SITI B&T

Sector: Machinery

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The strength of low profile

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 is listed on AIM Italia.

Fair Value (€)	**11.00**
Market Price (€)	**9.55**
Market Cap. (€m)	**119.4**

SITI B&T delivering on most of IPO promises

We believe that in the latest twelve months the company has already delivered on two out of the three growth strategies announced at the IPO time, namely R&D led product innovation and production / commercial International expansion. Such an effort has returned outstanding results in terms of new orders coming from international leading companies such as Mexican based Porcelanite-Lamosa and US based Mohawk Industries and Kohler.

2017FY taken off quite well sustained by healthy demand

A brief recap on FY2016 financial results highlights the following:

- Net Revenues increased +9.4% YoY at €188mn driven by sound demand for both machineries and customer care services;
- EBITDA was up +10.6% YoY at €18.8mn (substantially flat at €16.9mn on an Adjusted basis);
- Net Profit increased +63% YoY at €9.2mn (+31.9% YoY at €7.9mn on an Adjusted basis).
- Net Debt only marginally improved to €32.6mn burdened by the strategic choice to deploy additional foreign based inventories.

As far as future estimates are concerned, FY2017 seems to be taken off quite well sustained by healthy demand for both Tile and Sanitaryware machineries and by the progressive ramp up of Customer Care revenues. Overall, we expect Adj. Net Profit to increase by an average 8%-9% per annum in the next three years achieving ca. €10mn bottom line as of FY2019. Net Debt should decrease down below the €5mn level as of 2019YE.

Valuation discount vs. peers too high

Both Italian and international peers have recently enjoyed a sharp upward rerating of multiples and SITI B&T is now trading at ca. 35%-40% discount in terms of PE'17. We believe that a fair discount should not exceed the 25%-30% level given the low risk profile of SITI B&T business model. We fine-tune SITI B&T's fair value at €11.0 per share (up from the previous €10.3).

KEY FINANCIALS (€m)	2016A	2017E	2018E
NET REVENUES	188	201	211
EBITDA	18.8	19.1	21.0
EBIT	14.3	14.2	15.9
NET PROFIT	9.2	8.1	9.2
EQUITY	75.6	84.7	95.1
NET FIN. POS.	-32.6	-20.2	-12.4
EPS ADJ. (€)	0.63	0.65	0.73
DPS (€)	0.00	0.00	0.00

Source: SITI B&T (historical figures), Value Track (2017E-18E estimates)

RATIOS & MULTIPLES	2016A	2017E	2018E
EBITDA MARGIN (%)	10.0	9.5	9.9
EBIT MARGIN (%)	7.6	7.1	7.5
NET DEBT / EBITDA (x)	1.7	1.1	0.6
NET DEBT / EQUITY (x)	0.4	0.2	0.1
EV/EBITDA (x)	7.4	7.9	6.8
EV/EBIT (x).	9.8	10.6	9.0
P/E ADJ. (x)	11.9	14.7	13.0
DIV YIELD (%)	0.0	0.0	0.0

Source: SITI B&T (historical figures), Value Track (2017E-18E estimates)

STOCK DATA	
FAIR VALUE (€)	11.00
MARKET PRICE (€)	9.55
SHS. OUT. (m)	12.5
MARKET CAP. (€m)	119.4
FREE FLOAT (%)	25.5
AVG. -20D VOL. (#)	1,044
RIC / BBG	SITI.MI / SITI IM
52 WK RANGE	7.56-10.15

Source: Stock Market Data

SITI B&T at a glance

Business profile

SITI B&T is a **leading Italian based international provider of machinery / systems used in the manufacturing of ceramic products**. The main features of SITI B&T business model are:

- **Coverage of each and every phase** of the ceramic manufacturing process standing out for technological know-how (over 100 active patents globally);
- **Flexible production capacity / cost structure** as most of manufacturing is outsourced.

SITI B&T not only supplies machinery, but it also advises clients on the whole production process, leveraging its technological leadership and a track record of successful innovations. From this point of view it can be seen as an **engineering services and system integration firm**.

Towards its ca. 2,500 clients spread all around the globe (among which the major ceramic producers worldwide) SITI B&T maintains a **disciplined commercial approach** based on tight customer selection and substantial credit insurance activity, thus enjoying a negligible level of bad debt.

Financial features

With its **€188mn Net Revenues** as of 2016FY (€209mn total Value of Production), SITI B&T Group is characterized by a **well-balanced revenues structure** among the various product segments, with Tiles and Sanitary ware accounting for ca. 75% of total and Customer Care (mainly consisting in machine repairing and upgrading) accounting for the remaining 25% on average. Also from a geographical standpoint, SITI B&T features a well-balanced and diversified Revenues structure, with significant presence in all continents, none of which weighs more than one third of global sales.

Extensive outsourcing to third party suppliers makes the **costs structure highly variable** and **operating profitability ratios quite stable** (EBITDA margin at ca. 10% of Net Revenues, i.e. some €18.7mn EBITDA in absolute terms as of 2016FY).

