

STM

Sector: Industrials

OUTPERFORM

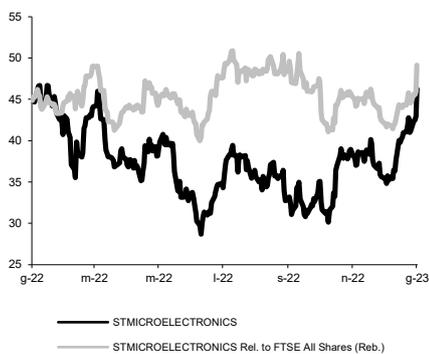
Price: Eu42.67 - Target: Eu57.00

FY23 outlook much better than expected

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

Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	from 44.00 to 57.00		
	2023E	2024E	2025E
Chg in Adj EPS	29.9%	24.6%	

STM - 12M Performance



Stock Data			
Reuters code:	STM.MI		
Bloomberg code:	STM IM		
Performance	1M	3M	12M
Absolute	29.8%	32.0%	3.2%
Relative	20.1%	15.3%	5.3%
12M (H/L)	42.67/28.01		
3M Average Volume (th):	2,534.60		

Shareholder Data	
No. of Ord shares (mn):	946
Total no. of shares (mn):	946
Mkt Cap Ord (Eu mn):	40,373
Total Mkt Cap (Eu mn):	40,373
Mkt Float - Ord (Eu mn):	29,270
Mkt Float (in %):	72.5%
Main Shareholder:	
ST holding II B.V.	27.5%

Balance Sheet Data	
Book Value (\$ mn):	16,370
BVPS (\$):	17.37
P/BV:	2.7
Net Financial Position (\$ mn):	2,939
Enterprise Value (\$ mn):	40,882

- 4Q22 results slightly above expectations.** STM reported 4Q22 results slightly ahead of expectations at operating level, with net income also above expectations thanks partly to a one-off tax benefit. Cash flow generation was much stronger amid higher results and strong NWC management, with inventories essentially stable QoQ. Results were driven by strong demand in the automotive and industrial B2B end markets and engaged customer programs, while consumer electronics was soft as expected. Revenues increased +24% YoY (in line), the gross margin expanded by 2.3pp YoY to 47.5% (cons. 46.7%), and adj. EBIT was \$1.29bn (3% ahead of cons.).
- 1Q23 guidance much better than expected.** 1Q23 guidance came in much better than expected, with YE22 trends by end market carrying over (strong auto and industrial, solid comm. equip. and weaker consumer electronics). Revenues are seen up +18% YoY (cons.) with the gross margin even seen rising QoQ to 48.0% thanks to improved mix and slightly positive pricing, partly offset by the increase in input prices. Adj. EBIT is expected at ~\$1.11bn (+26% YoY, 26.4% margin, cons. at \$0.97bn) as OpEx are projected to increase to \$900-915mn (4Q22 at \$816mn), impacted by seasonality and lower other income due to start-up costs for the Agrate 300mm fab and lower R&D grants related to administrative delays set to reverse in 2Q23.
- 2023 outlook also well ahead of expectations.** Similar to 1Q23, 2023 outlook is better than expected in terms of both top line and profitability, triggering a potential mid-teen rise in consensus estimates. Revenues are seen at ~\$17.3bn (±\$0.5bn, +7% YoY, cons. \$16.6bn) thanks again to automotive and industrial where structural digitalization and electrification trends driving new applications & greater chip pervasiveness play a much more important role than end-market volumes. Pricing is expected to be relatively neutral. Gross margin projected at ~47%, implying an essentially stable trend YoY, much better than feared by consensus at ~45%: the 1H gross margin is seen above the 2H figure as the final part of the year will be adversely affected by the start-up of the Agrate 300mm fab. On stable OpEx/sales, adj. EBIT could be \$4.7bn, some 17% higher than consensus at \$4.0bn. CapEx will stay high at ~\$4.0bn, 80% of which to support capacity increase transformation (toward 300mm) and SiC (revenues seen >\$1bn from \$0.7bn in 22A).
- Change in estimates.** We are aligning our forecast at mid-point to FY23 outlook, translating into a 30% increase in our adj. EPS.
- OUTPERFORM, TP to €57.0.** 2022 closed strongly for STM, with trends supported by electrification & digitalization in the automotive and industrial end markets (~62% of revenues). More importantly, the FY23 outlook confirms the strength and resilience of the business with figures coming in well ahead of expectations. This also suggests that fears on the impact of the slowdown in the consumer electronics end market (~29% of revenues) are overstated, also given that STM is more exposed to the high end. We thus confirm our OUTPERFORM rating given a positive risk/reward balance as STM is a high growth, high quality stock trading at ~11/10x PE NTMA/STMA, almost in line with trough multiples (10.9/9.2x) and well below the historical average (17.1/14.9x). We raise our TP to €57.0 from €44.0 following higher estimates (€+12.4), lower beta (€+3.2), roll-over to 2023/24 (vs 2022/23 prev., €+2.2) partly offset by a stronger € against the \$ (€-4.8).

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (\$ mn)	12,761	16,128	17,336	18,420	18,972
EBITDA Adj (\$ mn)	3,466	5,655	6,362	6,880	7,237
Net Profit Adj (\$ mn)	2,022	3,819	3,983	4,239	4,378
EPS New Adj (\$)	2.187	4.036	4.210	4.481	4.627
EPS Old Adj (\$)	2.187	3.978	3.242	3.595	
DPS (\$)	0.240	0.240	0.360	0.380	0.380
EV/EBITDA Adj	10.8	6.0	6.4	5.6	5.0
EV/EBIT Adj	15.5	7.7	8.7	7.7	7.0
P/E Adj	21.2	11.5	11.0	10.3	10.0
Div. Yield	0.5%	0.5%	0.8%	0.8%	0.8%
Net Debt/EBITDA Adj	-0.3	-0.3	-0.5	-0.8	-1.1

The reproduction of the information, recommendations and research produced by Intermonte SIM contained herein, and any of its parts, is strictly prohibited. None of the contents of this document may be shared with third parties without Company authorization. Please see important disclaimer on the last page of this report