UBI Banca

SIT

Initiation of coverage **Buy**

04 October 2017 – 5:30 PM | *MARKET PRICE:* ***EUR11.64*** | *TARGET PRICE:* ***EUR14.57***

Heating, Smart gas metering

Data

Shares Outstanding (m):	23.98	
Market Cap. (EURm):	279.15	
Enterprise Value (EURm):	352.30	
Free Float (%):	27.7%	
Av. Daily Trad. Vol. (m):	0.02	
Main Shareholder:	SIT Technologies 72.1%	
Reuters/Bloomberg:	SIT.MI	SIT IM
52-Week Range (EUR)	9.5	13.4

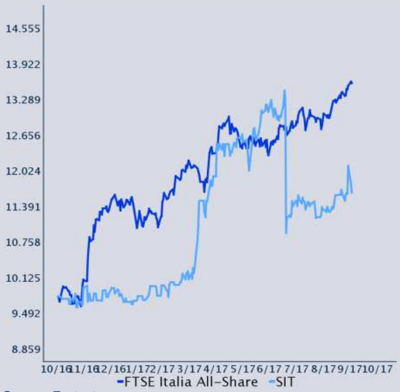
Source: Factset, UbiBanca estimates

Performance

	1m	3m	12m
Absolute	2.6%	-12.3%	19.4%
Rel. to FTSE IT	-1.4%	-19.1%	-14.8%

Source: Factset

Graph area Absolute/Relative 12 M



Source: Factset

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Ready to outperform

We initiate coverage of SIT, a leading producer of components for the safety, efficiency and performance of gas equipment, with a Buy rating and target price of EUR14.57 per share. Since its listing on AIM Italia on July 20 (with a price of EUR10.92 per share in its first trading day), the shares have surprisingly been neglected by the market. In our view, an investment in the shares is attractive for the following reasons: 1) strong organic growth (6.6% on average since 2012 and an increase of 10.7% in 1H17) even in a mature market, made possible by its leading position (50% global market share in valves for the regulation and security of gas appliances), its product innovation and limited exposure to Italy (30% of sales); 2) low volatility of profitability: SIT has had an average EBITDA adj. margin of 14% over the past three years (14.5% in 1H17); 3) presence in the Smart Gas Metering Business, a fast growing market (sales up 23.7% in 1H17) that could be developed abroad; 4) strong operating cash flow generation (about EUR20 million p.a.) and a robust balance sheet with operating NWC less than 10% of revenues; 5) >EUR50 million cash inflow from the business combination: this should provide SIT with the ammunition to pursue further growth opportunities while reducing net debt and financial charges; 6) significant undervaluation with an average discount to peers of >30%. Our target price implies 25% upside giving solid support for our Buy rating. Further upside could come from a listing on the MTA market.

> SIT is a leading supplier to the OEM of components for gas equipment. It has an extended product range and a strong international presence with almost 70% of sales outside Italy. The company has built a solid reputation over its 60-year life and benefits from impressive client loyalty.

> In July SIT completed the reverse merger with Industrial Stars of Italy 2, a Special Purpose Acquisition Company and was consequently listed. The company grew substantially in 1H17 (sales +10.7%) with an EBITDA margin of 14.5% and we forecast a CAGR of 6% in revenues in the next three years, an EBITDA margin that could rise to >16% in 2019 and a bottom line of about >EUR22 million.

> Our target price of EUR14.57 per share is based on the average of a DCF analysis, EV/ROACE and a relative valuation and indicates 25% upside. We initiate our coverage with a Buy rating.

Financials priced on 3 October 2017

	2016	2017E	2018E	2019E
Revenues (EURm)	287.5	312.5	329.2	342.0
EBITDA (EURm)	43.8	47.0	51.6	55.3
EBITDA margin (%)	15.2%	15.0%	15.7%	16.2%
EBIT (EURm)	23.5	27.5	32.0	36.0
EPS (EUR)		0.10	0.82	0.95
CFPS (EUR)		1.08	1.84	1.95
DPS (EUR)		0.20	0.22	0.25

Source: Company Data, UBI Banca estimates

Ratios priced on 3 October 2017

	2016 *	2017E	2018E	2019E
P/E(x)	99.1	111.8	14.2	12.3
P/CF(x)	2.7	10.0	6.1	5.8
P/BV(x)	2.5	2.3	2.0	1.8
Dividend Yield	0.0%	1.7%	1.9%	2.1%
EV/EBITDA(x)	6.8	7.5	6.4	5.4
Debt/Equity (x)	1.8	0.5	0.3	0.1
Debt/EBITDA (x)	2.9	1.4	0.8	0.3

*Source: UBI Banca estimates * based on EUR172m equity value*

Key Financials

(EURm)	2016	2017E	2018E	2019E
Revenues	287.53	312.45	329.18	341.98
EBITDA	43.76	46.96	51.62	55.34
EBIT	23.48	27.45	31.98	35.97
NOPAT	23.48	27.45	31.98	35.97
Free Cash Flow	25.46	7.31	27.88	34.98
Net Capital Employed	194.04	189.21	181.00	168.76
Shareholders' Equity	69.26	122.26	137.14	154.62
Net Financial Position	124.77	66.96	43.87	14.17

Source: Company data, UBI Banca estimates

Key Profitability Drivers

	2016	2017E	2018E	2019E
Net Debt/Ebitda (x)	2.9	1.4	0.8	0.3
Net Debt/Equity (x)	1.8	0.5	0.3	0.1
Interest Coverage (%)	1.2	1.5	8.2	10.3
Free Cash Flow Yield (%)	45.2%	2.6%	10.0%	12.5%
ROE (%)	2.5%	2.0%	14.3%	14.7%
ROI after tax (%)	9.9%	12.3%	14.5%	16.9%
ROCE (%)	11.5%	14.3%	17.3%	20.6%

Source: Company data, UBI Banca estimates

Key Valuation Ratios

	2016 *	2017E	2018E	2019E
P/E (x)	99.1	111.8	14.2	12.3
P/BV (x)	2.5	2.3	2.0	1.8
P/CF (x)	4.1	10.0	6.1	5.8
Dividend Yield (%)	0.0%	1.7%	1.9%	2.1%
EV/Sales (x)	1.0	1.1	1.0	0.9
EV/EBITDA (x)	6.8	7.5	6.4	5.4
EV/EBIT (x)	12.7	12.8	10.3	8.3
EV/CE (x)	1.5	1.9	1.8	1.8

Source: Company data, UBI Banca estimates ** Based on EUR172 million equity value*

Key Value Drivers

(%)	2016	2017E	2018E	2019E
Payout	0.0%	192.0%	26.8%	26.4%
NWC/Sales	5.1%	5.4%	5.6%	5.8%
Capex/Sales	3.1%	5.9%	4.9%	3.4%

Source: Company data, UBI Banca estimates

INVESTMENT CASE

SIT is a leading producer of components designed for the safety, efficiency and performance of gas equipment with revenues of EUR288 million in 2016 (EUR149 million in 1H17), eight plants (of which four outside Italy), 10 commercial branches abroad, and an average of 2,032 employees in 1H17. Since 2009, it has also been present in the fast-growing niche segment of Smart Gas Metering. The group, founded and still managed by the de' Stefani family, has reported average organic growth of about 6.6% since 2012 (+10.7% in 1H17). Because of its lean cost structure, healthy operating leverage and the quality of its products that is recognized by its customers, the company has maintained EBITDA margins of close to 13% in the past ten years (14.5% in 1H17). Almost 70% of SIT's revenues are generated outside the domestic market, particularly in Europe (42% of sales) and in the US (16.5%) but it also has a solid presence in China (up 32% in 1H17).

Our investment case is based on the capacity of SIT's management team to exploit the leading position of the company to improve margins and the bottom line in the near future and to grow further in the global market due to:

- Continued expansion of its commercial and industrial network abroad and into new markets with attractive growth prospects while Increasing the "share of wallet" or the weight of its products in a heating device;
- New production capacity: SIT has recently doubled its production capacity in Smart Gas Metering division through its new plant in Romania and is investing EUR3.5 million to expand the capacity of the Heating division in order to comply with the booming demand in China;
- Potential acquisitions of companies with similar product ranges but with a presence in new markets (emerging countries) or with innovative technologies (patented) leveraging on the financial resources coming from the business combination with INDSTARS 2;
- The positive trend in the Smart Gas Metering division. The company believe that 80% of existing European gas meters will be substituted by 2020. The potential market is highly attractive considering that there are around 120 million gas meters in Europe. SIT was a first-mover in smart gas metering and has a significant technical advantage in this segment;
- The sharp reduction of financial charges from 2018: we believe the EUR50.5 million cash inflow from the business combination (completed in July), together with the refinancing of the residual debt already implemented (EUR135 million expiring in five years), is excellent for SIT as it should result in a significant reduction in financial charges thereby boosting the bottom line.

