

## Heating Recovery Further Postponed

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### FY guidance now points to only slight improvement in EBITDA margin vs 2023

Last Friday, the company announced a downward revision in its FY24 guidance in light of weaker than expected market trends in the Heating & Ventilation business. In detail, management now projects sales in the Heating & Ventilation division to be down low-double-digit vs 2023. This compares with previous indication pointing to a high-single-digit reduction. On the other hand, the company confirmed to expect sales in the Metering division overall in line with 2023. As for profitability, EBITDA margin is now forecasted only slightly higher than 2023, below previous indication entailing +100/200bps improvement. This revision is the result of lower-than-expected sales volumes. Finally, the company confirmed previous expectation for NFP, seen in the range €145-200m.

### FY24-26E EBITDA reduced -14% on avg. to factor in lower Heating and Gas Metering

After factoring in the new guidance, we revise our estimates with an average EBITDA reduction of -14% over FY24-26E. Our FY24E top line now points to €297m, from €331m, which implies -9% YoY reduction. This is composed of a low-double-digit reduction in Heating and a flattish trend in Metering, with Water compensating a subdued performance from Gas. We then project growth to restart in FY25E, with an average annual growth rate of 5% through 2026, also supported by the recent contract for almost 100k smart water devices. On profitability, we project EBITDA margin to improve +20bps YoY in FY24E, in line with management's indication. Profitability should then further improve in the coming years, thus reaching 12.0% in FY26E. We finally forecast €148m NFP at YE24, which implies an NFP/EBITDA ratio of 5.5x. This should then improve to 3.2x in FY26.

### 3Q24E: -70bps YoY decline in EBITDA margin; NFP projected at €158m

Last Friday, SIT announced its preliminary 3Q/9M24 sales. In detail, 3Q24 recorded a -4% YoY reduction driven by -1.4% in Heating & Ventilation and -10.6% in Metering. As for the Metering, -20.7% decline in Gas more than offset +12% in Water. As a result, 9M sales were down -8% YoY resulting from -11.7% in Heating & Ventilation, -2.5% in Gas Metering and +11.8% in Water Metering. Focus of the release scheduled on November 8 now shifts to profitability and cash generation. Looking at the EBITDA margin, we forecast 3Q24E to stand at 9.2%, below 9.9% in 3Q23, not far from the level seen in 2Q24. This would also result in a 9M24 EBITDA margin of 9.0%, overall in line with 9M23. As for the bottom line, we forecast €2.1m net loss. We finally project NFP to slightly improve QoQ at €158m.

### Focus on de-leveraging and delivery on new targets. Neutral, €1.40 TP

With its preliminary 9M24 sales, SIT revised its FY24 guidance, following the reduction already implemented in August with 1H24 results. In our view, this further confirms that visibility on business recovery in Heating & Ventilation remains overall limited, amid reaffirmed positive indications on the Water Metering business. In addition, profitability is expected to be burdened by lower-than-expected volumes, with EBITDA seen further reducing from 2023. As a result, the company is set to close FY24E with NFP/EBITDA over 5x. In this context, we believe that the company should now focus on i) gradual but steady de-leveraging and ii) full delivery on newly communicated targets. We confirm therefore our Neutral rating on the name, with a new TP of €1.40/share.

	2023	2024E	2025E	2026E
EPS Adj (€)	-0.14	-0.33	-0.02	0.17
DPS (€)	0	0	0	0
BVPS (€)	5.72	5.28	5.26	5.43
EV/Ebitda(x)	12.6	7.0	5.4	4.3
P/E adj (x)	nm	nm	nm	6.5
Div.Yield(%)	0.0%	0.0%	0.0%	0.0%
OpFCF Yield(%)	-10.0%	3.0%	4.3%	7.7%

#### Market Data

Market Cap (€m)	27
Shares Out (m)	25
Technologies S.A.P.A. (%)	53%
Free Float (%)	22%
52 week range (€)	3.46-0.86
Rel Perf vs DJGL Italy DJ Total Market Italy (%)	
-1m	-5.1%
-3m	-26.3%
-12m	-67.3%
21dd Avg. Vol.	23,081
Reuters/Bloomberg	SITT.MI / SIT IM

Source: Mediobanca Research



## FY24-26E EBITDA reduced -14% on average to factor in lower Heating and Gas Metering

With its 3Q/9M24 preliminary sales, SIT revised downwards its FY24 guidance in light of weaker than expected market trends in the Heating & Ventilation business. In detail, management now projects sales in the Heating & Ventilation division to be down low-double-digit vs 2023. This compares with previous indication pointing to a high-single-digit reduction. On the other hand, the company confirmed to expect sales in the Metering division overall in line with 2023. As for profitability, EBITDA margin is now forecasted only slightly higher than 2023, below previous indication entailing +100/200bps improvement. This revision is the result of lower-than-expected sales volumes. Finally, the company confirmed previous expectation for NFP, seen in the range €145-200m.

