

INDEPENDENT RESEARCH  
UPDATE

21st July 2016

TMT

Bloomberg	SOI FP
Reuters	SOIT.PA
12-month High / Low (EUR)	0.8 / 0.4
Market capitalisation (EURm)	455
Enterprise Value (BG estimates EURm)	480
Avg. 6m daily volume ('000 shares)	1,342
Free Float	79.0%
3y EPS CAGR	
Gearing (03/16)	NM
Dividend yield (03/17e)	NM

YE March	03/16	03/17e	03/18e	03/19e
Revenue (EURm)	233.21	253.82	271.75	360.14
EBITA EURm)	22.4	26.6	31.5	36.5
Op.Margin (%)	9.6	10.5	11.6	10.1
Diluted EPS (EUR)	-0.02	0.05	0.04	0.05
EV/Sales	2.68x	1.89x	1.63x	1.12x
EV/EBITDA	17.2x	11.5x	8.6x	6.4x
EV/EBITA	27.9x	18.0x	14.0x	11.1x
P/E	NS	15.7x	18.6x	16.7x
ROCE	15.4	14.0	18.7	21.1



# Soitec

## Waiting for FD-SOI orders

Fair Value EUR0.50 vs. EUR0.45 (price EUR0.75) **NEUTRAL**


Following the two capital increases undertaken by Soitec during Q2 2016, the group is now in a far better position and boasts a stronger balance sheet. Soitec now only focuses on two products, SOI 200mm wafers (RF-SOI et Power-SOI) and SOI 300mm wafers (PD-SOI et FD-SOI). With stable demand for 200mm wafers, Soitec's challenge is now to convert the try with its new product, FD-SOI. While we consider this technology relevant and expect it to break through, we are waiting for further proof of its commercial take-off, which would genuinely boost Soitec's sales. We update our model to integrate changes in FX, as a result our FV is up from EUR0.45 to EUR0.50.

**The electronics business now shows profitable growth.** At the group's last publication in June, the accent was placed on profitability in the electronics division. Indeed, the group generated gross margin of 29% in its fiscal H2 2016 (FYE 31st March), compared with a bottom of gross margin of -1% in H2 2014. This was possible thanks to far higher volumes (virtually double) and the cost cutting strategy. The Bernin 1 plant that handles 200mm production is now running at full capacity (gross margin of 30-35%), whereas the Bernin 2 fab, handling 300mm wafers was only running at 25% on average over FY 2016. At full capacity, Bernin 2 should also generate gross margin of more than 30%.

**The group has now rid itself of loss-making activities (solar and lighting), and its future depends on the success of FD-SOI.** With the Bernin 1 fab now full, growth and margin improvement is primarily set to stem from the Bernin 2 plant, which has production capacity of 750k wafers. Some of this output is to be reserved for RF-SOI 300mm (around 200k-250k), and the rest should be allocated to production of FD-SOI wafers. This is an innovative technology enabling performance gains at a constant node, but it is also a new design and chip production method. This means that its success depends on the interest the industry has in adopting these wafers rather than extending the Moore's law. So far, things seem to be taking shape smoothly and the ecosystem is gradually falling into place. However, there is still nothing concrete in terms of orders and for this reason we remain cautious.

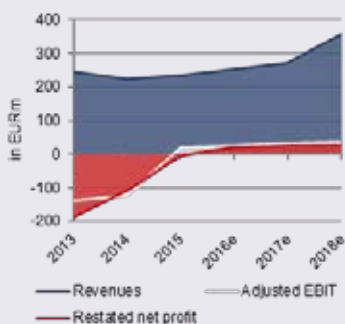
[Bryan Garnier : Semiconductors Looking for lost growth](#)



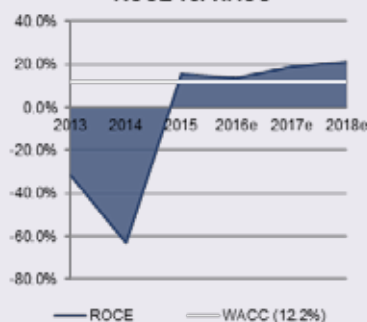
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Soitec

P&L Structure



ROCE vs. WACC



Company description

Founded in 1992, and listed on Euronext Paris since 1999, Soitec is a specialist of high-performance semiconductor materials. The company develops proprietary technologies used to produce and sell wafers for the semiconductor industry, more particularly to produce Integrated Circuits. Soitec is the world leader on the SOI market with 80% of market share. Recently, the group reinforced its balance sheet with two successive capital increases for a total amount of EUR150m. Now, the group's objective is to support the success of its new product, the FD-SOI.