Our estimates imply a top line CAGR of 6% in 2017-19 and an estimated EBITDA margin of 16.2% in 2019. We expect the 2019 attributable net result to exceed EUR22 million (EUR1.7 million in 2016).

Our target price of EUR14.57 per share implies 25% upside on the current market price and is based on the average of a DCF analysis, an EV/CE vs. ROACE/WACC valuation and a relative valuation, after having applied a 20% liquidity discount (10% on Italian companies) to take account of the AIM listing and the relatively low liquidity of the shares.

We believe the main risks to SIT are the large amount of goodwill (40% of capital employed), the attitude of the new President of the US, which could restrict imports from SIT's Mexican plant, unexpected changes in the regulatory framework, currency fluctuations and Brexit, which could hinder the development of smart gas metering in UK.

Recent Developments

> 20 July 2017 was the effective date of the merger between SIT and INDSTARS 2. The effective accounting and tax date is 20 July 2017. The merger implied a share exchange ratio of 1 INDSTARS 2 share: 1 SIT share (ordinary or special) and the replacement of the INDSTARS 2 warrants with SIT warrants, which have the same terms and condition as the INDSTARS 2 warrant. In addition, INDSTARS 2 shareholders (the day before the merger became effective) received 1 new warrant for every 2 INDSTARS 2 shares owned and SIT Technologies received 300,000 warrants. Following the merger and the conversion of all special shares, the free float is 20.9% and Mr. De Stefani controls the company with a 72.1% stake.

> On 20 July 2017, the combined entity (named SIT) was listed on the AIM Italian market (EUR10.92 share price on its first day of trading). SIT Technologies has a lock-up of 36 months from the date on which the merger became effective.

> SIT reported positive results in 1H17, with a robust rise in revenues of 10.7% mostly due to growing volumes. Sales in the Heating division were up 9%, a stunning result for a mature market, mainly driven by substitution. This was made possible by the booming Chinese market (where sales increased by nearly 70%) augmented by government incentives (so called “from coal to gas”) which should persist through to 2020 and by the positive performance of the European and American markets. The Smart Gas Metering division increased by 23.7%, confirming last year’s positive trend (when revenues more than doubled) driven by the progressive substitution of gas meters in the Italian residential market (directive ARG/GAS/554/15 of November 2015). The backlog of the Smart Gas Metering division was EUR31.1 million at June-17, of which EUR25.7 million in 2017, covering 97% of expected sales in the second half.

> EBITDA was up 2.9% with a lower margin compared with 1H16 (14.5% from 15.6%) due to a lower than average profitability for the Smart Gas Metering division which was impacted by a shortage of electronic components (one of SIT’s main battery suppliers ceased production following a fire) and to higher inventories that increased raw material costs to 52.1% of sales vs. 48.6% in 1H16. We believe this margin slowdown could be reabsorbed in the second half of the year. The Heating division margin rose slightly compared with 1H16.

> After EUR9.1 million of D&A (of which EUR2.2 million related to the purchase price allocation on the buyout of 2014), EBIT was EUR12.5 million, up 10.5%. The pre-tax result was positive for EUR3.0 after EUR9.5 million of financial charges (of which EUR1.6 million of forex losses). Net attributable profit was impacted by a higher tax rate (70% vs. 17% in 1H16 for the positive result of the parent company compared with a pre-tax loss in 1H16) coming to EUR0.92 million, 52% below the net result for 1H16.

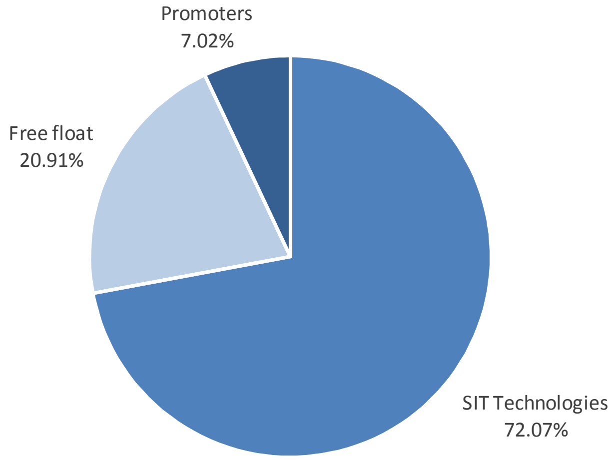
> After EUR5 million of capex and EUR12 million of NWC absorption, net debt rose slightly to EUR126.9 million, although gearing and the net debt/EBITDA ratio remained stable at 1.8x and 2.85x respectively.

> As expected, in July, SIT finalized the refinancing of existing banking debt for EUR135 million expiring in five years with BNP Paribas and a pool of banks with improving conditions.

> The company also announced EUR3.5 million of new investments in the Heating division to increase production capacity while the new Smart Gas Metering division plant (which doubles current production capacity) has commenced operations.

Figure 1 – Shareholder structure after the merger and the conversion of special shares

Following the reverse merger, SIT's Board of Directors is composed of 9 members of which four appointed by Mr. De Stefani, two by the promoters and three independent members.



Source: UBI Banca estimates

Figure 2 – SIT Group 1H17 consolidated results

(EURm)	1H16A	1H17A	% Chg.
Italy	38.5	44.0	14.2%
Rest of Europe	60.0	64.7	7.8%
America	23.3	23.5	0.7%
APAC	12.9	16.9	31.7%
Heating	118.4	129.0	9.0%
Smart metering	16.1	20.0	23.7%
Total sales	**134.5**	**149.0**	**10.7%**
Value of production	134.7	149.1	10.7%
EBITDA	**21.0**	**21.6**	**2.9%**
Margin (%)	**15.6%**	**14.5%**	
EBITDA Adjusted	**21.0**	**21.2**	**2.0%**
Margin (%)	**15.7%**	**14.5%**	
EBIT	11.3	12.5	10.5%
Margin (%)	8.4%	8.4%	
Net Result attributable	**1.9**	**0.9**	**-51.9%**
Net debt	158.6	126.9	-20.0%

Source: Company data

Financial Projections

> We expect a positive second half of the year with revenues increasing by nearly 7% with the Heating division up 43% driven by China and the Smart Gas Metering division increasing by 22.5%. The EBITDA margin should improve compared to 2H16, reflecting recovery in the Smart Gas Metering division, reaching 15.4% in 2H17 (from 14.8% in 2H16). Net profit could be impacted by non-recurring costs of about EUR4.5 million (mostly non-cash items) related to the IPO but should be well above the bottom line reported in the second half of 2016 which was impacted by a tax rate of almost 100%.

> Despite the economic crisis and the slowdown in the domestic market, SIT has reported average organic growth of 6.6% since 2012. Our forecasts for the next few years are more conservative with a CAGR of 6.0% in the top line in 2016-19 excluding potential acquisitions and the cash inflow from INDSTARS 2 which would further boost sales growth as the company could accelerate its investment programme for production capacity expansion and could make further acquisitions to broaden its product application range and its geographical presence.

> We forecast 4.2% growth for the Heating division with a modest sales trend in Europe and in the US, given that around 80% of its revenues are in the replacement market, but strong acceleration in China (expected to grow by >15% p.a.) driven by the new "from coal to gas" incentives, lasting up 2020. The trend in China was already evident in 1H17, with revenues increasing by >30%.

> The Smart Gas Metering division is expected to grow at a 17% CAGR in 2016-19 due to the ARG/GAS/554/15 directive of November 2015, which should accelerate the substitution of Italian gas meters in the residential market, and the new plant in Romania which is already fully operational. In addition, leveraging on the quality of its smart meters, SIT plans to expand abroad, exploiting new European regulations to promote gas meter substitution. We refer, in particular, to the UK where all gas meters must be replaced by the end of 2020, but also to France (a second replacement phase is expected in 2019), Spain, Greece, and eventually Turkey and Iran. Given that the new plant in Romania doubled existing production capacity, the revenues of the Smart Gas Metering division could rise to EUR80 million in the long term (vs. EUR46 million expected in 2017).

