

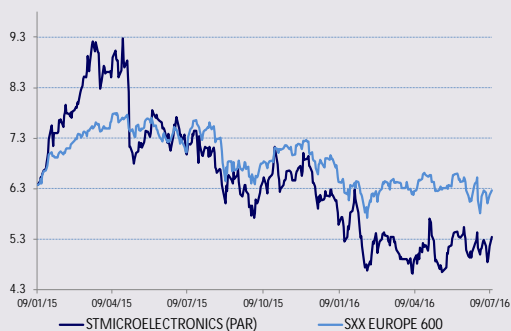
INDEPENDENT RESEARCH
UPDATE

21st July 2016

TMT

Bloomberg	STM FP
Reuters	STM.FR
12-month High / Low (EUR)	7.4 / 4.6
Market capitalisation (EURm)	5,058
Enterprise Value (BG estimates EURm)	4,376
Avg. 6m daily volume ('000 shares)	2,560
Free Float	70.3%
3y EPS CAGR	31.7%
Gearing (12/15)	-11%
Dividend yield (12/16e)	4.35%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (USDm)	6,897	6,882	6,998	7,151
EBITA USDm)	174.0	264.1	405.2	513.3
Op.Margin (%)	2.5	3.8	5.8	7.2
Diluted EPS (USD)	0.20	0.21	0.35	0.45
EV/Sales	0.66x	0.64x	0.59x	0.55x
EV/EBITDA	5.0x	4.5x	3.7x	3.1x
EV/EBITA	26.2x	16.6x	10.3x	7.7x
P/E	27.9x	26.5x	16.1x	12.2x
ROCE	5.1	4.9	8.3	11.2



STMicroelectronics

The future remains blurred

Fair Value EUR6.5 vs. EUR6.3 (price EUR5.55) **NEUTRAL**

STMicroelectronics has been in decline for five years and many now believe that the share has reached a low point. At the end of January, the group announced a strategic plan, the most striking initiative of which was to halt production of processors for set-top boxes, a business that had until now been considered as the group's technological standard bearer. Further out, this decision should help the group improve margins in order to move towards a 10% EBIT margin. In this transition period, we have adopted a Neutral recommendation on the share which reflects our appreciation of the initiatives undertaken, but also the lack of tangible proof of how efficient this plan is and an ultimately not very attractive valuation (2016e P/E of 26.5x). We update our model to integrate changes in FX, hence our FV is up from EUR6.3 to EUR6.5.

▢ **A strategic refocus on two market segments: automotive and the internet of things (IoT).** Concerning IoT, ST has a portfolio of products fully adapted to this new wave. The group would especially like to lever its microcontrollers offer (currently the market benchmark) in order to sell sensors, connectivity chips and power management chips. This strategy looks interesting to us although its success is entirely based on MCU sales momentum. In the automotive segment, ST has a strong position (no. 4 in the world, 9% market share) and growth in this market should naturally carry the group.

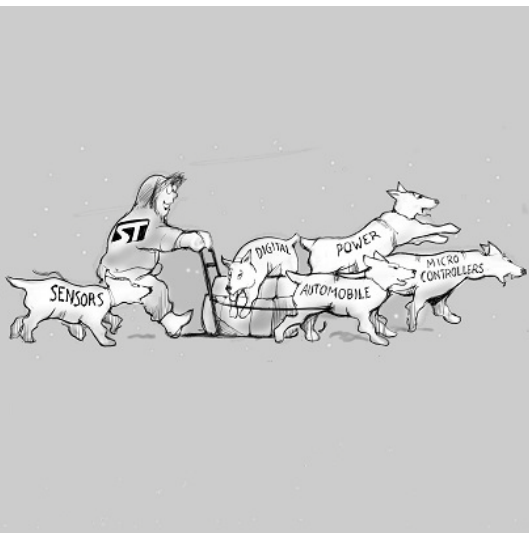
▢ **In terms of margins, the group is maintaining its target for EBIT margin of 10% over the medium term, but with no precise timing, investors remain somewhat in limbo.** At the last analysts' conference in May, management stated that this target was still intact. Although the group shared the target for the first time in 2013, it has never been reached, either due to external factors or due to unfortunate strategic decisions. With this plan, the group is clearly providing itself the means to deliver, only history has not played in ST's favour in terms of executing strategic plans. We believe that investors are currently sanctioning ST for its lack of precision whereas a large number would also like some clarification concerning the forthcoming change in CEO. ST now seems to have all the right ingredients to reach its EBIT margin target of 10% but this is likely to take some time. Pending more tangible factors on this point, we are maintaining our Neutral recommendation.

