

SIT (BUY)**1H23 Results**

Vs. our estimates	Above	In Line	Below
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Results. SIT released quite a weak 2Q23, with a similar trend as 1Q23, and overall in line with our estimates. Unexpected goodwill write-down, in view of the recent trend and outlook on domestic gas boilers' use, weighed EBIT and net profit.

- **Revenues decreased by 17.5% yoy in 2Q23 (-14.3% yoy in 1H23) and were dragged down by the Heating and Ventilation division** (-25.8% yoy in 2Q23, slowing down further vs. 1Q23): this performance was spread in almost all the geographies and reflects the still high level of stock of SIT's customers, who are facing the very weak demand from consumers. In detail: sales in Italy (-27.9% in 1H23 yoy) suffered also from the cut in fiscal incentives; sales in Europe (-5.2% yoy) benefitted from the positive performance in Turkey and in the UK, but the performance in Central Europe was in line with Italy's; sales in the US (-48.8% at constant forex yoy in 1H23) suffered from a drop in Water Heating Storage and in the Direct Heating applications of fireplaces (given the lower number of new buildings' constructions); sales in Asia (-15.6% at constant forex yoy in 1H23) saw the Chinese market performing better in 2Q23 qoq, and Australia down double-digits. On the other hand, the Metering division is continuing its growth path, up 25% yoy in 2Q23 and growing its incidence on total sales, now at 25.4% (1H23) vs. 17.5% (1H22);
- **EBITDA adj. decreased by around 32% yoy in 2Q23 (in line with our estimates)** driven by lower volumes; adjustments refer to restructuring costs. EBIT adj. in 2Q23 was slightly negative. EBIT (EUR -21.6M in 2Q23) was impacted by an EUR 17M goodwill write-down, which was made in view of the trend and the outlook for the use of domestic gas boilers, as a result of energy transition programmes. The net income was negative at EUR -19.5M in 2Q23;
- **The net debt was EUR 146.4M**, up from EUR 130M at YE22 and EUR 122.6M at the end of June 2022. Net debt/EBITDA LTM was 3.88x; SIT had asked, and obtained, a waiver on June covenants; their reset is ongoing. Capex was EUR 10.5M and the net working capital was rather stable vs. YE22 in absolute value, showing a little increase in inventories (built up for gas metering) and lower receivables and payables;
- **FY23 outlook:** Smart gas Metering sales are expected up high double-digit; Water Metering sales are expected up between 10/15%; Heating and Ventilation sales are expected to slow down further in 2H23 (no positive seasonality); total sales are expected further down vs. 1H23; cost reductions are already in place with structural impacts from the beginning of FY24; EBITDA margin expected below double-digit (or, below 10%); net debt expected in line with 1H23. The company also stated that management is working on projects to accelerate internationalisation and redesign the business portfolio, targeting growth segments and cash generation.

What we think: As we have already outlined, the current scenario for the heating division is tough and the lack of clarity in the regulation framework does not help. 1H23 was a difficult semester for SIT, but we believe that after a transitional FY23 the company could bear the fruits of past investments in innovation. We plan to revise our estimates, which look too optimistic for FY23E. **Rating BUY and TP EUR 5.7.**

SIT - Key Data

02/10/2023	Engineering		
Target Price (€)	5.7		
Rating	BUY		
Mkt price (€)	3.57		
Mkt cap (EUR M)	90		
Main Metrics (€ M)	2023E	2024E	2025E
Revenues	355.9	379.3	404.9
EBITDA	39.15	47.41	53.45
EPS (EUR)	0.32	0.57	0.75
Net debt/-cash	115.4	90.26	72.71
Ratios (x)	2023E	2024E	2025E
Adj. P/E	11.3	6.2	4.8
EV/EBITDA	5.2	3.8	3.0
EV/EBIT	14.5	8.0	5.9
Debt/EBITDA	2.9	1.9	1.4
Div yield (%)	0	0	12.6
Performance (%)	1M	3M	12M
Absolute	2.0	-6.3	-43.9
Rel. to FTSE IT All Sh	4.7	-6.7	-58.8

Source: FactSet, Company data, Intesa Sanpaolo Research estimates

Intesa Sanpaolo is Corporate Broker to SIT

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SIT 2Q/1H23 results

EUR M	2Q22A	2Q23E	2Q23A	2Q yoy%	A/E %	1H22A	1H23E	1H23A	1H yoy%	A/E %
Total revenues	100.9	84.9	83.3	-17.5	-1.9	194.7	168.5	166.9	-14.3	-0.9
o/w Heating and Ventilation	81.8	62.1	60.7	-25.8	-2.3	157.8	124.8	123.4	-21.8	-1.2
o/w Smart Metering	17.6	22.2	22.0	25.1	-0.8	34.1	42.6	42.4	24.1	-0.5
EBITDA	9.2	6.4	4.9	-46.2	-23.2	23.8	14.7	13.2	-44.5	-10.1
Margin (%) on revenues	9.1	7.6	5.9			12.2	8.7	7.9		
EBITDA adj.	9.2	6.4	6.2	-32.2	-3.3	23.8	14.7	14.5	-39.2	-1.6
Margin (%) on revenues	9.1	7.6	7.4			12.2	8.7	8.7		
EBIT	2.5	0.0	-21.6			10.51	1.6	-20.0		
Margin (%) on revenues	2.5	NM	NM			5.4	1.0	NM		
EBIT adj.	2.5	0.0	-0.8			10.5	1.6	0.8		
Margin (%) on revenues	2.5	NM	NM			5.4	1.0	0.5		
Net Result	1.8	-0.4	-19.5			14.2	1.0	-18.2		
Net result adj.	0.9	-0.4	0.3			6.2	1.0	1.6		
Net debt	122.6	139.1	146.4	19.4	5.3	122.6	139.1	146.4		

NM: not meaningful; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research estimates