> The EBITDA margin is expected to increase slightly, mainly due to increased efficiency and economies of scale, surpassing 16% in 2019. The EBIT margin is expected to rise to 10.5% in 2019 (from 8.2% in 2016) partly as D&A costs should remain broadly stable at below EUR20 million as the company has already incurred extraordinary capex to expand its production capacity in the Smart Gas Metering division.

> Financial charges are expected to remain high in 2017 (at EUR18.0 million) as the cash inflow from INDSTARS 2 and the refinancing of existing banking debt have an effect only in the second half of the year and because the company will incur around EUR7 million of non-recurring costs for the bank refinancing. Taking into account EUR4.5 million of non-recurring costs (mostly non-cash items) related to the IPO process, net profit could be EUR2.5 million in 2017, or EUR7.0 million on an adjusted basis. The full benefit of the business combination should come through in 2018-19, with a sharp decline in financial charges to below EUR4 million, leading to a bottom line of EUR19.8 million in 2018 and EUR22.8 million in 2019. The tax charge is expected to stabilize at about 30% in the years after 2017 when it could be about 50% based on our

estimates.

> We believe that SIT will distribute a dividend based on 2017 results. Our estimates assume a pay-out ratio of 110% in 2017 and much lower (25-30% in 2018-19). Based on the current market price, this implies a dividend yield of 1.7% in 2017 rising to 2.1% in the following years. However, there are some limits in the dividend distribution included in the new financing.

> The company generates strong operating cash flow (EUR35 million in 2016 and EUR21 million in 2015) and we believe this trend will continue in future. Organic capex is expected to reach EUR18.5 million this year, or around 6% of revenues, due to the completion of the new plant in Romania and the announced EUR3.5 million investments to increase the production capacity in the Heating division but could decline in 2018-19 to below 5% of revenues, excluding external acquisitions. This indicates free cash flow of EUR7.3 million in 2017, EUR28 million in 2018 and nearly EUR35 million in 2019, based on our estimates.

> SIT has always had low operating net working capital (the average of the past three years is 8.4% of revenues and was 5.1% in 2016) as the company has limited inventories of finished goods (around 15% of sales or less than two months), and low trade receivables (about 50 days over the past three years). This reflects the high proportion of non-Italian clients, while trade payables mostly relate to Italian suppliers (with payment terms of 140 days on average). Our estimates for 2017-19 point to a NWC equal to 5.5%-5.8% of revenues (about EUR18 million at year-end).

> Adding net fixed assets at about 80% of sales, we estimate capital turnover (sales/capital employed) could be 1.65x this year (1.48x in 2016), an outstanding level for a manufacturing company. This should generate a ROCE of 9.7% in 2017 (8.1% in 2016) which could improve further in 2018-19 due to falling capex, reaching 11.8% in 2018 and 14.3% in 2019, making SIT a strong value creator company. If we deduct goodwill (EUR78.1 million at June-17 from the buy-out of family shares in 2014 and, therefore, not linked to external acquisitions) from the invested capital, 2017 capital turnover would increase to 2.8x and give a ROCE of 16.6%.

Figure 3 – Profit and loss

(EURm)	2014 *	2015 *	2016A	2017E	2018E	2019E
Heating	235.6	248.5	249.8	266.0	275.3	281.7
% growth		5.5%	0.5%	6.5%	3.5%	2.3%
Smart Gas Metering	20.0	15.6	37.7	46.4	53.8	60.3
% growth		-22.0%	142.4%	23.0%	16.0%	12.0%
Net Revenues (Value of production)	**258.4**	**264.7**	**288.1**	**313.1**	**329.8**	**342.7**
% growth		**2.4%**	**8.9%**	**8.7%**	**5.4%**	**3.9%**
EBITDA	**33.6**	**34.3**	**43.8**	**47.0**	**51.6**	**55.3**
EBITDA margin	**13.0%**	**13.0%**	**15.2%**	**15.0%**	**15.7%**	**16.2%**
EBIT	13.4	12.0	23.5	27.5	32.0	36.0
EBIT margin	5.2%	4.6%	8.1%	8.8%	9.7%	10.5%
Net financial income /expense	(19.0)	(18.2)	(19.7)	(18.0)	(3.9)	(3.5)
Associates & Others	0.6	0.8	1.3	(4.5)	0.0	0.0
Profit before taxes	**(5.0)**	**(5.4)**	**5.1**	**5.0**	**28.1**	**32.5**
Taxes	(3.0)	5.7	(3.4)	(2.5)	(8.4)	(9.7)
Net Income	**(8.0)**	**0.4**	**1.7**	**2.5**	**19.7**	**22.8**
Net Income adjusted	**(4.4)**	**1.4**	**2.6**	**7.0**	**19.7**	**22.8**

Source: Company data, UBI Banca estimates ** Under Italian GAAP*

Figure 4 –Cash flow statement

Net cash flow in 2017 should benefit from >EUR50 million coming from the merger with INDSTAR 2. As a result, net debt should decline significantly by year-end

(EURm)	2014 *	2015 *	2016A	2017E	2018E	2019E
Group Net Profit	(8.0)	0.4	1.7	2.5	19.7	22.8
D&A	20.0	20.2	20.0	19.2	19.3	19.0
Change In Working Capital	5.2	1.9	14.6	(2.2)	(1.3)	(1.6)
Other	0.3	(1.1)	(1.1)	6.3	6.5	6.6
Operating Cash Flow	**17.4**	**21.4**	**35.1**	**25.8**	**44.1**	**46.7**
Net Capex	(12.3)	(10.5)	(9.0)	(18.5)	(16.2)	(11.7)
Other Investments	(111.7)	0.0	(0.6)	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	(4.8)	(5.3)
Chg in Net Worth & Capital Incr.	(16.8)	0.0	0.0	50.5	0.0	0.0
Other	0.0	(8.7)	6.3	0.0	0.0	0.0
Net cash flow	**(123.3)**	**2.0**	**31.7**	**57.8**	**23.1**	**29.7**
Net debt (cash) Beginning of Period	**35.1**	**158.5**	**156.5**	**124.8**	**67.0**	**43.9**
Net debt (cash) End of Period	**158.5**	**156.5**	**124.8**	**67.0**	**43.9**	**14.2**

Source: Company data, UBI Banca estimates estimates ** Under Italian GAAP*

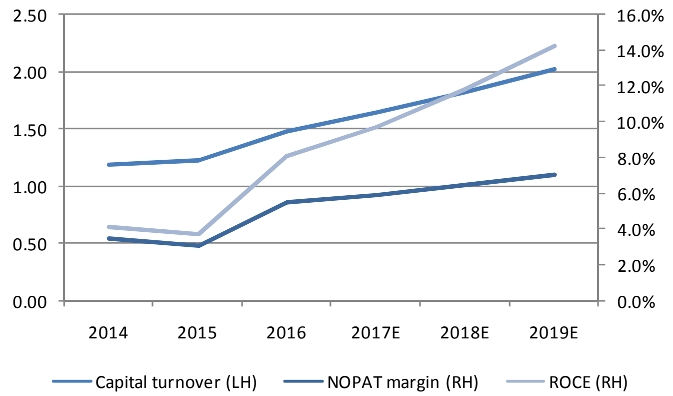
Figure 5 –Balance sheet

SIT has managed to increase its capital turnover in the past (from 1.2x in 2014 to 1.5x in 2016) due to tight control of investments and operating working capital. If we deduct goodwill (EUR78 million at June-17) from invested capital, the capital turnover would increase to 2.8x and give a ROCE of 16.6%.

(EURm)	2014 *	2015 *	2016A	2017E	2018E	2019E
Net working capital	27.0	25.1	14.8	17.0	18.3	19.9
Net Fixed assets	227.4	221.8	210.2	206.2	199.5	188.9
M/L term funds	(37.1)	(32.6)	(30.9)	(34.0)	(36.8)	(40.0)
Capital employed	**217.3**	**214.3**	**194.0**	**189.2**	**181.0**	**168.8**
Shareholders' equity	58.8	57.9	69.3	122.2	137.1	154.6
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' funds	58.8	57.9	69.3	122.2	137.1	154.6
Net financial debt/(cash)	**158.5**	**156.5**	**124.8**	**67.0**	**43.9**	**14.2**

Source: Company data, UBI Banca estimates ** Under Italian GAAP*

Figure 6 – Trend in the NOPAT margin, Capital Turnover and ROCE



Source: Company data, UBI Banca estimates

Valuation

> Our target price of EUR14.57 per share is based on the average of a DCF (fair value of EUR14.14 per share), an EV/CE versus ROACE/WACC (EUR12.91 fair value) and relative valuations based on both the average of the multiples of international companies (applying a 20% discount to reflect the company's low liquidity and its smaller size compared to other listed companies) and the average of some Italian industrial companies (at 10% discount). This gives a fair value of EUR15.78 per share using international companies and EUR15.47 per share using Italian companies.

