SIT (BUY)

FY22 Results

Vs. our estimates	Above	In Line	Below

Results. The key points of results were:

- **FY22 core sales, already published, better than our estimates:** We recall that SIT had already published its preliminary FY22 core revenues in January, which stood at EUR 387.6M, 3.4% better than our estimates. We outline that both in 4Q22 and in FY22 end-price increases more than offset the lower volume-mix, thus confirming the premium positioning of the offer, and that in Q422 volumes were only slightly down (EUR -0.8M effect). In detail, sales in the Heating division increased by 4.1% in 4Q22 with Italy down 13% due to the tough comparison base of 4Q21 (Superbonus had pushed sales up) and all the other regions up: Europe +4.5%, US +9.6%, APAC +14%. Sales in the Metering division increased by 41.7% yoy in 4Q22, with Smart Gas Metering up 47% and Water Metering up 28% (excluding the new products recently launched in the market);

- **FY22 Adjusted EBITDA margin was 12%, around 5% better than our estimates** (11.4% expected): positive price effect fully offset the negative volume/mix effect, operation costs increased by EUR 6M (mainly due to logistic and transport costs), forex had a positive impact for EUR 1.6M. In Q422 adj. EBITDA was by far better than expected (24% higher than estimates). We understand that there is room to increase the operational efficiency (the Tunisia plant will be at full steam by the end of the year) and the first improvements in terms of productivity have already materialised, partially offset by high labour cost. We recall that FY22 EBITDA was affected by an EUR 8.9M one-off accrual for a dispute settlement;

- **The net income was EUR 11.2M in FY22** and benefitted from EUR 8.7M deriving from the change in the warrants' fair value (expired in 2022). Excluding the warrant effect, net financial charges would be EUR 4.2M and the net income adjusted would be EUR 10.9M (vs. net income adjusted of EUR 16.3M in FY21);

- **The net debt was in line with expectations at EUR 130.6M** (up from EUR 106.7M at YE21): the increase came from the trade working capital absorption (EUR 27M). SIT built up inventories along the year to satisfy the demand from customers (basically of electronic components). Investments were EUR 26.9M (flat yoy). Free cash flow was negative for EUR 13M. No dividend distribution.

- **What we think:** No guidance was provided concerning FY23E due to the destocking in the sector: this is explained by the fact that in FY22 there was restocking and therefore SIT's sales were better than expected. Expectations are for a better 2H23E yoy vs. 1H23E yoy. On the other hand, we foresee the Metering division to grow, both in the gas and the water segments (a trend started in 4Q22). Our FY23E top line estimates look a bit optimistic, but we don't expect any particular pressure on profitability versus FY22. We expect the net debt to reduce, given SIT's aggressive procurement policy in FY22, which could be released in the coming months, zero dividend, and a bit lower capex. We believe the new European Performance Building Directive could give a big boost to SIT's sales once defined and approved by single countries. **Rating BUY and TP EUR 8.4/sh**.

SIT - Key Data

21/03/2023			Engineering
Target Price (EUR)			8.4
Rating			BUY
Mkt price (EUR)			5.18
Mkt cap (EUR M)			130
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	11.6	10.2	7.5
EV/EBITDA	7.2	5.0	4.1
EV/EBIT	32.5	12.5	8.8
Debt/EBITDA	3.6	2.3	1.7
Div yield (%)	5.8	5.8	7.7
Performance (%)	**1M**	**3M**	**12M**
Absolute	-17.3	-15.6	-36.4
Rel. to FTSE IT All Sh	-12.0	-22.7	-39.9

Source: FactSet, Company data, Intesa Sanpaolo Research estimates

Intesa Sanpaolo is Corporate Broker to SIT

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