Milan, 26 July 2024

Italian Equity Research – 2Q24 Results

STM

OUTPERFORM

Sector: Industrials

Price: Eu31.94 - **Target: Eu37.30**

Looking Beyond the Trough

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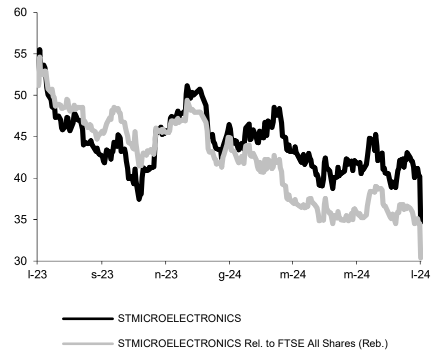
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 47.70 to 37.30
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-20.4%	-22.3%	-19.6%

Next Event

3Q24 results in October; CMD 30th Nov.

STM - 12M Performance



Stock Data			
Reuters code:			STMMI.MI
Bloomberg code:			STMMI IM
Performance	**1M**	**3M**	**12M**
Absolute	-13.0%	-18.3%	-32.9%
Relative	-13.2%	-18.0%	-49.0%
12M (H/L)			50.48/31.94
3M Average Volume (th):			2,652.94

Shareholder Data	
No. of Ord shares (mn):	941
Total no. of shares (mn):	941
Mkt Cap Ord (Eu mn):	30,056
Total Mkt Cap (Eu mn):	30,056
Mkt Float - Ord (Eu mn):	21,790
Mkt Float (in %):	72.5%
Main Shareholder:	
ST holding II B.V.	27.5%

Balance Sheet Data	
Book Value ($ mn):	17,925
BVPS ($):	19.18
P/BV:	1.8
Net Financial Position ($ mn):	3,562
Enterprise Value ($ mn):	29,064

- **2Q24 results: saved by better personal electronics and lower OpEx.** 2Q24 EBIT beat expectations thanks to lower OpEx and sales a touch above: higher in personal electronics but lower in automotive. Revenues were $3.23bn, -25% YoY and -7% QoQ, vs. our/cons. $3.20bn; gross margin was 40.1% vs. our/cons. 40.0%; EBIT was $374mn vs. our/cons. $316/346mn, with lower OpEx; adj. EPS was $0.37 vs. our/cons. $0.33/0.33; net cash was $3.20bn with FCF in line at $159mn.
- **FY24 outlook: cut due to auto and industrial.** Revenues are now seen at $13.45bn (±$0.25bn) vs. $14.5bn prev.; gross margin ~40.0% vs. ~41.5% prev.; adj. EBIT of $1.72bn (±$0.15bn) vs. $3.30bn prev., with OpEx up +0.5% vs. +2% prev. 3Q will be down -27% YoY and stable QoQ, while 4Q will improve sequentially to -18% YoY. The cut to revenues of $1.05bn is attributed to lower demand in industrial for $0.7bn and automotive for $0.5bn, with personal electronics only slightly higher ($0.15bn):
  - **Automotive (~40% of FY23)** seen down -13% YoY vs. -6% prev. with 2H at -17% due to negative car production trends, already witnessed in 2Q, lower growth for EVs and a further inventory adjustment at Mobileye. SiC confirmed at $1.3bn, with auto ex-SiC seen at -18% vs. -10% prev.;
  - **Industrial (~30%)** seen down -50% YoY vs. -36% prev. with 2H at -51% due to weak end markets (residential solar, power tools, appliances, energy storage, EV chargers and process automation) and ongoing de-stocking. Inventories are still high, as distributors and industrial OEMs are yet to digest the chips coming from non-cancellable orders placed during the height of the shortage;
  - **Personal Electronics (~20%)** seen down -7% YoY (or -3% like-for-like excl. the mix change at Apple) vs. -11% prev. as we incorporate the better 2Q and leave 2H unchanged. Programmes with Apple are going according to plan and management anticipated an increase in content from 2H25;
  - **Comm. Eq. & Perip. (~10%)** essentially unchanged at -6% (-8% prev.) with the exit from legacy businesses offseting positive performance with Starlink.
- **Change in estimate.** We are lowering our forecasts by -21%, incorporating the new guidance mid-point.
- **OUTPERFORM; target €37.3.** We thought that the warning with 1Q results could have been the last estimate cut, but this clearly wasn't the case. While this update caught us by surprise, especially in the industrial segment, as the weakening in the auto arena surfaced at the end of 1Q, we believe the trough is close by. With further potential weakness only pertaining to part of the automotive business, we remain positive on the stock as we look beyond this correction, which we deem cyclical. Indeed, we still believe in the opportunity offered by the embedded electrification and digitalisation trends. The stock is trading at 20/13x 1/2 year-forward P/E, compared to current and historical industry multiples of 19/16x. OUTPERFORM confirmed, target from €47.7 to €37.3 on the back of lower estimates. We value the stock through an EV/ROIC framework with a 10% WACC and 3.5% G.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales ($ mn)	16,128	17,286	13,450	15,004	16,418
EBITDA Adj ($ mn)	5,655	6,206	3,635	4,852	5,733
Net Profit Adj ($ mn)	3,819	4,058	1,650	2,449	3,141
EPS New Adj ($)	4.036	4.298	1.753	2.605	3.341
EPS Old Adj ($)	4.036	4.298	2.203	3.354	4.157
DPS ($)	0.240	0.240	0.330	0.360	0.360
EV/EBITDA Adj	6.0	6.5	8.0	5.6	4.3
EV/EBIT Adj	7.7	8.7	16.6	9.9	7.0
P/E Adj	8.6	8.1	19.8	13.3	10.4
Div. Yield	0.7%	0.7%	1.0%	1.0%	1.0%
Net Debt/EBITDA Adj	-0.3	-0.5	-1.0	-1.1	-1.4

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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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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:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
SELL:	00.00 %

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OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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