3
Landis + Gyr	65.7	1,900	21.7	16.4	14.4	14.0	9.5	9.4
Lindab International	12.5	983	9.9	12.5	11.1	7.0	7.4	7.7
NIBE Industrier	9.2	18,565	49.7	43.2	38.3	30.0	26.1	23.5
Resideo Technologies	16.4	2,395	8.4	7.9	6.4	4.6	4.1	4.2
Schneider Electric	142.0	81,084	19.7	18.7	17.2	13.3	12.5	12.5
SPX Corporation	70.2	3,173	24.9	21.3	19.4	14.8	12.8	13.0
Sulzer	74.7	2,559	12.0	12.4	11.7	6.4	6.0	6.3
Weir Group	20.1	5,208	19.0	17.1	15.6	11.8	10.7	10.6
Average			22.2	20.5	18.6	13.8	12.3	12.2
SIT*	6.3	158	14.2**	12.5	9.1	8.0	5.6	4.6
Premium/-discount %			-36.1	-39.1	-51.0	-42.2	-54.6	-62.1

Priced at market close on 11/11/2022; ** Adjusted; Source: FactSet and *Intesa Sanpaolo Research estimates

SIT – Peers comparison based on Italian companies

	Market Cap.	P/E			EV/EBITDA		
	EUR M	2022E	2023E	2024E	2022E	2023E	2024E
Gefran	128	9.3	8.6	8.3	4.2	3.7	3.9
Interpump *	4,947	18.3	17.4	17.1	11.9	11.1	10.9
LU-VE *	499	15.0	15.2	14.2	8.8	8.2	7.5
Sabaf	218	14.4	10.6	9.4	7.5	6.1	6.0
Ariston *	2,837	20.2	14.5	112.8	11.4	7.9	7.2
Average		15.4	13.3	12.4	8.7	7.4	7.1
SIT at market price *		14.2**	12.5	9.1	8.0	5.6	4.6
% premium (discount)		-8.0	-5.8	-26.4	-8.5	-24.5	-35.4

Priced at market close on 11/11/2022; ** Adjusted; Source: FactSet and *Intesa Sanpaolo Research estimates

SIT – Valuation with trading multiples

X/EUR M	P/E			EV/EBITDA		
	2022E	2023E	2024E	2022E	2023E	2024E
Average International peers	22.2	20.5	18.6	13.8	12.3	12.2
Net profit	11.2	12.7	17.4			
EBITDA				36.1	48.1	55.2
EV				499.5.0	594.4	670.7
Net debt				-129.7	-110.2	-94.6
Equity value	248.6	260.6	322.9	369.8	484.2	576.2
Value per share (EUR)	9.9	10.4	12.9	14.7	19.3	22.
Average Italian companies	15.4	13.3	12.4	8.7	7.4	7.1
Net profit	11.2	12.7	17.4			
EBITDA				36.1	48.1	55.2
EV				315.7	357.0	393.2
Net debt				-129.7	-110.2	-94.6
Equity value	172.6	168.4	215.1	186.0	246.8	289.6
Value per share (EUR)	6.9	6.7	8.6	7.4	9.8	11.9

Source: Intesa Sanpaolo Research estimates

At our target price, SIT would trade at 6.8x 2023E EV/EBITDA, which is still below the average multiple of our peers' sample of international companies (12.3x) and also below the Italian companies (7.4x). 2023E P/E would stand at 16.6x vs. 20.5x for international companies and 13.3x for Italian companies.

SIT – Implicit multiples at our EUR 8.4/sh target price

x	2022E	2023E	2024E
P/E	18.9	16.6	12.1
EV/EBITDA	9.6	6.8	5.6
EV/EBIT	43.2	17.0	12.2
EV/Sales	0.92	0.83	0.76
EV/CE	1.24	1.23	1.20
P/BV	1.42	1.37	1.29
P/CF	11.72	4.62	4.96

