

ASML

Price EUR94.52

Q2 is 4% above expectations; Q3 guidance in line at EBIT level, but the devil is in the details

Fair Value EUR81 (-14%)

SELL

Bloomberg	ASML.NA
Reuters	ASML.AS
12-month High / Low (EUR)	94.5 / 71.8
Market Cap (EUR)	40,959
Ev (BG Estimates) (EUR)	39,005
Avg. 6m daily volume (000)	1,272
3y EPS CAGR	21.7%

ASML benefited from 10nm ramp up during Q2-16, a catalyst allowing the group to beat Q2 expectations by 4% (at EPS level). Sales came out at EUR1.740bn, up 30.5% on a sequential basis and up 5.2% year on year. This was above the company's guidance for Q2 sales of about EUR1.7bn and consensus forecasts of EUR1.704bn. Q2 EPS stood at EUR0.83, or EUR0.03 above consensus expectations of EUR0.80. Q3-16 guidance highlights the uneven nature of the current business of ASML due to EUV revenue recognition system. As a result, Q3-16 sales outlook came out below expectations but margin are higher, as such EBIT group's forecast appears to be broadly in line.

	1 M	3 M	6 M	31/12/15
Absolute perf.	13.4%	7.1%	28.1%	14.5%
Semiconductors	23.0%	18.7%	30.5%	15.7%
DJ Stoxx 600	3.5%	-3.4%	1.3%	-7.8%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	6,287	6,487	7,415	8,742
% change		3.2%	14.3%	17.9%
EBITDA	1,864	1,774	2,337	3,031
EBIT	1,565	1,469	2,017	2,666
% change		-6.1%	37.3%	32.2%
Net income	1,387	1,266	1,758	2,353
% change		-8.7%	38.8%	33.8%

	2015	2016e	2017e	2018e
Operating margin	24.9	22.7	27.2	30.5
Net margin	22.1	19.5	23.7	26.9
ROE	16.5	15.5	20.0	23.8
ROCE	22.9	20.7	27.7	35.4
Gearing	-27.2	-24.0	-27.3	-32.3

(EUR)	2015	2016e	2017e	2018e
EPS	3.21	3.01	4.24	5.79
% change	-	-6.2%	41.0%	36.4%
P/E	29.5x	31.4x	22.3x	16.3x
FCF yield (%)	3.6%	3.0%	4.0%	5.4%
Dividends (EUR)	0.70	1.05	1.21	1.39
Div yield (%)	0.7%	1.1%	1.3%	1.5%
EV/Sales	6.2x	6.0x	5.2x	4.3x
EV/EBITDA	20.7x	22.0x	16.5x	12.5x
EV/EBIT	24.7x	26.5x	19.1x	14.2x

ANALYSIS

- ASML has reported Q2 results 4% above consensus expectations.** The company reported Q2 sales of EUR1.740bn, up 5.2% yoy (up 30.5% seq.), above group's guidance for sales of EUR1.7bn and consensus expectations at EUR1.704bn (BG ests. EUR1.734bn). We note that Q2-16 revenue includes around EUR100m from EUV. As expected, the gross margin remained stable at 42.6% (vs. 42.6% in Q1-16). As such, operating result came in at EUR404m or a 23.2% margin to be compared to 17.1% achieved in Q1-16 thanks to higher volume due to 10nm ramp-up. Adjusted EPS of EUR0.83 was EUR0.03 (or 4%) above consensus expectations at EUR0.80 and our own estimates at EUR0.80.
- Thanks to 10nm ramp, bookings improved significantly to EUR1.56bn (from the low level of EUR835m in Q1).** Both net bookings and the systems backlog increased during Q2-16 to EUR1,566bn and EUR3,371m (from EUR835m and EUR3,018m in Q1-16). Note that ASML received 4 new orders for EUV systems but we believe most of them are part of the deal with Intel and it also highlights that without these EUV orders, 10nm ramp demand remains soft. We estimate that bookings without EUV would be slightly above EUR1,100m, which appears to be a medium level for ASML while the group should benefit from the adoption of a new node.
- The group is maintaining its target of six to seven EUV system shipments for 2016.** As mentioned before, EUV keeps improving with availability of more than 80% and productivity achieved a peak performance of 1,488 wafers per day (wpd) achieved on one NXE:3350B in-house (note that the group aims to achieve a 1,500 wpd performance by the end of the year). Today, the group confirms again that it expects to ship six to seven NXE:3350B during 2016. Note that three EUV systems were shipped during 2015, one system was shipped during Q1 and 1 system during Q2. Note that due to a delay in revenue recognition caused by the performance benchmark to be achieved before triggering tools' payment, revenue from these tools should be partially recorded over 2016.
- ASML benefits from 10nm ramp but sales and margin remains rugged due to EUV.** Q3 guidance is for sales of approximately EUR1.7bn which is below consensus expectations of EUR1.76bn. However the group foresees a gross margin improvement and guide for 47% compared to the Street's 44%. In addition, the group says it expects R&D expense at about EUR275m (slightly up from Q2 level of EUR270m), SG&A at about EUR90m, while co-investment programme should help by EUR23m, such that EBIT is expected to be close to EUR455m, i.e. broadly in line with consensus expectations at EUR451m. Including 12% corporate tax, the EPS would be around EUR0.95, i.e. in line with expectations of EUR0.95 but we recall that the debt raised to acquire Hermes Microvision (about EUR1.5bn) could impact negatively the result. Today's results and Q3 guidance highlights the lumpiness nature of the results of ASML, indeed Q2 sales included the recognition of revenue of a EUV system which impacted significantly the margins. Indeed, Q3 sales forecasts came out below expectations but as the margin is boosted by no EUV revenue recognition, finally guidance appears to be in line at EBIT level.



VALUATION

- We are making no change to our estimates at this point. Based on our estimates, ASML's shares trade at a 2016e P/E ratio of 31.4x and a 2016e PEG ratio of 1.4x.

NEXT CATALYSTS

- Today: Q2 results conference call (3:00pm CET, Personal ID required: [registration here](#)).
- 19th October 2016: Q3-16 results.

Q2-16 Actual vs. estimates

[EURm]	BG ests. 2Q16e	Consensus 2Q16e	2Q16 Actual	Actual vs. Cons.
Net revenue	1,734	1,704	1,740	2.1%
% change (seq)	30.1%	27.8%	30.5%	267bp
% change (yoy)	4.9%	3.0%	5.2%	215bp
Gross Margin	42%	41.4%	42.6%	120bp
Adj. EBIT	393	391	404	3.4%
% of revenue	22.7%	22.9%	23.2%	29bp
Adj. EPS (in EUR)	0.80	0.80	0.83	3.7%

Sources: Thomson Reuters I.B.E.S.; Bryan, Garnier & Co ests.

Q3-16 Guidance vs. estimates

[EURm]	BG ests. 3Q16e	Consensus 3Q16e	3Q16e Guidance	Guid. vs. Cons.
Net revenue	1,652	1,757	1,700	-3.2%
% change (seq)	-4.8%	3.1%	-2.3%	-538bp
% change (yoy)	6.6%	13.4%	9.7%	-368bp
Gross Margin	45%	43.7%	47.0%	330bp
Adj. EPS (in EUR)	0.81	0.95	-	-

Sources: Thomson Reuters I.B.E.S.; Bryan, Garnier & Co ests.

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