

22 March 2023

Price (€)	5.18
Shares in issue (m)	25
Mkt Cap (€m)	130
Net debt (€m)	137
EV (€m)	267
BVPS (c)	622.4

Share price performance

1m	-16.5%
3m	-14.5%
12m	-36.8%
12 m high/low	8.6/4.9
Ave daily vol (30D)	4,591

Shareholders

Sit Technologies	74.6%
Marlborough Fund	1.8%
Mediolanum Gest'	1.0%
Azimut Holding Spa	0.7%
Zenit Sgr Spa	0.5%
Norges Bank	0.5%
Banque Degroof	0.4%
Mediobanca Sgr Spa	0.2%
Symphonia Sgr Spa	0.1%
Dimensional Fund	0.1%
Total for top 10	79.7%
Free float	25.4%
Source: Bloomberg	21 Mar 23

Next news Ints Q3

Business description

Waste to energy for metals industry



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Q4 SHOWS A REBOUND

SIT's full year results broadly confirm the picture seen when the preliminary sales figures were announced but there has been a slight improvement with outturn sales growth of 3.4% against the 3.3% signalled in January. Both sales and EBITDA modestly beat our forecasts and the heating and water metering business continues to show growth across the year. The fourth quarter saw a rebound in gas metering and we expect this to continue in FY 23. Heating may slow however given the impact of higher interest rates in US on home expenditure. Manufacturing cost gains will come but not until FY 24. Against this the company is cutting its dividend in order to preserve cash and cut debt to enable it to pursue growth opportunities.

Full year results ahead of our forecasts

SIT's full year results show sales up 3.4% to €393.3m. This was slightly ahead of our original forecast of €383.3m. Adjusted EBITDA dropped 8% to €47.1m again slightly ahead of our forecast of €45.8m. This was before a non-recurring accrual of €8.9m resulting from a dispute settlement. EBITDA margin dropped from 13.5% to 12.0% primarily driven by business mix changes and supply chain pressure. 81.3% of sales were from the heating business which grew 5.6%. Metering was down 5.7% as it continues to factor in the well-signalled decline in sales for smart gas meters as the Italian installation programme matures. Gas metering sales fell 15.2%. However, water metering sales grew 21.6% and now accounts for a third of all metering sales. What was very clear was the pick up in Q4 where heating sales grew 4.1% and metering saw a strong rebound, up 41.7% with gas metering up 47.2%.

Cost savings to come

The company continues to manage supply chain issues well with higher inventory levels being used to manage product availability. Net working capital rose to €73.8m from €45.4m with stock days rising to 85 from 67 reflecting this strategy. Manufacturing costs were also higher but the current year will see the planned new production footprint becoming fully operational with a greater contribution from the new Tunisian plant. This is likely to drive cost savings from FY 24. Looking forward we have added some caution to our numbers to reflect the impact of higher interest rates on the US heating business and uncertainty on timing of the metering rebound and cost improvements. This results in a small fall in our central valuation to €11.6 from €11.9.

€,'000 Dec	2021a	2022a	2023e	2024e	2025e	2026e
Sales	380,521	393,305	394,079	409,720	423,279	424,616
EBITDA	51,246	46,943	47,308	54,781	62,185	67,554
PBT	11,706	22,468	12,806	19,161	25,362	29,441
EPS	33.4	81.5	39.4	59.0	78.1	90.6
CFPS	107.8	-51.6	87.2	97.7	120.9	145.6
DPS	30.0	32.0	0.0	0.0	0.0	0.0
Net Debt (Cash)	107,256	136,772	120,490	101,091	75,488	43,363
Debt/EBITDA	2.1	2.9	2.5	1.8	1.2	0.6
P/E	0.2	0.1	0.1	0.1	0.1	0.1
EV/EBITDA	2.1	2.9	2.5	1.8	1.2	0.6
EV/sales	0.3	0.3	0.3	0.3	0.3	0.3
FCF yield	2.1%	-1.0%	1.7%	1.9%	2.3%	2.8%
Div yield	0.6%	0.6%	0.0%	0.0%	0.0%	0.0%

