

INDEPENDENT RESEARCH
UPDATE

21st July 2016

TMT

Bloomberg	ASML NA
Reuters	ASML.AS
12-month High / Low (EUR)	94.5 / 71.8
Market capitalisation (EURm)	40,959
Enterprise Value (BG estimates EURm)	39,005
Avg. 6m daily volume ('000 shares)	1,272
Free Float	58.6%
3y EPS CAGR	21.7%
Gearing (12/15)	-27%
Dividend yield (12/16e)	1.11%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (EURm)	6,287	6,487	7,415	8,742
EBITA EURm)	1,565	1,469	2,017	2,666
Op.Margin (%)	24.9	22.7	27.2	30.5
Diluted EPS (EUR)	3.21	3.01	4.24	5.79
EV/Sales	6.15x	6.01x	5.20x	4.32x
EV/EBITDA	20.7x	22.0x	16.5x	12.5x
EV/EBITA	24.7x	26.5x	19.1x	14.2x
P/E	29.5x	31.4x	22.3x	16.3x
ROCE	22.9	20.7	27.7	35.4



ASML

Unattractive risk reward profile

Fair Value EUR81 (price EUR94.52)

SELL

Last April, we downgraded the ASML share to Sell pointing out that risks were present on 1/ the timing for EUV adoption given the current ramp-up in 10nm production and 2/ demand for DUV tools for 10nm production in a fairly sluggish backdrop. With a valuation that leaves very little room for disappointment, risk-reward does not look attractive to us and we are maintaining our Sell recommendation.

▮ **Demand could weaken.** In a backdrop of sluggish growth and where digital players are looking for catalysts in the internet of things (which does not use chips produced with advanced production technologies), we believe that demand for traditional ASML tools could be lower than expected. Investments in 10nm are indeed going ahead at present, but the number of clients capable of offering advanced node production is constantly falling (not to mention demand for components themselves). EUV should provide fresh impetus for the industry with margin widening thanks to a simplification in production. However, with a ramp-up in 10nm production that only started in Q2 2016, we believe that 7nm production (triggering orders for EUV tools) may not start at end-2017 as expected by the market, but with several quarters delay.

▮ **Rising uncertainty on future earnings.** Although EUV is not used in mass production, ASML's lithography tools are sent to three clients to carry out tests. These tools are not billed on delivery but only when a certain number of contractualised performance targets have been reached. However, neither ASML, nor clients have control over the EUV tool performances and this could result in surprises in sales in coming quarters (one EUV tool is sold at around EUR110m) and on margins since gross margin on these tools is significantly lower than ASML's DUV tools (25-30% vs. 50%).

▮ **Valuation that leaves very little room for error.** Whereas uncertainty hangs over the share, the valuation leaves no room for disappointment. The share is trading on 2016e P/E of 31x compared with an historical average of 22x and peer comparison of 18x. We fine-tuned our model with no impact on our valuation.

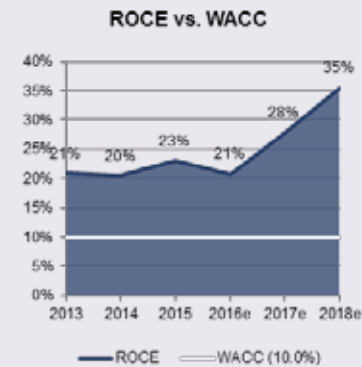
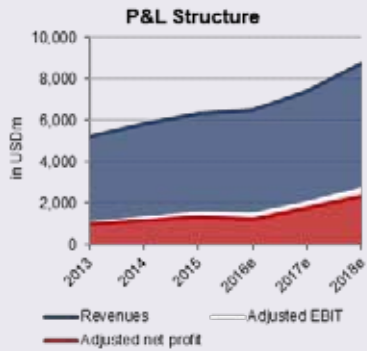
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ASML


Company description

ASML is an equipment maker specialised in lithographic tools for the semiconductors industry. In a growing lithography market, the group has managed to increase its market share over the years, from 30% in 2000 to 80% at present. ASML is the only group to have invested in the EUV technology, enabling a further reduction in the size of transistors making up chip components and solving the cost equation facing the semiconductors industry. As an equipment maker, the group is dependent on investments by semiconductors manufacturers including Intel, Samsung, TSMC, SMIC, SK Hynix, Micron...

