

Sensata Technologies Holdings Plc

Resets expectations for F24; moving to Neutral, PO to \$38

Rating Change: NEUTRAL | PO: 38.00 USD | Price: 32.85 USD

Pricing and Mix negatively impacting margins

Management reset F24 operating margin (OM) expectations as guidance implies a range of 19.2-19.5%, vs. prior guide of 20-21%. FX is a negative 30bps y/y impact. The remaining 80bps y/y impact (at the mid-point) is split between lower pricing (-50bps y/y) and mix (-30bps y/y). Productivity improvement and end market growth in F2H24 should help OM grow 20-30 bps q/q throughout F24. F24 rev growth was guided to 2-3% y/y, with revs in F1H24 flat to slightly down y/y, while revs in F2H24 grow 3-5% y/y driven by new launches and ramping products. While the reset in expectations is disappointing, we see it as a prudent step in a weak macro. We move to a Neutral rating from Buy weighing the near-term headwinds including lower margins in F24, estimates unlikely to see upside soon in FY24, and cash flow improvement may take time, against attractive valuation and long-term growth from content growth and focus on electrification.

4Q results: Rev beat but margin & EPS below expectations

ST reported rev/EPS of \$993mn/\$0.81 vs. guidance of \$975mn/\$0.84 (at midpoint) and Street consensus of \$977mn/\$0.86. Rev decline of 2.2% was driven by organic revenue decline of 1.3% y/y and FX negative impact of 0.9% y/y. OM declined 160bps y/y to 18.5% on FX, mix and pricing headwinds, and a 1-time inventory adjustment of \$5mn.

Automotive & Aerospace revs increase y/y

Auto revs grew 1% y/y driven by market and content growth, offset by unfavorable mix and FX. Performance Sensing OM declined 130bps y/y driven by pricing, product line mix and FX. Industrial revs declined 15% y/y reflecting continued inventory destocking and unfavorable mix. Aerospace continued strong and revs grew 12% y/y.

Risk factors; PO to \$38 from \$46

Risk factors to our call are a faster than expected recovery in end markets, lower than expected delays in EV programs, faster than expected recovery from the inventory correction in Industrial and unexpected share gains. Our F24 rev/EPS ests moves to \$4.1bn/\$3.70 from \$4.08bn/\$3.82. PO moves to \$38 (from \$46) on 10x (prior 12x) F24E EPS of \$3.70 (was \$3.82).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.40	3.61	3.70	4.07	4.46
GAAP EPS	1.99	(0.03)	(1.38)	(1.28)	(0.95)
EPS Change (YoY)	-4.5%	6.2%	2.5%	10.0%	9.6%
Consensus EPS (Bloomberg)			3.86	4.34	5.03
DPS	0.33	0.47	0.48	0.48	0.48
Valuation (Dec)					
P/E	9.7x	9.1x	8.9x	8.1x	7.4x
GAAP P/E	16.5x	NM	NM	NM	NM
Dividend Yield	1.0%	1.4%	1.5%	1.5%	1.5%
EV / EBITDA*	10.5x	10.6x	10.3x	9.6x	8.9x
Free Cash Flow Yield*	6.2%	5.5%	5.9%	4.2%	2.3%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 07 February 2024 11:10AM EST

07 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-1-7	B-2-7
Inv. Rating	BUY	NEUTRAL
Price Obj.	46.00	38.00
2024E Rev (m)	4,078.9	4,129.5
2025E Rev (m)	4,264.6	4,326.1
2026E Rev (m)	NA	4,539.0
2024E EPS	3.82	3.70
2025E EPS	4.18	4.07
2026E EPS	NA	4.46

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Stock Data

Price	32.85 USD
Price Objective	38.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-2-7
52-Week Range	30.56 USD - 53.26 USD
Mkt Val (mn) / Shares Out (mn)	4,972 USD / 151.4
Free Float	99.3%
Average Daily Value (mn)	75.80 USD
BofA Ticker / Exchange	ST / NYS
Bloomberg / Reuters	ST US / ST.N
ROE (2024E)	19.6%
Net Dbt to Eqty (Dec-2023A)	95.7%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price

iQprofileSM Sensata Technologies Holdings Plc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	8.8%	9.3%	10.6%	11.9%	13.3%
Return on Equity	17.1%	18.1%	19.6%	23.7%	28.5%
Operating Margin	19.3%	19.1%	19.2%	19.7%	20.2%
Free Cash Flow	311	272	295	210	116