Source: Intesa Sanpaolo Research estimates

ESG Matrix

SIT – ESG Matrix

Main KPIs		FY19	FY20	FY21	Target	Trend
E	Emissions (ton)					
	CO2 (scope 1) tons K	5.3	5.0	5.7	//	+
	CO2 (scope 2 location based) tons K	9.8	9.3	11.1	//	+
	CO2 (scope 2 market based) tons K	12.2	11.7	14.2	//	+
	Circular Economy				//	
	Total hazardous waste (ton)	653	642	642	//	+
	% of total waste	11.5	16.2	16.2	//	+
	Renewables ratio (%)				//	
	% electricity from renewable	NA	NA	NA	//	
	Water withdrawals (m3/ton)	135.9	126.5	142.6	//	+
Notes (Environmental):						
S	Women in leadership roles* (%)	11.1	8.6	10.5	//	=
	Training hrs per capita (No.)	23.6	24.2	27.4	//	+
	Turnover ratio (%)	36.6	44.8	48.9	//	+
	Work related injuries per M of working hours	2.95	3.47	4.17	//	+
	Ethical code	Yes	Yes	Yes	//	=
	Notes (Social):	*managers				
G	Independent directors' rate (%)	33.3	57.1	57.1	//	+
	Women in BoD (%)	22.2	42.9	42.9	//	+
	Anti-corruption	Yes	Yes	Yes	//	=
	Management Remuneration Policy linked to ESG goals	Yes	Yes	Yes	//	=
	ESG investors' ratio on floating capital (%)	NA	NA	NA	//	
	ESG Report	Yes	Yes	Yes	//	=
	Remuneration of BOD members (% of pre-tax income)	4.3	6.00	9.1	//	+
	Shareholders'/Consulting Agreement	Yes	No	No	//	=
	Loyalty Shares	No	No	No	//	=
Notes (Governance):						

Note: the indicators +/-/- refer to how the company is progressing, in ISP view, towards its targets and/or vs. its historic trend; Source: Company data and Intesa Sanpaolo elaborations

