

Analyst:

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EQUITY RESEARCH

ITALY | Chemical

STOCK DATA

Price €	9.54
Bloomberg code	SICIT IM
Market Cap. (€ mn)	189
Free Float	50%
Shares Out. (mn)	19.8
52-week range	6.22 - 12.38
Daily Volumes ('000)	10.7

PERFORMANCE

	1M	3M	12M
Absolute	-1.5%	-3.6%	-4.1%
Rel. to FTSE all shares	0.5%	26.7%	22.3%

MAIN METRICS € MN

	2019	2020E	2021E
Revenues	56.7	63.2	68.5
Adjusted EBITDA	21.2	24.3	26.9
Adj. net income*	12.6	14.6	16.2
Adj. EPS - € cents	63.7	73.4	81.6
DPS ord - € cents	45.0	50.0	52.5

MULTIPLES

	2019	2020E	2021E
P/E adj*	15.0 x	13.0 x	11.7 x
P/E EX CASH Adj*	12.7 x	11.2 x	10.4 x
Adj. EV/EBITDA	7.6 x	6.7 x	6.2 x
EV/EBITDA	7.7 x	6.7 x	6.2 x

REMUNERATION

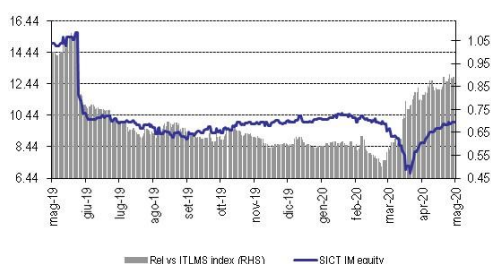
	2019	2020E	2021E
Div. Yield ord	4.7%	5.2%	5.5%
FCF yield	1.7%	3.1%	2.7%

INDEBTEDNESS

	2019	2020E	2021E
Net Cash (Debt)	29.3	26.3	21.5
Debt/EBITDA	n.m.	n.m.	n.m.
Interests cov	n.m.	n.m.	n.m.

*adj. for PPA (excluded in IFRS)

PRICE ORD LAST 365 DAYS



BUY (prev.: Hold)

Target: €12.2 (prev.: €10.50) | Risk: High

BACK ON TRACK – 1Q GROWTH TREND IS ABOVE PEERS

We upgrade SICIT to Buy. FY19 was lacklustre but 2020 started very strong driven by all divisions and sound demand. So far, COVID-19 is not affecting materially its operations or its underlying fundamentals. Furthermore, the strong B/S allows for compelling shareholders' return. The investment plan has been focused on the domestic capacity expansion, which has mitigated the risks of execution. The switch to the STAR market is a positive catalyst for the stock. We increase our EPS estimates by 7% over the 2020-22 period and target to €12.2 (+16%) considering the improved visibility on FY20 growth.

■ 1Q20 started very strong and well above comparables

1Q20 turnover was €19.7 mn +26% yoy as a result of the good performance of all the operating divisions. Agro revenues were up 30% yoy driven by the favorable season, increased commercial activity by its customers, easier comps and the restocking effect as a result of the logistical issues for the COVID-19 outbreak. Plaster retarders revenues were up 20% driven by Asian demand. Fat prices recovered sharply in 1Q and services revenues (raw materials) are up DD yoy driven by the higher capacity and better prices.

■ Very limited Covid-19 headwinds

Production is running without stoppages. Raw materials intake is continuing as it is strategic for slaughtering process needed for meat and food production. SICIT said that it could suffer somewhat limited implications on demand from COVID-19 in retarders for the likely lower global construction activity in the S/T.

■ FY20 EPS estimate +6%

Earnings momentum will be back on trend in FY20: we assume sales to grow by 12% yoy, mainly driven by the good demand from the agricultural sector, higher fat prices and higher service revenues. We expect an EBITDA growth of 15% yoy driven by the strong trading environment and the contribution of the new plants.

■ A new "STAR" stock

On 29 April, SICIT announced it has filed the documents to CONSOB for the listing on the main market (MTA) on the Star segment. The move on the main market is expected by the end of June. We believe the news has positive implications for the stock since it will likely improve the liquidity as well as visibility.

■ Sustainability is the core business

SICIT intends to publish its first sustainability report this year. This step will allow the company to be eligible for ESG funds and investors.

■ A long history at the beginning of an exciting industrial plan

SICIT is a key player in the circular economy. Main investment themes:

- Exposure to fast growing products and exciting organic expansion plan; revenues and EBITDA CAGR respectively of +12% and +13.5% exp. over 2019-23 period;
- Sound profitability (EBITDA margins ~40%) are the result of the recycling activity and the superior production process;
- Positive NFP and good CF conversion allow a compelling dividend policy;
- Undemanding trading multiples: EV/EBITDA c. 6.7x FY20, almost in line to relevant agrochem peers which have lower growth and a quite a negative environmental footprint.

