

ASML

Price EUR73.80

Clouds may dissipate soon. Time to revisit the share.

Fair Value EUR85 vs. EUR76 (+15%)

BUY vs. NEUTRAL

Bloomberg	ASML.NA
Reuters	ASML.AS
12-month High / Low (EUR)	103.8 / 71.8
Market Cap (EURm)	31,980
Ev (BG Estimates) (EURm)	30,150
Avg. 6m daily volume (000)	1,436
3y EPS CAGR	22.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.6%	-5.8%	-20.0%	-10.6%
Semiconductors	-10.1%	-6.7%	-18.1%	-11.4%
DJ Stoxx 600	-7.8%	-8.6%	-17.9%	-9.0%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	6,287	6,485	7,517	8,742
% change		3.1%	15.9%	16.3%
EBITDA	1,864	1,985	2,500	3,031
EBIT	1,565	1,680	2,180	2,666
% change		7.3%	29.8%	22.3%
Net income	1,387	1,446	1,901	2,353
% change		4.3%	31.4%	23.8%

	2015	2016e	2017e	2018e
Operating margin	24.9	25.9	29.0	30.5
Net margin	22.1	22.3	25.3	26.9
ROE	16.5	17.4	20.8	23.0
ROCE	22.9	22.5	29.0	27.7
Gearing	-27.2	-22.0	-27.6	-16.4

(EUR)	2015	2016e	2017e	2018e
EPS	3.21	3.46	4.63	5.86
% change	-	7.7%	33.9%	26.6%
P/E	23.0x	21.4x	15.9x	12.6x
FCF yield (%)	4.6%	3.4%	5.9%	1.4%
Dividends (EUR)	0.70	1.05	1.21	1.39
Div yield (%)	0.9%	1.4%	1.6%	1.9%
EV/Sales	4.7x	4.6x	3.9x	3.5x
EV/EBITDA	15.9x	15.2x	11.8x	10.0x
EV/EBIT	19.0x	18.0x	13.5x	11.4x



Back in September, we initiated ASML with a Neutral recommendation and a FV of EUR77 due to our concerns about downward revisions to capex by the largest customers (which has proved to be real). Today, we believe that clouds will dissipate soon and we recommend investors revisit the stock to take advantage of current share price weakness. We think that investments made by foundries to ramp-up the 10nm technology should help restore strong momentum from Q2-16e. In addition, the group announced yesterday a reassuring achievement for EUV. As a result, we have updated our model to take account of new guidance and apply a rollover of our valuation method. Our new FV is EUR85 (vs. EUR76) and we upgrade our recommendation to Buy vs. Neutral.

ANALYSIS

- Yesterday, ASML posted Q4-15 results above expectations, (very) soft Q1-16 guidance but the street mainly focused on the new plan for share buybacks and a dividend increase.** Sales came out at EUR1.4, in line with company guidance and the consensus, but the increasing share of sales in "Service and field options" led to higher than forecast margins. As a result, Q4-15 EPS of EURO.68 was EURO.07 higher than consensus estimates. Despite Q1-16 guidance well below cs (sales of EUR1.3bn vs. cs. at EUR1.4bn), the street focused on higher returns to shareholders. Indeed, the group announced a new share buyback plan for EUR1bn, or a total of EUR1.5bn for buyback over 2016/17 including the remaining EUR500m from the previous program. In addition, management proposed to increase the dividend by 50% to EUR1.05 per share (vs. EURO.70 in 2014).
- A reassuring conference call: stronger momentum should return in Q2-16.** For 2016, we understand that foundries should drive growth while demand from memory players is set to remain flattish or decrease slightly. Given the current booking level, we believe the Q1 and Q2 shipments in memory should remain at a similar level than Q4-15 (at around EUR370-400m) maintained by new DRAM node introduction. Overall, the tone of the conference was positive in our view. The group is still on track to deliver its 2020 plan while the soft pocket is almost over (or at least in street's expectations). System reuse (consists in upgrading old systems to make them similar to new ones), which is pointed as a weak spot, is not a concern in our view since the group and the street have already factored in any impacts. Regarding margins, despite a low level likely for Q1-16e (GM expected at 42%), we could expect an increase as soon as Q2-16e thanks to a better mix. Finally, we understand that the group will maintain its intensive share buyback policy over coming years leading to potential relation.
- EUV on track for a 2017 insertion: 2016 should give enough time to enhance NXE systems' performance to production levels.** During 2015, the group improved its EUV tools and unveiled the new NXE:3350B in September. Of these new systems, three shipments were made (two fully shipped, one in process) during Q4-15. With these new systems, ASML achieved productivity of more than 1250 wafers per day and more than 15,000 wafers exposed in four weeks (endurance test). As a result, we believe that the target of 1,500 wafers per day set for 2016 is achievable. Given an availability of 70% achieved in 2015 and a best result of more than 80% over four weeks, these systems should be very close to production level performance (1,500 wpd and >80% availability). Overall, the group is targeting six/seven NXE system shipments for 2016. Note that revenues from EUV systems are recorded on achievement at customer sites (not on shipment). As a result, 2015 shipments should trigger revenue records this year.
- It's time to revisit the case.** In our September note, we pointed out some weaknesses in the environment and adopted a Neutral recommendation, but we believe the time is now right to revisit the share. We believe clouds should dissipate as of Q2-16e as foundry customers start to invest in the 10nm ramp-up. Given the rapid improvement in EUV systems and recent achievements announced yesterday, we are confident in the adoption of this technology as soon as 2017 to prepare the 7nm (scheduled for 2018).