SIT – Key Data

Rating BUY	Target price (EUR/sh) Ord 8.4		Mkt price (EUR/sh) Ord 6.30		Sector Engineering & Machinery	
Values per share (EUR)	2019A	2020A	2021A	2022E	2023E	2024E
No. ordinary shares (M)	25.01	25.01	25.09	25.11	25.11	25.11
Total no. of shares (M)	25.01	25.01	25.09	25.11	25.11	25.11
Market cap (EUR M)	195.13	124.79	214.31	158.19	158.19	158.19
Adj. EPS	0.60	0.54	0.65	0.45	0.51	0.69
BVPS	5.9	6.1	6.1	5.9	6.1	6.5
Dividend ord	0.14	0.28	0.30	0.30	0.30	0.40
Income statement (EUR M)	2019A	2020A	2021A	2022E	2023E	2024E
Revenues	352.2	320.7	380.5	380.5	397.8	416.6
EBITDA	48.74	43.62	51.22	36.09	48.14	55.20
EBIT	24.73	19.62	24.33	8.00	19.20	25.38
Pre-tax income	21.32	15.99	11.71	12.22	16.70	22.88
Net income	19.93	13.23	8.24	11.51	12.69	17.39
Adj. net income	14.90	13.41	16.31	11.18	12.69	17.39
Cash flow (EUR M)	2019A	2020A	2021A	2022E	2023E	2024E
Net income before minorities	19.9	13.2	8.2	11.5	12.7	17.4
Depreciation and provisions	24.0	24.0	26.9	28.1	28.9	29.8
Others/Uses of funds	-18.9	-3.8	-1.7	11.5	-1.3	-1.3
Change in working capital	-5.5	-14.8	4.4	-33.1	5.3	-3.3
Operating cash flow	19.5	18.6	37.8	18.0	45.6	42.6
Capital expenditure	-23.0	-12.7	-26.1	-24.7	-18.6	-19.4
Financial investments	0	0	0	0	0	0
Acquisitions and disposals	0	-28.4	0	0	0	0
Free cash flow	-3.4	-22.5	11.7	-6.7	27.1	23.1
Dividends	-7.0	-3.5	-6.9	-7.5	-7.5	-7.5
Equity changes & Non-op items	3.3	-11.3	4.2	-8.7	0	0
Net cash flow	-7.1	-37.4	9.0	-23.0	19.5	15.6
Balance sheet (EUR M)	2019A	2020A	2021A	2022E	2023E	2024E
Net capital employed	226.0	269.0	260.4	278.7	264.3	258.5
of which associates	0	0	0	0	0	0
Net debt/-cash	78.4	115.8	106.7	129.7	110.2	94.6
Minorities	0	0	0	0	0	0
Net equity	147.6	153.2	153.7	148.9	154.1	163.9
Minorities value	0	0	0	0	0	0
Enterprise value	273.5	240.5	321.0	287.9	268.4	252.7
Stock market ratios (x)	2019A	2020A	2021A	2022E	2023E	2024E
Adj. P/E	13.1	9.3	13.1	14.2	12.5	9.1
P/CFPS	10.0	6.7	5.7	8.8	3.5	3.7
P/BVPS	1.3	0.81	1.4	1.1	1.0	0.97
Payout (%)	23	52	46	67	59	58
Dividend yield (% ord)	1.8	5.6	3.5	4.8	4.8	6.3
FCF yield (%)	-1.8	-18.0	5.5	-4.3	17.1	14.6
EV/sales	0.78	0.75	0.84	0.76	0.67	0.61
EV/EBITDA	5.6	5.5	6.3	8.0	5.6	4.6
EV/EBIT	11.1	12.3	13.2	36.0	14.0	10.0
EV/CE	1.2	0.89	1.2	1.0	1.0	0.98
D/EBITDA	1.6	2.7	2.1	3.6	2.3	1.7
D/EBIT	3.2	5.9	4.4	16.2	5.7	3.7
Profitability & financial ratios (%)	2019A	2020A	2021A	2022E	2023E	2024E
EBITDA margin	13.8	13.6	13.5	9.5	12.1	13.3
EBIT margin	7.0	6.1	6.4	2.1	4.8	6.1
Tax rate	6.5	17.3	29.6	5.8	24.0	24.0
Net income margin	5.7	4.1	2.2	3.0	3.2	4.2
ROCE	10.9	7.3	9.3	2.9	7.3	9.8
ROE	14.6	8.8	5.4	7.6	8.4	10.9
Interest cover	5.9	5.0	1.7	1.6	7.7	10.2
Debt/equity ratio	53.1	75.5	69.5	87.1	71.5	57.7
Growth (%)		2020A	2021A	2022E	2023E	2024E
Sales		-8.9	18.6	-0.0	4.6	4.7
EBITDA		-10.5	17.4	-29.5	33.4	14.7
EBIT		-20.7	24.0	-67.1	NM	32.2
Pre-tax income		-25.0	-26.8	4.4	36.7	37.0
Net income		-33.6	-37.7	39.6	10.2	37.0
Adj. net income		-10.0	21.6	-31.5	13.5	37.0

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

Company Snapshot

Company Description

The SIT Group, through its two divisions Heating and Smart Metering, creates intelligent solutions for the control of environmental conditions and consumption measurement for a more sustainable world. A market-leading multinational company, listed on the MTA segment of Borsa Italiana, SIT aims to be the number one sustainable partner for energy and climate control solutions for its customers, focusing on experimentation and the use of alternative gases with low environmental profiles. The Group has production sites in Italy, Mexico, the Netherlands, Romania, China, Tunisia and Portugal, in addition to a commercial structure covering all global markets.

Key Risks

Company specific risks:

- End of the rollout of smart gas metering in Italy;
- Supply chain risk also linked to the Russia-Ukraine conflict;
- Potential shortage of components could reduce production;
- Large component of goodwill (around 30% of capital employed);

Sector generic risks:

- The substitution of gas heating systems with green-energy devices (i.e. heat pumps) is accelerating
- Lengthy time to market for new products due to the length of the testing and homologation process.
- Inflation risk

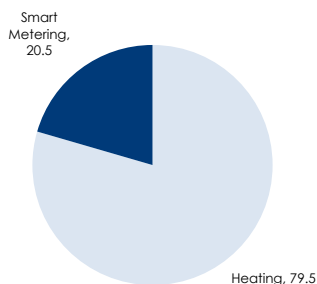
Key data

Mkt price (EUR)	6.30	Free float (%)	25.4
No. of shares	25.09	Major shr	SIT Tech.
52Wk range (EUR)	11.2/5.8	(%)	73.4
Reuters	SIT.MI	Bloomberg	SIT IM
Performance (%)	Absolute	Rel. FTSE IT All Sh	
-1M	1.3	-1M	-13.9
-3M	-7.4	-3M	-12.6
-12M	-43.2	-12M	-35.1

