

SITI B&T

Sector: Machinery

Preview of 1H 2016 results

International leader in the supply of Ceramic Machinery

SITI B&T is a leading Italian based supplier of machinery and systems used in the manufacturing of ceramic products, serving customers all around the globe.

The company was listed on AIM Italia back at the end of March 2016.

A very busy first half of 2016

Despite being focused on the IPO Process, SITI B&T has maintained in these months a strong effort on its development on several subjects, among which we can highlight:

- ◆ Extensive product range development;
- ◆ Deep output capacity reshaping in China and Brazil;
- ◆ Further effort on International commercial and customer assistance widening (see Singapore recent opening).

An orders portfolio growing at a double digit rate should have been the results of all these efforts.

Introducing 1H 2016 figures

On **Friday 30th September** SITI B&T will release its 1H 16 figures. This is the first “interim” financial release since the company has been listed on the stock market and, in our view, need to be interpreted taking into account the peculiar seasonality of SITI B&T’s business, i.e.:

- ◆ 1H Revenues on average accounting for ca. 38% of Full-Year ones as most of orders are typically executed and invoiced in the second part of the year;
- ◆ Operating Costs maturing in a more linear way thus driving an almost nihil operating profitability. Indeed almost all the Full-Year EBITDA is usually generated in 2H;
- ◆ Working Capital absorption being at its peak as of the end of June (so driving an unusually high Net Debt position) as an effect of cash in from clients being concentrated in 2H and of Work-in-progress being at its peak as most of active orders need to be executed yet.



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Fair Value (€) xx.xx

Market Price (€) x.xx

Market Cap. (€m) xx

KEY FINANCIALS (€m)	2014PF	2015E	2016E
REVENUES	000.0	000.0	000.0
EBITDA	00.0	00.0	00.0
EBIT	00.0	00.0	00.0
NET PROFIT	00.0	00.0	00.0
EQUITY	00.0	00.0	00.0
NET FIN. POS.	00.0	00.0	00.0
EPS ADJ. (€)	00.0	00.0	00.0
DPS (€)	00.0	00.0	00.0

Source: SITI B&T (historical figures),
Value Track (2015E-16E estimates)

RATIOS & MULTIPLES	2014PF	2015E	2016E
EBITDA MARGIN (%)	00.0	00.0	00.0
EBIT MARGIN (%)	00.0	00.0	00.0
NET DEBT / EBITDA (x)	00.0	00.0	00.0
NET DEBT / EQUITY (x)	00.0	00.0	00.0
EV/EBITDA (x)	00.0	00.0	00.0
EV/EBIT (x)	00.0	00.0	00.0
P/E ADJ. (x)	00.0	00.0	00.0
DIV YIELD (%)	00.0	00.0	00.0

Source: SITI B&T (historical figures),
Value Track (2015E-16E estimates)

STOCK DATA

FAIR VALUE (€)	xx.x
MARKET PRICE (€)	x.xx
SHS. OUT. (m)	12.5
MARKET CAP. (€m)	xx.0
FREE FLOAT (%)	00.0
AVG. -20D VOL. ('000)	510
RIC / BBG	SITI.MI / SITI IM
52 WK RANGE	7.56-8.48

Source: Stock Market Data



A very busy first half of 2016

Back in March 2016 SITI B&T, the leading Italian based supplier of machinery and systems used in the manufacturing of ceramic products, was listed on AIM Italia, the stock market for small-medium and fast-growing companies.

We appreciate that the company, despite being focused on the IPO Process, has maintained in these months a strong effort on its development on several subjects, among which we can highlight:

- ◆ **Product range development.** At the end of September the sector most important fair (Tecnargilla) will take place be the place and we hint that the company has worked hard to unveil new products in many of its core segments, ranging from dryers to ovens, from digital printing to cutting and finishing machineries;
- ◆ **Asian output capacity reshaping.** The **new 8,000 square meters wide Gaoming (China) production plant** has been inaugurated back in May and will progressively encompass all the production activity that is currently located in Foshan;
- ◆ **Latin America production footprint revamping.** The **Brazilian** production subsidiary revamp effort is steadily evolving and by the year end it should start assembling and finalizing ad hoc machinery for the local market also with the aim to access relevant state-aids (namely, the possibility to have customers financed by the Brazilian state in their purchases);
- ◆ **International commercial and customer assistance improving.** A new commercial / customer care point was recently opened in **Singapore** and this should also serve as spare parts hub for the whole Asian area.