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	0.8x	0.9x	0.7x	0.5x
Asset Replacement Ratio	1.2x	1.4x	1.2x	1.2x	1.2x
Tax Rate	11.4%	11.5%	10.1%	9.7%	9.7%
Net Debt-to-Equity Ratio	96.1%	95.7%	97.3%	101.8%	109.1%
Interest Cover	4.5x	5.4x	4.8x	5.2x	5.6x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,029	4,054	4,130	4,326	4,539
% Change	5.5%	0.6%	1.9%	4.8%	4.9%
Gross Profit	1,328	1,299	1,310	1,372	1,439
% Change	2.6%	-2.2%	0.8%	4.8%	4.9%
EBITDA	772	768	788	847	912
% Change	-3.3%	-0.4%	2.5%	7.6%	7.7%
Net Interest & Other Income	(172)	(144)	(164)	(164)	(164)
Net Income (Adjusted)	531	551	560	617	675
% Change	-6.4%	3.9%	1.6%	10.0%	9.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	848	554	358	429	537
Depreciation & Amortization	127	133	156	169	179
Change in Working Capital	(126)	(160)	369	264	120
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(389)	(70)	(398)	(455)	(513)
Capital Expenditure	(150)	(185)	(189)	(198)	(207)
Free Cash Flow	311	272	295	210	116
% Change	-24.2%	-12.4%	8.5%	-29.0%	-44.7%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(51)	(72)	(73)	(73)	(73)
Change in Debt	(317)	(938)	5	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,226	508	728	864	908
Trade Receivables	742	744	679	711	746
Other Current Assets	807	850	649	383	261
Property, Plant & Equipment	841	886	919	948	976
Other Non-Current Assets	5,140	4,693	4,537	4,381	4,225
Total Assets	8,756	7,681	7,512	7,288	7,116
Short-Term Debt	256	2	7	7	7
Other Current Liabilities	923	821	925	955	988
Long-Term Debt	3,959	3,374	3,374	3,374	3,374
Other Non-Current Liabilities	508	487	487	487	487
Total Liabilities	5,645	4,685	4,793	4,823	4,856
Total Equity	3,111	2,996	2,727	2,473	2,268
Total Equity & Liabilities	8,756	7,681	7,520	7,296	7,124

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

IT Hardware

Company Description

Sensata Technologies Holding N.V. is a specialized manufacturer of customized sensors and controls. ST manufactures products for specific customer applications and systems such as air conditioning, braking, exhaust, fuel oil, tire, operator controls, and transmission in automotive and heavy vehicle and off-road systems, as well as industrial applications, including aircraft, refrigeration, material handling, telecommunications, and heating, ventilation and air conditioning systems.

Investment Rationale

Sensata is a manufacturer of sensors and controls, having market leadership in a majority of its end markets. Our Neutral rating factors near-term headwinds including lower margins in F24, estimates unlikely to see upside soon in FY24, and cash flow improvement will take time, against attractive valuation and long-term growth from content increase particularly in Automotive given secular trend of electrification and growth in autonomous technologies.

Stock Data

Average Daily Volume 2,307,557

Quarterly Earnings Estimates

	2023	2024
Q1	0.92A	0.84E
Q2	0.97A	0.94E
Q3	0.91A	1.00E
Q4	0.81A	0.92E

Model

Figure 1: ST Income Statement

We model F24 rev/EPs at \$4.1bn/\$3.70

(\$ in millions except EPS)