Net Working Capital is indeed a **primary component of Capital Employed** weighing, on average, for ca. 50% of Net Revenues. We note that:

- Most of account receivables are typically covered by either insurance or letter of credit;
- Inventories are primarily raw materials and spare parts dedicated to customer care business;
- Work in progress, which also has a share in inventories composition, mainly consists in active orders, not yet ready to be shipped.

Strengths / Opportunities

- Consolidated technological leadership and flexible production model perfectly matches with clients' need for energy efficiency, smaller batches and shorter lead time;
- Strong competitive positioning in foreign markets (especially European ones where the competition is based on quality and service).
- Revenues increase potential in the after-market segment;
- Disciplined commercial policy resulting in very low bad debt level;

Weaknesses / Threats

- Growth is concentrated in markets far from Europe and in some of these markets (such as Asia) competition is based on price and not on technological advantages;
- Some of the most important Italian competitors have a generous commercial policy, i.e. they are keen in heavily financing their clients.
- Product innovation has a negative short term effect on margins as clients ask for discounts in order to become early adopters;
- High incidence of working capital absorption.

Reference market continuously growing

Ceramic machinery market steadily positive in 2016FY

The **worldwide ceramic machinery market** is calculated to be worth slightly less than **€4.0bn** growing quite steadily in the mid single digit range year after year.

Within this positive scenario we note that **Italian players** are by far the global leaders with ca. >50% market share, followed by the highly growing Chinese players (ca. 30% market share). accounting for ca., i.e.

More in details, the Italian (i.e. produced by Italian players) ceramic machinery market is behaving definitively positively with **2016FY total turnover** estimated to be up ca. **+5% YoY** (a little less than the +8% recorded in 2015FY) at **€2.08bn** (**all time high**) driven by Export (+5.8% YoY) while Domestic business should have remained substantially flat YoY after the +34% cumulated 2014-15FY jump. Export accounts for €1.61bn i.e. 77% of total while Italy accounts for the remaining 23%.

Ceramic Machinery Sector: Italian players Turnover

(€mn)	2013	2014	2015	2016 (*)
Domestic sales	345	442	461	469
Chg. % YoY		28.1%	4.3%	1.7%
As % of Total	20.1%	24.1%	23.2%	22.6%
Export	1,371	1,394	1,522	1,610
Chg. % YoY		1.7%	9.1%	5.8%
As % of Total	79.9%	75.9%	76.8%	77.4%
Total Turnover	**1,716**	**1,836**	**1,983**	**2,079**
Chg. % YoY		**7.0%**	**8.0%**	**4.8%**

Source: Acimac *(*) To be confirmed yet*

2017E-18E still seen up

As far as **2017E-18E** are concerned, growth rates for such a market are expected to remain positive, even if with a softer momentum compared to 2014-16, as an effect of:

1. Global **demand for tiles** growing annually in the **mid single-digit range**;
2. Increasing demand for **product innovation** (materials, shape, decoration, finishing) and **process innovation** (energy savings, smaller batches, lower lead-time).

Worldwide Tile market: 2014A-18E YoY growth rates

(YoY % change)	2014	2015	2016	2017E	2018E
Western Europe	1.5	3.4	4.4	2.8	3.3
Eastern Europe	-0.3	-0.7	1.9	3.2	3.8
NAFTA	1.8	8.9	5.4	3.8	4.6
Latam	2.1	-2.1	-1.6	3.2	4.4
Gulf Area	0.7	2.7	4.0	5.0	5.7
North Africa / Middle East	0.0	2.4	4.3	4.1	5.0
Far East	6.3	3.5	4.7	3.8	4.6
RoW	6.0	5.8	4.4	4.2	4.8
World	**4.3**	**2.9**	**3.9**	**3.7**	**4.5**