MAIN FIGURES ^[1] €M	2017	2018	2019	2020E	2021E	2022E
Revenues	53.9	55.1	56.7	63.2	68.5	77.4
Growth	19%	2%	3%	12%	8%	13%
EBITDA	22.2	21.6	20.9	24.3	26.9	30.7
Growth	26%	-3%	-3%	17%	11%	14%
Adjusted EBITDA	22.2	21.6	21.2	24.3	26.9	30.7
Growth	26%	-3%	-2%	15%	11%	14%
Adj. EBIT	17.9	16.9	8.9	19.7	21.9	25.0
Growth	30%	-6%	-47%	121%	11%	14%
Profit before tax	17.7	18.2	8.9	15.6	17.8	20.9
Growth	28%	3%	-51%	75%	14%	18%
Adj. net income*	12.9	12.7	12.6	14.6	16.2	18.5
Growth	32%	-2%	-1%	15%	11%	14%
Net income	12.9	13.4	4.2	10.5	12.1	14.4
Growth	32%	3%	-69%	149%	15%	19%
MARGIN	2017	2018	2019	2020E	2021E	2022E
Ebitda Margin	41.1%	39.1%	36.9%	38.5%	39.3%	39.6%
Ebitda adj Margin	41.1%	39.1%	37.3%	38.5%	39.3%	39.6%
Ebit adj Margin	33.3%	30.6%	15.7%	31.1%	31.9%	32.3%
Pbt adj Margin	32.9%	33.1%	15.7%	24.6%	25.9%	27.0%
Ni adj margin	24.0%	23.0%	22.3%	23.0%	23.6%	23.9%
Ni rep margin	24.0%	24.2%	7.4%	16.5%	17.6%	18.6%
SHARE DATA [1]	2017	2018	2019	2020E	2021E	2022E
EPS - € cents	65.2	67.4	21.2	52.7	60.9	72.5
Growth	-	3%	-69%	149%	15%	19%
Adj. EPS - € cents*	65.2	64.1	63.7	73.4	81.6	93.2
Growth	-	-2%	-1%	15%	11%	14%
DPS ord - € cents	0.0	34.0	45.0	50.0	52.5	55.0
BVPS - €	3.1	3.5	4.5	4.6	4.7	4.9
VARIOUS - € MN	2017	2018	2019	2020E	2021E	2022E
Capital employed	45.9	55.4	59.6	64.1	71.1	78.3
FCF	9.3	5.1	3.2	5.9	5.1	7.2
Capex	7.4	8.4	9.4	12.5	15.0	15.0
Working capital	11.5	11.6	13.4	14.2	15.4	17.4
INDEBTNESS - € MN	2017	2018	2019	2020E	2021E	2022E
Net Cash (Debt)	15.4	14.5	29.3	26.3	21.5	18.2
D/E	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Debt/EBITDA	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Interests cov	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
MARKET RATIOS	2017	2018	2019	2020E	2021E	2022E
P/E ord	n.a.	14.2 x	45.0 x	18.1 x	15.7 x	13.2 x
P/E adj*	n.a.	14.9 x	15.0 x	13.0 x	11.7 x	10.2 x
P/E EX CASH Adj*	n.a.	13.7 x	12.7 x	11.2 x	10.4 x	9.2 x
PBV	n.a.	2.7 x	2.1 x	2.1 x	2.0 x	2.0 x
EV FIGURES	2017	2018	2019	2020E	2021E	2022E
EV/EBITDA	n.a.	8.1 x	7.7 x	6.7 x	6.2 x	5.6 x
Adj. EV/EBITDA	n.a.	8.1 x	7.6 x	6.7 x	6.2 x	5.6 x
Adj. EV/EBIT	n.a.	10.3 x	18.0 x	8.3 x	7.7 x	6.8 x
EV/CE	n.a.	3.2 x	2.7 x	2.5 x	2.4 x	2.2 x
REMUNERATION	2017	2018	2019	2020E	2021E	2022E
Div. Yield ord	0.0%	3.6%	4.7%	5.2%	5.5%	5.8%
FCF yield	4.9%	2.7%	1.7%	3.1%	2.7%	3.8%
ROE	21.1%	18.2%	14.2%	16.1%	17.5%	19.1%
ROCE	39.1%	30.5%	8.0%	24.3%	25.0%	26.6%

[1] Italian GAAP for 2017-2018

*adj. for PPA (excluded in IFRS)