After factoring in the new guidance, we revise our estimates with an average EBITDA reduction of -14% over FY24-26E. Our FY24E top line now points to €297m, from €331m, which implies -9% YoY reduction. This is composed of a low-double-digit reduction in Heating and a flattish trend in Metering, with Water compensating a subdued performance from Gas. We then project growth to restart in FY25E, with an average annual growth rate of 5% through 2026, also supported by the recent contract for almost 100k smart water devices. On profitability, we project EBITDA margin to improve +20bps YoY in FY24E, in line with management's indication. Profitability should then further improve in the coming years, thus reaching 12.0% in FY26E. We finally forecast €148m NFP at YE24, which implies an NFP/EBITDA ratio of 5.5x. This should then improve to 3.2x in FY26.

### SIT - FY24-26E change in estimates

€m	New FY24	Old FY24	% chg.	New FY25	Old FY25	% chg.	New FY26	Old FY26	% chg.
Total sales	297.2	330.9	-10%	315.1	342.8	-8%	328.0	349.6	-6%
EBITDA Adj.	27.0	34.1	-21%	33.7	39.1	-14%	39.2	42.4	-8%
EBITDA margin	9.1%	10.3%		10.7%	11.4%		12.0%	12.1%	
EBIT Adj.	-0.4	5.0	nm	6.1	9.7	-37%	11.6	13.0	-11%
EBIT margin	-0.1%	1.5%		1.9%	2.8%		3.5%	3.7%	
Adj. Net profit	-8.2	-2.6	nm	-0.4	1.8	-nm	4.2	4.7	-10%
Net Debt/(Cash)	148.0	144.7		140.2	124.5		127.2	117.5	

Source: Mediobanca Research

## 3Q23E: EBITDA margin down -70bps YoY; NFP expected at €158m

SIT will unveil its 3Q/9M24 results on November 8. However, on October 18, SIT announced its preliminary 3Q/9M24 sales. In detail, 3Q24 recorded a -4% YoY reduction driven by -1.4% in Heating & Ventilation and -10.6% in Metering. As for the Metering, -20.7% decline in Gas more than offset +12% in Water. As a result, 9M sales were down -8% YoY resulting from -11.7% in Heating & Ventilation, -2.5% in Gas Metering and +11.8% in Water Metering. Focus of the release will therefore be on profitability and cash generation. In detail, we expect:

- ◆ EBITDA margin at 9.2% in 3Q24E which compares with 9.9% in 3Q23. This would however represent a slight improvement vs the level seen in 2Q24. As a result, EBITDA should be €6.6m, implying a YoY double-digit reduction, As such, 9M EBITDA would stand at €20.2m, down -8% YoY, with 9.0% EBITDA margin;
- ◆ In our estimates, this results in 3Q24E EBIT slightly below the breakeven level from €0.4m positive in 3Q23;
- ◆ At the bottom-line level, we project €2.1m net loss which compares to €0.8m net loss recorded in the third quarter of 2023;
- ◆ Finally, we believe that the Net Financial Position will show first signs of cash generation in the third quarter vs 1H24 at c.€158m.
- ◆ Beyond 3Q24E results, we believe that the main focus of the conference call, scheduled on November 8, will be on i) timing for expected recovery in the Heating & Ventilation division, following soft indications provided for the remainder of the year, ii) contribution on EBITDA from the recently announced new contract in the Water Metering division, iii) details on positive impacts from cost reduction policies already in place on EBITDA margin for the coming quarters, iv) actions planned and implemented to pursue de-leveraging in the next few quarters amid still soft demand in Heating & Ventilation.

### SIT - 3Q/9M24E preview

€m	3Q24E	3Q23A	YoY chg.	9M24E	9M23A	YoY chg.
Total sales	71.8	75.2	-5%	222.7	242.1	-8%
EBITDA Adj.	6.6	7.5	-11%	20.2	21.9	-8%
<i>EBITDA margin</i>	9.2%	9.9%		9.0%	9.1%	
EBIT Adj.	-0.3	0.4	nm	-0.4	1.2	nm
<i>EBIT margin</i>	-0.4%	0.5%		-0.2%	0.5%	
Adj. Net profit	-2.1	-0.8	nm	-5.3	0.9	nm
Net Debt/(Cash)	157.6	159.0		157.6	159.0	

Source: Mediobanca Research

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Date of report production: 23 Oct 2024 - 18:09