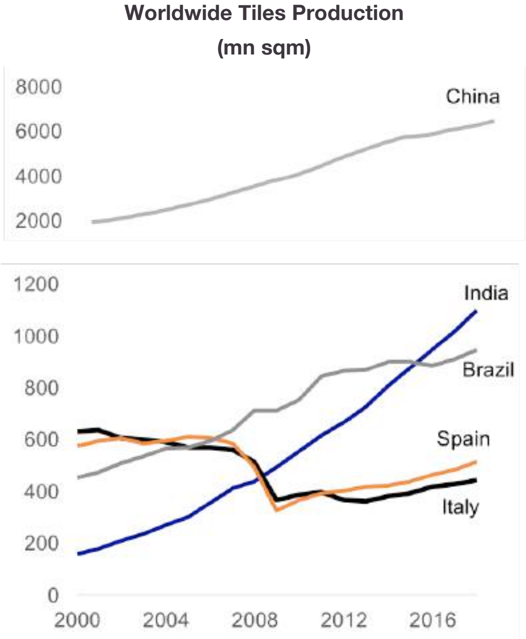
Source: Prometeia, Acimac, Various

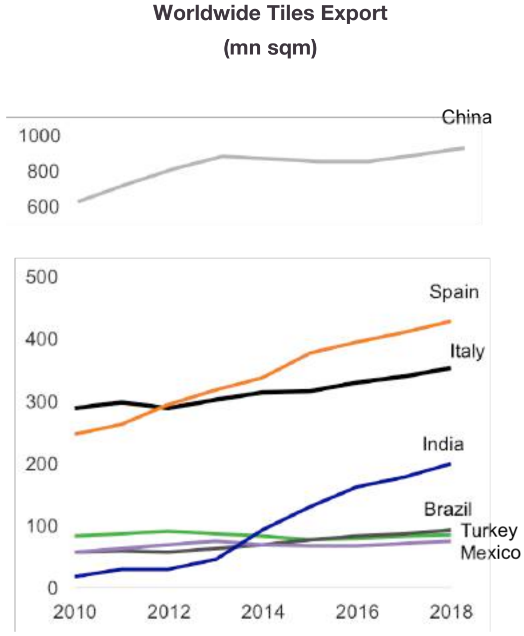
As far as the first point is concerned, we note that World Tile market is expected to grow by some 3.7% and 4.5% YoY in 2017E-18E respectively, i.e. in line with 2014-16 growth rates but with some reshuffle in terms of weaker / stronger geographical areas:

- Asia, Nafta and Western Europe are seen evolving a little slower;
- Gulf countries, North Africa / Middle East, Eastern Europe on the contrary are seen accelerating.

Last but not least, Italian Tile manufacturers are expected to see further growth as well: +3.4% in 2017E and +3.7% in 2018E.

Worldwide Tile market evolution





Source: Prometeia, Acimac, Various

Innovation is the rule of the game

In terms of industry trends, we underline how the focus of all main market players is on products and processes innovation, seen as ways to avoid a pure “price driven” competition.

As far as **product innovations** are concerned, in our view the key words are:

- Push on integrated manufacturing lines assembling several machines covering the entire phases of the ceramic production process;
- Look for production of larger and larger slabs of varying size and thickness;
- Fully digitalized decoration;
- Precise and advanced finishing machines.

Regarding **innovative processes**, obviously the “Industry 4.0” religion has hit ceramic machineries as well implying the proposal to customers of:

- Software platforms aimed at monitoring the whole production process from anywhere, anytime, speeding up production flexibility;
- Robotized solutions for production, glazing and finishing (sanitaryware segment);
- Energy saving green technologies;
- Extensive customer service activity.

SITI B&T already delivering on its IPO promises

Recap on IPO promises

At the time of IPO, i.e. one year ago, SITI B&T announced a ca. €40mn four-year capex plan aimed at finalizing the following three main growth strategies:

1. Maintaining a **solid R&D investment pipeline** in order to strengthen its competitive positioning;

2. Push on production, commercial and customer care **international presence**;

3. Further growing by **acquisitions**.

We believe that in the latest twelve months the company has already delivered on two out of the three above-mentioned strategies, namely R&D and International presence.

1. Solid R&D effort to strengthen competitive positioning- Accomplished

SITI B&T aims to maintain its technological leadership along the value chain, and to defend margins by optimizing the engineering phase, enhancing the technological content, and increasing the revenue stream from new products. So ca. €10mn i.e. 25% of the total 2016E-19E investment budget were destined to these purposes.

The output of this effort is, in our view, already pretty visible and has been showcased in the last week of September, when it took place the twenty-fifth edition of Tecnargilla, the most important ceramic and brick industry supplies trade fair in the world.

Organised by the Association of Italian Manufacturers of Machinery and Equipment for Ceramics (Acimac) and Rimini Fiera, the exhibition is run every two years, playing host to all the leading companies and attracting a great number of international buyers to Rimini.

SITI B&T Group was among the most active exhibitors showing to Italian and foreign buyers a total of fourteen innovations, all aimed at allowing SITI B&T's customers to achieve:

- Full operational efficiency;
- Productivity boost;
- Improved quality and versatility of the manufacturing line;
- Higher competitiveness through data management, control of every stage of the process and the use of advanced technologies.

SITI B&T proved to be competitive especially on firing, finishing and sanityware with innovations covering all steps in the ceramic production cycle, namely:

- SUPERA ® for the production of large ceramic slabs;
- New highly productive and energy efficient thermal machines;
- A renewed range of "dry" finishing machines;
- A new digital decoration machine for tableware;
- New solutions for the production of sanitaryware.

Main orders won in the latest months

Here follow some orders recently won that well witness the benefits of the above-mentioned effort on competitive positioning:

More than 50 high-speed dry squaring machines sold during 2016 - Ancora SpA in 2015 launched the innovative "Speed Dry" end of line squaring machine aimed at all types of ceramic material that brings many economic and productive advantages such as higher plant expected life, lower energy consumption, lower consumption of diamond tools and so on. In 2016FY some 50 high-speed dry squaring machines were ordered with a more than 70% percentage of foreign sales.

