STM

OUTPERFORM

Sector: Industrials

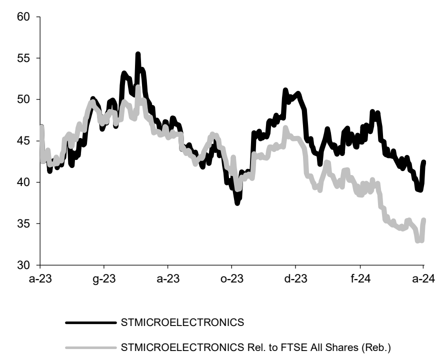
Price: Eu39.62 - **Target: Eu47.70**

Warning On FY24 Outlook Should Be The “Last Cut”

Gianluca Bertuzzo +39-02-77115.429
gianluca.bertuzzo@intermonte.it

Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 51.50 to 47.70
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-31.4%	-15.2%	-9.6%

STM - 12M Performance



Stock Data			
Reuters code:			STMMI.MI
Bloomberg code:			STMMI IM
Performance	**1M**	**3M**	**12M**
Absolute	-1.8%	-7.6%	-7.7%
Relative	0.3%	-19.2%	-30.3%
12M (H/L)			50.48/35.26
3M Average Volume (th):			2,437.76

Shareholder Data	
No. of Ord shares (mn):	941
Total no. of shares (mn):	941
Mkt Cap Ord (Eu mn):	37,282
Total Mkt Cap (Eu mn):	37,282
Mkt Float - Ord (Eu mn):	27,030
Mkt Float (in %):	72.5%
Main Shareholder:	
ST holding II B.V.	27.5%

Balance Sheet Data	
Book Value ($ mn):	18,501
BVPS ($):	19.79
P/BV:	2.1
Net Financial Position ($ mn):	4,247
Enterprise Value ($ mn):	35,693

- **1Q24 results below expectations.** 1Q24 results were below expectations, with lower revenues in automotive and industrial only partly offset by higher personal electronics. Revenues were $3.47bn, -18% YoY and -19% QoQ, vs. our/cons. $3.60bn; gross margin was 41.7% vs. our/cons. 42.3%, due to lower volumes as pricing impact was in line; EBIT was $551mn vs. our/cons. $590mn, with slightly lower OpEx partly offsetting lower gross profit; adj. EPS was $0.54 vs. our/cons. $0.55/0.57, benefitting from higher interest income; net cash was $3.13bn vs. our $3.55bn due to higher CapEx and adverse NWC trends on increased inventory.
- **2Q24 guidance lower than forecast.** In light of deteriorating industrial and automotive demand, 2Q24 guidance came in below expectations. Revenues were indicated at $3.20bn, -26% YoY and -8% QoQ (vs. our/cons. $3.69/3.70bn); gross margin 40.0% vs our/cons. 42.3%/41.9%; EBIT of $316mn vs our/cons. $590/607mn.
- **2024 outlook lowered.** At the mid-point, revenues are now seen at $14.5bn (±$0.5bn) vs. $16.5bn previously; gross margin ~41.5% (±1%) vs. 43.5% prev.; adj. EBIT of $2.30bn (±$0.3bn) from $3.46bn, with OpEx up ~+2% vs. +3.5% prev. The revision came on the back of the lower-than-expected 1H, weak order bookings in the industrial end market that were below assumptions, a changed production mix with automotive customers featuring lower EVs, as well as greater OEMs focus on inventories. By end market: **automotive (41% of total)** is now seen down mid-single-digit (vs. up mid-single-digit prev.) including slower SiC growth to ~$1.3bn (+13% YoY) vs. $1.55bn prev. and auto-ex SiC -15% (vs. -1% prev.); **industrial (30% of total)** down more than -30% vs. down mid-teens prev.; **personal electronics (19% of total)** confirmed to be down double-digit including the impact of the mix change at Apple; **Comm. Equip. & Others (10% of total)** seen down mid-single-digit, in line with prev. indications, with growth in engaged customer programmes for LEO satellite (i.e. SpaceX’s Starlink) offsetting the disengagement of legacy programmes.
- **Change in estimates.** We are significantly revising our FY24 forecast by -31%, incorporating the new guidance mid-point. The cut to our FY25/26 forecast is lower, as FY24 should be hit by de-stocking in various end markets and by unsaturation charges.
- **OUTPERFORM, TP from €51.5 to €47.7.** Although in itself the release was not positive, we believe that this could represent the “last cut” to estimates the market was seeking to become more positive on the stock. Indeed, the stock didn’t react negatively to the release because, as we argued, it was already factoring in a significant estimate cut. To support the reaction, we note the relatively resilient gross margin given the impact from the ramp-up of the Agrate fab and the first sign of industry stabilisation, as suggested by peer TXN (which is expecting sequentially higher revenues in 2Q). On our updated estimates, the stock is trading at 15.5/11.3x NTMA/STMA P/E, which we consider very attractive considering: i) STM is a longstanding growth story with unique features, such as its exposure to rapidly growing segments and strong track record of outperforming the industry; ii) these figures are below both current and historical industry multiples of ~17.5/15.0x. OUTPERFORM confirmed, target from €51.5 to €47.7 on the back of lower estimates, partly offset by different weighting of the years.

Key Figures & Ratios	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Sales ($ mn)	16,128	17,286	14,500	16,672	18,245
EBITDA Adj ($ mn)	5,655	6,206	4,171	5,778	6,833
Net Profit Adj ($ mn)	3,819	4,058	2,073	3,157	3,912
EPS New Adj ($)	4.036	4.298	2.203	3.354	4.157
EPS Old Adj ($)	4.036	4.298	3.213	3.956	4.599
DPS ($)	0.240	0.240	0.240	0.240	0.240
EV/EBITDA Adj	6.0	6.5	8.6	5.8	4.5
EV/EBIT Adj	7.7	8.7	15.6	9.1	6.8
P/E Adj	10.5	9.9	19.3	12.7	10.2
Div. Yield	0.6%	0.6%	0.6%	0.6%	0.6%
Net Debt/EBITDA Adj	-0.3	-0.5	-1.0	-1.1	-1.3

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- 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)

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Frequency of research: quarterly.
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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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OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

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UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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