> Given the current estimated upside potential of 25%, we initiate coverage with a Buy rating.

> Outstanding warrants (5.35 million) can be exercised after 1 month from the merger and within five years at EUR0.1 per share based on ratio ranging from 0.203 at current market price up to 0.287 at EUR13.0 per share (the threshold price above which snaps the acceleration condition). At EUR13.0 1.53 million new shares will be issued, implying a dilution of 6.8%. On a fully diluted basis, our target price would decline to EUR13.82.

> At the target price, the company would trade at 7.7x 2018 EV/EBITDA, which is still below the average multiple of our peer sample (11.2x for international companies and 9.0x for Italian companies) and on 17.8x P/E adjusted (18.5x for international companies and 19.8x for Italian companies).

Figure 7 – Valuation summary

(EUR)		**Weight**
DCF	14.14	25%
Italian companies (10% discount)	15.47	25%
International companies (20% discount)	15.78	25%
EV/ROACE	12.91	25%
Target price	**14.57**	
Current price	11.64	
Potential upside	25.2%	

Source: UBI Banca estimates

DCF valuation

Our conservative DCF model gives a fair value of EUR14.14 per share; it incorporates the following assumptions:

> a risk-free rate of 2.5%, which is our long-term assumption for the interest rate on Italian bonds;

> a market risk premium of 4.5%;

> a levered beta of 1.00, based on the average of the machinery industry in Europe (0.94 unlevered - source: *Damodaran Jan-17*);

> a terminal growth rate of 1% and an operating margin of 10% at terminal value, which is slightly above the 8.3% EBIT margin reported in 2016 but in line with our 2018-19 forecasts;

> A target debt/equity ratio of 4/97 equal to the financial structure projected for 2019E.

Figure 8 - WACC and embedded DCF assumptions

WACC assumptions		Embedded DCF assumptions	
Risk Free rate (10Y BTP bench.)	2.5%	Revenue CAGR 2017-2025 (%)	2.6%
Debt spread (%)	3.0%	EBIT CAGR 2017-2025 (%)	3.9%
Cost of debt [net] (%)	4.1%	EBIT margin 2017 (%)	8.8%
Market risk premium (%)	4.5%	Target EBIT margin 2025 (%)	10.0%
Beta (x)	1.0	D&A. on sales (avg. 2017-2025) (%)	4.3%
Cost of equity (%)	7.0%	Capex on sales (avg. 2017-2025) (%)	4.4%
Weight of Debt	8.4%		
Weight of Equity	91.6%		
WACC	**6.77%**		

Source: UBI Banca estimates

Figure 9 – DCF Valuation

Our DCF valuation implies an EV/EBITDA of 7.2x at terminal value

	Valuation (EUR m)	% Weight	Per share (EUR)
Sum of PV 2017-25 FCF	146.9	35%	6.13
Terminal value	272.6	65%	11.37
Total Enterprise value	**419.5**	**100%**	**17.49**
- Pension Provision	(6.0)		(0.25)
- Net cash (debt) including cash in form ISI2	(74.3)		(3.10)
Total Equity value	**339.2**		**14.14**
Number of shares outstanding (m)	24.0		
Fair value per share (EUR)	**14.14**		

Source: UBI Banca estimates

Our valuation has limited sensitivity to changes in the terminal growth rate and WACC although a lower beta and/or stronger growth would increase our DCF fair value.

Figure 10 - Sensitivity analysis

Doubling the terminal growth rate would increase our DCF valuation by 23%

g / WACC	0.50%	0.75%	1.00%	1.25%	1.50%
5.77%	15.1	15.7	16.5	17.3	18.1
6.17%	14.1	14.7	15.3	16.0	16.7
6.47%	13.4	13.9	14.5	15.1	15.8
6.77%	12.8	13.3	**14.1**	14.3	14.9
7.07%	12.3	12.7	13.1	13.6	14.2
7.37%	11.7	12.1	12.5	13.0	13.5
7.67%	11.3	11.6	12.0	12.4	12.8

Source: UBI Banca estimates

EV/CE vs. ROACE/WACC valuation

We believe that SIT should create value given its lean balance sheet and flexible business model that requires limited investment. The cash inflow from the merger with INDSTARS 2 has a heavy impact on ROACE in 2017-19E.

Figure 11 – ROACE and WACC projections

	2014	2015	2016	2017E	2018E	2019E
Capital employed	217	214	194	189	181	169
average		215.8	204.2	191.6	185.1	174.9
EBIT	13	12	23	27	32	36
Taxes on EBIT	(4.0)	(3.6)	(7.0)	(8.2)	(9.6)	(10.8)
NOPAT	9	8	16	19	22	25
ROACE	4.3%	3.9%	8.0%	10.0%	12.1%	14.4%
WACC	6.3%	6.3%	6.4%	5.8%	6.2%	6.7%
ROACE - WACC	**-2.0%**	**-2.4%**	**1.6%**	**4.2%**	**5.9%**	**7.7%**

Source: Company data, UBI Banca estimates

Figure 12 – ROACE fair value estimate

Average ROACE (2017-2019)	12.2%
Average WACC (2017-2019)	6.2%
EV / Invested Capital	1.96
Average CE 2017-19	180
Enterprise Value (EUR million)	**351**
Less:	
Average net debt 2017-19 (EUR million)	41.7
Equity Value (EUR million)	**309.7**
number of shares	24.0
Fair value per ordinary share (EUR)	**12.91**

Source: UBI Banca estimates

Relative Valuation

SIT has no direct peers that are listed. We have therefore decided to create a sample group of industrial companies that are active in the mechanical and electronic industry. These are divided into:

- **International companies**: these companies generally operate in several geographical markets and in multiple industrial segments. Their EBITDA margin averages about 12.5% in 2016, slightly below that of SIT and their market capitalization is generally high, ranging from EUR0.7 billion to EUR93 billion. In our valuation of the company, we applied a 20% discount to the average for the international companies to reflect their larger size and higher liquidity.
- **Italian companies:** this group is composed of four companies operating in sensors and automation controls (Gefran), high pressure pumps and hydraulic components (Interpump), heat exchangers and ventilated devices (LU-VE) and components for household cooking appliances (Sabaf). These companies reported an average 15% EBITDA margin in 2016, in line with SIT, and have a market capitalization ranging from EUR170 million to EUR2.8 billion. In our valuation of the company, we applied a 10% discount to the average for the international companies to reflect their larger size and higher liquidity.

Figure 13 - Relative valuation based on International companies (priced on 3 October 2017)

We have not considered a valuation based on 2017 P/E as the benefits from the business combination with INDSTARS 2 should fully materialize only in 2018.

	Market Cap.	P/E			EV/EBITDA		
	(EURm)	2017E	2018E	2019E	2017E	2018E	2019E
Bucher Industries	3,188	23.4 x	20.0 x	18.2 x	11.5 x	9.9 x	8.9 x
Beijer Ref	1,200	24.0 x	21.3 x	19.7 x	16.9 x	15.2 x	14.0 x
Emerson Electric	34,483	24.3 x	21.7 x	19.7 x	12.9 x	11.3 x	10.8 x
Honeywell International	92,529	20.1 x	18.4 x	16.7 x	13.5 x	12.2 x	11.3 x
Ingersoll-Rand	19,453	19.9 x	17.5 x	15.7 x	12.1 x	11.1 x	10.4 x
Lindab International	674	15.3 x	12.9 x	12.1 x	9.9 x	8.3 x	7.5 x
NIBE Industrier	4,329	24.1 x	22.0 x	20.6 x	15.5 x	14.2 x	13.1 x
Schneider Electric	44,278	18.9 x	17.1 x	15.6 x	12.1 x	11.1 x	10.3 x
SPX Corporation	1,086	17.3 x	14.7 x	13.4 x	9.5 x	8.2 x	7.1 x
Sulzer	3,520	27.3 x	21.2 x	18.1 x	13.3 x	10.8 x	9.5 x
Weir Group	4,943	21.4 x	16.3 x	14.4 x	14.2 x	11.2 x	9.9 x
Average		**21.4 x**	**18.5 x**	**16.8 x**	**12.9 x**	**11.2 x**	**10.3 x**
SIT at market price	**280**	**nm**	**14.2 x**	**12.3 x**	**7.5 x**	**6.4 x**	**5.4 x**
% premium (discount)		**nm**	**-23.2%**	**-26.8%**	**-41.7%**	**-43.3%**	**-47.4%**
SIT Group valuation on multiples		**nm**	**15.15**	**15.90**	**22.4**	**22.4**	**23.1**

Source: Factset, UBI Banca estimates

Based on the average of 2017-19 EV/EBITDA and P/E 2018-19 (we have not considered a valuation based on 2017 P/E as the benefits from the business combination with INDSTARS 2 - i.e. a significant reduction in financial charges – are unlikely to materialize until 2018) and applying a 20% discount, SIT would be valued at EUR15.78 per share. Applying the multiples of the group of Italian companies (after 10% discount) gave a valuation for SIT of EUR15.47 per share.