Orders from several Spanish companies belonging to Castellon ceramic cluster - In the latest few months SITI B&T has won a series of major orders with companies belonging to Castellon ceramic cluster, among which:

- **Client # 1** - Installation of two new high-productivity, high-efficiency lines for the production of large-format glazed porcelain tiles. The plant includes XL EVO 7608/2450 presses, dryers and kilns with high levels of energy efficiency and productivity. Squaring and honing machines supplied by Ancora complete the production line.
- **Client # 2** – Installation of an XL EVO 6608/2450 press complete with E-Syncro, 5-layer dryers and storage and handling systems for medium to large sizes, single-channel kiln based on Titanium® technology. A high-speed dry squaring system from Ancora is integrated into the plant.
- **Client # 3** – Adoption of Titanium® kiln and of Ancora technologies for squaring, honing and surface protection of materials. A latest-generation automatic storage system guarantees the flexibility and efficiency of the plant.
- **Client # 4 -** The group has doubled the production capacity of its Azulmed facility with a new high-speed high-efficiency line comprising an EVO 5008/2450 press, a 7-layer dryer with 4000 mm entrance width for large sizes (a world first for the ceramic industry), and a Titanium® kiln with 3500 mm entrance width. A dry score-and-snap cutting machine from Ancora has been installed at the kiln exit.
- **Client # 5**- A 25,000 litre SITI B&T spray dryer (the largest in the world) has been supplied.
- **Client # 6**- The renowned ceramic tile manufacturer belonging to the Pamesa Group has purchased an XXL Titanium® 3500 twin-channel kiln with a length of 160 metres (the largest in operation in Europe) and a hot air recovery system.

Order from Porcelanite-Lamosa - Back in February 2017 SITI B&T Group has supplied Mexican group Porcelanite-Lamosa, a leading world ceramic tile producer and the top player in Latin America, with **a complete line for ceramic tile production** for its facilities in Guanajuato and Tlaxcala (Mexico), which will have a capacity of **24,000 sq.m/day of porcelain and single-fired tiles**. The whole set of machines installed included: the Titanium® kiln, squaring lines by Ancora, digital decorating machines by Projecta Engineering, EVO presses.

Order from Mohawk - Back in December 2016 SITI B&T has won a big order from Mohawk Industries, the world-leading surface coverings group, for its Daltile plant in Mexico. The order included Titanium® kilns for the firing stage and a Dry Squaring Speed line and Deepmotor Cut score-and-snap machine by Ancora.

2. Push on production, commercial and customer care international presence - Accomplished

Again, ca. €10mn i.e. 25% of the total 2016-19 investment budget was destined to the strengthening of the international presence of the Group, both on the production and on the commercial side.

As far as the production side is concerned, the rationale behind SITI B&T's move is that in order to efficiently address some high growing but low value markets, a local production capacity is needed. This is the case of the Chinese and Brazilian markets that have been addressed as follows:

- **Asian output capacity reshaping**. The **new 8,000 square meters wide Gaoming (China) production plant** has been inaugurated back in May and is progressively encompassing all the production activity that was previously located in Foshan;

SITI B&T: new production plant in Gaoming, China

Source: SITI B&T

- **Latin America production footprint revamping**. The **Brazilian** production subsidiary revamp effort has been almost finalized and it is now possible to assemble 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 improvement**. 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.

3. Further growing by acquisitions – Work in progress

Overall, 50% of the total 2016E-19E investment budget (€20mn) was destined to **acquisitions** with the aim to boost market share in a relatively fragmented industry (in both the tiles and sanitary-ware segments) and to exploit greater scale economies in the commercial side of the business.

FY16 financial performance

SITI B&T 2016FY figures are the consequence of its intense effort to deploy more and more product innovations and broader international market reach. From this point of view 2016FY has been a year of sowing and we believe that 2017-18 should be years of harvest. Indeed, the launch of 14 main product innovations unveiled at Tecnargilla and of new foreign customer care operations have not only affected operating profitability due to development costs and subsidies to clients but have also burdened on inventories and, as an effect, on Net Financial Position. Such a burden was more than offset by lower than expected taxes leading to a bottom line higher than our estimates.

Worthy to note, 2016FY figures are positively affected by a ca. €1.9mn capital gain related to the disposal of Chinese land assets accounted in Value of Production.

SITI B&T: 2016FY Actual results vs. 2016FY Value Track estimates

(€mn)	2016E	2016A	A vs. E
Net Revenues	**187.0**	**187.6**	**0.3%**
Total Value of Production	192.5	208.8	
EBITDA	20.0	18.8	
EBITDA Adjusted (*)	**18.1**	**16.9**	**-6.8%**
EBIT	15.0	14.3	
EBIT Adjusted (*)	13.1	12.4	-5.7%
Net profit	8.3	9.2	10.7%
Adjusted Net Profit (*)	**7.0**	**7.9**	**12.9%**
Net worth	76.9	75.6	-1.8%
Net debt/(cash)	**28.9**	**32.6**	**12.9%**

Source: SITI B&T, Value Track analysis *(*) Net of Capital gain on Chinese land disposal*

Profit & Loss

The following items have characterized SITI's FY2016 Profit & Loss performance:

- Group Net Revenues topped €187.6mn (+9.4% YoY) with Total Value of Production at €208.8mn;
- EBITDA was up +10.6% YoY at €18.8mn (substantially flat at €16.9mn on an Adjusted basis);
- Net Profit was up +63% YoY at €9.2mn (+31.9% YoY at €7.9mn on an Adjusted basis).