				2023E			2024E			2021	2022	2023E	2024E	2025E
	1Q23A	2Q23A	3Q23A	4Q23A	1Q24E	2Q24E	3Q24E	4Q24E						
Sales	998	1,062	1,001	992	993	1,061	1,030	1,045	3,821	4,029	4,054	4,130	4,326	
COGS	673	721	681	680	679	728	696	716	2,526	2,701	2,755	2,820	2,954	
Gross profit	325	341	321	312	313	333	334	329	1,295	1,328	1,299	1,310	1,372	
R&D	46	45	45	43	44	45	47	45	159	189	179	180	189	
SG&A	84	89	82	85	83	84	79	84	322	354	340	330	324	
Amortization of intangible assets and capitalized sw	2	1	2	1	1	1	1	1	8	7	6	6	6	
Restructuring	-	-	-	-	-	-	-	-	-	-	-	-	-	
Operating Profit (non-gaap)	193	206	192	184	185	204	207	199	814	785	780	799	859	
Net Int Expense	(38)	(36)	(35)	(34)	(41)	(41)	(41)	(41)	(172)	(172)	(144)	(164)	(164)	
Other, net	(0)	(5)	2	(3)	(0)	(5)	2	(3)	(8)	(6)	(6)	(6)	(6)	
Adj EBITDA	222	232	226	216	221	236	247	234	798	772	768	788	847	
Adj EBIT	193	201	194	181	185	199	209	196	806	778	774	794	853	
Adj EBT i.e. Pretax earnings (non gaap)	155	164	159	147	144	158	168	155	634	606	630	630	689	
Deferred income tax and other tax expense	10	5	(2)	(63)	8	8	8	8	(8)	17	(51)	30	30	
Total provision for Income Tax as on IS	24	20	18	(40)	24	23	24	23	50	86	22	93	97	
Current tax expense (benefit) that is payable in cash (or realized) on income tax return	14	15	20	23	16	15	16	15	59	69	73	63	67	
Tax rate for current tax	9%	9%	13%	16%	11%	10%	10%	10%	9%	11%	12%	10%	10%	
Net income (non gaap) from continuing operations inl FAS 123	141	149	138	123	127	142	151	140	567	531	551	560	617	
Loss of discontinued opr, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net income (non gaap) inl FAS 123	141	149	138	123	127	142	151	140	567	531	551	560	617	
Adjusted EPS including FAS 123	\$0.92	\$0.97	\$0.91	\$0.81	\$0.84	\$0.94	\$1.00	\$0.92	\$3.56	\$3.40	\$3.61	\$3.70	\$4.07	
GAAP Basic Shares Outstanding	153	153	152	151	151	151	151	151	158	155	152	151	151	
GAAP Diluted Shares Outstanding	153	153	152	151	151	151	151	151	159	156	152	151	151	
Diluted Shares Outstanding (Non-Gaap)	153	153	152	151	151	151	151	151	159	156	153	151	151	
GAAP EPS	\$0.56	\$0.32	\$0.41	(\$1.34)	(\$0.18)	(\$0.25)	(\$0.34)	(\$0.62)	\$2.28	\$1.99	(\$0.03)	(\$1.38)	(\$1.28)	
As % of Revenue														
Cost of Sales	67.4%	67.9%	68.0%	68.5%	68.4%	68.6%	67.6%	68.5%	66.1%	67.0%	68.0%	68.3%	68.3%	
Gross Profit	32.6%	32.1%	32.0%	31.5%	31.6%	31.4%	32.4%	31.5%	33.9%	33.0%	32.0%	31.7%	31.7%	
R&D in opex	4.6%	4.2%	4.5%	4.3%	4.4%	4.2%	4.5%	4.3%	4.2%	4.7%	4.4%	4.4%	4.4%	
SG&A	8.5%	8.4%	8.2%	8.5%	8.4%	7.9%	7.7%	8.0%	8.4%	8.8%	8.4%	8.0%	7.5%	
Operating Earnings	19.3%	19.4%	19.1%	18.5%	18.6%	19.2%	20.1%	19.0%	21.3%	19.5%	19.2%	19.4%	19.9%	
Other Income	0.0%	-0.5%	0.2%	-0.3%	0.0%	-0.5%	0.2%	-0.3%	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%	
Pretax Earnings	15.5%	15.5%	15.8%	14.8%	14.5%	14.9%	16.3%	14.8%	16.6%	15.1%	15.5%	15.2%	15.9%	
Net Income	14.1%	14.0%	13.8%	12.4%	12.8%	13.4%	14.7%	13.4%	14.8%	13.2%	13.6%	13.6%	14.3%	
Year-Over-Year Growth														
Sales	2%	4%	-2%	-2%	-1%	0%	3%	5%	25%	5%	1%	2%	5%	
Cost of Sales	3%	5%	-1%	1%	1%	1%	2%	5%	22%	7%	2%	2%	5%	
Gross Profit	1%	2%	-4%	-8%	-4%	-2%	4%	5%	34%	3%	-2%	1%	5%	
R&D	0%	-6%	-5%	-10%	-5%	0%	3%	5%	21%	19%	-6%	1%	5%	
SG&A	-7%	-3%	-4%	-2%	-1%	-6%	-3%	-1%	19%	10%	-4%	-3%	-2%	
Operating Earnings	6%	6%	-3%	-10%	-4%	-1%	8%	8%	43%	-4%	-1%	2%	7%	
Int. Exp.	-12%	-16%	-18%	-19%	7%	13%	16%	20%	5%	0%	-16%	14%	0%	
Other Income	-96%	-22%	-136%	-144%	0%	0%	0%	0%	393%	-22%	-8%	0%	0%	
Pretax Earnings	12%	14%	7%	-13%	-7%	-4%	6%	6%	58%	-4%	4%	0%	9%	
Net Income	14%	15%	6%	-16%	-9%	-5%	9%	13%	62%	-6%	4%	2%	10%	

