

STMicroelectronics

Price EUR5.07

Q1 results below forecasts, but Q2 on track as the environment improves

Fair Value EUR6.3 (+24%)

NEUTRAL

Bloomberg	STM FP
Reuters	STM.FR
12-month High / Low (EUR)	8.8 / 4.6
Market Cap (EURm)	4,622
Ev (BG Estimates) (EURm)	4,105
Avg. 6m daily volume (000)	2,384
3y EPS CAGR	29.6%

STMicroelectronics has reported Q1 2016 sales slightly below estimates and EPS below consensus. The group has posted Q1 sales of USD1.613bn, down 3.3% seq., with a gross margin stable at 33.4% and EPS of -USD0.05, below consensus expectations (cons. USD0.00, BG ests. -USD0.02). Q2 2016 guidance is broadly in line with estimates with revenues set to rebound 5.5% (+/- 350bp) sequentially, i.e. sales close to USD1.702bn, while current forecasts were for USD1.710bn (BG ests. USD1,702m).

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.5%	-13.4%	-28.8%	-17.9%
Semiconductors	-1.8%	-1.1%	-8.1%	-5.2%
DJ Stoxx 600	3.5%	3.1%	-8.1%	-5.2%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	6,897	6,882	6,998	7,151
% change		-0.2%	1.7%	2.2%
EBITDA	910	969	1,084	1,235
EBIT	174.0	253.8	356.1	490.9
% change		45.8%	40.3%	37.8%
Net income	175.0	181.0	274.4	377.4
% change		3.4%	51.6%	37.6%

	2015	2016e	2017e	2018e
Operating margin	2.5	3.7	5.1	6.9
Net margin	2.5	2.6	3.9	5.3
ROE	2.2	1.9	4.4	8.3
ROCE	5.1	3.7	6.9	10.6
Gearing	-10.5	-12.8	-15.4	-19.6

(USD)	2015	2016e	2017e	2018e
EPS	0.20	0.21	0.31	0.43
% change	-	4.3%	51.6%	37.6%
P/E	28.8x	27.6x	18.2x	13.2x
FCF yield (%)	5.1%	6.0%	7.5%	10.9%
Dividends (USD)	0.40	0.24	0.30	0.40
Div yield (%)	6.9%	4.2%	5.2%	7.0%
EV/Sales	0.7x	0.7x	0.6x	0.6x
EV/EBITDA	5.2x	4.8x	4.2x	3.5x
EV/EBIT	27.1x	18.2x	12.7x	8.8x

ANALYSIS

- Q1 top-line and EPS were below the street's expectations.** The company has reported Q1 revenues of USD1.613bn down 3.3% seq. (-5.4% yoy), in the guidance range (revenues -3.0% (+/- 350bp) sequentially), but slightly below consensus expectations. However, gross margin came in at 33.4%, above guidance, the street's forecasts and our expectations of 33.0%. Combined R&D and SG&A (net of grants) in the fourth quarter rose slightly to USD543m vs. USD530m in Q4 2015. As a result, EBIT was below expectations at -USD33m (cons. -USD4m/BG ests. -USD9m) while EPS stood in negative territory at -USD0.05 (cons. USD0.00/BG ests. -USD0.02). In Q1, the group generated a positive cash flow of USD31m compared to USD148m in the previous quarter. Inventories grew to USD1.302bn vs. USD1.251bn at the end of the previous quarter.
- For the first time, the group reported using the new divisional breakdown.** During Q1, the group benefited from strong momentum in the automotive segment (especially in Europe) with Automotive and Discrete Group (ADG) sales up by 5.5% sequentially. Analog and MEMS Group (AMS) sales were flat. However, the Microcontrollers and Digital ICs Group (MDG) decreased significantly by -13.4% due to 1/ a strong base of comparison and 2/ seasonal patterns. In addition, we understand that demand remained weak in Asia Pacific.
- Q2 2016 guidance was broadly in line with the consensus and our expectations.** STMicroelectronics expects Q2 sales to increase sequentially by 5.5% (+/-350bp) to about USD1.700bn, in line with our forecast for +5.1% to USD1.702bn and slightly below consensus expectations for +5.3% to USD1.710bn. The short term environment is said to be improving across all regions and the strongest drivers remain the automotive and industrial sectors. Gross margin is expected to increase sequentially by about 50bp to 34.0% (+/-200bp) for management, in line with the street's estimates (cons. 33.8%, BG ests. 35.1%).

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, STMicroelectronics' shares are trading on 2016e EV/Sales and EV/EBIT ratios of 0.7x and 16.9x respectively.

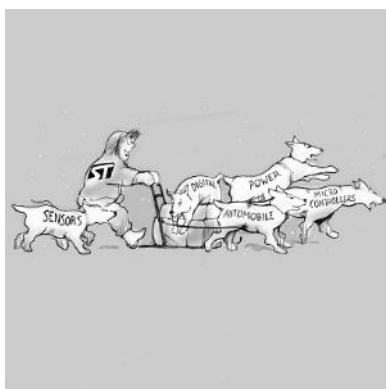
NEXT CATALYSTS

- Today: Q1 results conference call (9:30am CET, +41 (0)58 310 5000).
- Late in July 2016: Q2 results

Actual Q1-16 vs. Estimates

[USDm]	BG ests. 1Q16e	Consensus 1Q16e	1Q16 Actual	Actual vs. Cons.
Net revenue	1,619	1,624	1,613	-0.7%
% change (seq)	-2.9%	-2.6%	-3.3%	-67bp
% change (yoy)	-5.0%	-4.7%	-5.4%	-65bp
Gross Margin	33.0%	33.0%	33.4%	40bp
Adj. EBIT	-9	-4	-33	NS
% of revenue	-0.6%	-0.2%	-2.0%	-181bp
Adj. EPS (in USD)	-0.02	0.00	-0.05	NS

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



Guidance Q2-16 vs. Estimates

[USDm]	BG ests. 2Q16e	Consensus 2Q16e	2Q16 Guidance	Guid. vs. Cons.
Net revenue	1702	1710	1702	-0.5%
% change	5.1%	5.3%	5.5%	23bp
Gross Margin	35.1%	33.8%	34.0%	20bp
Adj. EPS (in USD)	0.04	0.04		

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

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