

30th November 2016

TMT

## STMicroelectronics

Price EUR9.31

ST rumoured to have signed a contract with Apple to supply the next gen of image sensor

Fair Value EUR7.3 (-22%)

NEUTRAL

|                            |           |
|----------------------------|-----------|
| Bloomberg                  | STM FP    |
| Reuters                    | STM.FR    |
| 12-month High / Low (EUR)  | 9.4 / 4.6 |
| Market Cap (EURm)          | 8,482     |
| Avg. 6m daily volume (000) | 2,272     |

|                | 1 M   | 3 M   | 6 M   | 31/12/15 |
|----------------|-------|-------|-------|----------|
| Absolute perf. | 10.4% | 38.0% | 71.5% | 50.6%    |
| Semiconductors | 1.6%  | 6.9%  | 27.3% | 27.3%    |
| DJ Stoxx 600   | 0.0%  | -0.7% | -2.5% | -6.8%    |

  

|               | 2015  | 2016e | 2017e | 2018e |
|---------------|-------|-------|-------|-------|
| P/E           | 50.0x | 34.7x | 22.2x | 16.0x |
| Div yield (%) | 4.3%  | 3.2%  | 3.2%  | 4.3%  |

### ANALYSIS

- **According to Challenges, STMicroelectronics will manufacture the next generation of image sensors for Apple.** According to the French newspaper, the image sensors would be produced at Crolles. Note that Crolles 300mm (Crolles 2) is currently the most advanced production capability at ST (28nm FD-SOI). It is also running at a low utilisation rate, i.e. south of 70% in Q3 2016, and has a significant impact on the group's margin due to related unused costs (for the fourth quarter, the group expects to see a negative impact of 20bps from unused charges). As such, this contract with Apple could have a positive impact on ST's margin. In addition, Challenges also provides components to SpaceX, the aerospace manufacturer created by Elon Musk.
- **Note that in June, [we already highlighted](#) a rumour about Apple opening an R&D center next to ST offices in Grenoble to work on next generation camera image sensors.** This new rumour goes one step further talking about manufacturing at Crolles 300. However, the impact on sales might vary significantly, depending on what type of co-development ST and Apple are thinking of (IP, R&D, co-development manufacturing only, etc.) and also what type of image sensor. Indeed, it also could be assistance systems such as optical image stabilisation + autofocus systems next to an Apple proprietary image sensor or a full system including the image sensor and new features such as enhanced depth of field thanks to the addition of Time of Flight sensors.

### VALUATION

- Based on our estimates, STMicroelectronics' shares are trading on 2017e EV/Sales and EV/EBIT ratios of 1.1x and 17.4x respectively.

### NEXT CATALYSTS

- Late January 2017: FY16 and Q4 results (not confirmed yet).

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Dorian Terral, [dterral@bryangarnier.com](mailto:dterral@bryangarnier.com)



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## Distribution of stock ratings

BUY ratings 55.1%

NEUTRAL ratings 33.5%

SELL ratings 11.4%

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|-----------------------------------|---|--------------------------|----------------------|----------------------------|
| Beaufort House                    | 26 Avenue des Champs Elysées              | 750 Lexington Avenue     | Widenmayerstrasse 29 | The Imperial Hotel Janpath |
| 15 St. Botolph Street             | 75008 Paris                               | New York, NY 10022       | 80538 Munich         | New Delhi 110 001          |
| London EC3A 7BB                   | Tel: +33 (0) 1 56 68 75 00                | Tel: +1 (0) 212 337 7000 | Germany              | Tel +91 11 4132 6062       |
| Tel: +44 (0) 207 332 2500         | Fax: +33 (0) 1 56 68 75 01                | Fax: +1 (0) 212 337 7002 | +49 89 2422 62 11    | +91 98 1111 5119           |
| Fax: +44 (0) 207 332 2559         | Regulated by the                          | FINRA and SIPC member    |                      | Fax +91 11 2621 9062       |
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|                                   | resolution (ACPR)                         |                          |                      | CP 2113                    |
|                                   |   |                          |                      | Genève 1, CH 1211          |
|                                   |   |                          |                      | Tel +4122 731 3263         |
|                                   |   |                          |                      | Fax+4122731 3243           |
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