

## Soitec

Price EUR1.03

FD-SOI: forbidden fruit of the industry and market (report released today)

Fair Value EUR1.25 vs. EUR0.5 (+21%)

BUY vs. NEUTRAL

Bloomberg	SOI FP
Reuters	SOIT.PA
12-month High / Low (EUR)	1.0 / 0.4
Market Cap (EURm)	624
Ev (BG Estimates) (EURm)	638
Avg. 6m daily volume (000)	1,723
3y EPS CAGR	

This study aims to review the entire Soitec investment case. While the company suffers from a complex history, the arrival of a new management team in 2015 and the work carried out since have clearly renewed the group's profile. Many investors are still very reticent at the idea of revisiting the Soitec share. However, we are convinced that the time is now right to have a closer look. We believe that current valuation levels offer an opportunity to take positions in order to benefit in full from the take-off of FD-SOI and are adopting a Buy recommendation with a Fair Value at EUR1.25.

	1 M	3 M	6 M	31/12/15
Absolute perf.	17.0%	28.8%	94.3%	60.9%
Semiconductors	1.2%	3.8%	26.6%	24.6%
DJ Stoxx 600	1.6%	-0.8%	-0.9%	-6.8%

## ANALYSIS

- **A new profile but FD-SOI remains key.** Now that Soitec has cleaned out the costly solar and lighting activities and is strengthened financially by the two capital increases, we believe an investment opportunity is taking shape with the start-up in FD-SOI sales, which would enable the group to change dimension.
- **Proof that FD-SOI is taking-off is accumulating.** Although FD-SOI has always been viewed as a promising technology, an ingredient was missing from the cocktail that could drive sales and remove the investment case from the speculative category. So far, we were not prepared to validate this scenario. However, we believe the recent introduction of 12FDX by GlobalFoundries provides the key factor for a genuine take-off in the technology. We have updated our model to include these changes in the backdrop. It now shows average growth in sales of 22% over the next three years and operating leverage enabling average annual growth of 43% in the group's EBITDA.
- **Currently valued on a pessimistic scenario.** Our work on scenarios for the development and valuation of FD-SOI, now leads us to consider that the share offers an attractive risk/reward profile. The current valuation reflects a pessimistic scenario whereas the targets of the incentive plan would value Soitec at EUR1.59 or upside potential of 60%. Our base case suggests upside of 25%. In this context of a gradual improvement in the group's profile and attractive valuation, we are adopting a Buy recommendation on the share.

YEnd Mar. (EURm)	03/16	03/17e	03/18e	03/19e
Sales	233.2	238.9	303.3	428.0
% change		2.4%	27.0%	41.1%
EBITDA	36.3	36.0	60.1	105
EBIT	22.4	21.7	35.8	62.5
% change		-3.0%	65.0%	74.6%
Net income	-3.9	13.2	23.6	43.2
% change		NS	78.5%	83.0%

	03/16	03/17e	03/18e	03/19e
Operating margin	9.6	9.1	11.8	14.6
Net margin	-1.7	5.5	7.8	10.1
ROE	54.5	8.4	13.0	19.2
ROCE	292.8	10.6	16.7	28.6
Gearing	-2,369	8.6	-1.1	-19.0

(EUR)	03/16	03/17e	03/18e	03/19e
EPS	-0.01	0.02	0.04	0.07
% change	-	NS	78.4%	83.0%
P/E	NS	47.2x	26.5x	14.5x
FCF yield (%)	NM	0.5%	2.5%	6.5%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	3.4x	2.7x	2.1x	1.4x
EV/EBITDA	21.8x	17.7x	10.4x	5.5x
EV/EBIT	35.4x	29.4x	17.4x	9.3x

## VALUATION

- **Soitec is reaching a key point.** We believe the take-off in FD-SOI, the group's latest technology, is imminent. Forthcoming announcements of new products developed in FD-SOI should provide additional proof of this positive momentum. In addition, growth in the group's 300mm sales would materialise in a lift of margin levels. At present, the consensus is forecasting a slower development of FD-SOI than our central scenario, estimating average growth over three years at 19.4% whereas our FY16/FY19e CAGR stands at 22.4%. Given our higher forecasts for volumes, our margin improvement estimates are also more optimistic at 14.6% for FY19e vs. 14.4% for the consensus.
- Our Fair Value of EUR1.25 stems from a DCF valuation (WACC of 13.0%) in our base case. We have also drawn up a bear case and a bull case, which value the share at EUR0.94 and EUR1.59 respectively.

## NEXT CATALYSTS

- 8 December 2016: H1 results

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