On top of these points we underline how the underlying market stance has remained healthy thus allowing SITI B&T to achieve a successful commercial performance. Indeed:

Ceramic machinery market back at pre-crisis level, and above

We already noted in our Initiation of Coverage report how as of **2015FY** the whole Italian (i.e. produced by Italian players) **ceramic machinery market** grew ca. **+7% YoY** driven by both Export (+1.6% YoY) and Domestic business (+28.2% YoY). As an effect, the market has returned back to pre-crisis level.

Such a good stance has been more recently confirmed by ACIMAC (the Association of Italian manufacturers of machinery and equipment for ceramics) that has announced a further **+9% YoY market growth in 1Q 16** still led by export (+14% YoY).

Sound operating performance but watch out at orders seasonality

On the back of a resilient market for ceramic machineries we feel that SITI B&T had a sound 1H 16 performance in terms of orders collection.

Indeed the latest official backlog figures released at the end of February 2016 were pointing at a double digit YoY growth rate (€67m backlog vs. the ca. €54m as of end of February 2015). And some recent company's announcements of orders won in Spain and Latin America also add positivity to the underlying commercial stance.

In particular we believe that the best news should come from **Finishing business** (i.e. Ancora, leading provider of machines for tiles cut and finishing acquired back in February 2015, included in Tiles segment) and from **Sanitaryware**, both growing at healthy rates. Also the efforts on **Customer Care** development should be bringing positive fruits.

Introducing 1H 2016 figures

On Friday 30th September SITI B&T will release its 1H 16 figures. This is the first “interim” financial release since the company has been listed on the stock market and, in our view, need to be interpreted taking into account the peculiar seasonality of SITI B&T’s business.

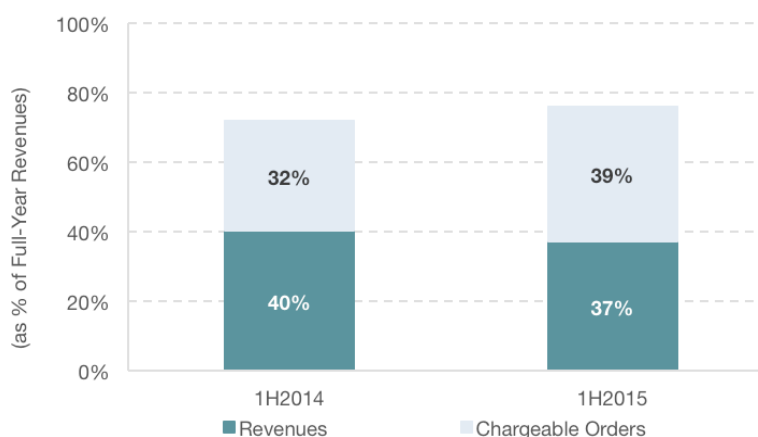
1H Revenues usually at ca. 38% of Full-Year ones

SITI B&T’s business shows a **high seasonality**, with **most of the annual orders executed (and invoiced) in the second half of the year**, the reason being mainly determined downstream in the supply chain, namely by the seasonality in the business of ceramic producers.

Indeed, since most orders for ceramic manufacturers are executed in Q1 and Q2 of the solar year, ceramic houses do not wish to have their production plants modified in that time frame; rather, they place orders to SITI B&T with fulfillment in the second part of the year.

Overall, we estimate that **back in 2014 and 2015, First-Half Revenues were accounting on average for ca. 38% of Full-Year Revenues**. If we also consider so-called “Chargeables” (i.e. orders that have been already signed and that can be executed and invoiced within the year-end) we get to an **average 74% of Full-Year Revenues**.

SITI B&T: Revenues + Chargeable Orders in 1H 14 and 1H 15



Source: SITI B&T, Value Track analysis

Considering the above-mentioned figures we calculate that in order to achieve our Full-Year 2016 €187m Net Revenues forecasts, SITI B&T should top in 1H16 some €140m-€142m Revenues + Chargeables.

