Intermonte

Milan, 01 November 2024

Italian Equity Research – Change in View/3Q24 Results

STM

NEUTRAL

Sector: Industrials

Price: Eu25.75 - **Target: Eu25.98**

Crossing the Desert

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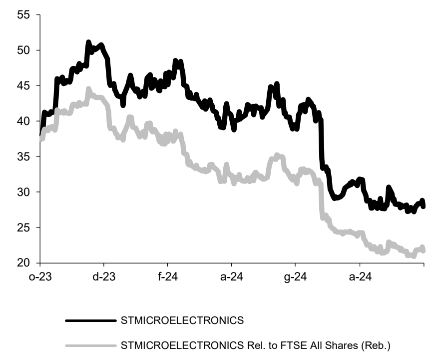
Stock Rating			
Rating:	from OUTPERFORM to NEUTRAL		
Target Price (Eu):	from 37.30 to 25.98		
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-5.4%	-38.5%	-29.7%

Next Event

CMD next 20th of November

STM - 12M Performance



Stock Data			
Reuters code:			STMMI.MI
Bloomberg code:			STMMI IM
Performance	**1M**	**3M**	**12M**
Absolute	-5.9%	-14.8%	-25.3%
Relative	-6.8%	-16.2%	-51.1%
12M (H/L)			46.84/24.85
3M Average Volume (th):			3,138.08

Shareholder Data	
No. of Ord shares (mn):	940
Total no. of shares (mn):	940
Mkt Cap Ord (Eu mn):	24,215
Total Mkt Cap (Eu mn):	24,215
Mkt Float - Ord (Eu mn):	17,556
Mkt Float (in %):	72.5%
Main Shareholder:	
ST holding II B.V.	27.5%

Balance Sheet Data	
Book Value ($ mn):	17,747
BVPS ($):	19.01
P/BV:	1.5
Net Financial Position ($ mn):	3,049
Enterprise Value ($ mn):	23,256

We have admittedly been overly bullish and mistaken in envisaging a rebound in sales and profits in the s-t, as well as in our belief that the valuation was already discounting weaker trends. With Industrial destocking carrying over to 1H25, market share loss in China, Automotive production deteriorating and a weak start to the year for Personal Electronics, it is now clear that 2025 will be well below previous assumptions. The company-wide restructuring programme and spending discipline are positive, but net benefits are back-end loaded and also subject to external factors. Next month's CMD is unlikely to be the saving grace. While we remain upbeat on long-term digitalisation and electrification opportunities, we are taking a break on the stock pending the return of a more visible growth trajectory. TP to €26.0 from €37.3 due to lower estimates. At TP, the stock would trade at ~17.5x PE, a multiple in line with sector historical average.

- **3Q24 results: EBIT up on lower OpEx.** EBIT was above forecast thanks to lower OpEx, with revenues and gross margin in line. Revenues were better in Personal Electronics, less negative in Industrial, but lower in Auto, with the gross margin broadly in line.
- **FY24 outlook: between low end and middle of range, but in line with consensus.** Based on 4Q guidance, FY24 is expected to close between the low end and the mid-point of the range, albeit in line with consensus. Orders were up QoQ, but below target. This is because: i) the recovery in Industrial is delayed by a weak sell-through, including market share loss in China, implying destocking will take longer than previously assumed and spill over into 1H25; ii) Automotive volume and mix deteriorated, reflecting lower auto production, especially for BEVs and Premium cars (in favour of hybrids and mass market cars). In brief: revenues are seen at $13.3bn, -23% YoY, gross margin at 39.4%, adj. EBIT $1.66bn, -64% YoY for a 12.5% margin.
- **Weak start to 1Q25 doesn't offer support for revenue rebound.** For 1Q25, based on the customer order backlog and visibility on demand, management anticipated a QoQ revenue decline well in excess of normal seasonality. On top of previously-mentioned Industrial and Automotive dynamics, Personal Electronics is expected to suffer a greater decline, while there will also be a negative calendar effect (-6% in total, but not entirely incremental). Taking the average QoQ trend since 2018 as our reference (-11/-12%), we assume the decline to be close to -19%, implying a -22% YoY drop. With Industrial destocking expected to continue throughout 1H25 and automotive headwinds set to persist, we no longer foresee a rebound in sales next year.
- **Reorganisation to drive "high triple-digit" savings, but plan is back-end loaded.** ST announced a company-wide programme to: i) reshape the manufacturing footprint, accelerating the conversion to 300/200mm Si/SiC production; ii) resize the global cost base. Annual cost savings are seen in the "high triple-digit" millions. In that vein, 2025 CapEx is expected to be reduced. While we welcome these announcements, as ROIC should benefit, these savings are mostly back-end loaded (towards end-2027), and the final outcome remains uncertain, with some one-off costs envisaged. More details will be shared at next month's CMD, but these plans will not be the saving grace.
- **Change in estimates.** In light of the trends mentioned above, we are assuming flat revenues and margins next year, resulting in a ~34% cut to our 2025-26 estimates. Consensus is expected to cut estimates by ~20%.

Key Figures & Ratios	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Sales ($ mn)	16,128	17,286	13,268	13,268	14,514
EBITDA Adj ($ mn)	5,655	6,206	3,417	3,494	4,262
Net Profit Adj ($ mn)	3,819	4,058	1,559	1,507	2,209
EPS New Adj ($)	4.036	4.298	1.658	1.603	2.350
EPS Old Adj ($)	4.036	4.298	1.753	2.605	3.341
DPS ($)	0.240	0.240	0.330	0.360	0.360
EV/EBITDA Adj	6.0	6.5	6.8	6.1	4.4
EV/EBIT Adj	7.7	8.7	14.0	12.8	7.9
P/E Adj	6.9	6.5	16.9	17.4	11.9
Div. Yield	0.9%	0.9%	1.2%	1.3%	1.3%
Net Debt/EBITDA Adj	-0.3	-0.5	-0.9	-1.4	-1.7

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.
Frequency of research: quarterly.
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A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.
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BUY: stock expected to outperform the market by over 25% over a 12 month period;
OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;
NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;
UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;
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Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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OUTPERFORM:	48.09 %
NEUTRAL:	23.67 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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OUTPERFORM:	34.43 %
NEUTRAL:	09.83 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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