27th July 2016

TMT

Melexis

Price EUR59.89

Q2 2016 results 7% below expectations, but hike in FY16 guidance anyway

Fair Value EUR48 (-20%) **SELL**

Bloomberg	MELE BB
Reuters	MLXS.BR
12-month High / Low (EUR)	61.0 / 37.7
Market Cap (EURm)	2,420
Ev (BG Estimates) (EURm)	2,366
Avg. 6m daily volume (000)	38.10
3y EPS CAGR	5.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.9%	28.5%	27.3%	19.4%
Semiconductors	22.8%	26.1%	24.2%	19.2%
DJ Stoxx 600	6.0%	-1.7%	0.6%	-6.7%

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	26.8x	27.8x	24.9x	23.0x
FCF yield (%)	2.8%	2.6%	3.2%	3.5%
Dividends (EUR)	1.29	1.84	1.46	1.58
Div yield (%)	2.0%	2.8%	2.2%	2.4%
EV/Sales	6.5x	5.7x	5.2x	4.7x
EV/EBITDA	19.9x	18.7x	16.6x	15.1x
EV/EBIT	24.2x	23.3x	20.9x	19.1x

Melexis has reported Q2 2016 sales in line with expectations at EUR112m, up 2.6% seq. and 10.4% yoy. However, Q2 2016 EPS came out 7% below forecast at EUR0.57. Nevertheless, in view of good top-line momentum, the group has increased its FY16 guidance and now expects sales growth of 13-14% vs. 8-12% before but has lowered its GM guidance to 45% from 47% (EBIT margin guidance confirmed at 25%). As a result, the new FY16 guidance confirms our view and is in line with our expectations (BG ests. FY16 sales +13%) but 250bp (at mid-range) above the consensus at 11%.

ANALYSIS

- **Q2 2016 EPS was below the street's expectations.** Melexis posted Q2 revenues of EUR112m, up 2.6% seq. and up 10.4% yoy., i.e. in line with guidance for EUR112m and consensus expectations (BG ests. EUR114m). However, gross margin came in at 45.3%, below the street's forecast as for EBIT reported at EUR27.7m while the consensus was forecasting EUR29.0m (BG ests. EUR29.4m). As a result, EPS came in at EUR0.04, 7% below the consensus estimate of EUR0.61 and 10% below our own estimate for Q2 2016 EPS of EUR0.63.
- **The group has nevertheless raised its FY16 guidance.** Previously, the group's guidance was for FY16 growth of 8-12% (i.e. sales of EUR432m to EUR448m) but in view of good top-line momentum during the first part of the year, the group has increased its FY16 guidance and now expects sales growth of 13-14%. As a result, the new FY16 guidance is in line with our expectations (BG ests. FY16 sales +13%) but above the consensus at 11%. In addition, the group has lowered its gross margin guidance to 45% from 47% but has not changed its operating margin of around 25%. Note that Melexis' guidance is valid for a EUR/USD exchange rate of 1.10. For Q3 2016, the group anticipates sales of EUR116m (up 3% seq.), 3% above cs. estimates of EUR113m and also our own estimates of EUR114m.
- **Overall, the new group guidance confirms our view** that top-line momentum remains healthy but that operating margin remains capped at 25%. We continue to think that the consensus is conservative on top-line but optimistic regarding EPS. We believe that the group will need to continue to invest in R&D and, as a result, will voluntarily cap operating margin. Our EPS estimate for FY16 is currently 3% below consensus.

VALUATION

- We are making no change to our estimates at this point and will wait for further details from today's conference call (see details below).
- Based on our estimates, Melexis' shares are trading on 2016e P/E ratio of 27.8x and 2016e PEG of 4.8x.

NEXT CATALYSTS

- Today: Q2 results conference call (5:00pm CET, you have to register for this conference call in advance – please use this link).
- 26th October 2016: Q3 results

Actual Q2-16 vs. Estimates

[EURm]	BG ests. 2Q16e	Consensus 2Q16e	2Q16 Actual	Actual vs. Cons.
Net revenue	114	112	112	0.0%
% change (seq)	*3.8%*	*2.6%*	*2.6%*	0bp
% change (yoy)	*11.6%*	*10.4%*	*10.4%*	0bp
Gross Margin	47.2%	46.8%	45.3%	-147bp
Adj. EBIT	29.4	29.0	27.7	-4.4%
% of revenue	*25.9%*	*25.8%*	*24.7%*	-113bp
Dil. EPS (in EUR)	0.63	0.61	0.57	-7.3%

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

Guidance Q3-16 vs. Estimates

[EURm]	BG ests. 3Q16e	Consensus 3Q16e	3Q16 Guidance	Guid. vs. Cons.
Net revenue	114	113	116	2.7%
% change (seq)	*+0.1%*	*+0.6%*	*+3.3%*	267bp

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

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