SITI B&T: 1H 16 Revenues + Chargeable Orders implied in Full-Year 2016 forecast

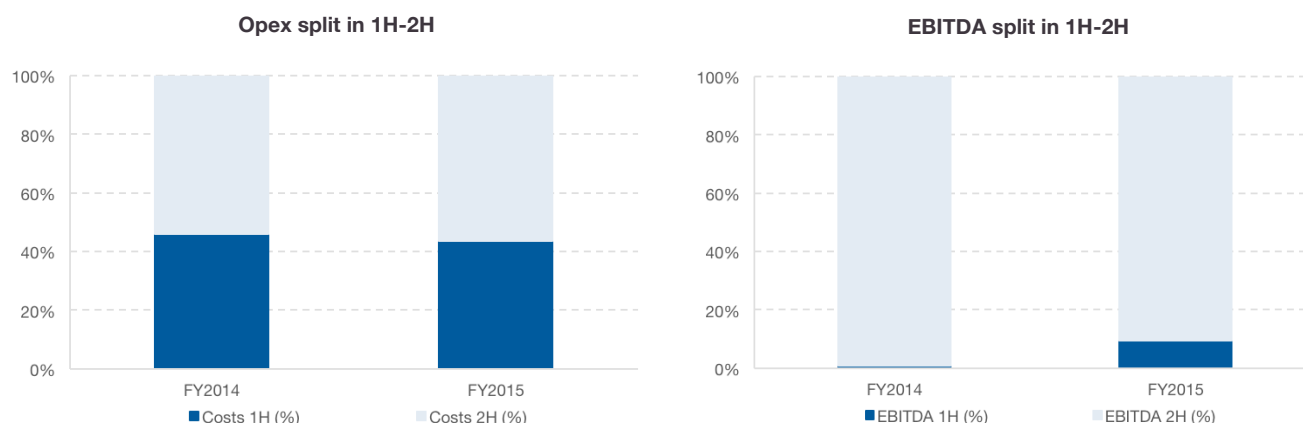
	1H 14	1H 15	1H 16E
Revenues	64.3	63.6	70-71
as % of actual FY revenues	40%	37%	37%-38%
Chargeable Orders	50.3	66.8	70-71
as % of actual FY revenues	32%	39%	37%-38%
Total Revenues & Chargeable Orders	114.6	130.3	140-142
as % of actual FY revenues	72%	76%	74%-76%

Source: SITI B&T, Value Track analysis

1H operating profitability figures not meaningful

While only ca. 38% of Full-Year Revenues are generated in the first half, on the contrary operating costs are more evenly distributed between the two semester. Indeed, we calculate that **on average 1H Operating Costs account for ca. 45% of Full-Year ones**. As an effect, typically **nearly all of the company's EBITDA is generated in the second part of the year** while first half figure is basically meaningless.

SITI B&T – Opex and EBITDA split between 1H and 2H



Source: SITI B&T, Value Track analysis

Working Capital and Net Debt position typically inflated as of the end of 1H

Last but not least we highlight how typically SITI B&T as of the end of First-Half achieves the highest Working Capital absorption (and thus the worst Net Debt position) as an effect of:

- ◆ Cash in from clients being concentrated in 2H;
- ◆ Work-in-progress being at its peak as most of active orders need to be executed yet;
- ◆ Dividends to Projecta's minorities being cashed out. Indeed, an agreement is in place with Projecta minority shareholders aimed at the distribution of 50% of Projecta's bottom line to shareholders. This implies cash out for SITI B&T Group accounted in Working Capital movements.

On top of the above-mentioned items, we also remind that Working Capital is structurally seen increasing its weight on Revenues driven by:

- ◆ A more aggressive commercial policy that should lead to a marginal increase of receivable days;
- ◆ The above mentioned strategy to step up the effort on Customer Care business abroad that should obviously lead to an increase of Stock / Sales ratio;

SITI B&T: Working Capital and Net Fin. Pos. recent evolution

	2H 14	1H 15	2H 15
Net Working Capital (€m)	58.6	62.1	57.7
NWC / Sales	62.3%	84.3%	53.0%
Inventories (€m)	55.8	68.1	63.5
Inventories / Sales	59.3%	92.5%	58.2%
Net Financial Position (€m)	-38.6	-44.6	-36.5

Source: SITI B&T, Value Track analysis

Appendix: Financial Forecasts 2016E-19E

Here follow our 2016E-19E forecasts as published in our Initiation of Coverage report as of 18th May 2016.

Revenue evolution

We expect **SITI B&T's Group Net Revenues up ca. 5.8% per year** during the next few years driven by both Machinery business and by Customer Care ones with the latter marginally increasing their weight on total.