Figure 14 - Relative valuation based on Italian companies (priced on 3 October 2017)

	Market Cap.	P/E			EV/EBITDA		
	(EURm)	2017E	2018E	2019E	2017E	2018E	2019E
Gefran	169	28.9 x	23.2 x	20.7 x	11.3 x	9.4 x	8.6 x
Interpump	2,832	23.4 x	21.5 x	19.9 x	12.8 x	11.6 x	10.5 x
LU-VE	248	27.1 x	16.0 x	12.7 x	8.3 x	7.0 x	6.2 x
Sabaf	242	20.4 x	18.6 x	16.8 x	8.6 x	7.9 x	7.4 x
Average		**25.0 x**	**19.8 x**	**17.5 x**	**10.2 x**	**9.0 x**	**8.2 x**
SIT at market price	**280**	**nm**	**14.2 x**	**12.3 x**	**7.5 x**	**6.4 x**	**5.4 x**
% premium (discount)		**nm**	**-28.4%**	**-30.1%**	**-26.8%**	**-29.0%**	**-33.9%**
SIT Group valuation on multiples		**nm**	**16.26**	**16.64**	**17.3**	**17.5**	**18.3**

Source: Factset, UBI Banca estimates

Figure 15 – Implicit multiples based on our EUR14.57 target price

	2017E	2018E	2019E
P/E	139.9	17.8	15.4
EV/EBITDA	9.0	7.7	6.7
EV/EBIT	15.4	12.5	10.3
EV/Sales	1.35	1.21	1.08
P/BV	2.86	2.55	2.26
P/CF	13.53	7.92	7.48

Source: UBI Banca estimates

APPENDIX

COMPANY PROFILE

SIT Group was founded in 1953 by Pierluigi and Giancarlo de' Stefani as a precision mechanical engineering company. The company has achieved rapid growth, both organic and through acquisition. In 1993 it acquired ENCON, active in electronic cards for gas appliances; in 2000, Catoba and Bray Burners; in 2002, OP Controls; and in 2004, Natalini. These acquisitions enlarged its product range and market share. From 2000 the group started manufacturing outside Italy at green field sites and acquired facilities. It currently has eight plants (four in Italy, one in Romania, one in Holland, one in Mexico, and one in China) with 43% of total output now produced abroad and 11 commercial branches outside Italy. At Dec-16 it had a total of 1,911 employees of whom 514 are based in Italy. The company's Chairman and CEO is Federico de' Stefani, son of the founder, who invested heavily in SIT through the 2014 acquisition of 56.7% of SIT from other family members for EUR116 million. Other managers, such as Fulvio Camilli, CEO and General Manager, and Paul Fogolin, CFO, are external appointments.

Figure 16 – Short history of the Group

1953	Founding
1974	First branch outside Italy (Holland)
1985	Commercial branch in Australia
1989	Entry in the US
1997	Commercial branch in China
1999	Acquisition of ENCON (electronic cards for gas appliances)
2000	New plant in Mexico. Acquisition of Catoba (Italy) and Bray Burners (UK)
2001	Acquisition of OMVL (gas appliances for automotive)
2002	Acquisition of OP controls (gas control)
2003	Acquisition of Natalini (electric fans)
2009	Founded MeteRsit (smart gas metering)
2010	Disposal of OMVL and focus on two divisions: Heating and Smart Gas Metering
2012	New plant in China
2013	New plant in Romania
2014	Family buyout (Mr. de' Stefani acquired 56.7% of SIT for EUR116 million). SIT La Precisa merged into SIT S.p.A:
2016	New Smart Gas Metering plant in Romania

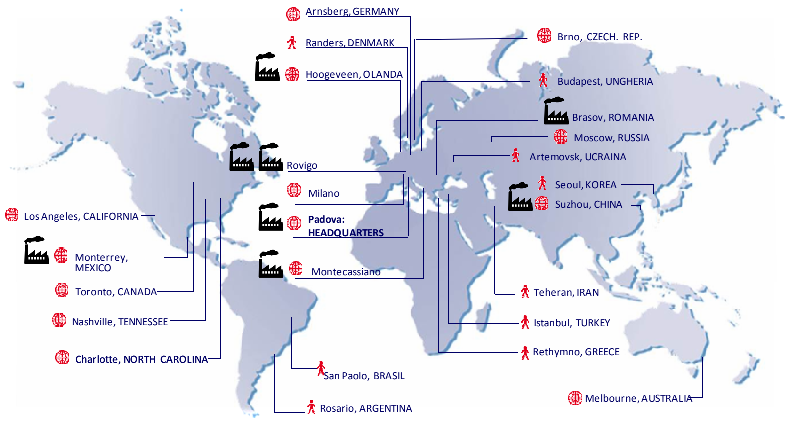
Source: Company data, UBI Banca estimates

SIT Group is structured in divisions:

- **Heating** (87% of sales in 1H17). This division develops and manufactures systems designed for the safety, efficiency and performance of gas equipment. In particular, SIT produces mechanical controls (mostly valves for the regulation and security of gas appliances, 61% of Heating division revenues), electronic controls (19% of sales), fans (9%), flue exhaust systems (8%), sensors and integrated systems which are supplied to the main white goods producers such as Bosch, Vaillant, Ariston, Rheem, Riello, etc. This division has four main sales markets: 1) Central heating, which is for boilers for heating and sanitary hot water representing 62% of the Division's revenues with a solid market leadership (SIT has a worldwide market share around 50% in mechanical central heating and 14% in electronic central heating); 2) **Direct heating**, which is for stoves and gas fireplaces representing 19% of Division revenues with a worldwide market share around 25%; 3) **Water heating**, or appliances for the production of sanitary water (7% of Division revenues with a market share of around 14% worldwide), and 4) **Catering**, which provides products for professional Kitchens (5% of Division revenues with a leading position in Europe). Other product destinations are for special applications (a wide and much diversified segment).

- **Smart Gas Metering** (17% of sales in 1H17) or electronic gas meters. These devices are finished products typically sold for the residential market (95% of Division revenues). The company entered this business in 2009 with an innovative gas meter (protected by several patents) that is rapidly gaining market share. This product improves the measurement of gas consumption and the remote control of the device. Adoption of the smart gas meter is driven by the EU 2009-73 Directive that will mean this device being progressively introduced to all European countries and offering an opportunity for rapid growth to SIT.

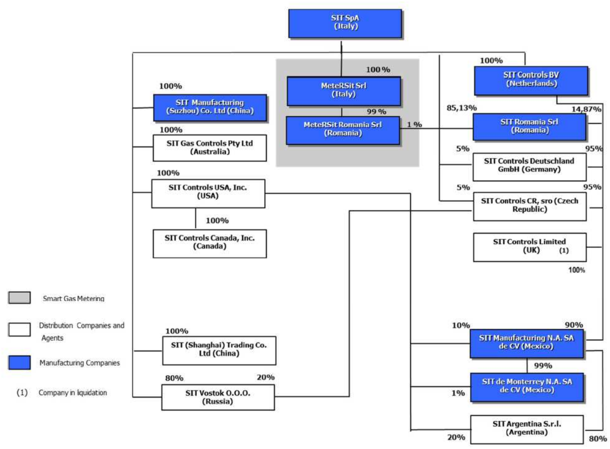
Figure 17 - SIT Group: geographical presence



Source: Company data

SIT Group is made up of SIT S.p.A., which controls, usually 100%, seven manufacturing companies (two in smart gas metering) and nine distribution companies and agents.

