

Melexis

Price EUR60.17

Even diamonds have a price (report released today)

Fair Value EUR48 (-20%)

SELL

Coverage initiated

Bloomberg	MELE.BB
Reuters	MLXS.BR
12-month High / Low (EUR)	61.0 / 37.7
Market Cap (EURm)	2,431
Ev (BG Estimates) (EURm)	2,372
Avg. 6m daily volume (000)	38.50
3y EPS CAGR	5.3%

Melexis is a Belgian company specialised in the design of components for the automotive sector. Helped by a buoyant market, the group has a solid track record, managing to maintain average annual sales growth of 21% between 2009 and 2015. However, we believe this momentum will start to slow in coming years. With Melexis' share trading on 2016e P/E of 25.8x, our EPS estimate of 5.1% points to PEG of 5.0x. In this backdrop, we advise avoiding the share and have adopted a Sell recommendation.

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.7%	27.8%	38.6%	19.9%
Semiconductors	20.8%	24.0%	31.8%	17.9%
DJ Stoxx 600	0.9%	-2.8%	5.7%	-6.8%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	400.1	453.3	494.5	536.0
% change		13.3%	9.1%	8.4%
EBITDA	130	139	155	168
EBIT	107.6	111.4	123.1	133.5
% change		3.5%	10.5%	8.4%
Net income	99.1	95.6	106.8	115.7
% change		-3.5%	11.7%	8.4%

	2015	2016e	2017e	2018e
Operating margin	26.9	24.6	24.9	24.9
Net margin	24.8	21.1	21.6	21.6
ROE	40.9	36.2	34.2	31.8
ROCE	52.5	46.2	46.0	45.3
Gearing	-24.2	-22.5	-27.4	-31.5

(EUR)	2015	2016e	2017e	2018e
EPS	2.45	2.37	2.64	2.86
% change	-	-3.5%	11.7%	8.4%
P/E	24.5x	25.4x	22.8x	21.0x
FCF yield (%)	3.1%	2.9%	3.5%	3.8%
Dividends (EUR)	1.29	1.84	1.46	1.58
Div yield (%)	2.1%	3.1%	2.4%	2.6%
EV/Sales	5.9x	5.2x	4.7x	4.3x
EV/EBITDA	18.2x	17.0x	15.1x	13.8x
EV/EBIT	22.0x	21.3x	19.0x	17.4x

ANALYSIS

- **A rare and attractive profile.** Melexis is among the groups that seem to have an ideal profile at first sight. It is flawless and specialises in automotive sensors, the most buoyant segment at the moment. It has a solid track record with few disappointments and an impressive growth history. As such, it seems to tick all the right boxes for becoming one of our top picks.
- **Nevertheless, a slower momentum limits EPS growth to 5.1% on average over the next three years.** This is primarily due to a less dynamic top line than in the past with the longer maturity of products sold by Melexis (2015-2018e CAGR in sales of 10%), but also due to a margin slightly under pressure in view of increased R&D capex requirements. In all, we expect average EPS growth of 5.1% between 2015 and 2018e. In addition, we expect a downward revision to consensus estimates. Indeed, our estimates are around 3% lower than those of the market, which is currently forecasting EPS growth of 5.9%, adding a weight to the share's upside.

VALUATION

- **Our model points to downside potential of 21%.** Despite the group's attractive track record and profile, the recent share price performance to reach peaks levels over one year prompts us to avoid the share. With low EPS growth and a share trading on 25.8x 2016e net earnings, Melexis' PEG works out to 5.0x, or the highest among the semiconductor stocks we cover. Moreover, our valuation of EUR48 per share points to downside potential of 21%. As such, we believe there is nothing left to play on the share and advise avoiding it, hence our Sell recommendation.

NEXT CATALYSTS

- 27th July 2016: Q2 2016 results

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Distribution of stock ratings

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