Intermonte

Milan, 25 July 2025

Italian Equity Research – 2Q25 Results

STM

NEUTRAL

Sector: Industrials

Price: Eu22.48 - **Target: Eu25.60**

Mixed Outlook Fails To Expectations; Purchase of NXPI MEMS Interesting, Though Size Limited

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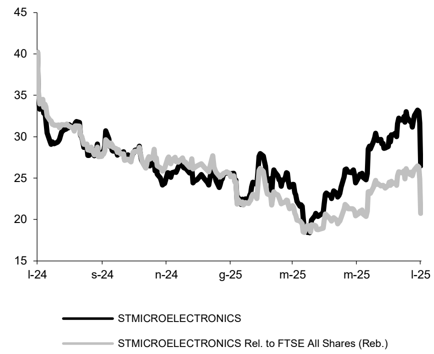
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 27.20 to 25.60
	2025E	**2026E**	**2027E**
Chg in Adj EPS	-20.5%	-11.6%	-6.4%

Next Event
Milan Roadshow with Intermonte 29th of July

STM - 12M Performance



Stock Data			
Reuters code:			STMMI.MI
Bloomberg code:			STMMI IM
Performance	**1M**	**3M**	**12M**
Absolute	-11.6%	14.9%	-34.2%
Relative	-14.5%	4.3%	-51.7%
12M (H/L)			31.94/16.68
3M Average Volume (th):			3,874.66

Shareholder Data	
No. of Ord shares (mn):	939
Total no. of shares (mn):	890
Mkt Cap Ord (Eu mn):	21,121
Total Mkt Cap (Eu mn):	21,121
Mkt Float - Ord (Eu mn):	15,313
Mkt Float (in %):	72.5%
Main Shareholder:	
ST holding II B.V.	27.5%

Balance Sheet Data	
Book Value ($ mn):	17,366
BVPS ($):	19.77
P/BV:	1.3
Net Financial Position ($ mn):	3,065
Enterprise Value ($ mn):	20,481

ST reported 2Q25 results in line with recent indications and, thanks to Personal Electronics and Industrial, above the mid-point of guidance. Nevertheless, we think 3Q25 guidance was softer than market expectations for both the top line (due to a cut to orders by a specific Automotive customer, likely Tesla) and margins (on lower operating leverage and higher FX headwinds). With continuing low visibility on 4Q trends and subdued indications on the margin, we confirm our rating on the stock. We appreciate the acquisition of NXPI MEMS business, but we estimate the overall impact points to a less than 5% accretion incl. synergies. TP to €25.6 (from €27.2) reflecting lower estimates (€-2.7), €/$ (€-0.4), dividend payment (€-0.3), only partly offset by lower ERP (€+1.3) and acquisition of NXP business (€+0.5), while we keep yearly weightings unchanged (2025/26/27 at 0/25/75%). The stock trades at 27/14x NTMA/STMA PE, in line with the upper limit of the range during upcycles.

- **2Q25 results: in line with indication of above mid-point.** 2Q25 results were above the mid-point of guidance as recently hinted at by the CEO and overall were in line with consensus, while FCF was a little disappointing due to higher inventories. As expected, Personal Electronics (21% of tot., -5% YoY and +3% QoQ) and Industrial (20%, -7% YoY and +15% QoQ) were better, while Auto (46%, -24% YoY and +14% QoQ) was slightly worse. Revenues were $2.77bn (our/cons. $2.77/2.75bn), -14% YoY and +10% QoQ; the gross margin was 33.5% (our/cons. 34.2/33.5%); adj. EBIT $57mn (our/cons. $83/52mn), -85% YoY and 2.1% margin; adj. EPS $0.06, -83% YoY; and net cash $2.7bn vs our $3.1bn.
- **3Q25 guidance: better than sell-side estimates but short of market expectations.** Guidance for 3Q25 sees revenues at $3.17bn (our/cons. $3.32/3.10bn), -2% YoY and +10% QoQ; the gross margin at 33.5% (our/cons. 36.0/34.7%), -4.3pp YoY and 0.0pp QoQ; and adj. EBIT at ~$202mn, -47% YoY and a 6.4% margin. Despite revenues being ahead of sell-side estimates, we believe the market was assuming a return to YoY revenue growth as hinted at by the CEO at the beginning of June. A cut to orders by a specific Automotive customer (we think Tesla) appears to be behind the lower-than-expected rebound. Moreover, a flat QoQ gross margin is a little underwhelming bearing in mind that the impact from non-recurring charges related to reshaping manufacturing is not that large (~30bps); this suggests a stronger-than-expected FX headwind and lower operating leverage are to blame for the miss.
- **Continuing low visibility into 4Q.** 4Q is expected to show a QoQ increase as per the usual seasonality, with the current pace of orders suggesting it will be in line with historical average growth of 7%. However, visibility remains low: in order to achieve that level of growth, orders should continue to rise through 3Q and in early 4Q; with that in mind, it should be noted that order bookings in 2Q were above parity at Industrial but below at automotive. The gross margin should improve due to operating leverage, improving manufacturing efficiency, and lower FX headwinds.
- **Acquisition of NXP's MEMS sensor business.** We believe the acquisition makes strategic sense given ST strong position in the field and complementary with NXPI product portfolio. From a financial standpoint, ST can easily support the $950mn (incl. earn-out) cash given its ~$3bn net cash position. NXP MEMS business had revenues of $300mn in 2024 and assuming profitability just a tad below NXP group the EBIT would be in the ~30% range. We estimate that the acquisition would be ~3% accretive to ST's EPS which could up to 4/5% incl. synergies.
- **Change in estimates.** Based on slightly softer revenue and margin indications, we have revised our EPS forecast for 2026-27 by -9% on average. Changes to 2025 are more meaningful but reflect the lower base.

Key Figures & Ratios	2023A	2024A	2025E	2026E	2027E
Sales ($ mn)	17,286	13,271	11,839	13,613	15,245
EBITDA Adj ($ mn)	6,206	3,436	2,443	3,513	4,611
Net Profit Adj ($ mn)	4,058	1,557	622	1,382	2,176
EPS New Adj ($)	4.298	1.658	0.699	1.553	2.445
EPS Old Adj ($)	4.298	1.658	0.879	1.757	2.613
DPS ($)	0.240	0.330	0.360	0.360	0.360
EV/EBITDA Adj	6.5	9.1	8.4	5.6	3.9
EV/EBIT Adj	8.7	18.6	36.4	12.5	7.0
P/E Adj	6.2	16.0	37.9	17.0	10.8
Div. Yield	0.9%	1.2%	1.4%	1.4%	1.4%
Net Debt/EBITDA Adj	-0.5	-0.9	-1.3	-1.1	-1.2

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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.

Explanation of our ratings system:

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 25 July 2025 Intermonte's Research Department covered 134 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	32.84%
OUTPERFORM:	38.06%
NEUTRAL:	29.10%
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 (79 in total) is as follows:

BUY:	53.16%
OUTPERFORM:	29.11%
NEUTRAL:	17.73%
UNDERPERFORM:	00.00%
SELL:	00.00%

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