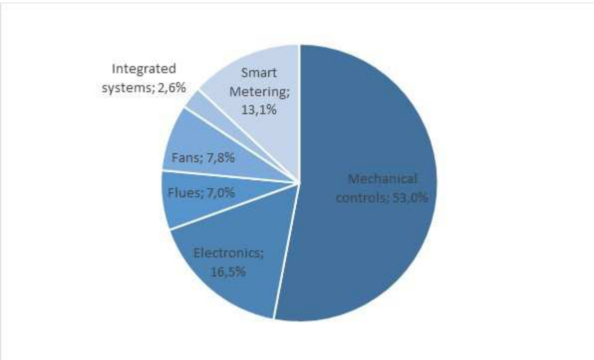
Figure 18 – SIT: Group structure



Source: Company data

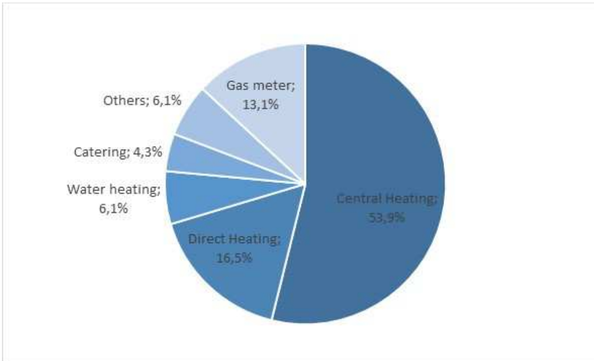
SIT makes constant investments in R&D and innovation (around 4% of sales on average in 2012-16). This has given it an unique know-how, an increasingly broad range of products, and a means of conquering new markets. The company holds 79 international patents. The quality system is also certified ISO 9001:2000 in all the plants and ISO 140001.

Figure 19 – 2016 sales breakdown by product



Source: UBI Banca estimates on Company data

Figure 20 – 2016 sales breakdown by destination



Source: UBI Banca estimates on Company data

SIT products are mainly sold to large international white goods producers in the heating segment with specific applications for the security of boilers, fireplace and stoves. The products of the Smart Gas Metering division are sold mostly to Italian gas distributors like 2I Retagas, Hera, Iren and Ascopiave

Figure 21 – Main clients Heating Division

Source: Company data

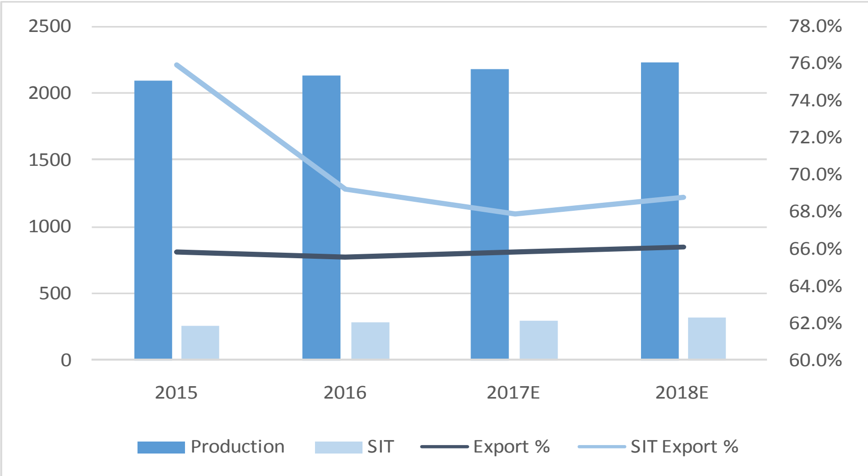
Figure 22 - Main clients Smart Gas Metering Division

Source: UBI Banca estimates

The company has strongly outperformed the flattish trend in its core market of heating, which is mostly a replacement market. It has reported remarkable organic growth of about 3% p.a. since 2012 reflecting its leading position and the quality of its products.

Figure 23 – Total production and export trend for Italian manufacturers of heating devices and SIT Group (EURm, %)

SIT's non-Italian revenues are 70% of consolidated sales compared with 66% for the aggregate of all Italian companies.

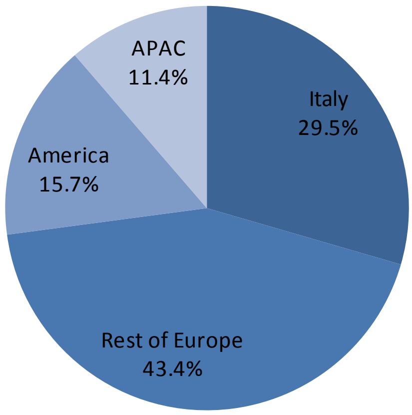


Source: Company data, Cerved, UBI Banca estimates

We believe this trend, which should continue in the future, was achieved through:

- **Technological innovation:** SIT has 79 registered patents, invests heavily in R&D (4% on average in 2012-16) and has several partnerships with universities and research organizations. In addition, several projects are co-developed with its leading customers (all large multinational companies) and this ensures future revenues;
- **Quality:** SIT has several certifications (all its plants are certified ISO 900:2000) and homologations. This is particularly important for the company's large clients, which aim to optimize gas consumption while increasing the safety of their products rather than lowering the purchasing price;
- **Leadership:** SIT is the world leader in the central heating segment with a market share of around 50% and also has leading position worldwide in other segments of the Heating division. This, coupled with its long-term relationships with large global clients, provide significant barriers to entry for competitors while increasing its visibility on sales;
- **International presence:** more than 60% of the company's revenues are generated abroad, particularly in Europe and the US. Entry to new emerging markets, where heating systems are still underdeveloped, could boost revenues in the future. In addition, the Smart Gas Metering division should expand rapidly in other European countries, leveraging on its new plant in Romania;
- **Low labour cost base:** SIT has four plants outside Italy (Romania, China, Mexico and Holland) of which three are located in low labour cost countries. This lowers the ratio of labour costs to sales (less than 23% on average in the last three years).

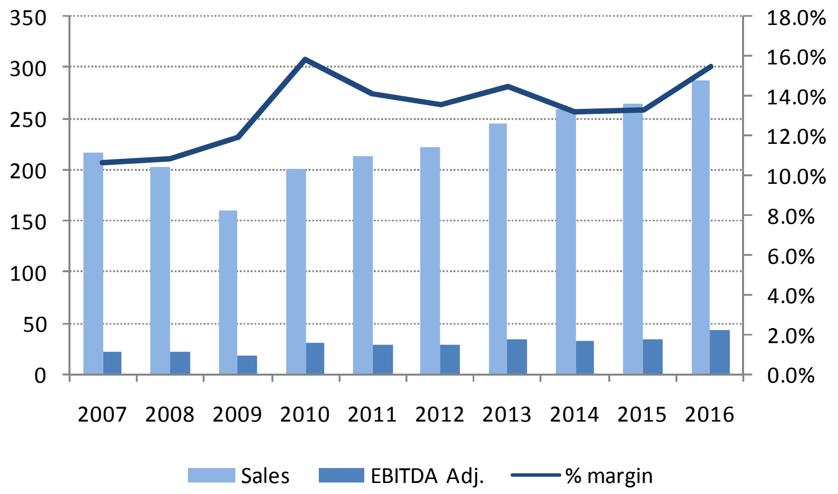
Figure 24 – 1H17 sales breakdown by area



Source: Company data

Figure 25 – SIT 2007-16 revenues and EBITDA adjusted trend (EURm, %)

While sales grew at a CAGR of 3.2% between 2007 and 2016, the EBITDA margin was substantially stable averaging 13.3% in the same period.

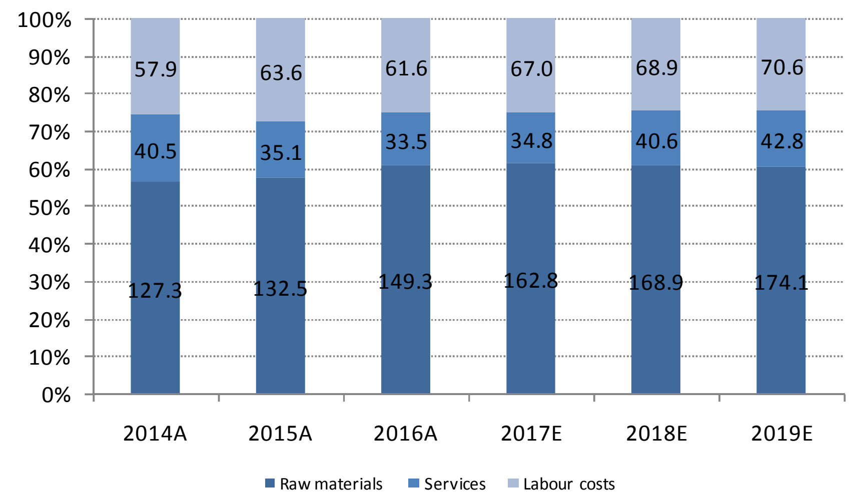


Source: Company dat.a 2007-14 data pro-forma and unaudited

The Group's cost structure shows that purchases were on average 53% of sales over the last five years, services were 15% and labour costs were 20%.

