Intermonte

Milan, 22 January 2024

Italian Equity Research – 4Q23 Preview

STM

OUTPERFORM

Sector: Industrials

Price: Eu40.52 - **Target: Eu54.00**

Looking Beyond Short-Term Hurdles

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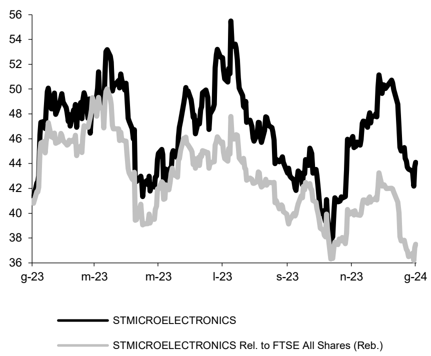
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.0%	-8.3%	-4.0%

Next Event

Results Out 25th of January

STM - 12M Performance



Stock Data			
Reuters code:			STMMI.MI
Bloomberg code:			STMMI IM
Performance	**1M**	**3M**	**12M**
Absolute	-12.4%	7.1%	7.5%
Relative	-12.1%	-2.4%	-9.2%
12M (H/L)			50.48/35.26
3M Average Volume (th):			2,417.17

Shareholder Data	
No. of Ord shares (mn):	944
Total no. of shares (mn):	944
Mkt Cap Ord (Eu mn):	38,267
Total Mkt Cap (Eu mn):	38,267
Mkt Float - Ord (Eu mn):	27,744
Mkt Float (in %):	72.5%
Main Shareholder:	
ST holding II B.V.	27.5%

Balance Sheet Data	
Book Value ($ mn):	19,460
BVPS ($):	20.71
P/BV:	2.1
Net Financial Position ($ mn):	4,758
Enterprise Value ($ mn):	36,888

- **4Q23 results preview: expecting an in-line quarter.** We expect STM to report 4Q23 in line with expectations given the latest management comments and despite negative newsflow on the auto & industrial markets. We forecast revenues at $4.30bn, -3% both YoY and QoQ; gross margin at 46.0%, -1.5ppt YoY; adj. EBIT at $1.02bn, -21% YoY; adj. EPS at $0.95, -28% YoY.
- **FY24 outlook expectations: slight cyclical turnover drop and ramp-up of Agrate.** Looking at FY24, we expect management to provide an early indication on revenues as it did over the last couple of years although visibility is currently lower. Our expectation is for revenues of $17.0bn, a slight -2% YoY drop (vs $17.3bn prev., -2%) on the back of slower growth in automotive only partly offset by a slightly lower decline in industrial, and higher growth in personal electronics & others (details below). Our EBIT forecast is $4.0bn for a 23.5% margin, -3.3pp vs 2023, reflecting a -2pp drop in gross margin to 46.2% due to the ramp-up of the Agrate fab and unsaturation charges, and a +5% YoY increase in OpEx (vs +3% prev.) due to less favourable €/$ (1.08 vs 1.05 prev.). In terms of seasonality, we see a weak 1H24, with 1Q24 sales down -7% YoY, and a recovery in 2H24. The trends described lead us to cut our EPS by 8% in 2024 and less (-4%) in 2025.
  - **Automotive (42% of total)** growing +9% thanks to good backlog coverage (>85%) and proliferation of chips due to car electrification and digitalization on flat global auto production, but lower than previously assumed (+20%) as we note a deceleration in such trends recently (Mobileye profit warning and deceleration in EV sales);
  - **Industrial (30% of total)** declining due to destocking in factory automation and consumer applications only partly offset by green industrial. We assume a -19% drop, a bit less severe than previously assumed (-22.5%) given better PMIs in December;
  - **Consumer electronics (19% of total).** We believe this market has bottomed out: after several quarters of decline, smartphone sales returned to growth in 4Q23 (+8%) and the destocking should be over. Based on mid-single-digit end-market growth, we forecast +6% organic growth (vs +4% prev.) or flat development considering the change in accounting of the relationship with Apple;
  - **Comm. equip., PC & peripherals (9% of total)** where we now assume a flattish trend vs the -10% previously given the improvement in the PC market (4Q23 up +3% and 2024 expected to grow by +8%) and still solid sales for the Starlink project offset by the reduction of exposure to legacy applications such as enterprise communication.
- **OUTPERFORM and TP confirmed.** As FY23 is essentially history, investors' attention at the 4Q23 results presentation will be on FY24 outlook. As we described above, we do not expect FY24 to be a strong year for STM for cyclical and idiosyncratic reasons. After the strong 2022 and 2023 with EPS doubling, we assume the cycle will enter its weaker part for the industrial end market and decelerate for automotive (30% and 43% of STM sales respectively), partly offset by the return to normality of the consumer end-market after the post-pandemic period (29% of sales including others). As for idiosyncratic reasons, although the Agrate fab will weigh on margins near term, it will be a positive medium-term development for the company and as such we tend to look beyond that trend. That said, we confirm our positive view on the stock as: i) we see the reasons for the expected weak FY24 as temporary; ii) we believe FY24 estimates already incorporate a fair dose of caution, as consensus assumes flat revenue and -10% EPS, while we note STM outperformed most of its peers over the last three years ; iii) an attractive valuation both in absolute and relative terms vs current and historical sector levels (PE NTMA/STMA 11.3/9.8x discount of 36/34% vs both current and historical sector average). TP confirmed with lower WACC and roll-over of valuation offsetting lower estimates and a higher €/$ exchange rate.

Key Figures & Ratios	**2021A**	**2022A**	**2023E**	**2024E**	**2025E**
Sales ($ mn)	12,761	16,128	17,304	16,996	18,169
EBITDA Adj ($ mn)	3,466	5,655	6,221	5,757	6,695
Net Profit Adj ($ mn)	2,022	3,819	4,069	3,473	4,105
EPS New Adj ($)	2.187	4.036	4.309	3.678	4.347
EPS Old Adj ($)	2.187	4.036	4.309	4.010	4.530
DPS ($)	0.240	0.240	0.240	0.240	0.240
EV/EBITDA Adj	10.8	6.0	6.6	6.4	5.2
EV/EBIT Adj	15.5	7.7	8.8	9.2	7.3
P/E Adj	20.2	10.9	10.2	12.0	10.1
Div. Yield	0.5%	0.5%	0.5%	0.5%	0.5%
Net Debt/EBITDA Adj	-0.3	-0.3	-0.4	-0.8	-1.1