

## STMicroelectronics

Price EUR5.89

Q2 2016 results in line, outlook encouraging as the group sees healthy demand

Fair Value EUR6.5 (+10%)

NEUTRAL

Bloomberg	STM FP
Reuters	STM.FR
12-month High / Low (EUR)	7.1 / 4.6
Market Cap (EURm)	5,365
Ev (BG Estimates) (EURm)	4,744
Avg. 6m daily volume (000)	2,558
3y EPS CAGR	31.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	14.9%	13.1%	-2.1%	-4.7%
Semiconductors	22.8%	26.1%	24.2%	19.2%
DJ Stoxx 600	6.0%	-1.7%	0.6%	-6.7%

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	980	1,133	1,257
EBIT	174.0	264.1	405.2	513.3
% change		51.8%	53.4%	26.7%
Net income	175.0	184.4	304.9	396.5
% change		5.4%	65.3%	30.1%

	2015	2016e	2017e	2018e
Operating margin	2.5	3.8	5.8	7.2
Net margin	2.5	2.7	4.4	5.5
ROE	2.2	4.0	6.5	8.3
ROCE	5.1	4.9	8.3	11.2
Gearing	-10.5	-14.6	-19.0	-23.4

(USD)	2015	2016e	2017e	2018e
EPS	0.20	0.21	0.35	0.45
% change	-	5.6%	64.4%	31.6%
P/E	32.6x	30.8x	18.8x	14.2x
FCF yield (%)	4.5%	7.0%	8.4%	9.9%
Dividends (USD)	0.40	0.24	0.30	0.39
Div yield (%)	6.1%	3.7%	4.7%	6.1%
EV/Sales	0.8x	0.8x	0.7x	0.7x
EV/EBITDA	5.9x	5.3x	4.4x	3.8x
EV/EBIT	31.0x	19.7x	12.3x	9.3x

STMicroelectronics has reported Q2 2016 EPS in line with consensus estimates. Q2 sales came out at USD1.703bn, up 5.6% seq., with a gross margin improving slightly to 33.9% and EPS of USD0.03, i.e. in line with the consensus at USD0.03 (BG ests. USD0.01). However, the group sees healthy demand in the market it serves and Q3 2016 guidance is 1% ahead of the street's estimates with revenues set to grow 5.5% (+/- 350bp) sequentially, i.e. sales close to USD1.797bn, while current forecasts were for USD1.783bn (BG ests. USD1,767m) and GM is expected to be close to 35.5%, i.e. 70bp higher than expectations at 34.8% (BG ests. 35.9%).

## ANALYSIS

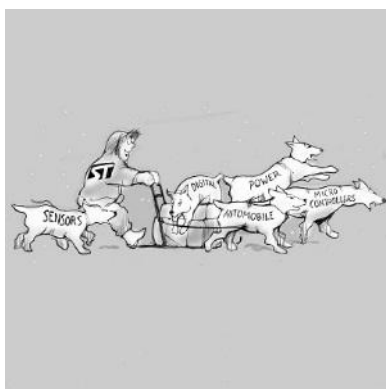
- Q2 top-line was slightly below forecast but EPS was in line with the street's expectations.** The company reported Q2 revenues of USD1.703bn up 5.6% seq. (-3.2% yoy), very close to the guidance range (revenues 5.5% (+/- 350bp) sequentially), but slightly below consensus expectations at USD1.720bn or an increase of 6.6%. Gross margin came in with no surprise at 33.9%, also in line with guidance (about 34.0%), the street's forecasts and our expectations of 33.8%. Combined R&D and SG&A (net of grants) in the second quarter decreased slightly to USD537m vs. USD543m in Q1 2016. As a result, EBIT was 6% above expectations at USD28m (cons. USD26m/BG ests. USD22m). Finally, EPS moved into positive territory at USD0.03 and was in line with the consensus (cons. USD0.03/BG ests. USD0.01). Finally, the group said it generated positive cash flow of USD47m in Q2 2016 compared with USD31m in the previous quarter. Inventories were down 3% to USD1.266bn vs. USD1.302bn at the end of Q1 2016.
- The automotive and power sectors supportive while MCUs continued to show strong sales.** During Q2, the group benefited from a strong recovery in demand for power discrete products and ongoing strength in automotive markets driving sales in Automotive and Discrete Group (ADG) up by 7.5% sequentially. The Microcontrollers and Digital ICs Group (MDG) increased by 4.6%. Analog and MEMS Group (AMS) revenue increased sequentially by 1.8% thanks to healthy momentum in analog products which offset lower sales of MEMS products.
- The group said it sees healthy demand in the markets it serves and, as a result, Q3 2016 guidance came out slightly above the consensus and our expectations.** STMicroelectronics expects Q3 sales to increase sequentially by 5.6% (+/-350bp) to about USD1.797bn, 0.7% above the consensus forecast for a sequential increase of +3.8% to USD1.783bn. Once again, the short term environment is said to be improving across all regions and the strongest drivers remain the automotive and industrial sectors. Welcome news came from gross margin which is expected to increase sequentially by about 160bp to 35.5% (+/-200bp) according to management, above the street's estimates (cons. 34.8%, BG ests. 35.9%). For H2 2016, the group expects to see revenue growth thanks to a supportive environment. ST believes that power discrete and the Analog and MEMS Group will restart yoy growth while automotive and MCUs will continue to enjoy positive revenue momentum.

## 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, STMicroelectronics' shares are trading on 2016e EV/Sales and EV/EBIT ratios of 0.8x and 19.7x respectively.

## NEXT CATALYSTS

- Today: Q2 results conference call (9:30am CET, +44 (0)20 3059 5862).
- Late in October 2016: Q3 results



### Reported Q2 2016 vs. estimates

[USDm]	BG ests. 2Q16e	Consensus 2Q16e	2Q16 Actual	Actual vs. Cons.
Net revenue	1,702	1720	1703	-1.0%
% change (seq)	5.5%	6.6%	5.6%	-103bp
% change (yoy)	-3.3%	-2.3%	-3.2%	-94bp
Gross Margin	33.8%	33.9%	33.9%	0bp
SG&A + R&D (net)	-538	-	-537	-
Adj. EBIT	21.7	26	28	6.1%
% of revenue	1.3%	1.5%	1.6%	11bp
Adj. EPS (in USD)	0.01	0.03	0.03	0.0%

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

### Guidance Q3 2016 vs. estimates

[USDm]	BG ests. 3Q16e	Consensus 3Q16e	3Q16 Guidance	Guid. vs. Cons.
Net revenue	1767	1783	1797	0.7%
% change	3.8%	3.7%	5.5%	179bp
Gross Margin	35.9%	34.8%	35.5%	70bp
Adj. EPS (in USD)	0.07	0.08		

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

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SELL ratings 10.7%

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