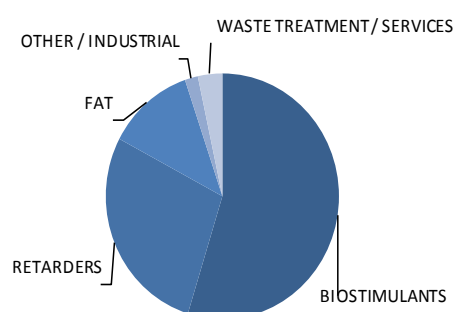
Source: Equita SIM estimates & company data



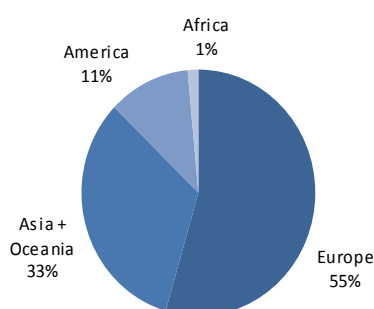
BUSINESS DESCRIPTION

SICIT is a leading company in the fast growth market of biostimulants for agriculture and retardant for gypsum materials through the recycling of waste from the tanning industry in the region of Veneto. Its ambitious growth plan aims to almost double revenues by 2022-23 through the debottleneck of its existing two plants, the opening of new capacity abroad, and a new granular fertilizer plant.

REVENUE BREAKDOWN BY PRODUCT



REVENUE BREAKDOWN BY REGION



The company was founded in 1960 and now is controlled by Intesa Holding S.p.A. (46%) whose shareholders are the leather tanning companies of the district of Arzignano (Vicenza). **The waste – an organic material from the animal skin (raw hides) - is treated by a chemical recovery process whose main and most significant characterizing step is hydrolysis**, which “melts” the protein substance (collagen) and then is transformed into a “protein hydrolyzate” intended for use in the industrial and agricultural sectors.

SICIT provides hydrolyzed proteins for the agrochemicals and construction industries:

- **Biostimulants** (55% of revenues): biological additives used in agriculture to improve crop yield thanks to the enhancement of plant growth, health and productivity.
- **Plaster retardants**: (27% of revenues) additives used in the production of plasterboard and plasters to extend the workable time of gypsum.

Furthermore SICIT sells **fat** (12% of revenues) as a byproduct of its waste treatment of fleshing. The fat is mainly sold as a biofuel additive.

Over the past five years (2014-19 period), revenue increased at 9% CAGR driven by:

- the increased intake of waste materials (+5% CAGR);
- higher selling volumes of biostimulants (+5% CAGR), plaster retardants (+8% CAGR) and fat (+7% CAGR);
- higher selling price of biostimulants (+5% CAGR) whereas plaster retardants were flattish and fat was negative (-4% CAGR).

MAIN KPIs - € MN

	2015	2016	2017	2018	2019
Revenues	40.5	45.4	53.9	55.1	56.7
Annual growth	8%	12%	19%	2%	3%
EBITDA	13.1	17.6	22.2	21.6	21.2
Margin	32.3%	38.7%	41.1%	39.1%	37.3%
Net Income	6.9	9.8	12.9	12.7	12.6
Annual growth	64%	42%	n.m.	-2%	-1%

Source: SICIT

The business combination with SprintItaly SPAC injected €30 mn in SICIT as equity to support the ambitious growth strategy. The business plans aim to expand its production base through debottlenecking and two greenfield investments which will account for about €63-64 mn of capex. **Through its expansion program SICIT aims to almost double its revenues and slightly increase EBITDA margin by 2022.**

Strengths / Opportunities

- Circular business model
- State-of-the art production process and know how resulting in superior production yield and economics (high profitability);
- Proximity to the leather district in Arzignano resulting in natural monopoly for key raw materials;
- Expansion in other leather districts abroad;
- Low unit price of waste collection.

Weaknesses / Threats

- Dependence to raw material availability from the Arzignano district;
- Limited product diversification in biostimulants;
- Regulatory changes regarding final products use and production waste;

1Q20 – A VERY STRONG START OF THE YEAR

On 14 April, SICIT published 1Q20 turnover which was € 19.7 mn +26% yoy vs +12% exp. The strong growth is the result of the good performance of all the operating divisions:

- Biostimulants 30% yoy;
- Retardants +20% yoy;
- Fat +27% yoy;
- Raw materials services +17% yoy.

On a geographic basis:

- Europe +25% yoy;
- APAC +40% yoy;
- Americas +14% yoy.

The strong growth is the result of the good performance of all the operating divisions. Agro revenues were up 30% yoy driven by the favorable season, increased commercial activity by its customers, easier comps and the restocking effect as a result of the logistical issues for the COVID-19 outbreak. Plaster retarders revenues were up 20% driven by Asian demand. Fat prices recovered sharply in 1Q and services revenues (raw materials) are up double digit (DD) yoy driven by the higher capacity and better prices.

Revenue growth in 1Q20 was by far the strongest among the agrochemical industry. The average growth of main agrochem and fertilizers companies was strong but much slower when compared to SICIT.