Profit and Loss Account

€,'000, Dec	2021a	2022a	2023e	2024e	2025e	2026e
Turnover						
Heating	298,251	315,338	309,913	316,111	322,434	316,766
Smart Gas Metering	57,113	48,345	50,011	55,013	57,213	58,644
Smart Water Metering	19,800	24,140	28,730	33,002	37,909	43,546
Other	5,357	5,482	5,426	5,595	5,723	5,659
Total	380,521	393,305	394,079	409,720	423,279	424,616
Operating profit						
Heating	17,375	14,384	12,397	15,806	19,346	22,174
Smart Gas Metering	4,855	2,417	2,501	4,126	5,721	5,865
Smart Water Metering	2,100	2,655	3,160	3,960	4,549	5,226
Other	0	0	0	0	0	0
Operating profit	24,330	19,457	18,057	23,892	29,616	33,264
P&L Account	2021a	2022a	2023e	2024e	2025e	2026e
Turnover	380,521	393,305	394,079	409,720	423,279	424,616
Operating Profit	24,330	19,457	18,057	23,892	29,616	33,264
Investment income	31	-166	0	0	0	0
Net Interest	-12,655	3,177	-5,251	-4,730	-4,254	-3,823
Pre Tax Profit (UKSIP)	11,706	22,468	12,806	19,161	25,362	29,441
Goodwill amortisation	0	0	0	0	0	0
Exceptional Items	0	-8,900	0	0	0	0
Pre Tax Profit (IFRS)	11,706	13,568	12,806	19,161	25,362	29,441
Tax	-3,462	-2,355	-3,073	-4,599	-6,087	-7,066
Post tax exceptionals	0	0	0	0	0	0
Minorities	0	0	0	0	0	0
Net Profit	8,243	11,213	9,732	14,563	19,275	22,375
Dividend	-6,890	-7,299	0	0	0	0
Retained	1,353	3,914	9,732	14,563	19,275	22,375
EBITDA	51,246	46,943	47,308	54,781	62,185	67,554
EPS (p) (UKSIP)	33.39	81.46	39.42	58.98	78.07	90.62
EPS (p) (IFRS)	33.39	45.41	39.42	58.98	78.07	90.62
FCFPS (p)	107.76	-51.58	87.21	97.73	120.93	145.59
Dividend (p)	30.00	32.00	0.00	0.00	0.00	0.00

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 weaker on US but 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	2021a	2022a	2023e	2024e	2025e	2026e
Fixed Asset Cost	354,434	390,150	412,707	435,827	459,525	483,815
Fixed Asset	-	-	-	-	-	-
Depreciation	256,395	284,047	313,298	344,187	376,756	411,047
Net Fixed Assets	98,039	106,103	99,409	91,639	82,768	72,769
Goodwill	87,946	87,946	87,946	87,946	87,946	87,946
Other intangibles	61,611	55,276	55,276	55,276	55,276	55,276
Investments	325	630	630	630	630	630
Stock	70,123	91,352	91,531	95,164	98,313	98,624
Trade Debtors	56,052	63,800	63,926	66,463	68,662	68,879
Other Debtors	29,273	36,825	36,825	36,825	36,825	36,825
Trade Creditors	-80,752	-81,400	-81,560	-84,797	-87,603	-87,880
Other Creditors <1yr	-35,178	-24,318	-24,318	-24,318	-24,318	-24,318
Creditors >1yr	-15,804	-15,009	-15,009	-15,009	-15,009	-15,009
Provisions	-4,941	-13,844	-13,844	-13,844	-13,844	-13,844
Pension	-5,762	-5,093	-5,093	-5,093	-5,093	-5,093
Capital Employed	260,932	302,267	295,718	290,881	284,553	274,804
Cash etc	46,667	23,535	11,031	17,278	31,044	52,515
Borrowing <1yr	24,758	28,786	13,152	11,837	10,653	9,588
Borrowing >1yr	129,165	131,521	118,369	106,532	95,879	86,291
Net Borrowing	107,256	136,772	120,490	101,091	75,488	43,363
Share Capital	96,162	96,162	96,162	96,162	96,162	96,162
Share Premium	5,676	5,676	5,676	5,676	5,676	5,676
Retained Earnings	8,243	11,213	20,945	35,508	54,783	77,158
Other	43,595	52,444	52,444	52,444	52,444	52,444
Minority interest	0	0	0	0	0	0
Capital Employed	260,932	302,267	295,718	290,881	284,553	274,804
Net Assets	153,676	165,495	175,227	189,790	209,065	231,440
Total Equity	153,676	165,495	175,227	189,790	209,065	231,440

Source: Company data, Longspur Research estimates

KEY POINTS

- Net fixed assets expanded in FY22 with Tunisian development and Janz acquisition
- Working capital increases as company manages supply chain risks
- Borrowing increases in FY 21 with Janz acquisition

Cashflow

€,000, Dec	2021a	2022a	2023e	2024e	2025e	2026e
Operating profit	24,330	19,457	18,057	23,892	29,616	33,264
Depreciation	26,885	27,652	29,251	30,889	32,569	34,291
Provisions	0	0	0	0	0	0
Other	963	-737	0	0	0	0
Working capital	7,554	-25,935	-864	-4,458	-4,031	-1,230
Operating cash flow	59,731	20,437	46,444	50,323	58,155	66,325
Tax paid	-6,475	-6,699	-2,355	-3,073	-4,599	-6,087
Capex (less disposals)	-22,361	-24,488	-22,556	-23,120	-23,698	-24,291
Investments	-4,288	-1,986	0	0	0	0
Net interest	-2,975	-7,134	-5,251	-4,730	-4,254	-3,823
Net dividends	-6,890	-7,299	0	0	0	0
Residual cash flow	16,742	-27,169	16,282	19,399	25,603	32,124
Equity issued	-3,912	0	0	0	0	0
Change in net borrowing	-8,544	29,516	-16,282	-19,399	-25,603	-32,124
Adjustments	-4,286	-2,347	0	0	0	0
Total financing	-16,742	27,169	-16,282	-19,399	-25,603	-32,124

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 and FY 23

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