

ASM INTERNATIONAL

| Technology
| Semiconductors

BUY - Top Picks

Fair Value EUR80 vs. EUR65 (+21%)
Share price EUR65.88
EPS 3Y Cagr 26.1%

ASMI is gaining share at foundry and logic while memory is still on the work

Logic and foundry to support healthy revenues beyond Q3

Logic was the strongest segment of the quarter with a sequential increase in sales, while foundry cooled off a little. In terms of bookings, Logic also had the lion's share, increasing from Q1 on the back of continuing investments in 10nm capacity and early transition to 7nm, while foundry decreased compared to Q1 but still saw healthy investments in 5nm. The slowdown in foundry is not worrying to us given the very strong dynamic so far. The fact that ASMI is able to post such strong momentum despite a slowdown in foundry is positive. We expect the foundry business to remain strong especially entering in 2020 with additional investments in 5nm and important spending for 3nm.

Share in memory should not improve materially in the near-term

The memory market weakened further recently and ASMI does not expect the memory market to recover in H2 2019. ASMI actually registered a slight sequential increase in sales, and new orders from memory were higher than foundry's, but those were led by specific customer demand for an existing application. ASMI continues to have great ambitions to increase its presence in the next DRAM and NAND technologies, however we do not see this happening in a meaningful way in the near term. Indeed, considering 1/ ASMI's weak comparison base in memory in 2018, and 2/ the fact that 2019 memory capex is focused on technology transition, we believe we should have seen a notable improvement in memory sales in the case the company was gaining additional share of wallet in this area.

Still some room for improvement in gross margin on the long run

As a reminder, the depreciation of the evaluation tools is registered as a cost for ASMI, and the increase in the evaluation tools valued in the balance sheet has decreased the gross margin from 44% in average before 2017 to around 41% today. Management still expects some volatility in gross margin in 2019, and is maintaining its guidance range in the low to mid-40s. We believe the still high level of evaluation tools in Q2 should prevent significant improvement in this respect, however it clearly indicates important opportunities to win in new applications/new customers, and provides some room for a material improvement in gross margin going forward.

We increase our FV from EUR65 to EUR80

We continue to believe that ASM International will benefit from a share wallet gain in future nodes, both in Logic and foundry, with some potential for margin improvements. We have fine-tuned our estimates following the Q2 results and guidance. We have increased our revenue estimates by 9.2% in 2019 (excluding the patent settlement impact), and our 3-year EPS is up by 8.4%. Considering that management expects the long-term tax rate to be in the mid- to high-teens following the full utilisation of NOLs, we adopt a tax rate of 17.5% in our DCF instead of 20% previously. We increase our FV from EUR65 to EUR80.

Market Data

	ASM NA/ASMI.AS
Bloomberg / Reuters	EUR4,104m
Market Cap.	EUR3,818m
E.V.	81.8%
Free Float	222.7
Avg. Daily volume (6m)	EUR65.9 / EUR33.9
12m high / low	82.0%
Ytd Perf.	

	12/18	12/19e	12/20e	12/21e
EURM				
Sales	818.1	1,113	1,085	1,141
% Change		36.0%	-2.5%	5.1%
EBITDA	179.6	357.4	289.2	313.9
% Change		99.0%	-19.1%	8.5%
EBIT	124.3	285.1	220.8	237.5
% Change			-22.5%	7.5%
Net Income	169.5	272.5	237.7	254.9
% Change		60.8%	-12.8%	7.2%
ROE	0.10	0.17	0.14	0.14

	12/18	12/19e	12/20e	12/21e
EV/Sales	4.7x	3.4x	3.5x	3.3x
EV/EBITDA	21.3x	10.7x	13.1x	11.9x
EV/EBIT	30.7x	13.4x	17.1x	15.7x
EPS	2.05	3.04	3.76	4.10
% change		48.5%	23.8%	9.0%
P/E	32.2x	21.7x	17.5x	16.1x
Div Yield	1.2%	1.6%	2.6%	2.3%

Next Catalyst:

Last rating Change:

[2019-4-25, As strong momentum continues for ASMI, we upgrade to Buy](#)

Last FV Change:

[2019-4-25, As strong momentum continues for ASMI, we upgrade to Buy](#)

Last Reports:

[2019-7-24, Top-line momentum still very strong with a notable improvement in gross margin](#)