SITI B&T: 2015-16 Income Statement (€mn, IAS)

(€mn)	2015A	2016A	YoY Chg. (%)
Net Revenues	**171.5**	**187.6**	**9.4%**
Total Value of Production	182.6	208.8	14.4%
EBITDA	17.0	18.8	10.6%
EBITDA Adjusted (*)	**17.0**	**16.9**	**-0.4%**
EBIT	13.1	14.3	8.6%
EBIT Adjusted (*)	**13.1**	**12.4**	**-5.9%**
Net profit	5.7	9.2	63.3%
Adjusted Net Profit (*)	**6.0**	**7.9**	**31.9%**

Source: Value Track analysis on SITI B&T's data *(*) Net of Capital gain on Chinese land disposal*

Top line growth in line with targets

Back in September, SITI B&T group had guided for a 2016E top-line target at €187m and actually **Net Revenues 2016YE achieved the €187.6mn level i.e. +9.4% YoY**. Total Value of Production grew even more: +14.4% YoY to €208.8mn.

Main trends by geography – Best performing areas were Asia (+81.1% YoY) and Americas (+47.5% YoY) but Italy as well grew double digit (+14% YoY). EMEA (ex-Italy) on the contrary was down -9.8% YoY.

By Business segment – We appreciate that growth was equally split between Machineries (+9.3% YoY) and Customer Service (+9.7% YoY).

- **Customer Service**. In 2016 was finalized the project of investing in this activity in order to expand Customer Service network abroad, increasing the stock of spare parts within some local warehouses and building a centralized storehouse dedicated to the "after-market" segment leading to higher deliveries efficiency and promoting original spare parts use. This effort allowed Revenues from Customer Service to reach the historical record at €51.8mn.
- **Machineries**. Growth in sales volumes was driven by ceramic production complete lines where the group is acting as "system integrator".

  In terms of specific business segments, among the best performers we underline the surface finishing of ceramic tiles business (i.e. Ancora Spa, leading provider of machines for tiles cut and finishing acquired back in February 2015) up ca. 20% YoY. Among the laggards we note the subdued performance of digital printing business (i.e. the subsidiary Projecta Spa) that reveals instead a market getting to maturity after years of strong growth, i.e. reducing sales volumes and margins. As a partial compensation we note that the strong decrease in minority interests relates to this area.

EBITDA Margin "Rule of thumb" respected again

EBITDA Adjusted remained substantially flat YoY at **€16.9mn and EBITDA margin** decreased at 9% from 10% as of 2015FY but in line, as well as for the past exercises, with the "rule of thumb" of the 8%-10% range. Reasons for the margin erosion are:

- The above-mentioned development costs;
- Subsidies to clients in order to push new products penetration on the market;
- The bad performance of Digital printing business.

Adjusted Net Profit up double digit on lower incidence of taxes and minorities

Minorities are essentially due to the 48% of Projecta Engineering S.r.l. not held by SITI B&T Group. On the contrary, no minority charge has been posted at the P&L and Balance Sheet level on the 20% stake of Ancora S.p.A. not currently held by SITI B&T as this stake should be compulsory acquired in 2019E, when a put-call option will expire.

As far as Taxes are concerned, SITI B&T Group's tax charge was down to 25% from the 32% as of 2015FY (if we do not consider a €0.32mn one-off item related to a non recurring tax).

As an effect **Adjusted Net Profit** was up +**31.9% YoY to €7.9mn**.

Balance Sheet and Cash Flow Statement

The following items have characterized SITI's FY2016 Balance Sheet evolution and Cash Flow generation performance:

- Working Capital driven higher by foreign warehouses set up;
- Capex to foster product innovation and foreign output capacity;
- IPO capital injection definitively improving the Net Debt / Equity ratio.

Working Capital driven higher by foreign warehouses set up

Net working capital increased by €22.3mn due to both the increase in turnover and to some strategic choices. While on the one side we have to underline the decline in average days of collection of trade receivables, on the other hand there is an increase in inventory of over €19mn due to the following reasons:

- The already mentioned strategy to step up the effort on Customer Care business abroad by deploying local warehouses in order to answer in shorter times to customer needs;
- The wider range of products, some of them with long lead times, which forced to raise the level of "minimum stock".

