

INDEPENDENT RESEARCH

Semiconductors

21st July 2016

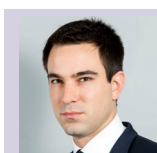
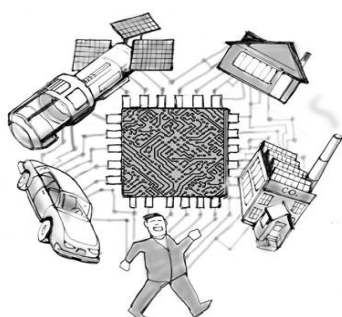
Looking for lost growth

Semiconductors

ARM HOLDINGS	Tender to the offer		FV 1410p vs.1340p
Bloomberg	ARM.LN	Reuters	ARM.L
Price	1663p	High/Low	1675/848.5
Market cap.	GBP23,404m	Enterprise Val	GBP22,420m
PE (2016e)	46.3x	EV/EBIT (2016e)	47.0x
ASML	SELL		FV EUR81
Bloomberg	ASML.NA	Reuters	ASML.AS
Price	EUR94.52	High/Low	94.52/71.75
Market Cap.	EUR40,959m	Enterprise Val	EUR39,005m
PE (2016e)	31.4x	EV/EBIT (2016e)	26.5x
DIALOG SEMICONDUCTOR	BUY		FV EUR37 vs. 35
Bloomberg	DLG.GR	Reuters	DLGS.DE
Price	EUR28.85	High/Low	53.269/24.42
Market Cap.	EUR2,246m	Enterprise Val	EUR1,493m
PE (2016e)	12.1x	EV/EBIT (2016e)	4.4x
INFINEON	BUY		FV EUR16 vs. 15
Bloomberg	IFX.GY	Reuters	IFXGn.DE
Price	EUR13.915	High/Low	14.03/8.687
Market Cap.	EUR15,754m	Enterprise Val	EUR15,195m
PE (2016e)	17.1x	EV/EBIT (2016e)	19.1x
MELEXIS	SELL		FV EUR48
Coverage initiated			
Bloomberg	MELE.BB	Reuters	MLXS.BR
Price	EUR61	High/Low	61/37.7
Market Cap.	EUR2,464m	Enterprise Val	EUR2,405m
PE (2016e)	25.8x	EV/EBIT (2016e)	21.6x
SOITEC	NEUTRAL		FV EUR0.5 vs. 0.45
Bloomberg	SOI.FP	Reuters	SOIT.PA
Price	EUR0.75	High/Low	0.75/0.3838
Market Cap.	EUR455m	Enterprise Val	EUR480m
PE (2016e)	15.7x	EV/EBIT (2016e)	18.0x
STMICROELECTRONICS	NEUTRAL		FV EUR6.5 vs. 6.3
Bloomberg	STM.FP	Reuters	STM.FR
Price	EUR5.552	High/Low	7.44/4.608
Market Cap.	EUR5,058m	Enterprise Val	EUR4,376m
PE (2016e)	26.5x	EV/EBIT (2016e)	16.6x
u-blox	BUY		FV CHF265
Coverage initiated			
Bloomberg	UBXN.SW	Reuters	UBXN.S
Price	CHF228.5	High/Low	231.1/164
Market Cap.	CHF1,555m	Enterprise Val	CHF1,485m
PE (2016e)	33.3x	EV/EBIT (2016e)	24.8x

For the semiconductors industry, 2015 and the first half of 2016 probably marked the start of a sluggish cycle. This market context has led to a radical change in the industry. A number of players are focusing on M&A while others are refocusing on their core business. The result is that yesterday's leaders are not necessarily tomorrow's leaders. In this backdrop, we recommend that investors favour specialists (or ultra-specialists) irrespective of their size.

- **Average growth of 0.6% for the next three years.** Whereas the industry has been growing by more than 9% on average over the past 30 years, coming years are set to be sluggish. Growth has evaporated given the lack of momentum in the PC market and with a smartphone market no longer playing the role of catalyst in a sluggish economic backdrop.
- **The search for critical mass leading nowhere.** While many observers consider that the record number of M&A operations seen in 2015 reflect a search for critical mass (and hence operating leverage), we are convinced that in the majority of cases, acquisitions are above all motivated by an aim to deliver short-term growth forecasts. We believe that, for the semiconductors industry, the preconceived idea that size is a success factor is no longer true. In contrast, we are convinced that in today's market focusing on unique expertise and a strong positioning in a small number of verticals is preferable.
- **In this changing environment, we believe that stock-picking is more essential than ever.** We continue to favour players with strong positions in the automotive and industrial sectors. The two segments remain among the most dynamic with average 2015-18e growth rates of 6.8% and 7.5% respectively.
- **As such, we are initiating coverage of two medium-sized companies that are highly specialised: Melexis (Sell, FV EUR48) specialised in car components and u-blox (Buy, FV CHF265) specialised in positioning chips and connectivity for the automotive and industrial sectors.**



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