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



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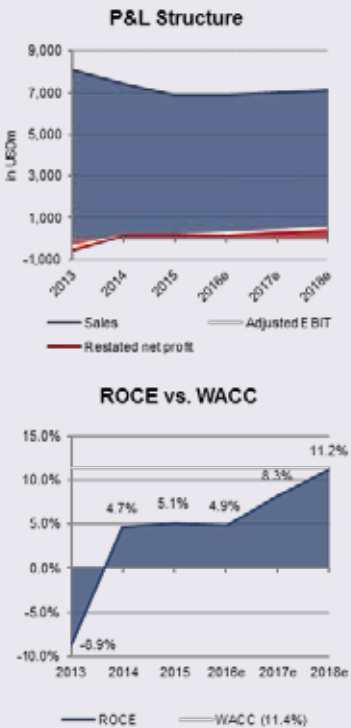
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STMicroelectronics

Simplified Profit & Loss Account (USDm)	31/12/13	31/12/14	31/12/15	31/12/16e	31/12/17e	31/12/18e
Revenues	8,082	7,404	6,897	6,882	6,998	7,151
Change (%)	-4.8%	-8.4%	-6.8%	-0.2%	1.7%	2.2%
EBITDA	-%	-%	-%	-%	-%	-%
Depreciation & amortisation	910	812	736	716	728	744
Adjusted EBIT	(409)	182	174	264	405	513
EBIT	(465)	168	109	264	405	513
Change (%)	-%	-%	-4.2%	51.7%	53.6%	26.7%
Financial results	(5.0)	(19.2)	(22.0)	(16.5)	(16.8)	(17.2)
Pre-Tax profits	(470)	149	87.0	248	388	496
Tax	(37.0)	23.0	21.0	(66.3)	(86.7)	(103)
Profits from associates	(122)	(43.0)	2.0	3.1	3.2	3.2
Minority interests	129	(0.60)	(6.0)	0.0	0.0	0.0
Net profit	(500)	128	104	184	305	397
Restated net profit	(573)	143	175	184	305	397
Change (%)	-%	-%	22.4%	5.4%	65.3%	30.1%
Cash Flow Statement (USDm)						
Operating cash flows	333	791	846	900	1,033	1,140
Change in working capital	33.0	(76.0)	(122)	12.8	(30.1)	(39.4)
Capex, net	(531)	(505)	(467)	(516)	(525)	(536)
Financial investments, net	96.0	(341)	0.0	0.0	0.0	0.0
Dividends	(350)	(357)	(350)	(211)	(265)	(349)
Issuance of shares	0.0	1.0	0.0	0.0	0.0	0.0
Issuance (repayment) of debt	(34.0)	774	0.0	0.0	0.0	0.0
Other	(17.0)	(168)	(13.0)	2.0	0.0	0.0
Net debt	(741)	(546)	(494)	(682)	(895)	(1,110)
Free Cash flow	(165)	210	257	397	478	564
Balance Sheet (USDm)						
Tangible fixed assets	3,156	2,647	2,321	2,121	1,918	1,711
Intangibles assets & goodwill	307	275	242	242	242	242
Investments	676	649	516	516	516	516
Deferred tax assets	227	386	436	436	436	436
Current assets	2,913	2,700	2,570	2,565	2,606	2,661
Cash & equivalents	1,894	2,351	2,106	2,294	2,507	2,722
Total assets	9,173	9,008	8,191	8,174	8,225	8,288
Shareholders' equity	5,717	5,055	4,693	4,667	4,706	4,754
Provisions	524	574	509	509	509	509
Deferred tax liabilities	11.0	10.0	12.0	12.0	12.0	12.0
L & ST Debt	1,153	1,805	1,612	1,612	1,612	1,612
Current liabilities	1,768	1,564	1,365	1,372	1,384	1,400
Total Liabilities	9,173	9,008	8,191	8,174	8,225	8,288
Capital employed	4,976	4,509	4,199	3,985	3,812	3,644
Ratios						
Operating margin	(5.06)	2.45	2.52	3.84	5.79	7.18
Tax rate	6.25	21.80	0.30	(26.45)	(22.15)	(20.61)
Net margin	(7.09)	1.92	2.54	2.68	4.36	5.54
ROE (after tax)	(8.75)	2.54	2.22	3.95	6.48	8.34
ROCE (after tax)	(8.87)	4.65	5.14	4.85	8.26	11.17
Gearing	(12.96)	(10.80)	(10.53)	(14.61)	(19.01)	(23.35)
Pay out ratio	NM	287	336	115	87.47	86.98
Number of shares, diluted	890	882	873	879	884	884
Data per Share (USD)						
EPS	(0.56)	0.14	0.12	0.21	0.35	0.45
Restated EPS	(0.64)	0.16	0.20	0.21	0.35	0.45
% change	-%	-%	23.7%	5.6%	64.4%	31.6%
EPS bef. GDW	(0.64)	0.16	0.20	0.21	0.35	0.45
BVPS	6.43	5.73	5.37	5.31	5.33	5.38
Operating cash flows	0.37	0.90	0.97	1.02	1.17	1.29
FCF	(0.19)	0.24	0.29	0.45	0.54	0.64
Net dividend	0.40	0.40	0.40	0.24	0.30	0.39

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



Company description

STMicroelectronics is a Franco-Italian manufacturer of semiconductors. The group has a broad product portfolio that spans from power management components to integrated circuits for industrial sector, automotive and consumer applications. Declining for several years, the group currently executes a transformation plan to restore growth and positive margins.

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Stock rating

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NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
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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BUY ratings 55.8%

NEUTRAL ratings 34%

SELL ratings 10.2%

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