SITI B&T: 2015FY-16FY Working Capital evolution

(€mn, IAS)	2015FY	2016FY
Stocks	63.5	82.7
As a % of Net Revenues	34.8%	39.6%
Trade Receivables	87.7	88.4
As a % of Net Revenues	48.1%	42.3%
Other	10.3	11.0
ToT Current Assets	**161.5**	**182.1**
Payables	63.4	66.3
As a % of Net Revenues	34.7%	31.8%
Other Current Op. Liabilities	42.9	38.4
ToT Current Liabilities	**106.3**	**104.7**
Working Capital	**55.1**	**77.4**
As % of Net Revenues	30.2%	37.1%

Source: Value Track analysis on SITI B&T's data

Capex to foster product innovation and foreign output capacity

During 2016FY SITI B&T has invested ca. €6.2mn i.e. ca. 3.3% of Net Revenues, mainly related to:

- The above-mentioned rollout of the new Chinese plant which became fully operational in the second half of 2016 and that has requested €3.7mn capex;
- The above-mentioned intense effort on product innovation. Some €1.4mn of development costs have been posted in Cash Flow Statement on this point;
- Construction of a centralized warehouse exclusively dedicated to Original Spare Parts commercialisation aimed at fostering Customer Service activity;
- Inauguration of a new branch in Singapore and further strengthening of already in operation foreign branches.

IPO capital injection definitively improving the Net Debt / Equity ratio

Overall FY16 records a positive €3.9mn change in Net Debt (€32.6mn as of 2016YE). Net of funds raised during the IPO the change in Net Debt amounts to a decrease of €13.2mn due to investments and to working capital needs.

SITI B&T: 2015FY-16FY Balance Sheet (IAS)

(€mn, IAS)	2015FY	2016FY
Net Fixed Assets	35.6	36.5
Net Working Capital	55.1	77.4
Long-Term non Financial Liabilities	3.8	5.8
Capital Employed	86.9	108.1
Matched by		
Equity	50.4	75.6
Net Debt	**36.5**	**32.6**
Net Debt / Equity (%)	**72%**	**43%**
Net Debt / EBITDA (x)	**2.2x**	**1.7x**

Source: Value Track analysis on SITI B&T's data

SITI B&T: 2015FY-16FY Cash Flow Statement

(€mn, IAS)	2015	2016E
EBITDA	**17.0**	**18.8**
As a % of Net Revenues	9.9%	10.0%
WC requirements / Change in provisions	3.3	-21.6
Capex	-8.7	-6.2
Cash Taxes	-4.2	-3.2
OpFCF = CF available to serve debt / equity investors	**7.3**	**-13.6**
As a % of Net Revenues	4.3%	-7.3%
Other (incl. Acquisitions & Cap. Inj.)	-2.3	20.0
Net Financial Charges	-1.9	-1.4
Dividends to SITI B&T shareholders / Minorities	-1.0	-1.0
Change in Net Debt position	**2.1**	**3.9**

Source: Value Track analysis on SITI B&T's data

2017E-19E estimates

We are modelling our updated 2017E-19E estimates based on the following key points:

- 2017E Net Revenues should be up in the high single digit range sustained by healthy demand for both Tile and Sanitaryware machineries and by the progressive ramp up of Customer Care revenues. Finishing machines in particular should be up again at a double digit rate;
- 2107E Operating profitability should remain substantially stable as the effort to push market adoption for newly launched products is not over yet and this should prevent positive operating leverage to take place;
- 2017E Net Debt should decrease by more than €10mn as an effect of both limited capex now that Chinese plant is finalized and of inventories reduction in absolute terms;
- 2018E-19E should be characterised by a slightly lower revenues growth matched by a mild operating margins expansion and steady cash flow generation.

As a consequence, we expect Adj. Net Profit to increase by an average 8%-9% per annum rate achieving the ca. €10mn bottom line level as of 2019YE. Net Debt should decrease down below the €5mn level as of 2019YE leaving room for M&A driven expansion.

SITI B&T: Income Statement 2016A-19E

(€mn, IAS)	2016	2017E	2018E	2019E
Tile & Sanitaryware machineries	135.7	145.1	152.2	159.1
Customer care	51.8	55.5	59.1	62.6
Group Net Revenues	**187.6**	**200.6**	**211.3**	**221.8**
Chge %	9.4%	6.9%	5.4%	4.9%
Other	21.2	9.0	8.0	8.0
Value of Production	**208.8**	**209.6**	**219.3**	**229.8**
Opex	-190.0	-190.5	-198.3	-206.9
EBITDA (*)	**18.8**	**19.1**	**21.0**	**22.9**
Chge %	10.6%	2.0%	9.7%	9.1%
EBITDA margin	**10.0%**	**9.5%**	**9.9%**	**10.3%**
Depreciation on Tangible Assets	-1.7	-1.8	-1.8	-1.9
Amortisation on Intangible Assets (excl. Goodwill)	-2.8	-3.2	-3.3	-3.4
EBIT (*)	**14.3**	**14.2**	**15.9**	**17.6**
EBIT margin	**6.8%**	**6.8%**	**7.2%**	**7.7%**
Chge %	8.6%	-0.7%	12.1%	11.0%
Interest income / expense	-1.4	-1.5	-1.4	-1.4
Other Extraordinary / Exceptional	0.0	0.0	0.0	0.0
Pre tax profit	**12.8**	**12.7**	**14.5**	**16.2**
Tax	-3.2	-3.5	-4.1	-4.9
Tax Rate	-25.2%	-27.8%	-28.4%	-29.9%
Minorities	-0.4	-1.0	-1.2	-1.3
Group Net profit	**9.2**	**8.1**	**9.2**	**10.1**
Adjusted Net Profit	**7.9**	**8.1**	**9.2**	**10.1**
Chge %	**31.9%**	**3.4%**	**12.5%**	**10.0%**

