

STM

Sector: Industrials

NEUTRAL

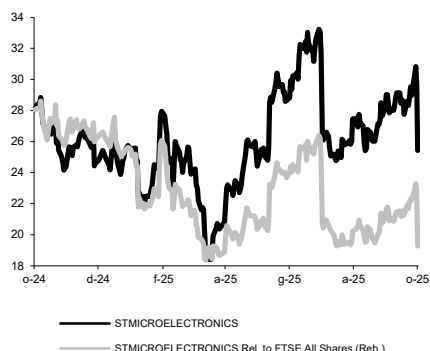
Price: Eu21.90 - Target: Eu23.40

Visibility Remains Poor Heading Into FY26

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	from 25.60 to 23.40		
	2025E	2026E	2027E
Chg in Adj EPS	-1.6%	-22.9%	-7.1%

STM - 12M Performance



Stock Data			
Reuters code:	STMMI.MI		
Bloomberg code:	STMMI IM		
Performance	1M	3M	12M
Absolute	-12.4%	-19.6%	-9.3%
Relative	-12.2%	-23.8%	-31.6%
12M (H/L)	28.40/16.68		
3M Average Volume (th):	4,262.92		

Shareholder Data	
No. of Ord shares (mn):	939
Total no. of shares (mn):	915
Mkt Cap Ord (Eu mn):	20,572
Total Mkt Cap (Eu mn):	20,572
Mkt Float - Ord (Eu mn):	14,914
Mkt Float (in %):	72.5%
Main Shareholder:	
ST holding II B.V.	27.5%

Balance Sheet Data	
Book Value (\$ mn):	17,201
BVPS (\$):	19.05
P/BV:	1.3
Net Financial Position (\$ mn):	3,131
Enterprise Value (\$ mn):	20,142

While FY25 should close broadly in line with expectations, STM's cautious remarks on FY26 triggered a sharp stock correction (-14%). A softer-than-expected revenue rebound, ongoing gross margin pressure, and lower OpEx net savings from the cost-cutting programme are likely to result in a ~20% consensus downgrade. Despite long-term opportunities in digitalisation and electrification, we maintain a cautious stance given the limited visibility on underlying demand trends and muted margin outlook. **NEUTRAL** reiterated, with TP at €23.4 reflecting lower estimates and target multiples under our EV/ROIC framework (€-5.5), partly offset by the full roll-over to 2027 (vs. a 25/75% 2026/27 split previously, +€3.0) and a slightly stronger €/€ (€+0.3). At our TP, the stock would trade at 26x/14x P/E NTMA/STMA vs. the 18x/15x 10-year sector average.

■ **3Q25 results: marginally better than expected.** 3Q25 results came in a touch above expectations, as higher revenues and lower OpEx were only partly offset by a lower gross margin. Revenues were \$3.19bn (-2%/+15% YoY/QoQ) above our/cons. \$3.17bn, thanks to higher Personal Electronics (27% of total, +11% YoY) while Automotive, Industrial and Comm. Equip. were broadly in line (39%/21%/14% of total, -17%/+13%/+5%). The gross margin was 33.2% below our/cons. 33.5% due to a weaker mix in Automotive and Industrial. Adj. EBIT was \$217mn (-43% YoY, 6.8% margin) vs. our/cons. \$201/203mn on lower OpEx; adj. EPS was \$0.29 (-22% YoY) benefitting from a non-recurring gain from financial instruments. Net cash was \$2.61bn in line with our \$2.63bn.

■ **4Q25 guidance: below expectations.** 4Q25 guidance came in weaker than anticipated, effectively the reverse of 3Q results: softer revenues and higher OpEx, only partly offset by a stronger gross margin. Specifically, revenue growth will lag behind normal seasonality (+3% QoQ vs. a +7% historical average since 2018) due to lower capacity reservation fees and reduced volumes at a key EV customer (likely Tesla). While it is positive that the group's book-to-bill remains above 1x, we find the "at parity" level in Industrial disappointing, as this phase should mark the beginning of a recovery. Guidance implies revenues of ~\$3.28bn (-1%/+3% YoY/QoQ), below our/cons. \$3.39/3.32bn; gross margin of ~35.0%, slightly above our/cons. 34.6/34.7%; and adj. EBIT of ~\$233mn (-37% YoY, 7.1% margin), below our/cons. \$294/279mn on higher OpEx.

■ **Underwhelming first hints on FY26.** The main news were the comments on 2026:

- Revenues** are seen in line with seasonality in 1Q (-11% QoQ) based on the current pace of orders, with the non-repeat of de-stocking offset by lower reservation fees. This suggests +18% YoY revenue growth, but we view this as a bit disappointing in the context of our/cons. pre-event FY25 revenue growth forecasts of +15/+13%, and 1Q being the easiest quarter (2025 revenue YoY Δ: -27%, 2Q -14%, 3Q -2%, 4Q -1%);
- Gross margin** should improve YoY on higher revenues and lower unsaturation charges, but will already be impaired by elements from 1Q that will persist throughout the year, namely lower capacity reservation fees, pricing, ForEx and charges to reshape the manufacturing footprint (we est. >200bp combined);
- OpEx** are expected to grow slightly YoY due to inflation and start-up costs for SiC 8", more than offsetting the ~\$120mn cost-cutting benefit. As expectations were for a small decline, this alone implies a ~\$200mn hit to estimates (~14% of EBIT).

Key Figures & Ratios	2023A	2024A	2025E	2026E	2027E
Sales (\$ mn)	17,286	13,271	11,800	12,983	14,540
EBITDA Adj (\$ mn)	6,206	3,436	2,387	3,041	4,127
Net Profit Adj (\$ mn)	4,058	1,557	629	1,095	2,079
EPS New Adj (\$)	4.298	1.658	0.688	1.197	2.272
EPS Old Adj (\$)	4.298	1.658	0.699	1.553	2.445
DPS (\$)	0.240	0.330	0.360	0.360	0.360
EV/EBITDA Adj	6.5	9.1	8.4	6.4	4.3
EV/EBIT Adj	8.7	18.6	37.8	17.1	8.3
P/E Adj	5.9	15.3	37.0	21.2	11.2
Div. Yield	0.9%	1.3%	1.4%	1.4%	1.4%
Net Debt/EBITDA Adj	-0.5	-0.9	-1.3	-1.3	-1.3

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium between 5.5% - 6.0% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the FTSEMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and - 10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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As at 24 October 2025 Intermonte's Research Department covered 131 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	32.06%
OUTPERFORM:	37.40%
NEUTRAL:	30.54%
UNDERPERFORM:	00.00%
SELL:	00.00%

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (76 in total) is as follows:

BUY:	51.32%
OUTPERFORM:	30.26%
NEUTRAL:	18.42%
UNDERPERFORM:	00.00%
SELL:	00.00%

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