Milan, 24 July 2023

Italian Equity Research – 2Q23 Preview

STM

OUTPERFORM

Sector: Industrials

Price: Eu45.73 - **Target: Eu56.00**

Positive 2Q23 Expected; FY23 Gross Margin Guidance Seen at Upper End of Range

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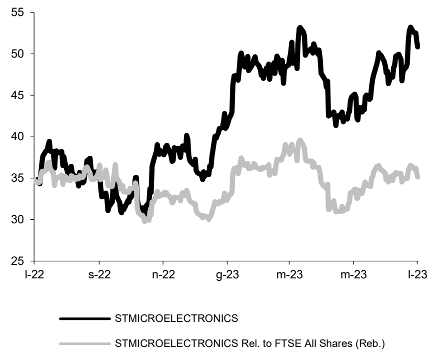
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.0%	0.0%	0.0%

Next Event
Results Out 27th July

STM - 12M Performance



Stock Data			
Reuters code:			STMMI.MI
Bloomberg code:			STMMI IM
Performance	**1M**	**3M**	**12M**
Absolute	6.5%	7.2%	46.4%
Relative	2.6%	4.1%	13.8%
12M (H/L)			48.95/30.91
3M Average Volume (th):			2,865.51

Shareholder Data	
No. of Ord shares (mn):	945
Total no. of shares (mn):	945
Mkt Cap Ord (Eu mn):	43,224
Total Mkt Cap (Eu mn):	43,224
Mkt Float - Ord (Eu mn):	31,337
Mkt Float (in %):	72.5%
Main Shareholder:	
ST holding II B.V.	27.5%

Balance Sheet Data	
Book Value ($ mn):	16,384
BVPS ($):	17.40
P/BV:	2.9
Net Financial Position ($ mn):	2,618
Enterprise Value ($ mn):	45,419

- **Results out on 27 July before the market opens. Conference call at 9.30am CEST. Registration required at the following link.**
- **2Q23 preview: positive release expected.** We expect STM to report a positive set of results which, based on management's recent comments, may also surprise on the upside (our estimates are in line with consensus and guidance). In particular, management sees very strong automotive and B2B industrial markets (~55% of the total) more than offsetting weak consumer electronics, B2C industrial and comm. infrastructure. Revenues are foreseen at $4.28bn (+12% YoY, +1% QoQ), gross margin at 49.0%, adj. EBIT at $1.19bn (+18% YoY, 27.8% margin, +1.6pp) and adj. EPS at $1.09 (+19% YoY). Inventory days are seen marginally up at 124 days vs. 122 in 1Q and 104 in 2Q22 due to softness in the consumer end-market, but we note this was already flagged by management during its latest results release.
- **3Q23 guidance: estimates in line with consensus and consistent with FY guidance.** We expect 3Q23 guidance to be in line with consensus estimates and consistent with implicit 2H23 trends, suggesting moderate growth, due to softer demand in consumer electronics, and margins, partly due to temporary elements such as the ramp-up of the Agrate fab and sub-optimal capacity utilisation. We forecast revenues of $4.41bn (+2% YoY, +3% QoQ), gross margin of 46.5% and adj. EBIT of $1.16bn (-9% YoY, 26.3% margin, -3.1pp).
- **2023 outlook: weak consumer electronics already baked into guidance; gross margin guidance likely to be at the upper end of the range.** While semi stocks were volatile recently on the back of negative comments by TSMC* and ADI**, we believe STM will at least confirm guidance as: i) it boasts a strong backlog for automotive and industrial B2B (~6 quarters) where pricing power remains intact; ii) it didn't included a rebound in consumer electronics demand in 2H23, if this were to come about then revenues would exceed the top end of the current range; iii) the majority of the exposure to the consumer electronics end market is through customer engaged products (i.e. Apple) which are more resilient. From a profitability perspective, we exited the May roadshow with a positive feeling on the gross margin as management seemed confident of hitting the top end of the 47-48% guidance range (our estimate/consensus currently 47.6/47.5%). Guidance points to revenue of $17.0-17.8bn, a gross margin at 47-48% and OpEx/sales relatively flat YoY.
- **OUTPERFORM; target €56.0.** We expect STM to report a positive quarter with FY23 revenue guidance at least to be confirmed and the gross margin to move to the upper end of the range (expectations are now at the mid-point). We continue to like the stock, as while we acknowledge short-term headwinds, such as the drop in the consumer electronics business and sequential gross margin slowdown in a weaker economic environment, we believe these are temporary factors that do not affect the company's medium-term potential. We deem the valuation of ~11.5x P/E highly attractive for a lasting growth story hinged on trends such as electrification and digitalisation.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales ($ mn)	12,761	16,128	17,336	18,420	18,972
EBITDA Adj ($ mn)	3,466	5,655	6,386	6,905	7,353
Net Profit Adj ($ mn)	2,022	3,819	4,016	4,235	4,457
EPS New Adj ($)	2.187	4.036	4.249	4.481	4.716
EPS Old Adj ($)	2.187	4.036	4.249	4.481	4.716
DPS ($)	0.240	0.240	0.240	0.240	0.240
EV/EBITDA Adj	10.8	6.0	7.1	6.2	5.4
EV/EBIT Adj	15.5	7.7	9.6	8.5	7.6
P/E Adj	23.2	12.6	12.0	11.3	10.8
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