Simplified Profit & Loss Account (EURm)	31/03/14	31/03/15	31/03/16	31/03/17e	31/03/18e	31/03/19e
Revenues	247	223	233	254	272	360
Change (%)	-6.0%	-9.8%	4.6%	8.8%	7.1%	32.5%
Adjusted EBITDA	-	-	-	-	-	-
Depreciation & amortisation	141	209	13.9	15.0	20.0	27.0
Adjusted EBIT	(137)	(126)	22.4	26.6	31.5	36.5
EBIT	(220)	(277)	(7.0)	26.6	31.5	36.5
Change (%)	-	-	-	-	18.3%	15.9%
Financial results	(16.7)	19.7	(22.5)	(6.3)	(6.8)	(9.0)
Pre-Tax profits	(236)	(258)	(29.6)	20.3	24.7	27.5
Exceptionals	NM	NM	NM	NM	NM	NM
Tax	0.06	(0.22)	(3.5)	0.0	0.0	0.0
Profits from associates	(0.64)	(1.4)	(0.20)	(0.20)	(0.20)	(0.20)
Minority interests	0.33	0.0	0.0	0.0	0.0	0.0
Net profit	(237)	(258)	(71.7)	20.1	24.5	27.3
Restated net profit	(186)	(108)	(3.9)	20.1	24.5	27.3
Change (%)	-	-	-	-	22.1%	11.4%

Cash Flow Statement (EURm)

Operating cash flows	(39.1)	(0.05)	(12.5)	32.7	42.5	43.6
Change in working capital	(99.8)	67.9	40.8	(2.5)	(2.2)	(10.9)
Capex, net	(44.8)	(3.1)	14.8	(40.0)	(5.0)	(5.0)
Financial investments, net	(37.8)	(15.5)	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Issuance of shares	67.9	83.7	0.0	152	0.0	0.0
Issuance of debt	131	23.7	64.7	(61.0)	0.0	0.0
Other	(21.4)	(102)	(37.8)	(50.0)	0.0	0.0
Net debt	212	150	170	25.3	(12.2)	(50.9)
Free Cash flow	(184)	(3.2)	2.3	(7.3)	37.5	38.6

Balance Sheet (€m)

Tangible fixed assets	281	157	121	146	131	109
Intangibles assets & goodwill	35.1	47.4	39.3	39.3	39.3	39.3
Investments	8.9	1.3	1.4	1.4	1.4	1.4
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	186	0.0	0.0	0.0	0.0	0.0
Cash & equivalents	44.7	22.9	49.1	82.7	120	159
Total assets	585	228	210	269	292	308
Shareholders' equity	221	50.0	(7.1)	165	190	217
Provisions	18.4	17.5	30.5	30.5	30.5	30.5
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0	0.0
L & ST Debt	257	173	219	108	98.6	115
Current liabilities	88.9	153	82.7	86.5	89.7	106
Total Liabilities	585	394	325	390	409	468
Capital employed	433	200	163	190	168	173

Ratios

Operating margin	NM	NM	9.59	10.49	11.59	10.14
Tax rate	0.03	(0.08)	(11.83)	0.0	0.0	0.0
Net margin	NM	NM	NM	6.62	9.02	7.58
ROE (after tax)	(107)	(516)	1,009	12.16	12.91	12.56
ROCE (after tax)	(31.71)	(62.97)	15.36	13.98	18.73	21.07
Gearing	96.21	300	NM	NM	(6.45)	(23.41)
Pay out ratio	NM	NM	NM	0.0	NM	0.0
Number of shares, diluted	149	211	240	419	419	419

Data per Share (EUR)

EPS	(1.45)	(1.23)	(0.29)	0.08	0.10	0.11
Restated EPS	(1.25)	(0.51)	(0.02)	0.05	0.04	0.05
% change	12.6%	-61.7%	-104%	202%	-15.6%	11.5%
EPS bef. GDW	(1.25)	(0.51)	(0.02)	0.05	0.04	0.05
BVPS	1.48	0.24	(0.03)	0.39	0.45	0.52
Operating cash flows	(0.26)	(0.00)	(0.05)	0.08	0.10	0.10
FCF	(1.23)	(0.02)	0.01	(0.02)	0.09	0.09
Net dividend	0.0	0.0	0.0	0.0	0.0	0.0

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

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SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

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SELL ratings 10.2%

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