VALUATION

- We have updated our model to include softer than expected Q1-16e sales. However, the impact of lower estimates (-5% on average for EPS over the next three years) is offset by the positive effects of the new share buyback plan (c. 4.8% of shares to be bought back) and the rollover of valuation

methods.

- **Our new FV is EUR85 (vs. EUR76) and we adopt a Buy recommendation.** Given the strong resistance of ASML (6m perf of -20% vs. Stoxx 600 -18% / 3m perf of -6% vs. Stoxx 600 -8.%) and improving momentum, we believe that investors should take advantage of the current low entry point in absolute terms.
- ASML shares trade at a 2016e P/E ratio of 21.4x and a 2016e PEG of 1.0x.

NEXT CATALYSTS

- 29th April 2016, General Meeting of shareholders
- 20th April 2016, Q1-16 results (before market opening)

Our new scenario

[EURm]	1Q16	2Q16	3Q16	4Q16	FY16e	FY17e	FY18e
Total Group	1282	1588	1731	1884	6485	7517	8742
<i>Q/Q growth</i>	-10.6%	23.9%	9.0%	8.8%	3.1%	15.9%	16.3%
<i>Y/Y growth</i>	-22.3%	-4.0%	11.7%	31.3%	3.1%	15.9%	16.3%
Cost of goods sold	-744	-858	-926	-1000	-3528	-4052	-4616
Gross margin	42.0%	46.0%	46.5%	46.9%	45.6%	46.1%	47.2%
R&D	-266	-260	-265	-227	-1018	-1022	-1162
SG&A	-87	-86	-88	-76	-337	-338	-376
Other operating income	22	21	19	16	78	75	79
Adj. EBIT	208	405	471	596	1680	2180	2666
<i>adj. operating margin</i>	16.2%	25.5%	27.2%	31.6%	25.9%	29.0%	30.5%
Net financial result	-3	-3	-3	-8	-17	-20	-23
Income tax	-27	-52	-61	-76	-216	-259	-291
<i>tax rate</i>	-13.0%	-13.0%	-13.0%	-13.0%	-13.0%	-12.0%	-11.0%
Adj. Net income	178	350	407	512	1446	1901	2353
Diluted adjusted EPS	0.43	0.84	0.97	1.22	3.46	4.63	5.86

Source: Bryan, Garnier & Co. ests.

Main changes in our scenario

[in EURm]	2016e			2017e			2017e		
	Old	New	Δ%	Old	New	Δ%	Old	New	Δ%
SALES	6970	6485	-7.0%	8311	7517	-9.6%	9220	8742	-5.2%
EBIT	1749	1680	-4.0%	2431	2180	-10.3%	2812	2666	-5.2%
	25.1%	25.9%		29.2%	29.0%		30.5%	30.5%	
EPS	3.6	3.5	-4.5%	5.1	4.6	-9.8%	5.9	5.9	-1.4%

Source: Bryan, Garnier & Co. ests.

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