

SIT (BUY)**Article in Il Sole 24 Ore**

Market Mover (SIT-IT)	Positive	Neutral	Negative
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What's up? The key points of the article are as follows:

- **SIT is focusing on technology and innovation:** The company has recently signed a joint venture with GWF for the development, production and distribution of ultrasonic smart water meters for residential applications, whose full impact is expected in 2024. As far as gas metering is concerned, SIT is focusing on the development of new meters that support the measurement of blends of natural gas, biomethane and hydrogen; a positive impact on SIT's numbers is expected from 2026. In the heating business, SIT is already present in hybrid heating systems and hydrogen boilers; the goal is to continue to create new solutions that can help replace the traditional gas heating system. Lastly, the article recalls that SIT is also a supplier of control electronics for the CMV (Controlled Mechanical Ventilation) segment and plans to further expand its range over the coming years. SIT is currently investing 3% of revenues in R&D, this percentage should increase to 3.5%;
- **Costs and operational efficiency:** The 9M22 adj. EBITDA yoy slowdown was basically due to energy and logistic cost increases, although 4Q22 was very positive (according to the article). FY22 benefitted from the pass-through of cost inflation, which was almost full in the Heating division but only partial in the Metering division. In the current year, the pass-through of cost inflation (in the Metering division) is expected to be stronger than in FY22 (especially in Water Metering), as the new tenders include higher costs. Moreover, the company is currently benefitting from the decreasing energy cost and has implemented some efficiency projects (such as a photovoltaic system in the Rovigo plant, expected to be operative at the end of 2023). SIT has secured its supply chain to satisfy demand in FY22, thus increasing inventories and limiting the effect of component shortages in the market. This issue is improving in FY23. The new plant in Tunisia will allow several production efficiencies, including lower labour costs, and will be at regime in 2024;
- **FY23 prospects:** In Smart Gas Metering, after quite a weak performance in FY22, the company expects a recovery thanks to the demand from small utilities related to grid digitalization and from big players, which are likely willing to renew digital meters. In Smart Water Metering, SIT expects sales to maintain their growth rate. SIT confirmed its guidance for sales up at a low single digit rate yoy in FY23, with an improvement in net working capital and net debt vs. FY22;
- **SIT expects FY22 adjusted EBITDA margin at around 12%** and guided for net debt at EUR 130M. We recall that during the 9M22 results presentation SIT outlined a FY22 adjusted EBITDA margin guidance slightly below 12%.

What we think: Our FY22E profitability and FY23E top line estimates are in line with the company's guidance. **Rating BUY and TP EUR 8.4/sh.**

SIT - Key Data

06/02/2023	Engineering		
Target Price (EUR)	8.4		
Rating	BUY		
Mkt price (EUR)	6.16		
Mkt cap (EUR M)	155		
Main Metrics (€ M)	2022E	2023E	2024E
Revenues	380.5	397.8	416.6
EBITDA	36.09	48.14	55.20
EPS (EUR)	0.45	0.51	0.69
Net debt/-cash	129.7	110.2	94.55
Ratios (x)	2022E	2023E	2024E
Adj. P/E	13.8	12.2	8.9
EV/EBITDA	7.9	5.5	4.5
EV/EBIT	35.5	13.8	9.8
Debt/EBITDA	3.6	2.3	1.7
Div yield (%)	4.9	4.9	6.5
Performance (%)	1M	3M	12M
Absolute	-1.9	1.0	-37.7
Rel. to FTSE IT All Sh	-11.1	-14.9	-37.1

Source: FactSet, Company data, Intesa Sanpaolo Research estimates

Intesa Sanpaolo is Corporate Broker to SIT

Marco Cristofori - Research Analyst
marco.cristofori@intesasnpaolo.com

Giada Cabrino - Research Analyst
giada.cabrino@intesasnpaolo.com