Figure 26 – SIT Group cost structure (EURm, %)

The cost structure has been relatively stable over the past five years.



Source: UBI Banca elaboration on company data and UBI Banca estimates

The main purchases of SIT are components, semi-finished goods and electric boards. The pure raw materials (aluminium and copper) have a limited weight on total purchases. The current rising trend in metals prices could put some pressure on profitability. However, the company has long-term contracts on for about 50% of sales and also uses pass-through contracts to lower the impact of fluctuations in metal prices.

STRATEGY

The strategy of SIT is primarily focused on:

- Continued expansion of its commercial and industrial network abroad and into new markets with attractive growth prospects;
- Increasing the ”share of wallet” or the weight of its products in a heating device;
- Potential acquisitions of companies with similar product ranges but with a presence in new markets (emerging countries) or with innovative technologies (patented);
- Exploiting the new European rules regarding the introduction of smart gas meters. The company believe that 80% of existing European gas meters will be substituted by 2020. The potential market is highly attractive considering that there are around 120 million gas meters in Europe. SIT was a first-mover in smart gas metering, has a significant technical advantage in this segment and recently doubled its production capacity through its new plant in Romania.

The company does not have any official target in terms of top line growth or operating profitability. However, we believe that the average EBITDA margin of the past three years (around 13.7%) should form a floor and that the company's organic growth should exceed the growth in European GDP.

SWOT ANALYSIS

Figure 27 – SWOT Analysis

Strengths	Weaknesses
High and stable profitability despite the economic crisis	Modest growth in the Heating market (~3% p.a.)
High barriers to entry	Large component of goodwill (around 40% of capital employed)
Innovative products and limited exposure to the Italian market (around 30%)	Lengthy time to market for new products due to the length of the testing and homologation process
Outstanding acquisition track record	
Market leader (50% market share in central heating, 25% in direct heating and 14% in water heating)	

Opportunities	Threats
The cash inflow from the entry of INDSTARS 2 will reduce existing debt giving a sharp drop in financial charges and could lead to an acceleration in investments to increase production capacity and in external acquisitions	Regulatory risk Currency fluctuations (in particular GBP and USD)
Rapid development of smart gas metering business thanks to the progressive substitution of gas meters in several European countries and the rapid growth of the Chinese market	Potential imposition of customs duties in the US, a market supplied by the SIT plant in Mexico. This risk is mitigated by the fact that all the competitors of SIT have production bases in Mexico
Listing on MTA in 2018 and eventually on the STAR segment	Impairment test risk
Availability of new production capacity in both Heating and Smart Gas Metering divisions	Brexit could jeopardize SIT expansion in the UK which is a primary target market for the Smart Gas Metering division

Source: UBI Banca estimates

CORE MARKETS AND COMPETITION

The heating sector is characterized by high barriers to entry, a strong concentration due to the need to have economies of scale and the presence of large international players that operate with several brands. In Italy the production of heating equipment has grown by 1.9% and is now worth approximately EUR2.1 billion (*source Cerved Jan-17*), with a positive export trend (>65% of total production) primarily towards European Union and Eastern European countries. Imports are limited to about 21% of the Italian market.

The industry has been relatively stable in the past few years thanks to the fiscal incentives for the substitution of existing heating systems in Italy and other European countries and the European directive 2009/125 which aims to increase energy efficiency through a new generation of heating systems (i.e. condensing boilers). The industry is currently dominated by large players like Bosch (EUR3.3 billion sales in 2015), Vaillant (EUR2.4 billion sales), Viessmann (EUR2.2 billion sales) and Ariston (EUR1.4 billion sales in 2015), all of whom are supplied by SIT.

The main direct competitors to SIT are Honeywell, EBM-papst in the central heating segment, Copreci and Eitar in the direct heating segment, and Honeywell and Emerson in the water heating segment.

The market of the Smart Gas Metering division is accelerating rapidly as countries comply with the European directive 2009/73. Every European country has a different implementation plan with Italy (where 60% of the existing heating systems must be replaced by the end of 2019) and UK (100% replacement by the end of 2020) as first movers while other countries (for example Germany) have shelved replacement plans for the moment. The main competitors of this division of SIT are Aem, Pietro Fiorentini, Elster, Itròn and Landis & Gyr.

SHORT DESCRIPTION OF LISTED PEERS

Interpump Group is the largest manufacturer of professional high pressure piston pumps in the world and one of the leading groups operating on an international basis in the hydraulic sector. In the early 90's, Interpump Group started extending its activity to other sectors, by acquiring leading companies in professional cleaning and electric motor segments. In 1996 Interpump Group was listed at the Milan Stock Exchange. The strategy of the Group aims at pursuing stronger leadership positions as a manufacturer of high pressure pumps, power take-offs, hydraulic pumps, as well as further growth in these segments, even by means of focused acquisitions.

Gefran is a leading industrial company specialized in the production of sensors for industrial applications, systems and components for automation and motion controls (mainly lift inverters), with 10 production sites, 800 employees and 70% of sales outside Italy (mainly EU, China and the US). Gefran has always invested heavily in R&D (about 6% of revenues are devoted to R&D every year) with >80 people specifically dedicated.

LU-VE Group is a leading producer of heat exchangers and ventilated products for non-residential applications with revenues of EUR251 million in 2016, 10 plants (of which 5 outside Italy), 12 commercial branches abroad, and 2,000 employees. The group has reported average organic growth of about 7% since 2009 despite challenging market conditions and has bucked the trend due to product innovation, the quality of its tailored products and gradual expansion abroad (>75% of revenues), while almost 50% of production is located outside Italy. Because of its lean cost structure, healthy operating leverage and the quality recognized by its customers the company has maintained EBITDA margins close to 13% in the past five years.

Sabaf produces components for household cooking appliances. Founded in 1949, today it has more than 650 employees and 5 manufacturing sites in Italy, Brazil, Turkey and China. The production includes taps, thermostats and burners for gas appliances. The company invests about 3% of its annual turnover in research and development. Characterized by a strong vertical integration, the Company also manufactures the machinery necessary to produce and assemble its products, thus obtaining maximum optimization in both processes. Sabaf has been listed on the Milan Stock Exchange since 1998 and since 2001 has been in the STAR segment.

Bucher Industries engages in the manufacture of agricultural machinery and vehicles. It operates through the following business segments: agricultural machinery, municipal vehicles for cleaning and clearing snow, compact and truck-mounted sweepers, winter maintenance equipment and refuse collection vehicles, pumps, motors, valves, power units, cylinders, elevator drives and control systems with integrated electronics, glass forming and inspection machinery, systems, components, spare parts, advice and services for the glass container industry. The company is headquartered in Switzerland.

Beijer Ref is a wholesaler of refrigeration and air conditioning products. It operates through four business segments: Commercial refrigeration, Industrial Refrigeration, and Comfort Cooling. The Commercial Refrigeration segment refers to the installations supplied to food stores, shopping malls, cafes, and hotels. The Industrial Refrigeration segment refers to process refrigeration provided among ice rinks, offices and computer rooms. The Comfort cooling segment include climate control and ventilation for private residences, offices, and stores. The company is headquartered in Malmo, Sweden.

Emerson Electric engages in manufacturing and developing process controls systems, valves and analytical instruments. It operates through the following segments: Automation Solutions, Climate Technologies and Tools & Home Products. The Automation Solutions segment provides measurement, control, diagnostic capabilities and integrated manufacturing solutions for automated industrial processes. Its product offerings include measurement and analytical instrumentation, valves, actuators and regulators, industrial solutions and process control systems and solutions. The Climate Technologies segment provides products and services for all areas of the climate control industry, including residential heating and cooling, commercial air conditioning, and commercial and industrial refrigeration. The company is headquartered in St. Louis, United States.

Honeywell International is a software and industrial company, which offers industry specific solutions to aerospace and automotive products and services. It provides products like, turbochargers control, sensing and security technologies for buildings and homes; specialty chemicals; electronic and advanced materials; process technology for refining and petrochemicals; and energy efficient products and solutions for homes, business and transportation. The Home & Building Technologies segment provides products, software, solutions and technologies that help owners of homes stay connected and in control of their comfort, security and energy use. Its services include controls and displays for heating, cooling, indoor air quality, ventilation, humidification combustion, lighting and home automation; advanced software applications for building control and optimization; sensors, switches, control systems and instruments for measuring pressure, air flow, temperature and electrical current; products, services and solutions for measurement, regulation, control and metering of gases and electricity; metering and communications systems for water utilities and industries; access control; video surveillance; fire products; remote patient monitoring systems; and installation, maintenance and upgrades of systems that keep buildings safe, comfortable and productive. Honeywell International is headquartered in Morris Plains, United States.

