

Soitec

Price EURO.50

Still waiting for tangible proof of FD-SOI take-off

Fair Value EURO.45 (-10%)

NEUTRAL

Bloomberg	SOI.FP
Reuters	SOIT.PA
12-month High / Low (EUR)	0.6 / 0.4
Market Cap (EURm)	303
Ev (BG Estimates) (EURm)	328
Avg. 6m daily volume (000)	1,065
3y EPS CAGR	

Yesterday, we hosted Soitec for an investor event following publication of its FY16 results. In addition, the group also came back on the recent capital increases. It has been a long time since Soitec presented such a solid balance sheet. However, the focus was more on opportunities while 200mm wafer production now looks stable and healthy. Although we believe FD-SOI is a great technology, we continue to eagerly await tangible proofs of an FD-SOI take-off. We reiterate our Neutral rating.

ANALYSIS

- The Electronics activity achieved profitable growth.** Yesterday, focus was on the profitability of the Electronics division. Indeed, the group achieved a 29% gross margin in FH2-16, which is to be compared to a bottom of -1% during FH2-14. This has been achieved thanks to higher volumes (almost double vs. bottom) and the effect of the cost-cutting strategy. Bernin 1 fab, in charge of the production of 200mm wafers, is now running at full capacity (with GM in the range of 30% to 35%), but Bernin 2 offers significant upside since it only runs at 25% on average over FY16. At full capacity, Bernin 2 should also generate a GM >30%. As a result of a higher GM in Electronics, Soitec has been able to achieve a positive current operating result of EUR22m. Including the positive impact of divesting the Solar and Lighting activity, the group was able to lower its net losses significantly, from EUR259m in FY15 to EUR72m in FY16.
- Soitec is almost clean from the past.** During the presentation, management explained that the group is now cleaner than ever regarding the loss-making divisions. Discontinued activity is now reported under a special line in the P&L and does not impact sales and current operating result. In addition, the reimbursement of the expensive bridge loan and of about 60% of the OCEANE 2018 will help to reduce significantly the financial expenses (BG ests. FY17e financial results -EUR6m). Indeed, for FY16, the financial results was a dead weight of -EUR22.5m in the P&L. The remaining part of the "old Soitec" can be found in the balance sheet, with EUR22m of "assets available for sale" which corresponds to the remaining interests in the Touwsrivier solar plant. This is said to be for sale, but no schedule has been disclosed.
- Opportunities remain to be seized.** Soitec shared enthusiastic market data. In RF-SOI, the group expects to take advantage of a dynamic LTE-chip market, which is forecast to grow by 25% on average annually over 2014-2019e (volume). We understand that the real growth potential is not from a multiplication of LTE-chips in smartphones, or a growing smartphone market, but rather additional chip capabilities (support of LTE-A) leading to double the size of LTE capable RF-components which are currently produced using RF-SOI wafers (i.e. 2x wafers consumption). In addition to a strong momentum on Power-SOI wafers (also 200mm), this should create strong demand estimated at >2.5m wafers annually (vs. about 950k wafers in 2015) by 2020. We note that the current production capacity of 200mm wafers by Soitec is 850k (unyielded) in Bernin 1 fab, to which we must add targeted 150k wafers production at Simgui and targeted production of 560k wafers in Bernin 2 fab (560k production capacity being the 200mm equivalent of targeted 250k production capacity of 300mm wafers). As a result, we understand that Soitec targets a total production of about 1.56m wafers per year for the next three years or a >60% market share. In addition, Soitec foresees demand for FD-SOI reaching 1 to 3m 300mm wafers annually by 2020 meaning the targeted 400k to 450k production in Bernin 2 will only be a portion of the production. Nevertheless, despite these attractive market anticipations and a stronger ecosystem, we keep a cautious approach and prefer to wait for proof of FD-SOI take-off.

VALUATION

- We have fine-tuned our model and make modifications that have no impact on our FV.
- Soitec's shares trade at a FY17e EV/sales ratio of 1.3x and EV/EBIT of 12.3x.

NEXT CATALYSTS

- 20 July 2016: Q1-17 sales



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BUY ratings 56.5%

NEUTRAL ratings 34%

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