Source: SITI B&T, Value Track analysis

(*) EBITDA-EBIT FY16 Adjusted for €1.9mn capital gain stand at €16.9mn and €12.4mn respectively

SITI B&T: Balance Sheet 2016A-19E

(€mn, IAS)	2016	2017E	2018E	2019E
Net Fixed assets	36.5	36.5	36.4	36.1
Working Capital	77.4	74.2	76.9	79.7
Long term liabilities	5.8	5.8	5.8	5.8
C.E.	**108.1**	**104.9**	**107.5**	**110.0**
matched by				
Net worth	**75.6**	**84.7**	**95.1**	**106.4**
Net debt/(cash)	**32.6**	**20.2**	**12.4**	**3.6**
Net Debt / EBITDA (x)	**1.93**	**1.06**	**0.59**	**0.16**
Net Debt / Net Equity (%)	**43%**	**24%**	**13%**	**3%**

Source: SITI B&T, Value Track analysis

SITI B&T: Cash Flow Statement 2016A-19E

(€mn, IAS)	2016	2017E	2018E	2019E
EBITDA	**18.8**	**19.1**	**21.0**	**22.9**
Op. WC requirements	-22.3	3.3	-2.7	-2.8
Change in provisions	-0.7	0.0	0.0	0.0
Capex (not incl. Acquisitions)	-6.2	-5.0	-5.0	-5.0
Cash Taxes	-3.2	-3.5	-4.1	-4.9
OpFCF	**-13.6**	**13.9**	**9.2**	**10.3**
Other (incl. Acquisitions & Cap. Inj.)	21.0	0.0	0.0	0.0
Net Financial Charges	-1.4	-1.5	-1.4	-1.4
Dividends to SITI B&T shareholders / Minorities	-1.0	0.0	0.0	0.0
Other	-1.0	0.0	0.0	0.0
Change in Net Debt position	**3.9**	**12.4**	**7.8**	**8.9**

Source: SITI B&T, Value Track analysis

Investment case

Peers analysis remains, in our view, the best valuation methodology that we can apply on SITI B&T. Indeed Discounted Cash Flow Model is only partially reliable given the volatility of cash flow generation as it is driven by the strategy of the company to let working capital increase / decrease according to commercial and production need.

Machinery Sector– Recent stock performances

Companies active in the industrial machinery sector represent our usual panel of comparables.

- **Italian players**: **IMA, Biesse, Interpump, Prima Industrie**;
- **International players**: **Alfa Laval, Sandvik, Krones**.

As far as **multiples** to be taken into consideration for SITI B&T evaluation, we:

- Choose **EV/EBIT**, **EV/Invested Capital** and **Adj. P/E** as the most suitable ones;
- Adjust SITI B&T consolidated financial figures to take into account **Projecta minorities**. Indeed, SITI B&T consolidates on a line-by-line basis Projecta i.e. its subsidiary active in the Digital Decoration business, while controlling only the 52% of share capital.

SITI B&T: 2017E-18E financial estimates net of 48% of Projecta's minorities

(€mn, IAS)	2017E	2018E
Group estimated EBIT	14.2	15.9
-48% of Projecta estimated EBIT	-1.4	-1.7
Group EBIT for valuation purposes	**12.8**	**14.2**
Group Adj. Net Profit net of minorities for valuation purposes	**8.1**	**9.2**
Group Net Fin. Position	-20.2	-12.4
-48% of Projecta estimated Net Fin. Position	3.5	3.0
Group Net Fin. Position for valuation purposes	**-16.7**	**-9.4**

