

**ASML**

Price EUR88.25

**10nm's boost knocking at the door... as widely expected while margin guidance disappoints**

Fair Value EUR81 (-8%)

**SELL**

Bloomberg	ASML.NA
Reuters	ASML.AS
12-month High / Low (EUR)	103.8 / 71.8
Market Cap (EURm)	38,242
Ev (BG Estimates) (EURm)	36,460
Avg. 6m daily volume (000)	1,263
3y EPS CAGR	21.8%

**ASML has posted Q1 results above expectations. Sales came out at EUR1.333bn, down 7.1% on a sequential basis and down 19% year on year. This was in line with the company's guidance for Q1 sales of about EUR1.3bn and slightly below consensus forecasts of EUR1.344bn. However, Q1 EPS stood at EUR0.46, above consensus expectations of EUR0.42 while bookings decreased by 29% in Q1 vs. Q4 2015. Finally, the group expects Q2 sales of close to EUR1.7bn (cons. at EUR1.70bn for Q2-16) and gross margin at around 42% whereas the consensus is forecasting a strong rebound to 45.7%, such that Q2 EBIT is set to be lower than anticipated by the street.**

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.4%	19.6%	12.6%	6.9%
Semiconductors	-0.1%	9.9%	2.6%	-2.6%
DJ Stoxx 600	2.2%	4.9%	-4.1%	-4.5%

**ANALYSIS**

- ASML has reported Q1 results above consensus expectations.** The company reported Q1 sales of EUR1.333bn, down 7.1% seq. (down 19% yoy), in line with guidance for sales of EUR1.3bn but slightly below consensus expectations at EUR1.343bn (BG ests. EUR1.28bn). As expected, the gross margin decreased significantly by 340bp vs. Q4 to 42.6% (vs. 46.0%) but was above the company's and consensus' expectations of 42.2%. As such, operating result came in at EUR228m or a 17.1% margin to be compared to 22.2% achieved in Q4-15. Adjusted EPS of EUR0.46 was EUR0.04 above consensus expectations at EUR0.42 (BG ests. EUR0.41).
- Booking decreases by -29% compared to Q4-15.** We also note that, both net bookings and the systems backlog decreased during Q1-16 by -29% and -10% sequentially to EUR835m and EUR3,018m (from EUR1,184m and EUR3,184m).
- The group is maintaining its target of six to seven EUV system shipments for 2016.** As mentioned before, EUV keeps improving with availability of more than 80% and productivity of more than 1,350 wafers per day achieved on one NXE:3350B. Today, the group confirms it expects to ship six to seven NXE:3350B during 2016. Note that three EUV systems were shipped during 2015 and hat one system was shipped during Q1. Due to a delay in revenue recognition caused by the performance benchmark to be achieved before triggering tools' payment, revenue from these tools should be partially recorded over 2016.
- 10nm's and EUV's boosts knocking at the door, momentum should start to improve... as widely expected but margins struggle to improve.** Q2 guidance is for sales of approximately EUR1.7bn in line with consensus expectations of EUR1.70bn. However disappointment stemmed from gross margin guidance at 42% compared to the Street's 46%. For Q2, R&D expense is forecast at about EUR270m, SG&A at about EUR90m, while co-investment programme should help by EUR23m, such that EBIT is expected to be close to EUR380m, i.e. 8% below consensus expectations at EUR411m. Overall, we note that stronger momentum is expected to start in Q2 thanks to the 10nm ramp up but we remind that the group has been forecasting a rebound in Q2 since Q3 2015 results (fall 2015). This is a new confirmation but in no way a surprise. In addition, Q2 sales guidance includes a second boost thanks to EUR110m recorded on two NXE:3350B sales.

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	6,287	6,485	7,419	8,742
% change		3.1%	14.4%	17.8%
EBITDA	1,864	1,920	2,345	3,031
EBIT	1,565	1,615	2,025	2,666
% change		3.2%	25.4%	31.6%
Net income	1,387	1,390	1,765	2,353
% change		0.2%	27.0%	33.3%

	2015	2016e	2017e	2018e
Operating margin	24.9	24.9	27.3	30.5
Net margin	22.1	21.4	23.8	26.9
ROE	16.5	16.8	19.7	23.5
ROCE	22.9	21.6	27.2	28.0
Gearing	-27.2	-21.5	-26.6	-15.4

(EUR)	2015	2016e	2017e	2018e
EPS	3.21	3.31	4.27	5.80
% change	-	3.0%	29.1%	35.8%
P/E	27.5x	26.7x	20.7x	15.2x
FCF yield (%)	3.9%	2.7%	4.6%	1.2%
Dividends (EUR)	0.70	1.05	1.21	1.39
Div yield (%)	0.8%	1.2%	1.4%	1.6%
EV/Sales	5.7x	5.6x	4.8x	4.2x
EV/EBITDA	19.3x	19.0x	15.3x	12.1x
EV/EBIT	23.0x	22.6x	17.7x	13.8x

**VALUATION**

- We are making no change to our estimates at this point and will wait for further details from today's conference call (see details below).
- Based on our estimates, ASML's shares trade at a 2016e P/E ratio of 26.7x and a 2016e PEG ratio of 1.2x.

**NEXT CATALYSTS**

- Today: Q1 results conference call (3:00pm CET, Personal ID required: [registration here](#)).
- 20th July 2016: FQ2-16 results.

### FQ1-16 Actual vs. estimates

[EURm]	BG ests. 1Q16e	Consensus 1Q16e	1Q16 Actual	Actual vs. Cons.
Net revenue	1,282	1,344	1,333	-0.8%
% change (seq)	-10.6%	-6.3%	-7.1%	-79bp
% change (yoy)	-22.3%	-18.5%	-19.2%	-69bp
Gross Margin	42.0%	42.2%	42.6%	40bp
Adj. EBIT	201	207	228	10.0%
% of revenue	15.7%	15.4%	17.1%	169bp
Dil. EPS	0.41	0.42	0.46	9.5%

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

### FQ2-16 Guidance vs. estimates

[EURm]	BG ests. 2Q16e	Consensus 2Q16e	2Q16e Guidance	Guid. vs. Cons.
Net revenue	1,588	1,697	1,700	0.2%
% change (seq)	23.9%	26.2%	27.5%	128bp
% change (yoy)	-4.0%	2.6%	2.8%	16bp
Gross Margin	46.0%	45.7%	42.0%	-370bp
Dil. EPS	0.81	0.84	-	-

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

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