Simplified Profit & Loss Account (USDm)	31/12/13	31/12/14	31/12/15	31/12/16e	31/12/17e	31/12/18e
Revenues	5,245	5,856	6,287	6,487	7,415	8,742
Change (%)	10.9%	11.6%	7.4%	3.2%	14.3%	17.9%
Gross profit	2,177	2,596	2,896	2,828	3,411	4,126
Adjusted EBITDA	1,290	1,547	1,864	1,774	2,337	3,031
Adjusted EBIT	1,048	1,282	1,565	1,469	2,017	2,666
EBIT	1,048	1,282	1,565	1,469	2,017	2,666
Change (%)	-9.4%	22.4%	22.1%	-6.1%	37.3%	32.2%
Financial results	(24.5)	(8.6)	(16.5)	(17.0)	(19.5)	(22.9)
Pre-Tax profits	1,023	1,274	1,549	1,452	1,997	2,643
Tax	(8.0)	(77.0)	(161)	(186)	(240)	(291)
Net profit	1,015	1,197	1,387	1,266	1,758	2,353
Adjusted net profit	1,015	1,197	1,387	1,266	1,758	2,353
Change (%)	-11.4%	17.8%	15.9%	-8.7%	38.8%	33.8%
Depreciation & amortisation						
Change in working capital	(402)	(607)	17.4	(33.3)	(155)	(222)
Operating cash flows	1,054	1,025	2,026	1,538	1,922	2,496
Capex, net	(659)	(361)	(545)	(357)	(371)	(437)
Free Cash flow	396	664	1,481	1,181	1,552	2,058
Financial investments, net	290	345	(615)	0.0	0.0	0.0
Dividends	(216)	(268)	(302)	(442)	(500)	(565)
Issuance of shares	31.8	39.7	33.2	0.0	0.0	0.0
Issuance (repayment) of debt	368	(4.1)	(3.6)	0.0	0.0	0.0
Other	(297)	(696)	(561)	(1,065)	(600)	(700)
Net debt	(1,936)	(1,600)	(2,279)	(1,953)	(2,405)	(3,199)
Tangible fixed assets						
Intangibles assets & goodwill	3,085	3,526	3,814	3,799	3,779	3,754
Deferred tax assets	264	188	162	162	162	162
Other non-current assets	46.0	55.3	124	124	124	124
Cash & equivalents	3,011	2,754	3,409	3,083	3,534	4,328
Current assets	3,891	4,232	4,166	4,297	4,910	5,785
Total assets	11,514	12,204	13,295	13,152	14,267	16,008
Shareholders' equity	6,922	7,513	8,389	8,148	8,806	9,894
Provisions	6.8	6.0	4.9	4.9	4.9	4.9
Deferred tax liabilities	384	276	263	263	263	263
Current liabilities	3,126	3,256	3,509	3,607	4,064	4,717
L & ST Debt	1,075	1,154	1,130	1,130	1,130	1,130
Total Liabilities	11,514	12,204	13,295	13,152	14,267	16,008
Capital employed	4,986	5,912	6,110	6,195	6,401	6,695
Ratios						
Gross margin	41.51	44.33	46.06	43.60	46.00	47.20
Operating margin	19.98	21.90	24.89	22.65	27.20	30.50
Tax rate	0.78	6.05	10.42	12.81	12.00	11.00
Net margin	19.36	20.43	22.06	19.52	23.71	26.91
ROE (after tax)	14.67	15.93	16.54	15.54	19.96	23.78
ROCE (after tax)	20.85	20.38	22.95	20.68	27.73	35.44
Gearing	(27.97)	(21.30)	(27.17)	(23.97)	(27.31)	(32.33)
Pay out ratio	22.43	22.28	21.69	34.69	28.29	23.86
Number of shares, diluted	433	440	432	421	414	407
Data per Share (USD)						
EPS	2.36	2.74	3.23	3.03	4.27	5.82
Restated EPS	2.34	2.72	3.21	3.01	4.24	5.79
% change	-12.7%	16.2%	17.9%	-6.2%	41.0%	36.4%
BVPS	15.97	17.09	19.41	19.37	21.26	24.33
Operating cash flows	2.43	2.33	4.69	3.66	4.64	6.14
FCF	0.91	1.51	3.43	2.81	3.75	5.06
Net dividend	0.53	0.61	0.70	1.05	1.21	1.39

Source: Company Data; Bryan, Garnier & Co ests.

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