STM

NEUTRAL

Sector: Industrials

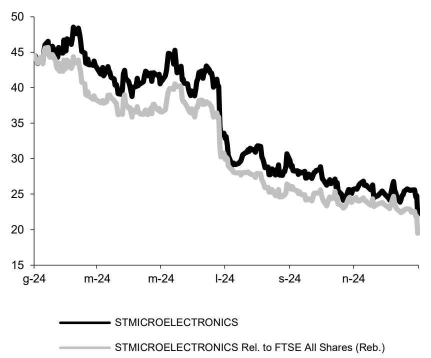
Price: Eu21.22 - **Target: Eu23.70**

Fears of Deeper and Longer Downturn Confirmed

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

Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 26.02 to 23.70
	2025E	**2026E**	**2027E**
Chg in Adj EPS	-35.9%	-15.8%	

STM - 12M Performance



Stock Data			
Reuters code:			STMMI.MI
Bloomberg code:			STMMI IM
Performance	**1M**	**3M**	**12M**
Absolute	-11.2%	-20.9%	-50.3%
Relative	-17.5%	-26.5%	-68.3%
12M (H/L)			44.41/21.22
3M Average Volume (th):			3,921.86

Shareholder Data	
No. of Ord shares (mn):	939
Total no. of shares (mn):	936
Mkt Cap Ord (Eu mn):	19,928
Total Mkt Cap (Eu mn):	19,928
Mkt Float - Ord (Eu mn):	14,448
Mkt Float (in %):	72.5%
Main Shareholder:	
ST holding II B.V.	27.5%

Balance Sheet Data	
Book Value ($ mn):	18,079
BVPS ($):	19.57
P/BV:	1.1
Net Financial Position ($ mn):	4,662
Enterprise Value ($ mn):	16,046

Although management had already flagged up a seasonally slow 1Q25, guidance was even weaker due to the ongoing inventory correction in the Industrial market and the slowdown in Auto, especially in Europe. The severe shortages experienced in 2021-22 along with a weaker macro environment, non-continuation of supportive fiscal policies (including incentives), strong inventory replenishment strategies, stricter commercial policies featuring non-cancellable orders, and significant investments in capacity are causing STM (and the sector) to experience a deeper and longer cyclical downturn. As visibility on the recovery remains low, we confirm our NEUTRAL stance, lowering our TP to €23.7 from €26.0 due to estimate cuts, partly offset by a different weighting across years (now equal for 2025/26/27) and more favourable €/$ ForEx.

- **4Q24 results in line.** 4Q24 closed in line with forecasts as higher Personal Electronics offset lower Industrial, while Auto and Comm. Eq. were in line and lower OpEx offset a slimmer gross margin. Revenues came to $3.3bn, -22% YoY and +2% QoQ; gross margin was 37.7%, -7.8pp YoY; EBIT was $370mn, -64% YoY for an 11.1% margin.
- **1Q25 guidance falling short of already-pessimistic expectations.** Despite STM already warning that 1Q25 would be well down seasonally (-11% QoQ on average since 2018), guidance provided was below expectations. Besides a lower number of working days, the weaker trend is attributable to Industrial, where inventory adjustments are ongoing, and a slowdown in Automotive, especially in Europe. 1Q25 guidance showed revenues of $2.5bn vs. our/cons. $2.7bn, -28% YoY and -24% QoQ, a 33.8% gross margin vs. our/cons. ~36/35% exp., -7.9pp YoY, and EBIT at breakeven vs. our/cons. ~$0.1bn.
- **2025: no outlook due to low visibility.** Contrary to STM's practice in recent years, no FY25 outlook was provided due to a lack of visibility. 2Q should improve QoQ, but mainly on the calendar effect, suggesting no underlying improvement; gross margin should also improve, but with a trajectory dependent on revenue growth. Cost-cutting measures should deliver a low single-digit OpEx drop. Overall, we are cutting estimates by 36% in 2025, but less in 2026 (-16%) as 2025 should be affected by de-stocking. By end market:
  - **Automotive (46% of total)** the slowdown continues, especially in Europe where carmakers plans to de-stock through 1H; order pulling is two/three weeks with risk of cancellations; mix should be adverse as hybrids/low-mid-end cars are performing better than pure-EVs/ high-end cars; capacity reservation fees should halve (~$0.2bn); no commitment on SiC was made after the mid-single-digit decline in FY24 ($1.1bn). We assume Auto to be down -18% YoY incl. mid-single-digit price erosion;
  - **Industrial (20% of total)** despite 4Q falling -40%, client inventories didn't decline, as a positive sell-through in China was offset by weak EU and US trends. With sell-through envisaged down in 1Q, de-stocking will clearly carry over through 2Q/3Q, with distributors still having 1-2 months of excess inventory. We assume Industrial down -19% YoY even after the -49% witnessed in FY24;
  - **Personal Electronics (21% of total)** we expect +7% growth, mainly as STM gained extra content at its largest customer, which will ramp up in 2H (worth several million dollars) in a context of an expected low single-digit rise in the smartphone market.
  - **Comm. Eq. & P. (13% of total)** we expect growth as STM gained another contract for an LEO satellite constellation.

Key Figures & Ratios	2023A	2024A	2025E	2026E	2027E
Sales ($ mn)	17,286	13,269	12,080	13,769	15,282
EBITDA Adj ($ mn)	6,206	3,436	2,938	4,008	5,036
Net Profit Adj ($ mn)	4,058	1,557	962	1,851	2,556
EPS New Adj ($)	4.298	1.658	1.028	1.978	2.731
EPS Old Adj ($)	4.298	1.658	1.603	2.350	
DPS ($)	0.240	0.330	0.360	0.360	0.360
EV/EBITDA Adj	6.5	9.1	5.5	3.7	2.6
EV/EBIT Adj	8.7	18.6	15.7	7.3	4.5
P/E Adj	5.1	13.4	21.5	11.2	8.1
Div. Yield	1.1%	1.5%	1.6%	1.6%	1.6%
Net Debt/EBITDA Adj	-0.5	-0.9	-1.6	-1.4	-1.5

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- 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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BUY: stock expected to outperform the market by over 25% over a 12 month period;

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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;

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OUTPERFORM:	43.28 %
NEUTRAL:	25.38 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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NEUTRAL:	19.72 %
UNDERPERFORM	00.00 %
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Emittente	%	Long/Short

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