SITI B&T: Expected Revenues evolution

(IAS, €mn, Fiscal Years)	2016E	2017E	2018E	2019E	CAGR 15A-19E
Tiles	130.0	133.0	140.0	147.3	5.6%
Sanitaryware	8.0	8.2	8.3	8.5	11.5%
Customer care	49.0	52.4	55.8	59.2	5.9%
Group Net Revenues	187.0	193.6	204.1	214.9	5.8%
Other	6.0	6.1	6.2	6.4	-13.0%
Total Value of Production	193.0	199.7	210.4	221.3	4.9%
Chg. % YoY	5.7%	3.5%	5.3%	5.2%	

Source: Value Track forecasts on FY16E-FY19E

Operating Profitability evolution

As far as the Operating Profitability is concerned, we expect **SITI B&T Group to slightly and progressively increase its EBIT margin up to ca. 9.1% in the next few years**. This should be the result of the following drivers:

- ◆ Slightly decrease of Digital business profitability;
- ◆ Marginal increase of Customer Care weight on total Group Revenues;
- ◆ Restructuring of the newly acquired Ancora S.p.A. ;

SITI B&T: Expected Operating Profitability evolution

(IAS, €mn, Fiscal Years)	2016E	2017E	2018E	2019E	CAGR 15A-19E
Group Net Revenues	187.0	193.6	204.1	214.9	5.8%
Other	6.0	6.1	6.2	6.4	-13.0%
Total Value of Production	193.0	199.7	210.4	221.3	4.9%
Operating costs	-172.3	-177.2	-186.3	-195.7	4.3%
EBITDA	20.7	22.5	24.1	25.6	10.3%
<i>EBITDA Margin (on Group Net Revenues)</i>	<i>11.2%</i>	<i>11.6%</i>	<i>11.8%</i>	<i>11.9%</i>	<i>n.m.</i>
Depreciation & Amortization	-4.5	-4.7	-4.9	-5.4	20.5%
EBIT	16.2	17.8	19.2	20.2	11.3%
<i>EBIT Margin (on Group Net Revenues)</i>	<i>8.8%</i>	<i>9.2%</i>	<i>9.4%</i>	<i>9.4%</i>	<i>n.m.</i>

Source: Value Track forecasts on FY16E-FY19E

From EBIT down to the Bottom line

We expect **Group Adjusted Net Profit** to grow at a **17.0% CAGR in the 2016E-19E period**, topping **€11.3mn in 2019E**. This should come as a result of:

- ◆ Fairly stable negative financial interests at ca. €1.6mn per annum, a smaller value than that of 2015 thanks to the injection of liquidity due to the IPO;
- ◆ Tax rate massively decreasing down to the 27%-30% range due to the joint effects of the expiry of non tax deductible goodwill amortization charges and the tax benefits coming from Super ACE and from the recently introduced “patent box” legislation;
- ◆ Minorities reducing their incidence as Projecta’s net profitability should reduce its weight.

SITI B&T: Expected P&L from EBIT down to Net Profit

(IAS, €mn, Fiscal Years)	2016E	2017E	2018E	2019E	CAGR 15A-19E
EBIT	16.2	17.8	19.2	20.2	11.3%
Interest expenses / income	-1.6	-1.6	-1.6	-1.6	-4.8%
Pre-tax Profit	14.6	16.2	17.6	18.6	13.5%
Taxes	-4.0	-4.5	-5.0	-5.6	24.2%
Minorities	-1.6	-1.7	-1.7	-1.6	6.2%
Group Net Profit	8.9	10.0	10.9	11.3	18.5%
Adjusted Group Net Profit	8.9	10.0	10.9	11.3	17.0%

Source: Value Track forecasts on FY16E-FY19E

Cash generation and Balance Sheet evolution

We are not assuming any M&A driven cash out in our base case scenario. As an effect, and also thanks to the ca. €18mn net IPO proceeds, **Net Debt should continue reducing over time reaching a positive net cash position as of 2019YE**.

More specifically, we expect SITI B&T’s Cash Flow generation to be the result of:

- ◆ **Net Working Capital** increasing its weight on Revenues;
- ◆ **Capital expenditure** (ex. Acquisitions) expected at an average of ca. €4.1mn per annum, i.e. more than double if compared to the historical €2mn annual average;

SITI B&T: Expected Cash Flow Statement

(IAS, €mn, Fiscal Years)	2016E	2017E	2018E	2019E
EBITDA	20.7	22.5	24.1	25.6
Op. WC requirement	-8.8	-6.9	-7.0	-7.0
Capex (not including M&A)	-6.0	-3.5	-3.5	-3.5
Taxes	-4.0	-4.5	-5.0	-5.6
OpFCF (net of tax)	1.8	7.6	8.6	9.5
Financial charges	-1.6	-1.6	-1.6	-1.6
Net Capital Injection Proceeds	17.7	0.0	0.0	0.0
Change in Net Fin. Debt	17.9	6.0	7.0	7.9
Net Fin. Position (Year-end)	-18.6	-12.6	-5.6	2.3

Source: Value Track forecasts on FY16E-FY19E