AGROCHEM AND FERTILIZERS COMPANIES - 1Q20 REPORTED VOLUME GROWTH

Company	Vol growth
Corteva	17%
Bayer	6%
BASF	7%
Yara	10%
Nutrien	0%
Mosaic	14%
Average	9%

Source: Company reports.

In construction materials industry, comparable companies (i.e. Sika, Rockwool, Kingspan) reported on average lower revenues in 1Q20 in the range of LSD to HSD decline yoy. The weakness was mainly driven by the impact of COVID-19 on construction activities in Europe despite the favourable season (mild winter).

The 1Q20 full results will be published by end of May.

FY20 – WHAT TO EXPECT

We expect a sound earnings momentum thanks to the favorable season for agricultural products, the improvement in fat price, the ramp up of the hair plant and the development of new commercial agreements with Syngenta.

However, the plaster retardant segment is the business most at risk due to the uncertain macro scenario. SICIT said that it could suffer negative effects from COVID-19 in retarders, but it considers that scenario unlikely. Even a production stop seems unlikely from today's perspective.

In FY20, we expect Revenues and EBITDA to grow by respectively +12% and 15% yoy, mainly due to the good demand from the agricultural sector and the contribution of the new plants. Our 10% yoy revenue growth estimate in 2020 is more visible following the 1Q20 revenue update. We appreciate that SICIT has shown the strongest growth in the biostimulant sector which we believe is the least cyclical segment.

MOVING TO THE STAR SEGMENT OF THE FINANCIAL MARKET

On 29 April, SICIT announced it has filed the documents to CONSOB for the listing on the main market (MTA) on the Star segment. The move on the main market is expected by the end of June. We believe the news has positive implications for the stock since it will publish financial statements with IFRS standards and the stock will likely improve the liquidity as well as visibility.

SICIT - INVESTMENT SUMMARY

Sustainability, eco-efficiency and waste valorisation are the core values of the company since its foundation. SICIT is a perfect example of the circular economy coupled with the capacity to generate sound returns from its business.

We believe SICIT has the following appealing features:

- 1. SICIT is one of the leading company in protein hydrolysates of animal origin for the agriculture and building materials market.** Through a process of hydrolysis of residues and waste of the nearby tanning industry, SICIT realizes a high value added product intended for use in agriculture (biostimulants) and in the industry of gypsum (retarding).
- 2. SICIT enjoys strong demand growth driven by underlying macro-trends.**
 - **Biostimulants (55% revenues)** is expected to increase at low double-digit CAGR driven by the farmers' needs of: 1. Higher yield to feed a growing world's population; 2. Lower input cost; 3. Sustainable and Organic Farming; 5 Precision Farming.
 - **Plaster retardants (27% revenues)** are expected to expand at high-single-digit CAGR trailing the increasing penetration of gypsum as a building materials
 - **Fat (12% of revenues) mainly sold for biofuel.**
- 3. The sound margins and ROCE are the result of superior production yield driven by: 1. state-of-the art industrial footprint; 2. Strong chemical and process know how.**
- 4. The business has a high CF conversion, thanks to the recycling economy and the BTB distribution model. The raw materials are part of the revenue stream (> €20/t in 2019) since the finished product is derived directly by the waste material generated by the tanning industry.**
- 5. Its main clients are the top tier player in the agrochemical and building materials industries**
- 6. Its proximity to the leather district in Arzignano results in natural monopoly for the access and collection of key raw materials** due to the high cost of transportation. Furthermore the disposal of waste is strategically important for the tanning districts due to the high treatment cost. **SICIT has a very efficient process and receives waste from the Arzignano district at very convenient price for tanneries.** The environmental footprint of its two plants is well above standard.
- 7. The business combination with SprintItaly in 2019 helped to support its ambitious growth plan which aims to more than double the EBITDA through the following investments:**
 - debottleneck its existing two plants (~€38 mn Capex);
 - improvement of its product offering for the agriculture industry through a granular biofertilizer plant - B2B and B2C – (~€6 mn Capex).
 - open new capacity abroad (~€10-20 mn Capex);

8. **There is a limited number of listed companies - across Italy and Europe - which have a strong exposure to the sustainability investment feature such as SICIT.**
9. **The stock trades at circa the same trading multiples of focused agrochem players, a compelling valuation for a company exposed to circular economy with higher growth rates.**

We would also highlight the following risk/threat factors:

1. Agrochemical industry may suffer from lower volumes of bioethanol following the drop in gasoline demand after the Covid-19 spread. However SICIT is less exposed to commodity crops and we expect limited implications for its demand;
2. Crop prices affects the growers' economics and change the demand for key inputs like fertilizers, crop protection chemicals and biostimulants;
3. The increase in recycled volumes may need some time (a few quarters) to be shipped to customers due to the different timing of demand. Agrochem companies may need time to launch biostimulant products in new markets due to the R&D and commercial investments needed. Hydrolized proteins has a long lasting conservation period so, there is quite a limited risk of product degradation;
4. The outlook for building materials is largely dependent on economic conditions in key regions (Europe, Asia, Americas). We believe the risk of a sharp slowdown in construction activity has increased due to C-19 spread;
5. **SICIT has no track record in the expansion of its capacity abroad. Therefore a risk of delay or higher than expected costs may be taken into consideration;**
6. Fat prices are quite volatile. We believe the current low level will likely not affect anymore its underlying trend but it is a commodity price with a cyclical trend pattern.
7. At current stage, we believe investors will not be willing to pay a full premium for its ambitious growth plan.

SWOT ANALYSIS

Strenghts:

- State-of-the art industrial footprint and strong chemical and process know how resulting in superior production yield and economics (high profitability);
- Excellent production process management resulting in high standardisation of production output;
- Proximity to the leather district in Arzignano resulting in natural monopoly for the access and collection of key raw materials;
- Long-term client relationship with top-class customers both in biostimulants and gypsum industries;
- Formulation and innovation abilities allow SICIT to be a reliable partner for its clients;
- Management track record in production process management and product quality/innovation;
- Additional installed capacity in Chiampo for the treatment of trimming (which has high output yield).

Opportunities:

- Highly growing underlying markets: biostimulants and plasterboard;
- Entry in other leather districts abroad that today suffer from not optimal management of animal waste;
- Low unit price of waste collection vs other tanning districts

Weaknesses:

- High dependence to raw material availability could impact production levels, the respect of delivery times and final product quality; dependence is mitigated by the available supply of shaving and trimming from outside the Arzignano district;
- Production has a limited diversification and it is concentrated in the hydrolysis of animal proteins.

Threats:

- Regulatory changes regarding final products use and production waste; given the higher quality standard of SICIT's products, more stringent regulation could also be an opportunity;
- Potential more aggressive competition from Asian players offering poor quality product (biostimulants) at low price;

Animal diseases (such as BSE "Mad Cow" in early '90s) which may affect operations or demand of biostimulants from animal proteins. Today BSE would not be an issue since SICIT treats only animal by products (ABP) cat. 3.

2019 RESULTS – A TRANSITION YEAR

We believe FY19 results do not represent the underlying growth potential of SICIT. In FY19, earnings momentum was lacklustre, driven by a series of one-offs and higher structure cost following the execution of the expansion program.

Revenues increased by 3% yoy as a result of different drivers:

- **Biostimulants** (55% of revenues) performance was positive but the limited commercial activity from its agrochem customers capped its growth to 3% yoy;
- **Retarders** (27% of revenues) was flattish vs 2019 (-0.6% yoy) driven by the lower construction activity in Asia;
- **Fat** (12% of revenues) declined slightly (-2% yoy) due to the lower commodity price on the market;
- **Waste treatment** (5% of revenues) performance was sound (61% yoy) thanks to higher intake of waste streams and higher service prices.

EBITDA (including SICIT Chemitech for the full year) **declined by 2% yoy** – as a result margin drop of 180bps which is function of temporary issues:

- Delayed start of the hair treatment and cogeneration plant;
- Product mix (less retarders and more bio-stimulants);
- Higher personnel and structure costs;
- Higher sludge disposal and transport costs.

We expect the above-mentioned factors to be recovered over 2020-21 period.

2019 RESULTS (€ MN)						
	2018	%	2019E	%	2019A	%
DIVISIONAL REVENUES						
BIOSTIMULANTS	30.2		30.3		31.0	
yoy	9%		0%		3%	
RETARDERS	15.4		15.2		15.3	
yoy	3%		-1%		-1%	
FAT	6.7		6.9		6.5	
yoy	-16%		4%		-2%	
OTHER / INDUSTRIAL	1.0		1.0		0.7	
yoy	-33%		2%		-27%	
Services/Raw Material	1.9		3.1		3.0	
yoy	12%		66%		61%	
INCOME STATEMENT						
Revenues	55.1	100	56.6	100	56.7	100
yoy	2%		3%		3%	
EBITDA	21.6	39.1	23.1	40.8	21.2	37.3
yoy	-3%		7%		-2%	
NET Income	12.7	23.0	13.4	23.6	12.6	22.3
yoy	-2%		5%		-1%	
CF STATEMENT						
CFFO	13.5		18.8		19.6	
NWC chg	-0.1		-0.6		-7.0	
Operating CF	13.5		18.2		12.6	
Capex	8.4		12.0		9.4	
Free Cash Flow	5.1		6.2		3.2	
CF Conversion	61%		48%		55%	
BALANCE SHEET						
Net Financial Position	14.5		32.7		29.3	

Source: Equita Estimates and company data (results include SICIT Chemitech).