Source: Value Track analysis on SITI B&T's data

Machinery Sector: Stock trading multiples

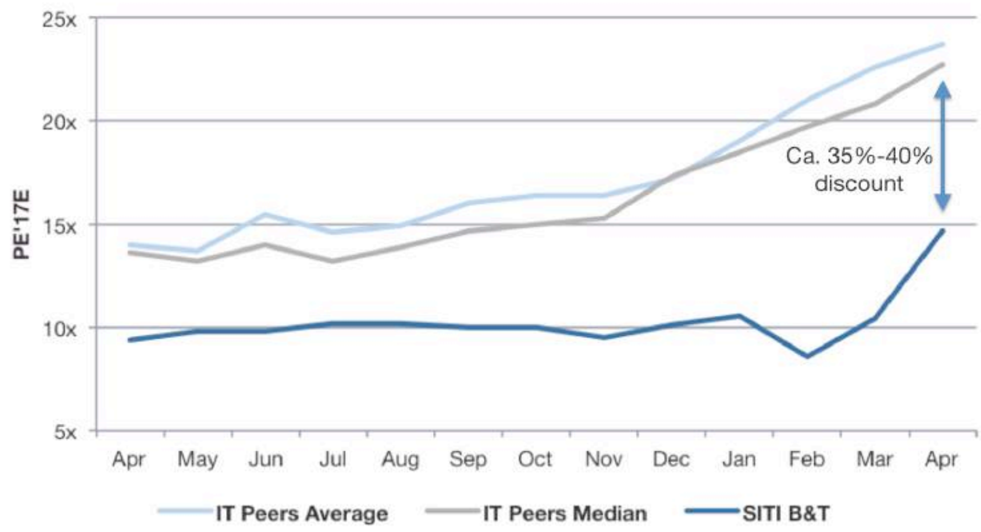
COMPANY	Listing	EV / I.C. (x)		EV / EBIT (x)		P/E (x)	
		2017E	2018E	2017E	2018E	2017E	2018E
IMA	Italy	n.m.	n.m.	19.1	16.8	31.2	27.4
BIESSE	Italy	4.1	3.7	12.6	10.4	21.7	18.2
INTERPUMP	Italy	2.9	2.8	16.1	14.6	23.8	22.1
PRIMA INDUSTRIE	Italy	1.5	1.4	12.7	9.5	18.2	13.2
ALFA LAVAL	Sweden	2.8	2.8	21.5	19.3	20.7	19.7
SANDVIK	Sweden	3.0	2.9	16.0	14.6	22.2	20.3
KRONES	Germany	3.0	2.8	12.2	10.8	18.9	17.4
Average		**2.9**	**2.8**	**15.7**	**13.7**	**22.4**	**19.7**
Median		**2.9**	**2.8**	**16.0**	**14.6**	**21.7**	**19.7**
SITI B&T		**1.4**	**1.3**	**10.6**	**9.0**	**14.7**	**13.0**
SITI B&T discount vs. Average		**-50%**	**-52%**	**-32%**	**-34%**	**-34%**	**-34%**
SITI B&T discount vs. Median		**-51%**	**-53%**	**-34%**	**-38%**	**-32%**	**-34%**

Source: Consensus estimates, Value Track analysis

We note that the sector has undergone an upward rerating of multiples in the latest months. Italian comparables in particular, driven by so-called "PIR effect" and by an improving macroeconomic momentum have outperformed European ones, some of which have suffered the exposure to the Oil & Gas and Mining industries.

As an effect **SITI B&T shares are now trading at ca. 35%-40% discount** vs. Peers in terms of PE'17, a discount that has progressively widened in the initial part of 2017.

Italian Machinery companies: PE17E evolution in the latest months



Source: Various, Value Track analysis

While we reckon that not only the smaller size of SITI B&T but also the relatively lower and lower traded volumes of AIM Italy market compared to Small-Mid Caps listed on MTA Stock Exchange deserve a discount, at the same time we believe that such discount should not exceed the 25%-30% level given the low risk profile of SITI B&T business model and the fact that in 2018 the company should move onto MTA itself.

Based on the above-mentioned reasoning, and excluding EV/Invested Capital multiple as it would return a too high valuation, we fine-tune **SITI B&T's fair value of at €11.0 per share** (up from the previous €10.3), corresponding to ca. €138mn fair valuation for the 100% of equity.

SITI B&T: Fair Value analysis

Item	Fair multiple 2017E	Disc. vs. Sector median multiples	Implied Eq. Value (€mn)	Implied Eq. Value per share (€)
EV / Inv. Cap.	2.05x	30%	177	14.2
EV / EBIT	12.0x	25%	144	11.4
P/E	16.2x	25%	132	10.6
Fair Value SITI B&T (Avg. EV/EBIT and P/E only)			**138**	**11.0**

Source: Value Track analysis

Appendix: 2017E-18E change in forecasts

We have changed our 2017E-18E Profit & Loss and Balance Sheet forecasts taking into account:

- A higher demand for both Tile & Sanitaryware machineries as hinted by recent orders intake evolution;
- Lower profitability ratios as an effect of the need to stimulate clients to adopt the recently launched innovative products;

As a consequence, Net Profit 2017E-18E has been revised downwards by ca. 15% each.

Mergers and acquisition activities are not currently included in our estimates.

SITI B&T: Change in 2017E-18E forecasts

	2017E		2018E	
	Old	New	Old	New
Net Revenues	**193.9**	**200.6**	**204.4**	**211.3**
EBITDA	**22.1**	**19.1**	**23.7**	**21.0**
EBITDA margin	11.1%	9.5%	11.3%	9.9%
EBIT	**17.0**	**14.2**	**18.4**	**15.9**
EBIT margin	8.5%	6.8%	8.7%	7.2%
Pre tax profit	15.2	12.7	16.7	14.5
Tax	-4.2	-3.5	-4.7	-4.1
Tax Rate	-27.7%	-27.8%	-28.0%	-28.4%
Net profit	**9.9**	**8.1**	**10.9**	**9.2**
Adjusted Net Profit	9.9	8.1	10.9	9.2
Net debt/(cash)	**21.4**	**20.2**	**11.2**	**12.4**

Source: Value Track analysis

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