

STMicroelectronics

Price EUR5.86

Q4 2015 broadly in line – set-top-box business to be discontinued**Fair Value EUR6.8 (+16%)****SELL**

Bloomberg	STM FP
Reuters	STM.FR
12-month High / Low (EUR)	9.3 / 5.3
Market Cap (EURm)	5,338
Ev (BG Estimates) (EURm)	4,682
Avg. 6m daily volume (000)	2,191
3y EPS CAGR	35.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.9%	-17.7%	-18.1%	-5.2%
Semiconductors	-4.4%	-7.0%	-8.1%	-4.1%
DJ Stoxx 600	-8.2%	-10.9%	-14.8%	-8.1%

YEnd Dec. (USDm)	2014	2015e	2016e	2017e
Sales	7,404	6,877	7,092	7,356
% change		-7.1%	3.1%	3.7%
EBITDA	994	805	1,103	1,181
EBIT	181.7	83.4	379.4	460.4
% change		-54.1%	NM	21.4%
Net income	143.0	96.1	281.8	350.2
% change		-32.8%	NM	24.3%

	2014	2015e	2016e	2017e
Operating margin	2.5	1.2	5.3	6.3
Net margin	1.9	1.4	4.0	4.8
ROE	2.5	1.9	6.0	7.4
ROCE	4.7	3.0	7.4	9.3
Gearing	-10.8	-13.7	-15.9	-18.2

(USD)	2014	2015e	2016e	2017e
EPS	0.16	0.11	0.32	0.40
% change		-32.2%	NM	24.3%
P/E	36.5x	53.8x	18.2x	14.6x
FCF yield (%)	4.1%	9.0%	8.7%	8.9%
Dividends (USD)	0.40	0.40	0.40	0.40
Div yield (%)	6.8%	6.8%	6.8%	6.8%
EV/Sales	0.6x	0.7x	0.6x	0.6x
EV/EBITDA	4.8x	5.8x	4.2x	3.8x
EV/EBIT	26.4x	56.1x	12.1x	9.7x

STMicroelectronics has reported Q4 2015 sales in line with estimates and EPS slightly below consensus. The group has posted Q4 2015 sales of USD1,668m, down 5.5% seq., with a gross margin down by 130bp seq. to 33.5% and EPS of USD0.00, slightly below consensus expectations (cons. USD0.02, BG ests. USD0.00). However, Q1 2016 guidance is slightly above expectations with revenues set to drop 3% (+/- 350bp) sequentially, i.e. sales close to USD1,620m, while current expectations were for USD1,600 (BG ests. -1% at USD1,647m). Finally, the set-top-box business is to be discontinued with annual savings estimated at USD170m and restructuring costs also at about USD170m. We will wait for the conference call at 9:30am (CET) to obtain more details about this restructuring.

ANALYSIS

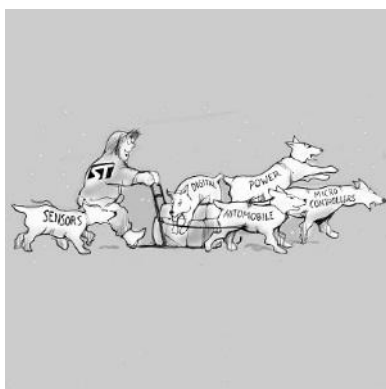
- Q4 top-line was in line with expectations but EPS was USD0.02 below the street's expectations.** The company reported Q4 2015 revenues of USD1,668m down 5.5% seq. (-8.8% yoy), in the middle of the guidance range (revenues -6.0% (+/- 350bp) sequentially), and in line with consensus expectations. Gross margin came in at 33.5%, in line with the guidance and our expectations of 33.5%. Combined R&D and SG&A in the fourth quarter were slightly up to USD583m vs. USD549m in Q3 2015. As a result, EBIT was below expectations at USD25m (cons. USD36m/BG ests. USD10m) while EPS was also USD0.02 below consensus at USD0.00 (cons. USD0.02 / BG ests. USD0.00). In Q4, the group generated a positive cash flow of USD148m compared to USD85m in the previous quarter. The Inventories was broadly stable at USD1,251m vs. USD1,253m at the end of the previous quarter. On a full year basis, revenues came in at USD6.90bn, down -6.8%, gross margin improved by 10bp to 33.8% compared to 2014, and 2015 EPS stood at USD0.12, i.e. USD0.02 lower than 2014.
- The SP&A division continued to suffer from the weak market and inventory correction in the channel. EPS revenues increased 2% seq. thanks to good momentum in microcontrollers.** Revenues in the segment decreased by 9.9% sequentially in Q4 (-13.5% yoy) with lower revenue in all product groups Automotive, Analog & MEMS, and Industrial & Power discrete. Note that this segment is usually impacted by seasonality in Q4. In addition, the EPS segment revenues increased by +2% sequentially (-0.9% yoy) thanks to good momentum in microcontrollers offsetting the decrease in other digital products (mainly set-top-boxes in our view).
- Q1 2016 guidance is slightly above consensus and our expectations.** STMicroelectronics expects Q1 sales to decrease sequentially by -3% (+/-350bp) at about USD1,620m, slightly below our expectations of -0.7% to USD1,764m but slightly above consensus expectations of -4.0% to USD1,601m. The short term environment was discussed but the group continues to see long term opportunities in automotive, the industrial segment and IoT. Gross margin is expected to decrease sequentially by about 50bp to 33.5% (+/-200bp) for management, below our estimates (cons. 42.9%, BG ests. 36.8%).
- The group plans to discontinue its Set-Top-Box and Home Gateway business.** Included in the DPG division representing about 15% of sales, management recognises that these businesses are highly competitive while the slower than expected adoption of leading-edge products led it to generate significant losses. We estimate operating margin in this business at close to -30%. The plan includes a global workforce reduction of 1,400 employees worldwide (of which about 1/3 in France through a voluntary departure plan). 1,000 of them are expected to leave the company by 2016 (of which 150 in France). Annual savings are estimated at USD170m and restructuring costs also at about USD170m. Note that 2015 operating result was USD109m and 2016 street expectations currently stand at USD325m.

VALUATION

- STMicroelectronics shares trade at 2016e EV/Sales and EV/EBIT ratios of 0.6x and 18.2x respectively.

NEXT CATALYSTS

- Conference call at 9:30am (CET).
- Q1 2016 Results to be announced in late April.



Q4 estimates vs. Actual

[mUSD]	BG ests. Q4	Consensus Q4	Q4 Actual	Actual vs. Cons.
Net revenue	1,659	1,668	1,668	0.0%
% change (seq)	-6.0%	-5.4%	-5.5%	-6bp
Gross Margin	33.5%	39.7%	33.5%	-620bp
SG&A + R&D	-531	-	-583	-
EBIT	10	36	25	-30.7%
% of revenue	0.6%	2.2%	1.5%	-67bp
EPS	0.00	0.02	0.00	-100.0%

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

Q4 estimates vs. Guidance

[mUSD]	BG ests. Q1	Consensus Q1	Q1 Guidance	Guid. vs. Cons.
Net revenue	1647	1601	1618	1.0%
% change	-0.7%	-4.0%	-3.0%	100bp
Gross Margin	35.2%	33.4%	33.0%	-40bp
EPS	0.03	0.02		

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

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