

# STM

Sector: Industrials

# OUTPERFORM

Price: Eu38.61 - Target: Eu56.00

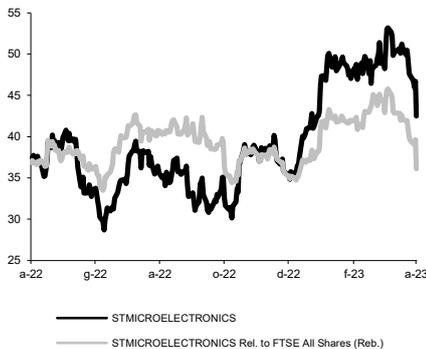
## Stock Punished Too Harshly for Already-Flagged Temporary GM Slowdown

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### Stock Rating

<b>Rating:</b>	Unchanged		
<b>Target Price (Eu):</b>	from 57.00 to 56.00		
	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>Chg in Adj EPS</b>	0.9%	0.0%	1.9%

### STM - 12M Performance



### Stock Data

Reuters code:	STMMI.MI
Bloomberg code:	STMMI IM

Performance	1M	3M	12M
Absolute	-14.0%	-10.2%	15.4%
Relative	-17.4%	-12.6%	2.9%
12M (H/L)	48.95/28.01		
3M Average Volume (th):	2,690.61		

### Shareholder Data

No. of Ord shares (mn):	945
Total no. of shares (mn):	945
Mkt Cap Ord (Eu mn):	36,494
Total Mkt Cap (Eu mn):	36,494
Mkt Float - Ord (Eu mn):	26,458
Mkt Float (in %):	72.5%
Main Shareholder:	
ST holding II B.V.	27.5%

### Balance Sheet Data

Book Value (\$ mn):	16,384
BVPS (\$):	17.40
P/BV:	2.4
Net Financial Position (\$ mn):	2,618
Enterprise Value (\$ mn):	37,564

■ **1Q23 results beat expectations.** 1Q23 results came in above expectations on the back of stronger growth in the automotive market and the energy portion of the industrial segment (where demand is still above capacity), which more than offset weaker demand for personal electronics and computer peripherals. Profitability was also stronger thanks to a better product mix and pricing, partially offset by higher input costs and OpEx in line. The backlog is 6 quarters, above the normal 3-4. Revenues were \$4.25bn (+20% YoY, -4% QoQ, 1% better), the gross margin expanded by 3.0pp to 49.7% (cons. 48.0%), adj. EBIT was \$1.20bn (+37% YoY, 28.3%, +3.5pp, 8% better than \$1.12bn consensus), adj. EPS was \$1.10, up +40% YoY. The weak spot was the increase in days of inventories to 122 from 101 at the end of 4Q22 on the back of softer demand for personal electronics chips.

■ **2Q23 guidance better than expected.** 2Q23 guidance was a bit better than expected on both growth and profitability, and implies a sequentially stable quarter. Drivers are similar to 1Q, with solid growth in automotive and industrial (62% of FY22 revenue) partially offset by a decline in personal electronics. Revenues are seen at \$4.28bn (+12% YoY, +1% QoQ, 1% better), with the gross margin at 49.0% (consensus 47.7%) and adj. EBIT at \$1.18bn (+18% YoY, 27.7% margin, consensus \$1.13bn, 5% better).

■ **2023 outlook: gross profit raised slightly in light of a stronger 1H.** The 2023 guidance mid-point was mildly improved to factor in a stronger 1H. Specifically, the low end of the revenue range was updated to \$17.0-17.8bn (vs. \$16.8-17.8bn previously, +1%). This implies 5-10% growth with the mid-point for auto & industrial at +27% YoY (vs. +21% prev.), offsetting lower Personal Electronics, expected down -25% (vs. -16% prev.). The gross margin is seen at ~47.5% (vs. ~47.0% previously) resulting in a 2% rise in gross profit. While we recognise the slowdown in 2H to ~46% vs. ~49.3% in 1H, we note the updated guidance implies 2H figures broadly unchanged from previous indications. Management expects the gross margin slowdown to come in light of: i) increased input costs; ii) sequential pricing pressure (only in some areas, as pricing is seen neutral in FY23, unchanged vs. previous comments); iii) sub-optimal production levels to reduce the increase in inventories for personal electronics; iv) ramp-up of Agrate factory (we estimate a 1pp impact) which will be margin-accretive once executed. Nevertheless, the \$20bn revenue and 50% gross margin targets for 2025-27 have been fully confirmed. CapEx was confirmed at \$4.0bn, with 80% of the amount to support capacity increase and transformation to 300mm (Agrate) and SiC initiatives (incl. vertical integration through substrate). SiC business continues to progress, with revenues indicated at \$1.2bn, through higher internal capacity to satisfy demand, vs. >\$1.0bn prev.

■ **Change in estimates.** We are leaving our estimates largely unchanged, as slightly higher gross profit is offset by higher OpEx driven by more unfavourable €/\$.

■ **OUTPERFORM; target to €56.0 due to €/\$.**  The stock reacted as if there had been a profit warning, although this wasn't actually the case, with the company even slightly lifting its gross profit target (+2%). While we acknowledge short-term headwinds, such as the drop in the consumer electronics business and sequential gross margin slowdown in a weaker economic environment, we believe these are temporary factors that do not affect the company's medium-term potential. We therefore confirm our positive view on the stock, especially as we deem the valuation of below 10x P/E highly attractive for a lasting growth story hinged on trends such as electrification and digitalisation. TP from €57.0 to €56.0 due to the change in the €/€ (WACC/TGR of 9.5/3.0% unchanged).

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	6,386	6,905	7,353
Net Profit Adj (\$ mn)	2,022	3,819	4,016	4,236	4,457
EPS New Adj (\$)	2.187	4.036	4.249	4.481	4.716
EPS Old Adj (\$)	2.187	4.036	4.210	4.481	4.627
DPS (\$)	0.240	0.240	0.240	0.240	0.240
EV/EBITDA Adj	10.8	6.0	5.9	5.1	4.4
EV/EBIT Adj	15.5	7.7	8.0	7.0	6.1
P/E Adj	19.4	10.5	10.0	9.5	9.0
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