

Soitec

Price EURO.60

Focus on the capital increases (Focus report released today)

Fair Value EURO.5 (-17%)

NEUTRAL

Bloomberg	SOI FP
Reuters	SOIT.PA
12-month High / Low (EUR)	0.9 / 0.5
Market Cap (EURm)	139
Ev (BG Estimates) (EURm)	297
Avg. 6m daily volume (000)	1,260
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	11.1%	-9.1%	1.7%	-6.3%
Semiconductors	9.9%	-3.1%	1.4%	-3.5%
DJ Stoxx 600	3.6%	-6.6%	-5.7%	-6.9%

YEnd Mar. (EURm)	03/15	03/16e	03/17e	03/18e
Sales	222.9	236.0	248.4	265.2
% change		5.9%	5.3%	6.7%
EBITDA	-67.9	40.5	38.1	41.9
EBIT	-125.9	8.1	10.6	13.1
% change		NS	29.9%	24.2%
Net income	-107.8	-23.2	4.1	6.3
% change		78.5%	NS	52.2%

	03/15	03/16e	03/17e	03/18e
Operating margin	NM	3.4	4.3	5.0
Net margin	NM	NM	1.4	2.4
ROE	-516.1	2,691	5.2	7.3
ROCE	-63.0	5.3	7.0	9.0
Gearing	300.4	NM	NM	73.5

(EUR)	03/15	03/16e	03/17e	03/18e
EPS	-0.51	-0.10	0.01	0.02
% change	-	81.1%	NS	24.3%
P/E	NS	NS	44.1x	35.5x
FCF yield (%)	NM	NM	5.8%	4.7%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	1.3x	1.3x	0.8x	0.8x
EV/EBITDA	NS	7.3x	5.5x	4.8x
EV/EBIT	NS	36.5x	19.9x	15.4x

In February 2016, Soitec proposed two successive capital increases for a total amount of between EUR130m and EUR180m. Our TMT conference was a good chance to come back on these operations. Obviously, investors' questions were not only about the use of the proceeds but also on the potential of FD-SOI, Soitec's growing technology. While we were already convinced that FD-SOI has real technological advantages, discussions at our TMT conference confirmed our thoughts. Nevertheless, the group must go through two capital increases and prove FD SOI can be a commercial success with facts.

ANALYSIS

- 200mm production sold-out until the end of 2016.** First, regarding the 200mm RF-SOI, the group confirmed that all its production capacity is sold-out until the end of 2016. We remind that the group holds a production capacity of about 820,000 wafers per year, yielding annual revenue close to EUR170m. Additional production capacities will be available from Soitec's Chinese partner Simgui, however, we don't expect to see material revenue from Simgui production over FY16 and FY17.
- China shows a strong interest in FD-SOI.** While the group partners with a Chinese company for RF-SOI, we note that China is also on the list of strategic partners to support Soitec's capital increases. We believe FD-SOI is being eyed up in the Chinese "More than Moore" plan to compete with Intel, Samsung and TSMC in the semiconductor battlefield. In our view, Chinese players could add to the list of semi players designing and producing in FD-SOI and strengthen the ecosystem on behalf of STMicroelectronics, GlobalFoundries and Samsung. Assuming a blue sky scenario, these three players ramp FD-SOI technologies by 2017 up to volumes of about 250,000 wafers, Soitec's 300mm sales could jump to ~EUR200m (up from EUR54m expected in FY16) and the FY18e net result would be about 40% higher than our currently estimated FY18e net result.
- No change in our scenario but increasingly positive view on FD-SOI.** While we do not apply any change to our scenario or our investment case, discussions with the management team at our TMT conference continue to strengthen our positive view on the FD-SOI technology and we are now waiting for material details to prove its commercial success.

VALUATION

- Note that given the advanced talks with quoted investors CEAI, BPI France and the Chinese investment fund National Silicon Industry Group, we have included all the impacts of the reserved capital increase in our FV. However, the details regarding the second capital increase remains uncertain so far, as a result, we do not include any impact from this one. Our FV is EURO.50.
- Soitec shares are trading on FY17e EV/Sales of 0.8 x and FY17e EV/EBIT of 19.9x

NEXT CATALYSTS

- 11th April: Shareholders to vote on capital increase
- During April: Q4 FY16e sales.

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Distribution of stock ratings

BUY ratings 72%

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