Milan, 28 July 2023

Italian Equity Research – 2Q23 Results

STM

OUTPERFORM

Sector: Industrials

Price: Eu50.48 - **Target: Eu60.00**

2Q23 Results in Line; FY23 Gross Margin Outlook Improved

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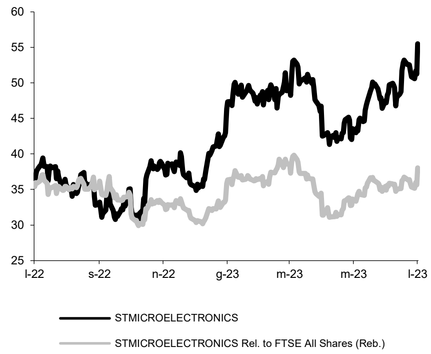
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 56.00 to 60.00
	2023E	**2024E**	**2025E**
Chg in Adj EPS	1.4%	0.8%	0.9%

STM - 12M Performance



Stock Data			
Reuters code:			STMMI.MI
Bloomberg code:			STMMI IM
Performance	**1M**	**3M**	**12M**
Absolute	17.6%	30.5%	56.6%
Relative	10.2%	22.7%	22.4%
12M (H/L)			50.48/30.91
3M Average Volume (th):			2,861.71

Shareholder Data	
No. of Ord shares (mn):	945
Total no. of shares (mn):	945
Mkt Cap Ord (Eu mn):	47,688
Total Mkt Cap (Eu mn):	47,688
Mkt Float - Ord (Eu mn):	34,574
Mkt Float (in %):	72.5%
Main Shareholder:	
ST holding II B.V.	27.5%

Balance Sheet Data	
Book Value ($ mn):	16,262
BVPS ($):	17.28
P/BV:	3.2
Net Financial Position ($ mn):	2,509
Enterprise Value ($ mn):	49,908

- **2Q23 results: in line with expectations.** 2Q23 results were in line with forecast, driven, as expected, by growth in auto and industrial, partly offset by a decline in personal electronics. Revenues were $4.33bn (+13% YoY, +2% QoQ), the gross margin was 49.0%, adj. EBIT was $1.18bn adjusting for a $34mn non-recurring non-cash item (+18% YoY, 27.3% margin), adj. EPS was $1.10 (+20% YoY). Inventories increased slightly QoQ to 124 days (122 in 1Q23) but in line with expectations.
- **3Q23 guidance: revenue a bit below, but gross margin and OpEx better.** 3Q23 guidance was consistent with estimates, but with slightly lower revenue, a higher gross margin and lower OpEx. As expected, growth should slow due to the tough comparison base for auto & industrial and the ongoing de-stocking in personal electronics. Revenues are seen at $4.37bn (+1% YoY, +1% QoQ, -1/-3% vs Int./cons.), the gross margin at 47.5% (vs Int./cons. at 46.5/46.3%) and - following OpEx of $880-890mn - adj. EBIT of $1.18bn (-7% YoY, 27.0% margin, Int./cons. at $1.16/1.15bn).
- **2023 guidance: revenue mid-point confirmed and gross margin improved.** STM confirmed the mid-point of the revenue target at $17.4bn (Int./Cons. $17.4/17.5bn) and narrowed the range to ±$150mn vs ±$400mn previously. 2H by division: ADG (mainly auto & industrial) is seen up >+20%; AMS (mainly personal electronics) is seen down -30% YoY due to destocking, but also adversely affected by the change in product mix in engaged customer program in personal electronics; MDG (mainly industrial) is seen slightly higher YoY. Positively, the gross margin is now seen at >48% vs 47-48% prev. (Int./Cons. 47.5%) thanks to a better price&mix effect. Indeed, the 2H gross margin is seen ~200bps lower than 1H vs ~300bps previously (1H was 49.3%) with: price&mix neutral vs 1H (vs negative prev.), while temporary elements such as lower capacity utilization and the Agrate ramp-up are still expected to have a ~100bp impact each. Overall, we see potential for a 2% improvement of consensus estimates.
- **SiC progress continues, also with Sanan JV in China.** SiC continues to progress well with the number of clients/programs rising to 90/140 from 85/135 in 1Q23 and 80/115 in 4Q22. During 2Q23, STM announced a JV in China with Sanan dedicated to high-volume 200mm SiC device manufacturing from 4Q25 (full buildout in 2028). The aim is to exploit the strong growth of SiC products in China for auto, industrial power, and energy applications. Sanan will separately build a 200mm SiC substrate manufacturing facility to fulfil the JV's needs. Risks of technology transfer and cash restrictions are seen as low as STM has done business in this way in China for 30 years.
- **Change in estimates.** We confirm our forecast as indications are consistent with our previous assumptions. Adj. EPS rises slightly due to higher financial income.
- **OUTPERFORM, TP to €60.0.** STM reported 2Q23 results in line with expectations, but slightly upgraded FY23 gross margin guidance on the back of more resilient price&mix. While we acknowledge the weakness in personal electronics, we appreciate the company's balanced exposure by end market; this, along with its strong presence in fast-growing applications, enable the company to grow at ~8%, outperforming its peers. Despite that, the stock trades at ~12.5x PE NTM/STMA, well below peers and the industry historical average (both at 16.5x). We confirm our positive view on the stock with TP going to €60.0 from €56.0 following the roll-over of half a year of our valuation, higher TGR (3.5% vs 3.0% prev.) partly offset by higher WACC (9.5% vs 9.1% prev.).

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales ($ mn)	12,761	16,128	17,455	18,484	19,038
EBITDA Adj ($ mn)	3,466	5,655	6,311	6,791	7,289
Net Profit Adj ($ mn)	2,022	3,819	4,072	4,265	4,497
EPS New Adj ($)	2.187	4.036	4.310	4.515	4.760
EPS Old Adj ($)	2.187	4.036	4.249	4.481	4.716
DPS ($)	0.240	0.240	0.240	0.240	0.240
EV/EBITDA Adj	10.8	6.0	7.9	7.0	6.1
EV/EBIT Adj	15.5	7.7	10.5	9.5	8.5
P/E Adj	25.4	13.7	12.9	12.3	11.7
Div. Yield	0.4%	0.4%	0.4%	0.4%	0.4%
Net Debt/EBITDA Adj	-0.3	-0.3	-0.4	-0.8	-1.1