Milan, 27 October 2023

Italian Equity Research – 3Q23 Results

STM

OUTPERFORM

Sector: Industrials

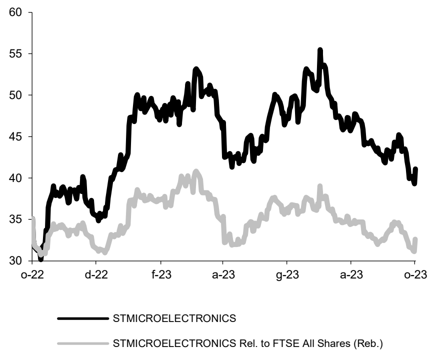
Price: Eu38.97 - **Target: Eu54.00**

Still An Opportunity As Stock Incorporates Much Weaker Development

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

Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 60.00 to 54.00
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.0%	-11.2%	-4.8%

STM - 12M Performance



Stock Data			
Reuters code:			STMMI.MI
Bloomberg code:			STMMI IM
Performance	**1M**	**3M**	**12M**
Absolute	-2.3%	-19.8%	17.1%
Relative	0.0%	-14.2%	-3.0%
12M (H/L)			50.48/30.91
3M Average Volume (th):			2,651.17

Shareholder Data	
No. of Ord shares (mn):	944
Total no. of shares (mn):	944
Mkt Cap Ord (Eu mn):	36,803
Total Mkt Cap (Eu mn):	36,803
Mkt Float - Ord (Eu mn):	26,682
Mkt Float (in %):	72.5%
Main Shareholder:	
ST holding II B.V.	27.5%

Balance Sheet Data	
Book Value ($ mn):	16,171
BVPS ($):	17.19
P/BV:	2.4
Net Financial Position ($ mn):	2,713
Enterprise Value ($ mn):	36,089

- **3Q23 results: slightly above estimates.** 3Q23 results were a touch above forecasts due to stronger automotive growth, which more than offset weaker personal electronics. Revenues were $4.43bn (+3% YoY, +2% QoQ, exp. $4.38bn); gross margin was 47.6% (exp. 47.5%); adj. EBIT was $1.24bn (-2% YoY, 28.0% margin); adj. EPS was $1.15 (-1% YoY); FCF was $707mn (exp. $396mn) with inventory days falling to 115 vs. 124 in 2Q23.
- **FY23 guidance: minor revision due to weaker 4Q.** FY24 revenue guidance was trimmed to $17.3bn (+7% YoY, vs. $17.4bn prev.) on the back of weaker orders from the industrial market in China 3Q. With gross margin seen at 48.1% (vs. prev. >48%) and 4Q OpEx at $950-960mn, FY23 adj. EBIT guidance points to $4.65bn, +5% YoY and 26.9% margin, slightly below our/cons. forecast ($4.74/4.70bn, -2/-1%).
- **A look at 2024: strong automotive, personal electronics showing signs of stabilisation, industrial turning negative.** While guidance will be provided along with FY23 results in January, management shared some qualitative comments by end market on FY24. All in all, we are assuming a cyclically weaker trend, resulting in flat revenues:
  - **Automotive (~42% of total vs. 33% in FY22).** In FY23, automotive will grow by +36%, with SiC +71% (ex-SiC +28%), and much more than global auto production of +7% driven by the proliferation of chips and changes in the relationship with carmakers (capacity reservation fees). With visibility still high, auto should still grow significantly thanks to electrification and digitalisation; we assume +20%;
  - **Personal electronics (~19% of total vs. 27% in FY22).** As is widely known, personal electronics is the FY23 weak spot, down -25% YoY amid soft end-market sales (smartphone sales -12%/-4% in FY22/23), customer de-stocking and a change in accounting at Apple affecting YoY growth for -9pp, or -2.3pp at group level. For FY24, the end market is expected to grow slightly like-for-like from 2Q/3Q24, with the low point seen in 4Q23. We assume +4% LfL or -2% incl. the Apple effect;
  - **Industrial (~29% of total vs. 29% in FY22).** While the industrial market was strong entering FY23, the trend softened during the year on a weaker macro backdrop, closing at ~+12%. Visibility is currently limited, and we therefore assume a -23% YoY fall;
  - **Comm. equip., PC & peripherals (~9% of total, vs. 11% in FY22).** The business should have fallen -10% in FY22 with the drop in PC and peripherals more than offsetting the Starlink program with SpaceX. We remain cautious on FY23, assuming another -10% fall.
- **Change in estimates.** Our FY23 forecast remains broadly unchanged, with slightly lower revenues and negative operating leverage offset by higher interest income. On FY24 we take a more cautious approach amid a weaker macro environment, while forecasting a stronger rebound in FY25. We are cutting our 2024/25 EPS by -11%/-5%. We believe sell-side consensus will settle around our new forecast, implying a mid-single-digit revision.
- **OUTPERFORM; target to €54.0.** STM reported slightly better 3Q23 results, but trimmed guidance on a weaker industrial market in China, but with a very limited impact on the FY23 consensus forecast. The weaker macro backdrop will inevitably hit the company as well, but we highlight STM continued to outperform peers (2H/FY23: +4/+10% LfL vs. -8/-4% of peers) thanks to its technological leadership and exposure to the fastest growing applications. We reiterate our OUTPERFORM rating on the stock, especially as it is trading at ~10x NTM P/E, a significant 43% discount vs. historical valuations. While we acknowledge the headwind posed by higher interest rates, we believe the stock is discounting a much more severe estimate cut, to the tune of -25%. Target lowered to €54.0 from €60.0 on higher WACC (€-4.6) and lower estimates (€-3.5), offset by €/$ (+€2.1). target TP, the stock would trade at 14x P/E.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales ($ mn)	12,761	16,128	17,304	17,335	18,549
EBITDA Adj ($ mn)	3,466	5,655	6,221	6,134	6,970
Net Profit Adj ($mn)	2,022	3,819	4,069	3,787	4,278
EPS New Adj ($)	2.187	4.036	4.309	4.010	4.530
EPS Old Adj ($)	2.187	4.036	4.310	4.515	4.760
DPS ($)	0.240	0.240	0.240	0.240	0.240
EV/EBITDA Adj	10.8	6.0	5.8	5.5	4.5
EV/EBIT Adj	15.5	7.7	7.8	7.8	6.3
P/E Adj	18.8	10.2	9.5	10.2	9.1
Div. Yield	0.6%	0.6%	0.6%	0.6%	0.6%
Net Debt/EBITDA Adj	-0.3	-0.3	-0.4	-0.8	-1.1