

STM

Sector: Industrials

OUTPERFORM

Price: Eu42.41 - Target: Eu51.50

FY24 Softer Than Expected, But Stock Already Discounting Harsher Scenario

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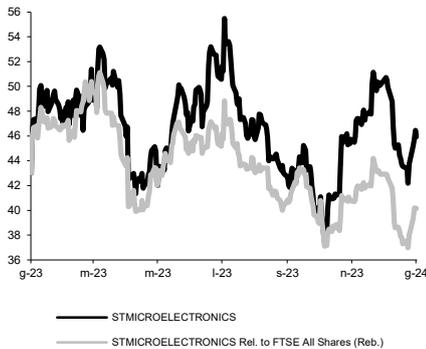
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 54.00 to 51.50		
	2024E	2025E	2026E
Chg in Adj EPS	-12.6%	-9.0%	

Next Event

 Roadshow in Milan, 30th of January

STM - 12M Performance



Stock Data

 Reuters code: STMIMI.MI
 Bloomberg code: STMIMI IM

Performance	1M	3M	12M
Absolute	-8.4%	16.9%	6.8%
Relative	-8.0%	6.1%	-8.4%
12M (H/L)	50.48/35.26		
3M Average Volume (th):	2,538.31		

Shareholder Data

No. of Ord shares (mn):	944
Total no. of shares (mn):	943
Mkt Cap Ord (Eu mn):	40,042
Total Mkt Cap (Eu mn):	40,042
Mkt Float - Ord (Eu mn):	29,030
Mkt Float (in %):	72.5%
Main Shareholder:	
ST holding II B.V.	27.5%

Balance Sheet Data

Book Value (\$ mn):	19,460
BVPS (\$):	20.77
P/BV:	2.2
Net Financial Position (\$ mn):	5,177
Enterprise Value (\$ mn):	38,133

- **4Q23 results in line with expectations.** 4Q23 results were in line with expectations, with better Personal Electronics trends offsetting softer growth in Automotive, while the net cash position benefited from \$0.15bn of advance payments on capital grants relating to the SiC JV with Sanan in China. Revenues were \$4.28bn (-3% YoY and QoQ, exp. \$4.30bn); the gross margin was 45.5% (-2.0pp YoY, exp. 46.0%); adj. EBIT came to \$1.02bn (-20% YoY, 23.9% margin, exp. \$1.02bn); adj. EPS was \$0.94 (-20% YoY, exp. \$0.95); FCF was \$652mn (exp. \$349mn) with inventory days falling to 105 vs. 115 in 3Q23.
- **2024 outlook softer than expected suggesting mid-teens estimate revision...** 2024 guidance was lower than forecast, indicating revenues of \$15.9-16.9bn (-8/-2% YoY, vs. our est./cons. of \$17.0/17.3bn), a low-to-mid 40s% gross margin (our est./cons. 46%) and +3-4% YoY OpEx growth (our est./cons. +6%). Accordingly, adj. EBIT is foreseen in the \$3.0-3.9bn range, with the mid-point being some ~15% below expectations and implying a -25% YoY drop for a 21% margin.
- **Slower growth in Automotive and Personal Electronics; Industrial weak as expected.** In terms of revenues by end market, we note: slower growth for **Automotive** (41% of total), foreseen up mid-single-digit, (-4% vs. our estimate) due to a stronger impact from destocking by Mobileye, a tough FY23 comparison created by inventory replenishment and capacity reservation fees; **Industrial** weak, down mid-teens as expected due to an inventory correction envisaged to last until the end of 2Q (the guidance range mainly allows for faster/slower recovery in this end market); slower growth in **Personal EL** (19%) seen down mid-single-digit including the impact of a mix change at Apple (-5% vs. our estimate) as we anticipated a more upbeat recovery; **Comm. Eq. & Others** (10%) foreseen flat YoY with growth at the Starlink project with SpaceX offset by others.
- **Margins burdened by lower revenues, but guidance seems a bit conservative.** The lower-than-expected gross margin reflects the reduced revenues and includes the impact, mostly in 1H, of lower capacity utilisation and the ramp-up of the new fab in Agrate. However, we believe guidance is a touch conservative as 1Q24 is seen at 42.3%, which will probably be the lowest point of the year for revenues and margin, with meaningful sequential growth of >+20% in 2H, creating some operating leverage.
- **Change in estimates.** We are cutting our 2024/25 EPS by -13%/-9%, reflecting the lower-than-expected outlook as described above.
- **OUTPERFORM; target to €51.5.** FY24 guidance was softer than expected, triggering a mid-teen estimate revision for consensus and reflecting a slower growth in automotive, the inventory correction in the industrial end market and a milder recovery in personal electronics. It is obvious that it would have been preferable if estimates moved upwards, but we paradoxically believe that the cut in estimates could represent a positive catalyst, as investors can finally gauge the impact of the cyclical correction of the business. If we also consider that FY24 will be affected by the ramp-up of the Agrate fab, as well as being the low point in the cycle, we continue to believe that at a NTM P/E of ~14x (well below historical and current industry averages) the STM stock offers a favourable risk/reward opportunity. OUTPERFORM confirmed, TP to €51.5 (from €54.0) on the back of lower estimates, partly offset by a better €/€ exchange rate.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (\$ mn)	16,128	17,286	16,500	17,771	18,813
EBITDA Adj (\$ mn)	5,655	6,206	5,158	6,172	7,043
Net Profit Adj (\$ mn)	3,819	4,058	3,029	3,730	4,336
EPS New Adj (\$)	4.036	4.298	3.213	3.956	4.599
EPS Old Adj (\$)	4.036	4.309	3.678	4.347	
DPS (\$)	0.240	0.240	0.240	0.240	0.240
EV/EBITDA Adj	6.0	6.5	7.4	5.8	4.6
EV/EBIT Adj	7.7	8.7	11.0	8.2	6.4
P/E Adj	11.4	10.7	14.3	11.6	10.0
Div. Yield	0.5%	0.5%	0.5%	0.5%	0.5%
Net Debt/EBITDA Adj	-0.3	-0.5	-1.0	-1.2	-1.5

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