

16th June 2016

TMT

# ASML

Price EUR83.91

## ASML to acquire Hermes Microvision for EUR2.75bn

Fair Value EUR81 (-3%)

SELL

Bloomberg	ASML.NA
Reuters	ASML.AS
12-month High / Low (EUR)	99.7 / 71.8
Market Cap (EURm)	36,361
Ev (BG Estimates) (EURm)	34,935
Avg. 6m daily volume (000)	1,257
3y EPS CAGR	21.9%

Today, ASML has announced the acquisition of Hermes Microvision, a specialist of verification systems, for about TWD100bn, or EUR2.75bn. The operation aims to reinforce ASML's Holistic lithography portfolio with technologies independent of EUV. The group expects the deal to be closed by Q4-16 and says the operation will be accretive immediately. We believe the stock is poised to react positively today, although it does not change our view on the case significantly. We continue to see risks on the timing of adoption of the EUV technology, while current valuation metrics offer no room for a disappointment.

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.2%	-3.5%	2.7%	1.6%
Semiconductors	4.1%	-2.8%	-6.4%	-6.2%
DJ Stoxx 600	-3.3%	-5.1%	-10.0%	-11.5%

### ANALYSIS

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	6,287	6,487	7,415	8,742
% change		3.2%	14.3%	17.9%
EBITDA	1,864	1,774	2,337	3,031
EBIT	1,565	1,469	2,017	2,666
% change		-6.1%	37.3%	32.2%
Net income	1,387	1,266	1,758	2,353
% change		-8.7%	38.8%	33.8%

	2015	2016e	2017e	2018e
Operating margin	24.9	22.7	27.2	30.5
Net margin	22.1	19.5	23.7	26.9
ROE	16.5	15.5	20.0	23.8
ROCE	22.9	19.1	26.4	25.9
Gearing	-27.2	-17.5	-23.6	-7.4

(EUR)	2015	2016e	2017e	2018e
EPS	3.21	3.02	4.26	5.82
% change	-	-6.0%	41.2%	36.6%
P/E	26.1x	27.8x	19.7x	14.4x
FCF yield (%)	4.1%	1.9%	5.1%	NM
Dividends (EUR)	0.70	1.05	1.21	1.39
Div yield (%)	0.8%	1.3%	1.4%	1.7%
EV/Sales	5.4x	5.4x	4.6x	4.1x
EV/EBITDA	18.3x	19.7x	14.7x	11.8x
EV/EBIT	21.8x	23.8x	17.0x	13.4x

- ASML acquires Hermes Microvision for TWD100bn, or EUR2.75m.** Hermes Microvision is a Taiwanese publicly traded company specialised in pattern verification systems (with e-beam inspection technology), generating TWD6.65bn (EUR189m) of revenues in FY15 (operating profit of 37%). ASML acquires HMI in a deal worth TWD100bn (EUR2.75m) cash representing a 31% premium over Hermes' 30-day wtd avg trading price. For this acquisition, ASML says it will issue 1/ issue about 5.9m shares or a limited dilution of about 1.4% of currently outstanding shares at a price of EUR85.24 for a total issue of EUR500m, 2/ issue EUR1.5bn of debt and 3/ add the remainder EUR750m from available cash (net debt of EUR2.0bn by the end of Q1-16). The transaction, which has already been approved by ASML and HMI boards, is expected to be closed in Q4-16 and is expected to be immediately accretive to EPS.
- Buying growth at high multiples.** This transaction highlights high multiples with 2016e purchase price to sales multiple of 13x and purchase price to net income of 35x. We believe the group is seeking a way to help to achieve the 2020 target of a revenue of EUR10bn. We note that the Street currently estimates HMV 2018 sales of about EUR327m.
- An additional asset in the ASML's holistic lithography portfolio.** On a business perspective, this deal appears to be positive. HMI's technology is complementary to ASML computational knowledge through the holistic lithography offering and more particularly 1/ lithography exposure systems, 2/ computational lithography and 3/ metrology. It should provide more accurate pattern information used to optimise lithography steps. In addition, we note that this should bring additional revenue which is independent to EUV success and allow ASML to be more exposed to 3D-NAND market (hence expand TAM). Indeed, HMI e-beam technology allow high voltage contrast metrology, a technology required to in the production of 3D-NAND.

### VALUATION

- We believe the stock is poised to react positively today. However, the deal does not change our view that the timing of adoption of the EUV is under pressure given the current tough environment in the semiconductor market and the slowdown of Moore's Law.
- Based on our estimates, ASML's shares trade at a 2016e P/E ratio of 27.8x and a 2016e PEG ratio of 1.3x.

### NEXT CATALYSTS

- 20th July 2016: FQ2-16 results.

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**Analyst :**  
Dorian Terral  
33(0) 1.56.68.75.92  
dterral@bryangarnier.com

**Sector Team :**  
Richard-Maxime Beaudoux  
Thomas Coudry  
Gregory Ramirez

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15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
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	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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