

STMicroelectronics

Price EUR5.41

Apple could be working with ST to develop the next generation of camera image sensors

Fair Value EUR6.3 (+16%)

NEUTRAL

Bloomberg	STM FP
Reuters	STM.FR
12-month High / Low (EUR)	7.5 / 4.6
Market Cap (EURm)	4,930
Ev (BG Estimates) (EURm)	4,322
Avg. 6m daily volume (000)	2,573
3y EPS CAGR	30.5%

According to Le Dauphiné, Apple and STMicroelectronics could be collaborating to develop the next generation of camera image sensors. Apple is said to be expanding a research center in Grenoble and seeking to build a cleanroom with ST. This collaboration make sense as STMicroelectronics has considerable expertise in development (despite the wind down of this business in 2014) and production of such devices, and Apple has made camera modules a key focus and acquired camera technologies recently. With few details available so far, an impact on ST is hard to quantify. However, a design win for ST in the iPhone would be clearly positive.

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.8%	10.5%	-2.2%	-12.4%
Semiconductors	11.4%	5.2%	15.0%	3.4%
DJ Stoxx 600	5.6%	-1.6%	-0.3%	-7.5%

ANALYSIS

- According to French local newspaper, Le Dauphiné, Apple plans to open a cleanroom in Grenoble to develop a camera module for smartphones and tablets. The newspaper adds that the cleanroom will be built in collaboration with STMicroelectronics. Indeed, the camera image sensors would be developed using STMicroelectronics's technology (developed at ST's R&D site in Grenoble).
- Note that STMicroelectronics had a camera image sensors division, but the group took the decision to exist camera module business in October 2014. However, while the group has discontinued its camera module business (at least at the low-end), we know it has expertise in production of high-end camera image sensors. Indeed, it produces camera module as a foundry - at least for one customer, CMOSIS (now a part of ams). CMOSIS develops high performance camera image sensors for industrial or medial applications, and also for high-end camera makers such as Leica. At least until the acquisition of CMOSIS by ams in November 2015, CMOSIS was a fabless semiconductor company and used to outsource production to ST. As a result, ST has both development and manufacturing expertise in camera image sensor.
- Overall, a collaboration of Apple and STMicroelectronics in the field of camera image sensors make sense. Both group know each other as ST was the supplier of gyroscope and accelerometers for the iPhone until the 5S (replaced by Invensense and Bosch sensors) but remains supplier of the inertial measurement unit (IMU) of the Apple Watch. If this rumor is correct, a design win of ST in the iPhone would be a tailwind for group's sales however the impact would depend on the type of sensor (main camera, front camera, auxiliary cameras, ambient light sensors... all have very difference price) and the timing of the design win.

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	6,897	6,882	6,998	7,151
% change		-0.2%	1.7%	2.2%
EBITDA	910	972	1,083	1,245
EBIT	174.0	256.7	355.0	500.9
% change		47.5%	38.3%	41.1%
Net income	175.0	178.1	262.2	386.0
% change		1.8%	47.2%	47.2%

	2015	2016e	2017e	2018e
Operating margin	2.5	3.7	5.1	7.0
Net margin	2.5	2.6	3.7	5.4
ROE	2.2	3.8	5.6	8.2
ROCE	5.1	4.7	7.1	10.9
Gearing	-10.5	-14.5	-18.2	-22.4

(USD)	2015	2016e	2017e	2018e
EPS	0.20	0.20	0.30	0.44
% change	-	2.0%	46.4%	49.0%
P/E	30.2x	29.6x	20.3x	13.6x
FCF yield (%)	4.9%	7.4%	8.2%	10.4%
Dividends (USD)	0.40	0.24	0.30	0.39
Div yield (%)	6.6%	4.0%	5.0%	6.6%
EV/Sales	0.7x	0.7x	0.7x	0.6x
EV/EBITDA	5.5x	4.9x	4.3x	3.6x
EV/EBIT	28.6x	18.7x	13.0x	8.8x

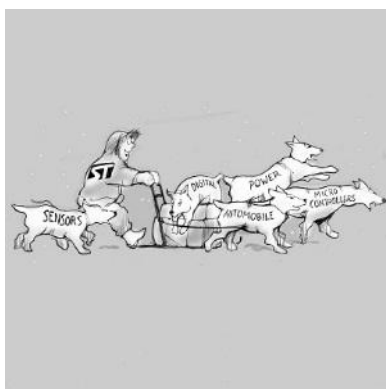
VALUATION

- Based on our estimates, STMicroelectronics' share trades on 2016e P/E of 29.6x and a 2016e PEG of 0.9x.

NEXT CATALYSTS

- 27 July 2016: Q2-16 results.

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Distribution of stock ratings

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NEUTRAL ratings 0%

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