

## SIT (Neutral, TP €7.60)

Market Cap. €154.68m		Price: € 6.16		(Emanuele Negri +39 02 8829 855)	
	Turnover	Net Profit	PE Adj.	PBV	Yield
2021	381	8	13.1	1.4	3.5
2022E	384	13	15.0	1.0	5.0
2023E	402	13	11.6	0.9	5.2

Source: Mediobanca Securities

### Focus on innovation to widen the product portfolio. Growth expected in all BUs in 2023

Event Yesterday, Il Sole 24 Ore focused its weekly *Lettera al Risparmiatore* on SIT.

Comment/Financials In our view, main takeaways from the article are the following:

- ◆ **Focus on innovation** - The article reports that SIT is planning to increase investments in innovation from current 3% of annual revenues to 3.5%, to develop new products in all the main BUs. In detail, in the smart water metering segment, SIT is developing, in partnership with GWF, new appliances equipped with ultrasonic sensors and Narrow band Internet of Think technology (sales expected in 2024). In Gas metering, the company will develop products for gas pipelines measuring different gases as methane, hydrogen and biomethane. Finally, in the Heating BU, focus is on products for blend of different gases and components for heat pumps;
- ◆ **Tunisian plant, new tenders and easing supply chains to support profitability** - Management highlights that profitability, in the first nine months 2022, was strongly impacted by bottlenecks in supply chains and increasing energy and logistics costs. In this context, pass-through was easily implemented in Heating while it was more complex in Metering, where prices were fixed in tenders launched before the start of heavy inflationary pressures. The company highlights that new tenders will already entail higher costs and that current easing in supply chains should support revenues and profitability, also leveraging a more organized procurement strategy. Finally, production in the Tunisian plant should increase during 2023 and achieve full capacity in 2024, thus enabling a reduction in operating costs;
- ◆ **Growth expected in both Heating and Metering in 2023** - The company provided some indications on the last part of 2022 which, according to the management, was overall positive, with FY figures including Adj. EBITDA margin around 12% and NFP at c.€130m. Finally, looking at 2023, SIT indicated to expect low-to-mid-single-digit growth in Heating, while Metering should grow supported by i) continued positive demand trends in Water and ii) rollout of old meters from smaller utilities and replacements of oldest appliances from larger utilities in Gas. Finally, the company plans to improve NWC, following the increase in inventories induced by a procurement strategy aimed at ensuring services to customers in 2022.

**View/Action** Messages from the article are overall in line with the latest conference calls. As first, we appreciate renewed company's commitment to innovation to further diversify the product portfolio, as this should enable SIT to better seize opportunities coming from the green transition, particularly in the context of the new Energy Performance of Buildings Directive. We finally welcome management's focus on improving operating profitability and NWC efficiencies. We have a Neutral rating on the name.

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