Net income adj (including SICIT Chemitech) declined by only 1% yoy to €12.6 mn.

The dividend of €0.45/shr is compelling (payout 81%), which reflects the strong B/S and the shareholders' remuneration potential.

The NFP remains very solid with a net cash position to support expansion projects.

On 17 March, following FY19 results, **we reduced our FY20 EPS estimates by 8%** driven by: 1. a more cautious scenario on retarders (vol. flattish yoy); 2. lower processed volumes of hair waste (4kt); 3. the new cost structure (opex € 4.2 mn); 4. COVID-19 potential negative implications on production volume.

ESTIMATES / ASSUMPTIONS

The following are the main assumptions over the period of 2019-23:

- **Revenue increase of 12% CAGR;**
- **EBITDA increase of 13.5% CAGR;**
- **EBITDA margin +220bps;**
- **EPS increase of 14% CAGR.**

The growth assumptions of the relevant KPIs over the 2019-23 period are driven by:

- **Biostimulants division Revenues of +10% CAGR** as a result of higher volumes (+7% CAGR) driven by the higher intake of waste material and slightly higher prices (+2.5% CAGR);
- **Retarders division Revenues of +4.3% CAGR** as a result of higher volumes (+3.7% CAGR) and flattish prices (+0.5% CAGR);
- **Fat division Revenues of +8% CAGR**, mainly as a result of higher prices - driven by the improved quality from the new re-esterification plant – and the very low price base of 2018-19.;
- **Waste material Revenues** are assumed to increase by 15% CAGR driven by higher intake volumes from its new plants capacity (+5% CAGR) and higher prices (+8.5% CAGR).

DIVISIONAL FORECAST – ANNUAL REVENUES - € '000							
in € '000	2017	2018	2019	2020E	2021E	2022E	2023E
BIOSTIMULANTS							
Volumes (t)	18,600	19,605	20,108	22,119	23,446	24,852	26,344
yoy	10.7%	5.4%	2.6%	10.0%	6.0%	6.0%	6.0%
€/ton	1,495	1,541	1,542	1,581	1,620	1,661	1,702
yoy	7.8%	3.1%	0.1%	2.5%	2.5%	2.5%	2.5%
Revenues	27,800	30,206	31,009	34,963	37,987	41,273	44,843
yoy	19%	8.7%	3%	13%	9%	9%	9%
RETARDERS							
Volumes (t)	5,800	5,892	5,587	5,754	5,984	6,224	6,473
yoy	23.4%	1.6%	-5.2%	3.0%	4.0%	4.0%	4.0%
€/ton	2,586	2,616	2,745	2,758	2,772	2,786	2,800
yoy	-3.5%	1.1%	4.9%	0.5%	0.5%	0.5%	0.5%
Revenues	15,000	15,412	15,334	15,873	16,590	17,340	18,124
yoy	19%	2.7%	-1%	4%	5%	5%	5%
FAT							
Volumes (t)	13,000	14,752	15,231	15,302	15,455	15,609	15,765
€/ton	608	451	428	525	569	569	569
Revenues	7,900	6,651	6,520	8,033	8,790	8,878	8,966
yoy	11%	-16%	-2%	23%	9%	1%	1%
INDUSTRIAL / OTHER PRODUCTS							
Revenues	1,500	998	726	744	763	782	801
yoy	88%	-33%	-27%	2%	2%	2%	2%
WASTE TREATMENT / SERVICES							
Revenues	1,666	1,869	3,014	3,569	4,400	5,018	5,216
yoy	2%	12%	61%	18%	23%	14%	4%
GRANULES AND GREENFIELDS							
Revenues	0	0	0	0	0	4,125	10,750

Source: Equita Estimates and company data

In our estimates we include a partial contribution from the granular fertilizer plant and the international expansion in a new tannery industry which may account in the best case scenario for >€22 mn at full capacity. We expect the commissioning of the new plant not before 2023.

Production of **Hydrolyzed proteins** is assumed to increase by **+5% CAGR** over the period as a result of higher waste material intake and a better yield:

- Fleshing from 100ktpa to 105ktpa;
- Shaving from 20ktpa to 23ktpa;
- Trimming from 4.3ktpa to 22ktpa;
- Hair from zero to 10 ktpa;
- The **output yield is forecast to increase from 12% to 15% at Arzignano plant**, driven by the introduction of Hair in the process. It is assumed to stay **stable at Chiampo at 55% yield**.

