

ASML

Price EUR94.87

EUV tools performances continue to improve but the real insertion timing remains a debate

Fair Value EUR81 (-15%)

SELL

Bloomberg	ASML NA
Reuters	ASML.AS
12-month High / Low (EUR)	99.4 / 71.8
Market Cap (EURm)	41,110
Ev (BG Estimates) (EURm)	38,423
Avg. 6m daily volume (000)	1,104
3y EPS CAGR	20.2%

Yesterday morning, ASML reported mixed results with Q3 EPS below the street's anticipations but the December quarter outlook above. During the conference call held yesterday afternoon, our view was confirmed, EUV is on track but the real insertion timing remains a debate. We continue to see most of the positive news flow about EUV already priced in and we believe that investors would be better off focusing on other semiconductor stocks such as Infineon (Buy, FV EUR17.5) or u-blox (Buy, FV CHF255). We maintain our FV of EUR81 and our Sell rating on the stock.

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.4%	0.4%	7.5%	14.9%
Semiconductors	4.4%	6.9%	26.9%	23.6%
DJ Stoxx 600	0.7%	1.9%	-1.6%	-6.1%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	6,287	6,664	7,416	8,494
% change		6.0%	11.3%	14.5%
EBITDA	1,864	1,980	2,392	2,986
EBIT	1,565	1,625	2,017	2,591
% change		3.8%	24.2%	28.4%
Net income	1,387	1,364	1,756	2,283
% change		-1.7%	28.7%	30.0%

	2015	2016e	2017e	2018e
Operating margin	24.9	24.4	27.2	30.5
Net margin	22.1	20.5	23.7	26.9
ROE	16.5	15.4	19.3	22.6
ROCE	22.9	23.0	28.3	35.6
Gearing	-27.2	-30.4	-31.0	-35.8

(EUR)	2015	2016e	2017e	2018e
EPS	3.21	3.19	4.21	5.57
% change	-	-0.6%	32.0%	32.4%
P/E	29.6x	29.7x	22.5x	17.0x
FCF yield (%)	3.6%	3.3%	4.1%	5.3%
Dividends (EUR)	0.70	1.05	1.21	1.39
Div yield (%)	0.7%	1.1%	1.3%	1.5%
EV/Sales	6.2x	5.8x	5.2x	4.4x
EV/EBITDA	20.8x	19.4x	16.0x	12.6x
EV/EBIT	24.8x	23.6x	19.0x	14.5x



ANALYSIS

- Beyond the Q3 results and Q4 outlook, what we learned during the conference call was limited to a qualitative view for 2017, an update regarding the group's expectations of EUV adoption for volume production and details on the evolution regarding the revenue recognition system for EUV tools.
- First regarding 2017: the group provided a qualitative view of 2017 trends.** With its current visibility and in addition to Q4 guidance, ASML provided a brief outlook about 2017 trends per customer profile, namely Logic including IDMs and Foundries, and Memory customers. Management said that it anticipates a continuous supportive environment at Logic customers. We understand that management expects to see this part of the business growing. Note that sales of Lithography systems to Logic customers represents about 50% of total group sales in FY16e. This is due to a continuous demand for 10nm but also 7nm. In the Memory segment, representing about 18% of total sales in FY16e, momentum should also be positive but to a lesser extent, we understand that growth of this segment should come somewhere between 0% and 5%, but overall lower than Logic. Finally, regarding Service and field options sales, the growing trend should continue next year at a rate we see in the single digit range.
- Regarding EUV, management was more talkative regarding the anticipation of the adoption for volume production : 2018-2019 timeframe.** This might be seen as negative by some who expected EUV insertion earlier but it was in line with our view. Regarding the improvement in Systems, efficiency continued as expected, legacy NXE:3330 tools reached a 90% availability while the latest NXE:3350 reached efficiency of 1,500 wafers per day. Overall, we remind that it should not change EUV estimates for 2017 since demand is capped by ASML production capacity at this stage. The group should be able to produce 12 systems over 2017, to which we must add the two systems produced in 2016 and that shipments are said to have been delayed to a late date in 2017. Overall, this falls perfectly in line with our estimates for revenue recognition of 14 systems during 2017. As long as production capacity of ASML is limited, we expect them to be filled.
- The good news is that the delay between shipment and revenue recognition for EUV systems is normalising...** Going through 2017, we understand that the revenue recognition system will play positively. The delay, caused by the requirements of performance achievement at customer's sites should fade out as EUV tools continue to improve. As such, revenue from EUV shipments should be recognised closer to shipment which should lower bumpiness at the top-line and margin levels. However, this does not change our view since we also already factored it into our model.
- Overall, yesterday's publication was reassuring but we continue to see limited upside given that most of the upcoming positive news flow appears to be priced in. We have included Q3 data, Q4 guidance and fine tuned our model leading to limited impact with FY16e/FY17e/FY18e EPS impact of 0.9% on average over the period (no impact on our FV). We maintain our Sell rating on the stock and believe that investors should be better off focusing on other semiconductor stocks such as Infineon (Buy, FV EUR17.5) or u-blox (Buy, FV CHF255).

VALUATION

- Based on our estimates, ASML's shares trade at a 2016e P/E ratio of 29.7x and a 2016e PEG ratio of 1.4x.

NEXT CATALYSTS

- 31st October 2016: Investor day
- 17th January 2017: FY16 and Q4 2016 results.

Detailed P&L

[EURm]	1Q16	2Q16	3Q16	4Q16e	FY16e	FY17e	FY18e
Total Group	1333	1740	1815	1777	6664	7416	8494
<i>Q/Q growth</i>	-7.0%	30.5%	4.3%	-2.1%	6.0%	11.3%	14.5%
<i>Y/Y growth</i>	-19.2%	5.2%	17.1%	23.9%	6.0%	11.3%	14.5%
Cost of goods sold	-765	-998	-980	-922	-3665	-4005	-4485
Gross margin	42.6%	42.6%	46.0%	48.1%	45.0%	46.0%	47.2%
R&D	-275	-270	-273	-280	-1098	-1097	-1129
SG&A	-89	-90	-89	-102	-370	-371	-365
Other operating income	23	24	23	24	94	74	76
Adj. EBIT	228	404	496	497	1625	2017	2591
<i>adj. operating margin</i>	17.1%	23.2%	27.3%	28.0%	24.4%	27.2%	30.5%
Net financial result	-4	-4	-34	-19	-60	-22	-25
Income tax	-26	-47	-66	-62	-201	-239	-282
<i>tax rate</i>	-11.8%	-11.7%	-14.3%	-13.0%	-12.9%	-12.0%	-11.0%
Adj. Net income	198	354	396	416	1364	1756	2283
Adj. diluted EPS (in EUR)	0.46	0.83	0.93	0.96	3.19	4.21	5.57

Source: Bryan Garnier & Co. ests.

P&L changes highlights

[EURm]	Old			New			Old vs. New
	2016e	2017e	2018e	2016e	2017e	2018e	avg. Δ%
Net revenue	6487	7415	8742	6664	7416	8494	0.0%
<i>% change</i>	3.2%	14.3%	17.9%	6.0%	11.3%	14.5%	
Adj. EBIT	1469	2017	2666	1625	2017	2591	2.6%
<i>Adj. operating margin</i>	22.7%	27.2%	30.5%	24.4%	27.2%	30.5%	
Adj. EPS (in EUR)	3.0	4.2	5.8	3.2	4.2	5.6	0.5%

Source: Bryan Garnier & Co. ests.

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