Ingersoll-Rand engages in the development, manufacture and trade of air and ventilation systems. It operates through two segments: Climate and Industrial. The Climate segment provides products for heating, ventilation, and air conditioning systems. The Industrial segment offers compressed air and gas systems, power tools, material handling systems, and fluid management equipment. The company was founded in December 2001 and is headquartered in Swords, Ireland.

Lindab International engages in the development, manufacture, and distribution of products and system solutions in steel for construction and indoor climate. It operates through the following segments: Products & Solutions, Building Systems, and Others. The Products & Solutions segment includes complete systems for ventilation and indoor climate. The Building Systems segment produces and sells complete steel building systems. The Other s segment relates to undistributed items and includes parent company functions. The company is headquartered in Bastad, Sweden.

NIBE Industrier engages in the manufacture of products for both household and commercial use. It operates through the following business areas: NIBE Element, NIBE Climate Solutions, and NIBE Stoves. The NIBE Element business area manufactures components and solutions for measuring, controlling, and heating applications. The NIBE Climate Solutions business area offers indoor climate comfort products including heating, cooling, heat recovery, and hot water for homes and apartment blocks. The NIBE Stoves business area consists of stoves, chimney systems, and other accessories. The company is headquartered in Markaryd, Sweden.

Schneider Electric engages in the electrical distribution and manufacture industrial engineering equipment. It operates through the following segments: Buildings, Industry, Infrastructure and Information Technology. The Buildings segment provides low voltage, building automation and renewables. The Industry segment involves in the industrial automation, control and sensors technologies. The Infrastructure segment includes medium voltage and grid automation technologies. The company is headquartered in Rueil-Malmaison, France.

SPX Corp. is the supplier of infrastructure equipment and products. It operates through the following segments: HVAC, Detection & Measurement and Engineered Solutions. The HVAC segment engineers, designs, manufactures installs and services cooling products for the HVAC and industrial markets, as well as heating and ventilation products for the residential and commercial markets. The company is headquartered in Charlotte, United Sates.

Sulzer engages in the manufacture and sale of industrial machineries and equipment. The firm provides pumping solutions; rotating equipment maintenance and services; and separation, reaction, and mixing technology solutions. It operates through the following segments: Pumps Equipment, Rotating Equipment Services, and Chemtech. The Pumps Equipment segment offers a range pumping solutions and related equipment. The Rotating Equipment Services segment involves repair and maintenance services, which focuses on industrial gas and steam turbines; turbocompressors; and generators and motors. The company was founded is headquartered in Winterthur, Switzerland.

The Weir Group provides engineering equipment, services and support to various customers in the minerals, oil and gas and power markets. It operates in three segments: Minerals, Oil & Gas and Power & Industrial. The Minerals segment engages in the provision of slurry handling equipment and associated aftermarket support for abrasive high wear applications used in the mining and oil sands markets. The Oil & Gas segment provides products and service solutions to upstream, production, transportation, refining and related industries. The Power & Industrial segment designs and manufactures valves, pumps and turbines as well as providing specialist support services to the global power generation, industrial and oil and gas sectors. The company is headquartered in Glasgow, the United Kingdom

Income Statement

(EURm)	2016	2017E	2018E	2019E
Net Revenues	287.53	312.45	329.18	341.98
EBITDA	43.76	46.96	51.62	55.34
EBITDA margin	15.2%	15.0%	15.7%	16.2%
EBIT	23.48	27.45	31.98	35.97
EBIT margin	8.2%	8.8%	9.7%	10.5%
Net financial income /expense	-19.72	-18.00	-3.90	-3.50
Associates & Others	1.33	-4.50	0.00	0.00
Profit before taxes	5.08	4.95	28.08	32.47
Taxes	-3.36	-2.48	-8.42	-9.74
Minorities & discontinuing ops	0.02	0.02	0.02	0.03
Net Income	1.74	2.50	19.68	22.75

Source: Company data, UBI Banca estimates

Balance Sheet

(EURm)	2016	2017E	2018E	2019E
Net working capital	14.78	16.96	18.28	19.88
Net Fixed assets	210.20	206.22	199.54	188.93
M/L term funds	-30.94	-33.98	-36.83	-40.05
Capital employed	194.04	189.21	181.00	168.76
Shareholders' equity	69.26	122.26	137.14	154.62
Minorities	0.00	-0.01	-0.02	-0.04
Shareholders' funds	69.26	122.25	137.12	154.58
Net financial debt/(cash)	124.77	66.96	43.87	14.17

Source: Company data, UBI Banca estimates

Cash Flow Statement

(EURm)	2016	2017E	2018E	2019E
NFP Beginning of Period	-156.48	-124.77	-66.96	-43.87
Group Net Profit	1.74	2.50	19.68	22.75
Minorities	-0.02	-0.02	-0.02	-0.03
D&A	20.00	19.20	19.30	19.00
Change in Funds & TFR	-1.15	6.33	6.45	6.58
Gross Cash Flow	20.57	28.00	45.41	48.31
Change In Working Capital	14.55	-2.18	-1.32	-1.60
Other	0.00	0.00	0.00	0.00
Operating Cash Flow	35.12	25.83	44.09	46.71
Net Capex	-9.04	-18.51	-16.21	-11.73
Other Investments	-0.62	0.00	0.00	0.00
Free Cash Flow	25.46	7.31	27.88	34.98
Dividends Paid	0.00	0.00	-4.80	-5.28
Other & Chg in Consolid. Area	6.25	0.00	0.00	0.00
Chg in Net Worth & Capital Incr.	0.00	50.50	0.00	0.00
Change in NFP	31.71	57.81	23.09	29.70
NFP End of Period	-124.77	-66.96	-43.87	-14.17

Source: Company data, UBI Banca estimates

Financial Ratios

(%)	2016	2017E	2018E	2019E
ROE	2.5%	2.0%	14.3%	14.7%
ROI (pre-tax)	9.9%	12.3%	14.5%	16.9%
Net Fin. Debt/Equity (x)	1.8	0.5	0.3	0.1
Net Fin. Debt/EBITDA (x)	2.9	1.4	0.8	0.3
Interest Coverage	1.2	1.5	8.2	10.3
NWC/Sales	5.1%	5.4%	5.6%	5.8%
Capex/Sales	3.1%	5.9%	4.9%	3.4%
Pay Out Ratio	0.0%	192.0%	26.8%	26.4%

Source: Company data, UBI Banca estimates

Per Share Data

(EUR)	2016	2017E	2018E	2019E
EPS		0.10	0.82	0.95
DPS		0.20	0.22	0.25
Op. CFPS		1.08	1.84	1.95
Free CFPS		0.30	1.16	1.79
BVPS		5.10	5.72	6.45

Source: Company data, UBI Banca estimates

Stock Market Ratios

(x)	2016 *	2017E	2018E	2019E
P/E	99.1	111.8	14.2	12.3
P/OpCFPS	4.1	10.8	6.3	6.0
P/BV	2.5	2.3	2.0	1.8
Dividend Yield (%)	0.0%	1.7%	1.9%	2.1%
Free Cash Flow Yield (%)	18.4%	2.6%	10.0%	12.5%
EV (EURm)	297.2	352.30	328.88	298.87
EV/Sales	1.03	1.1	1.0	0.9
EV/EBITDA	6.79	7.5	6.4	5.4
EV/EBIT	12.66	12.8	10.3	8.3
EV/Capital Employed	1.53	1.9	1.8	1.8

Source: Company data, UBI Banca estimates ** Based on EUR172 million equity value*

Growth Rates

(%)	2016	2017E	2018E	2019E
Growth Group Net Sales	8.9%	8.7%	5.4%	3.9%
Growth EBITDA	27.5%	7.3%	9.9%	7.2%
Growth EBIT	94.9%	16.9%	16.5%	12.5%
Growth Net Profit	302.8%	43.6%	687.8%	15.6%

Source: Company data, UBI Banca estimates

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Equity rating dispersion in the past 12 months			
Buy	***Hold***	***Sell***	***No Rating***
85.7%	*11.4%*	*0.0%*	*2.9%*

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100%	*100%*	*-*	*100%*

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