REFERENCE VOLUMES							
In tons per year	2017	2018	2019	2020E	2021E	2022E	2023E
INPUT							
Fleshing (t) ABD (<i>Arzignano</i>)	91,000	99,612	101,000	102,010	103,030	104,060	105,101
Shaving (t) (<i>Chiampo</i>)	20,000	20,428	21,000	21,000	21,000	23,000	23,000
Trimming (t) (<i>Chiampo</i>)	3,300	4,362	8,000	12,000	18,000	22,000	22,000
Hair (t) ABD (<i>Arzignano</i>)			1,500	4,000	8,500	10,000	10,000
Raw Materials (t)	114,300	124,402	131,500	139,010	150,530	159,060	160,101
y/y	1%	9%	6%	6%	8%	6%	1%
Fleshing (€/t)	11.1	10.9	19.0	19.0	19.5	20.0	20.5
Shaving (€/t)	29.3	27.4	30.2	30.8	31.4	32.0	32.7
Trimming (€/t)		51	55.5	60	65	70	75
Hair (€/t)			51.2	66	66	66	66
Raw Materials (€/t)	14	15	24	26	29	32	33
Revenues from RM collection	1,596	1,869	3,096	3,569	4,400	5,018	5,216
OUTPUT							
<i>Arzignano (t)</i>	10,000	11,845	12,365	13,331	14,733	16,447	15,561
<i>yield</i>	10.9%	11.8%	11.9%	12.5%	13.1%	14.3%	13.4%
<i>Chiampo (t)</i>	12,800	13,757	15,950	18,150	21,450	24,750	24,750
<i>yield</i>	54.9%	55.5%	55.0%	55.0%	55.0%	55.0%	55.0%
Hydrolysed proteins (t)	22,800	25,602	28,315	31,481	36,183	41,197	40,311
Fat (t)	13,000	14,752	15,231	15,302	15,455	15,609	15,765
<i>yield</i>	14.3%	14.8%	15.1%	15.0%	15.0%	15.0%	15.0%

Source: Equita Estimates and company data

We assume COGS to increase in line with revenues and we include the cost savings from

- the two cogeneration plants (€1.2 mn);
- the sludge treatment plant (€1 mn)

Excluding transportation costs, other opex costs have lower correlation to revenues. We include in our assumption the increase in personnel driven by the expansion program.

SICIT: 2016-22 FIGURES (€ MN)							
in € '000	2017	2018	2019	2020E	2021E	2022E	2023E
INCOME STATEMENT							
Revenues	53.9	55.1	56.7	63.2	68.5	77.4	88.7
y/y	19%	2%	3%	12%	8%	13%	15%
COGS	18.8	30.2	31.8	34.6	37.2	42.2	48.8
Gross Profit	35.1	25.0	24.8	28.6	31.3	35.2	39.9
Gross margin	65%	45%	44%	45%	46%	45%	45%
Opex	12.9	3.4	4.1	4.2	4.4	4.5	4.8
EBITDA adj	22.2	21.6	21.2	24.3	26.9	30.7	35.1
y/y	25.9%	-2.7%	-1.9%	15.0%	10.8%	13.8%	14.3%
Margin	41.1%	39.1%	37.3%	38.5%	39.3%	39.6%	39.5%
Depreciation	4.2	4.7	4.5	4.7	5.1	5.7	6.2
% sales	8%	8%	8%	7%	7%	7%	7%
one off items	0.0	0.0	-0.3	0.0	0.0	0.0	0.0
EBITDA reported	22.2	21.6	20.9	24.3	26.9	30.7	35.1
EBITA	17.9	16.9	16.7	19.7	21.9	25.0	28.9
Amortization (PPA)	0.0	0.0	4.1	4.1	4.1	4.1	4.1
D&A Total	4.2	4.7	8.6	8.8	9.2	9.8	10.3
EBIT reported	17.9	16.9	4.8	15.6	17.8	20.9	24.8
EBIT adj	17.9	16.9	8.9	19.7	21.9	25.0	28.9
Margin	33%	31%	16%	31%	32%	32%	33%
Financial Expenses	0.2	-0.2	0.0	0.0	0.0	0.0	0.0
EBT	17.7	18.2	8.9	15.6	17.8	20.9	24.8
taxes	4.8	4.9	3.7	5.1	5.7	6.5	7.5
tax rate	27.1%	26.7%	28.8%	26.0%	26.00%	26.0%	26.00%
Net Income (rep.)	12.9	13.4	4.2	10.5	12.1	14.4	17.3
Net Income (adj.)*	12.9	12.7	12.6	14.6	16.2	18.5	21.4
# shares outstanding (mn)	19.83	19.83	19.83	19.83	19.83	19.83	19.83
EPS (€c) - rep.	65.18	67.40	21.20	52.74	60.89	72.54	87.08
EPS (€c) - adj.*	65.18	64.07	63.66	73.42	81.57	93.22	107.77
yoy	0.00	-2%	-1%	15%	11%	14%	16%
DPS (€c)	0	34	45	64.03	71.14	81.30	93.98
* Amortization of PPA is excluded from Net Profit. The IFRS adoption will exclude it from the income statement							
BALANCE SHEET							
NFP	15.4	14.5	29.3	26.3	21.5	18.2	19.9
NWC	11.5	11.6	13.4	14.2	15.4	17.4	19.9
%sales	21%	21%	22%	22%	22%	22%	22%
Equity	61.3	69.9	88.9	90.4	92.6	96.6	102.9
Capital Employed	45.9	55.4	59.6	64.1	71.1	78.3	83.1
Roce	39%	31%	8%	24%	25%	27%	30%
CF STATEMENT							
EBITDA (excl. upsides)	22.2	21.6	21.2	24.3	26.9	30.7	35.1
Interest cost	-0.2	0.2	0.0	0.0	0.0	0.0	0.0
Taxes	-4.8	-4.9	-3.7	-5.1	-5.7	-6.5	-7.5
Other	1.3	-3.4	2.2	0.0	0.0	0.0	0.0
NWC change	-1.7	-0.1	-7.0	-0.8	-1.2	-2.0	-2.5
OpCF	16.7	13.5	12.6	18.4	20.1	22.2	25.0
Capex	7.4	8.4	9.4	12.5	15.0	15.0	12.5
%sales	14%	15%	17%	20%	22%	19%	14%
FCF	9.3	5.1	3.2	5.9	5.1	7.2	12.5
Dividend	-6.7	-18.0	-18.0	-8.9	-9.9	-10.4	-10.9
Increase in Equity	0.0	0.0	30.0	0.0	0.0	0.0	0.0
Net FCF	2.7	-12.9	15.2	-3.0	-4.8	-3.2	1.6