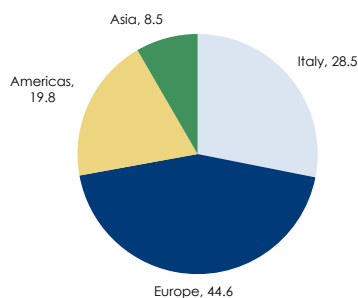
Estimates vs. consensus

EUR M (Y/E Dec)	2021A	2022E	2022C	2023E	2023C	2024E	2024C
Sales	380.5	380.5	NM	397.8	NM	416.6	NM
EBITDA	51.22	36.09	NM	48.14	NM	55.20	NM
EBIT	24.33	8.00	NM	19.20	NM	25.38	NM
Pre-tax income	11.71	12.22	NM	16.70	NM	22.88	NM
Net income	8.24	11.51	NM	12.69	NM	17.39	NM
EPS	0.65	0.45	NM	0.51	NM	0.69	NM

Sales breakdown by product (%)



Sales breakdown by geography (%)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 11/11/2022)

Our Mid Corporate Definition

Italy is characterised by a large number of non-listed and listed micro, small and medium-sized companies. Looking at the revenues of these Italian companies, around 5,000 companies eligible for listing have revenues below EUR 1,500M based on Intesa Sanpaolo elaborations. We define these companies as 'Mid Corporate'. Looking more specifically at Italian listed companies, we include in our Mid Corporate segment all STAR companies and those with a market capitalisation around EUR 18n.

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Equity Research Publications in Last 12M

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<https://group.intesasnpaolo.com/en/research/RegulatoryDisclosures/archive-of-intesa-sanpaolo-group-s-conflicts-of-interest0>

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Equity rating key: (long-term horizon: 12M)

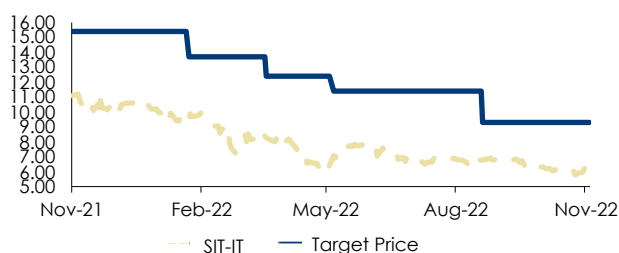
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Equity Rating Key (long-term horizon: 12M)

Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.
NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances.
TENDER SHARES	We advise investors to tender the shares to the offer.
TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

Historical recommendations and target price trends (long-term horizon: 12M)

The 12M rating and target price history chart(s) for the companies currently under our coverage can also be found at Intesa Sanpaolo's website/Research/Regulatory disclosures: <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/tp-and-rating-history-12-months->. Note: please also refer to <https://group.intesasanpaolo.com/it/research/equity-credit-research/equity> in applicable cases for the ISP-UBI Equity Ratings Reconciliation Table, the archive of ex-UBI's previously published research reports and 12M historical recommendations.

Target price and market price trend (-1Y)**Historical recommendations and target price trend (-1Y)**

Date	Rating	TP (EUR)	Mkt Price (EUR)
30-Aug-22	BUY	9.3	6.8
16-May-22	BUY	11.4	7.1
29-Mar-22	BUY	12.4	8.3
02-Feb-22	BUY	13.7	9.6

Equity rating allocations (long-term horizon: 12M)**Intesa Sanpaolo Research Rating Distribution (at October 2022)**

Number of companies considered: 127	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)*	65	18	17	0	0
of which Intesa Sanpaolo's Clients (%)**	83	39	55	0	0

* Last rating refers to rating as at end of the previous quarter; ** Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and investment banking services in the last 12 months; percentage of clients in each rating category

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Equity rating key (short-term horizon: 3M)

Short-term rating	Definition
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