

ASML

Price EUR72.47

Outlook still cloudy for NT but the group has increased shareholder returns

Fair Value EUR76 (+5%)

NEUTRAL

Bloomberg	ASML.NA
Reuters	ASML.AS
12-month High / Low (EUR)	103.8 / 71.8
Market Cap (EURm)	31,404
Ev (BG Estimates) (EURm)	29,551
Avg. 6m daily volume (000)	1,438
3y EPS CAGR	23.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-10.3%	-6.6%	-21.4%	-12.2%
Semiconductors	-11.6%	-7.3%	-19.4%	-12.8%
DJ Stoxx 600	-9.0%	-9.5%	-19.0%	-10.2%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	5,856	6,259	6,970	8,311
% change		6.9%	11.4%	19.2%
EBITDA	1,547	1,817	2,054	2,751
EBIT	1,282	1,536	1,749	2,431
% change		19.8%	13.9%	39.0%
Net income	1,197	1,351	1,542	2,145
% change		12.9%	14.1%	39.2%

	2014	2015e	2016e	2017e
Operating margin	21.9	24.5	25.1	29.3
Net margin	20.4	21.6	22.1	25.8
ROE	15.9	16.7	17.4	21.4
ROCE	20.4	21.8	24.0	31.3
Gearing	-21.3	-22.8	-26.8	-31.0

(EUR)	2014	2015e	2016e	2017e
EPS	2.72	3.13	3.62	5.13
% change	-	14.9%	15.7%	41.8%
P/E	26.6x	23.2x	20.0x	14.1x
FCF yield (%)	2.1%	3.6%	4.3%	5.7%
Dividends (EUR)	0.61	0.70	0.81	0.93
Div yield (%)	0.8%	1.0%	1.1%	1.3%
EV/Sales	5.1x	4.7x	4.2x	3.4x
EV/EBITDA	19.3x	16.3x	14.1x	10.3x
EV/EBIT	23.2x	19.2x	16.6x	11.6x



ASML posted Q4 results in line with expectations. Sales came out at EUR1.43bn, down 7.4% on a sequential basis and down 4.0% year over year. This was in line with the company's guidance for Q4 sales of about EUR1.4bn and the consensus of EUR1.44bn. Gross margin at 46% was wider than the Q3 level (45.4%), such Q4 EPS stood at EUR0.68, above consensus expectations of EUR0.61. Nevertheless, the Q1 outlook is cautious. The group anticipates Q1 2016 sales to be close to EUR1.3bn (vs. cons. at EUR1.41bn) while gross margin is expected to decrease to around 42% (cons. at 45.7%). Additionally, the group has raised shareholder returns with a new share buyback plan for EUR1bn and a dividend up 50% to EUR1.05 per share.

ANALYSIS

- ASML has reported Q4 results in line with guidance and consensus expectations.** The company reported Q4 sales of EUR1.43bn, down 7.4% seq., in line with guidance for sales of EUR1.4bn and consensus expectations for EUR1.44bn (BG ests. EUR1.41bn). The gross margin increased by 60bp vs. Q3 to 46.0% (vs. 45.4%) above company and consensus expectations of 45%. Operating result came in at EUR318m or a 22.2% margin. Adjusted EPS of EUR0.07 was above consensus expectations at EUR0.68 vs. USD0.61 (BG ests. EUR0.60). We also note that, both net bookings and the systems backlog increased during Q4 to EUR1,184m and EUR3,184m respectively from EUR904m and EUR2,880m. For FY15, sales rose to EUR6.3bn from EUR5.9bn in 2014 while 2016 EPS was up to EUR3.21 from EUR2.72.
- EUV keeps improving with availability of more than 80% and productivity of more than 1,250 wafers per day.** The group is targeting six to seven EUV system shipments for 2016. As expected, two NXE:3350B tools were shipped during Q4. Note that ASML announced the shipment of the first NXE:3350B earlier in September. Overall, three EUV systems were shipped during 2015. With this new NXE:3350B system (the first NXE:3350B was shipped in September 2015), the group announced that productivity of more than 1,250 wafers per day had been achieved.
- The outlook remains cloudy in the near term, with the group continuing to expect better momentum as of Q2 2016.** Q1 2016 guidance for sales of approximately EUR1.3bn is below consensus expectations at EUR1.41bn. The gross margin is expected to decrease in Q1 2016 to about 42% (vs. Q4 2015 at 46%) and EBIT margin to decrease to 16.4% (from 22.2% in Q4-16). Overall, the outlook remains cloudy for the near term despite a booking increase in Q4 relative to Q3 2015. ASML continues to expect the 10nm ramp up to start in Q2 2016.
- The group announced a plan for additional share repurchases of EUR1bn leading to a total of 4.8% of outstanding shares left to be bought-back and increased the dividend to EUR1.05 (+50% yoy).** As a reminder, ASML announced its intention to purchase up to 3.3m shares in 2015/16 (0.8% of outstanding shares) to cover employee stock option plans (ESOPs) and up to EUR750m in shares (c. 2.2% of outstanding shares) to be cancelled upon repurchase. At the end of the third quarter, ASML published that the group had completed the purchase of 3.3m shares for ESOPs for a total amount of EUR314.9m, plus about EUR110m of shares bought in order to be cancelled. Today, ASML announced a new share buyback program to be executed over 2016-2017, with additional purchases of about EUR1bn. As a result, ASML intends to purchase shares up to EUR1.5bn (incl. approx. EUR500m left from the previous program) or a total of 4.8% of outstanding shares. In addition, ASML also proposes dividend of EUR1.05 per share, 50% higher than last year (EUR0.70).

VALUATION

- ASML's shares trade at a 2016e P/E ratio of 20.0x and a 2016e PEG ratio of 0.8x.

NEXT CATALYSTS

- A conference call is scheduled today at 3:00pm (CET or 9:00am EST).

FQ4-15 Actual vs. estimates

[EURm]	BG ests. 4Q15e	Consensus 4Q15e	4Q15 Actual	Actual vs. Cons.
Net revenue	1,406	1,435	1,434	-0.1%
% change (seq)	-9.2%	-7.4%	-7.4%	-6bp
Gross Margin	44.9%	45.1%	46.0%	90bp
Adj. EBIT	289	298		-100.0%
% of revenue	20.6%	20.7%	0.0%	-2074bp
Dil. EPS	0.60	0.61	0.68	11.5%

Sources: Thomson Reuters I.B.E.S.; Bryan, Garnier & Co ests.

FQ1-16 Guidance vs. estimates

[EURm]	BG ests. 1Q16e	Consensus 1Q16e	1Q16e Guidance	Guid. vs. Cons.
Net revenue	1,491	1,414	1,400	-1.0%
% change (seq)	6.0%	-1.5%	-2.4%	-91bp
Gross Margin	45.0%	45.7%	42.0%	-370bp
Dil. EPS	0.68	0.64	-	-

Sources: Thomson Reuters I.B.E.S.; Bryan, Garnier & Co ests.

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