

ASML

Price EUR93.76

ASML strengthens its partnership with Zeiss to accelerate EUV lithography development

Fair Value EUR83 (-11%)

SELL

Bloomberg	ASML NA
Reuters	ASML.AS
12-month High / Low (EUR)	99.4 / 71.8
Market Cap (EURm)	40,629
Avg. 6m daily volume (000)	1,078

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.0%	-3.7%	10.5%	13.6%
Semiconductors	-2.4%	3.4%	28.5%	21.5%
DJ Stoxx 600	-3.3%	-1.2%	-2.8%	-9.4%

	2015	2016e	2017e	2018e
P/E	29.2x	29.1x	21.5x	16.5x
Div yield (%)	0.7%	1.1%	1.3%	1.5%

ANALYSIS

- **Today, ASML announced that it is in the process of buying 24.9% of Zeiss subsidiary Carl Zeiss SMT for a total amount of EUR1bn.** Note that ASML uses high performance optics from Zeiss for the production of its lithography tools. With the laser currently manufactured by Trumpf, optic elements are crucial and major components of ASML's systems. The two firms have been working together for more than 30 years. Prior to this deal, ASML's net cash position stood at EUR1.92bn.
- **With this partnership, ASML is targeting high NA.** In our view, this investment is driven by the requirement of high numerical aperture to improve efficiency and performance in EUV tools. As such, the group said that the next EUV system generations will offer a higher numerical aperture and allow improvements to further reduce critical dimensions in the lithography process. Note that the current EUV systems (NXE:3350B) have a numerical aperture of 0.33 which is expected to be improved to >0.5 for next generation systems.
- **ASML will also support Zeiss R&D efforts.** In addition to the EUR1bn investment in Carl Zeiss SMT, ASML agreed to support Carl Zeiss SMT's R&D for a total amount of approximately EUR220m and capex of EUR540m over the next six years. Nevertheless, with an annual dividend to be paid by Carl Zeiss SMT to ASML, the group expects that the minority share transaction will be accretive to its adjusted earnings.
- **Overall, we note that ASML continues to invest in its own supply chain in order to support the development of EUV systems.** ASML already acquired Cymer in 2012 in order to accelerate the development of the EUV technology in a deal worth EUR1.95bn.

VALUATION

- Based on our estimates, ASML's shares are trading on 2017e P/E ratios of 21.5x, i.e. a premium vs. peers at an average 2017e P/E ratio of 16.2x.

NEXT CATALYSTS

- 1st7 January 2016: Q4 and FY16 results

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