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BG detailed estimates

[in EURm] / FYE 31/12	1Q19	2Q19	3Q19e	4Q19e	2019e	2020e	2021e	CAGR 18/21e
Sales	249	363	263	237	1113	1085	1141	11.7%
Seq. growth	-2%	46%	-28%	-10%	36%	-2%	5%	
Gross profit	102.8	214.4	108.5	99.4	525	456	482	
Gross margin	41%	59%	41%	42%	47%	42%	42%	
SG&A	-34	-40	-37	-34	-145	-134	-138	
% of sales	-14%	-11%	-14%	-14%	-13%	-12%	-12%	
R&D	-22	-24	-24	-25	-95	-101	-107	
% of sales	-9%	-7%	-9%	-11%	-9%	-9%	-9%	
Other	0	0	0	0	0	0	0	
% of sales	0%	0%	0%	0%	0%	0%	0%	
EBIT	47	150	48	40	285	221	237	24.1%
Operating margin	19%	41%	18%	17%	26%	20%	21%	
EBITDA	64	168	66	60	357	289	314	20.4%
Operating margin	26%	46%	25%	25%	32%	27%	28%	
Net financial interests	0	0	0	0	0	0	0	
% of sales	0%	0%	0%	0%	0%	0%	0%	
Foreign currency effects	4	-5	0	0	0	0	0	
% of sales	2%	-1%	0%	0%	0%	0%	0%	
Results from investments	3	2	6	19	30	65	70	
% of sales								
Income Tax	-2	-23	-9	-10	-43	-48	-52	
Income tax rate	-3%	-16%	-18%	-17%	-14%	-18%	-18%	
Adj Net Profit	53	125	45	50	272	238	255	14.6%
Net margin	21%	34%	17%	21%	24%	22%	22%	
Adj. Dil. EPS	1.06	2.49	0.96	1.08	5.94	5.18	5.64	20.9%
EPS seq. growth	14%	136%	-61%	12%	86%	-13%	9%	

Source: Company data; Bryan, Garnier & Co ests.

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Fair Value	EUR80 vs. EUR65 (+21%)
Share price	EUR65.88
Market Cap.	EUR4,104m
EPS 3Y CAGR	26.1%

Simplified Profit & Loss Account (EURm)	2017	2018	2019e	2020e	2021e
Revenues	737	818	1,113	1,085	1,141
<i>Change (%)</i>	23%	11%	36%	-2%	5%
Adjusted EBITDA	165	180	357	289	314
Adjusted EBIT	113	124	285	221	237
EBIT	113	124	285	221	237
<i>Change (%)</i>	38%	10%	129%	-23%	8%
Financial results	326	48	17	54	61
Pre-Tax profits	440	173	302	275	298
Tax	-5	-15	-43	-48	-52
Net profit	435	157	259	227	246
Adjusted net profit	190	169	272	238	255
<i>Change (%)</i>	17%	-11%	61%	-13%	7%
Cash Flow Statement (EURm)					
Depreciation & amortisation	52	55	72	77	80
Change in working capital	-58	-24	29	10	-8
Operating cash flows	89	137	344	259	257
Capex, net	-88	-113	-132	-125	-120
Free Cash flow	1	24	212	134	138
Acquisition, net	691	0	0	0	0
Financial investments, net	36	29	14	31	33
Dividends	-41	-44	-49	-78	-68
Issuance (repurchase) of own shares	-226	-350	-275	-50	-50
Issuance (repayment) of debt	0	-209	0	0	0
Other	-2	-1	104	-2	-2
Net debt	-836	-286	-291	-326	-377
Balance Sheet (EURm)					
Tangible fixed assets	111	149	208	256	296
Intangibles assets & goodwill	125	161	163	165	167
Investments	731	765	768	791	818
Deferred tax assets	18	11	-10	-10	-10
Other non-current assets	35	56	-70	-70	-70
Cash & equivalents	836	286	291	326	377
Inventories	143	172	177	186	193
Current assets	179	223	243	234	242
Total assets	2,177	1,824	1,771	1,880	2,014
Shareholders' equity	2,012	1,617	1,555	1,654	1,782
Provisions	7	8	8	8	8
Deferred tax liabilities	14	12	12	12	12
Current liabilities	145	186	196	206	212
L & ST Debt	0	0	0	0	0
Total Liabilities	2,177	1,824	1,771	1,880	2,014
Capital employed	1,175	1,331	1,264	1,328	1,404
Ratios					
Gross margin	41%	41%	47%	42%	42%
Adjusted operating margin	15%	15%	26%	20%	21%
Tax rate	1%	9%	14%	18%	18%
Adjusted Net margin	26%	21%	24%	22%	22%
ROE (after tax)	21.6%	9.7%	16.7%	13.7%	13.8%
ROCE (after tax)	9.5%	8.5%	19.4%	13.7%	13.9%
Gearing	-42%	-18%	-19%	-20%	-21%
Pay out ratio	9.5%	27.8%	19.0%	34.3%	27.7%
Number of shares, diluted	59.863	53.110	45.852	45.894	45.182
Data per Share (EUR)					
EPS	7.27	2.96	5.66	4.94	5.44
Restated EPS	1.30	2.05	3.04	3.76	4.10
<i>% change</i>	-16%	57%	49%	24%	9%
BVPS	33.60	30.45	33.91	36.03	39.43
Operating cash flows	1.49	2.58	7.49	5.64	5.70
FCF	0.02	0.45	4.61	2.92	3.05
Net dividend	0.69	0.82	1.08	1.70	1.51

Source: Company Data; Bryan, Garnier & Co ests.

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NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 49.1%

NEUTRAL ratings 44.4%

SELL ratings 6.5%

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