*adj. for PPA (excluded in IFRS)

Source: Equita Estimates and company data

VALUATION - TARGET PRICE €12.2

Our target price is based on our DCF model.

We assume quite a high beta on the stock despite the relatively modest earnings volatility over the past few years due to the lack of reliable comps listed on the market which would help to track its business performance. Our WACC rate assumption may be lowered following a few quarters of delivery of its business plan – de facto derisking its earnings growth path.

The assumed number of shares for target price calculation is coherent with the warrant exercise at the relevant price scenario.

ASSUMPTIONS (€ MN)		DCF (€ MN)		
Terminal growth rate	2.0%		2020E	TV
WACC	9.3%	Sales	63.2	90.5
EV	234.3	Change %	11.5%	2.0%
Net Cash (Debt) – end 2019	26.3	EBIT	19.7	29.4
Pension	-0.5	Margin	31%	33%
Total Equity	260.1	Taxes	-5.1	-7.7
Share outstanding (mn)	21.3	NOPAT	14.6	21.8
		Capex	-12.5	-9.0
		Depreciation	4.7	8.0
		Change in Work. Cap	-0.8	-0.5
		Free Cash Flow	5.9	20.3
Target price (€ p.s.)	12.2			

Source: Company data and EQUITASIM estimates

SENSITIVITY - EPS				
		WACC		
		8.0%	9.0%	10.0%
LT GROWTH	+1.0%	12.6	11.0	9.7
	+2.0%	14.3	12.2	10.7
	+3.0%	16.7	13.8	11.8

Source: EQUITASIM estimates

Our target price implies about the same EV/EBITDA of CORTEVA, the largest agrochem pure company in the world. The stronger growth potential, higher profitability and M&A appeal should act as mitigants to the sector discount going forward. We also believe the exposure to the circular economy/sustainability trend will likely command a premium.

STATEMENT OF RISK

Factors that could negatively impact the stock performance include:

1. Lower crop prices reducing margins for growers;
2. Unfavourable weather conditions in relevant agriculture markets ;
3. Lower availability of waste material due to weaker economic environment for leather tanning industry in Northern Italy;
4. Significant deterioration in macroeconomic reference scenario for retardants and fat sales;
5. Execution risk in the expansion program outside Italy

INFORMATION PURSUANT TO EU REGULATION 2016/958 supplementing Regulation EU 596/2014 (c.d. MAR)

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RECOMMENDATION/RATING	Low Risk	Medium Risk	High Risk
BUY	ETR >= 10%	ETR >= 15%	ETR >= 20%
HOLD	-5% <ETR< 10%	-5% <ETR< 15%	0% <ETR< 20%
REDUCE	ETR <= -5%	ETR <= -5%	ETR <= 0%

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Date	Rec.	Target Price (€)	Risk	Comment
July 26, 2019	HOLD (n.a.)	11.60 (n.a.)	High	Initiation of coverage

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HOLD	55.1%	45.5%
REDUCE	3.6%	3.9%
NOT RATED	1.8%	2.6%

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