Source: Company Reports, BofA Global Research Estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Sensata Technologies Holdings Plc (ST)

Our price objective for Sensata is \$38, based on approx. 10x our FY24E EPS est. The historical trading range has been 8-17x, with median 12x. We use a multiple below the historical median to account for the weaker content growth in the near term. In our opinion, Sensata has various catalysts driving longer-term growth including adoption of Tire Pressure Monitoring System (TPMS) in various regions and increased content growth from Electrification from EV, Hybrid, and autonomous car adoption.

Upside risk factors to our call include a faster than expected recovery in end markets, lower than expected delays in EV programs, faster than expected recovery from the inventory correction in Industrial and unexpected share gains. Downside risks to achieving our price objective are a slower-than-anticipated economic recovery, especially in the automotive and industrials sectors, longer than expected inventory correction, increased price pressure, unfavorable mix, and any litigation pushing out emission standards.

Analyst Certification

I, Wamsi Mohan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Amphenol	APH	APH US	Wamsi Mohan
	Apple Inc.	AAPL	AAPL US	Wamsi Mohan
	Corning Inc.	GLW	GLW US	Wamsi Mohan
	Dell Technologies Inc.	DELL	DELL US	Wamsi Mohan
	Flex Ltd.	FLEX	FLEX US	Ruplu Bhattacharya
	HP Inc.	HPQ	HPQ US	Wamsi Mohan
	International Business Machines Corp.	IBM	IBM US	Wamsi Mohan
	Jabil Inc.	JBL	JBL US	Ruplu Bhattacharya
	Nutanix Inc	NTNX	NTNX US	Wamsi Mohan
	Roku, Inc.	ROKU	ROKU US	Ruplu Bhattacharya
	Seagate Technology	STX	STX US	Wamsi Mohan
	TD Synnex Corp	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL US	Wamsi Mohan
	Teradata Corporation	TDC	TDC US	Wamsi Mohan
	Western Digital Corporation	WDC	WDC US	Wamsi Mohan
NEUTRAL				
	Arrow Electronics Inc.	ARW	ARW US	Ruplu Bhattacharya
	Avnet Inc.	AVT	AVT US	Ruplu Bhattacharya
	CDW Corp	CDW	CDW US	Ruplu Bhattacharya
	Concentrix Corporation	CNXC	CNXC US	Ruplu Bhattacharya
	Hewlett-Packard Enterprise	HPE	HPE US	Wamsi Mohan
	Pure Storage	PSTG	PSTG US	Wamsi Mohan
	Sensata Technologies Holdings Plc	ST	ST US	Wamsi Mohan
UNDERPERFORM				
	DigitalOcean	DOCN	DOCN US	Wamsi Mohan
	NetApp Inc.	NTAP	NTAP US	Wamsi Mohan
	Sanmina Corporation	SANM	SANM US	Ruplu Bhattacharya
	Vishay Intertechnology, Inc.	VSH	VSH US	Ruplu Bhattacharya
	Vizio	VZIO	VZIO US	Wamsi Mohan

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

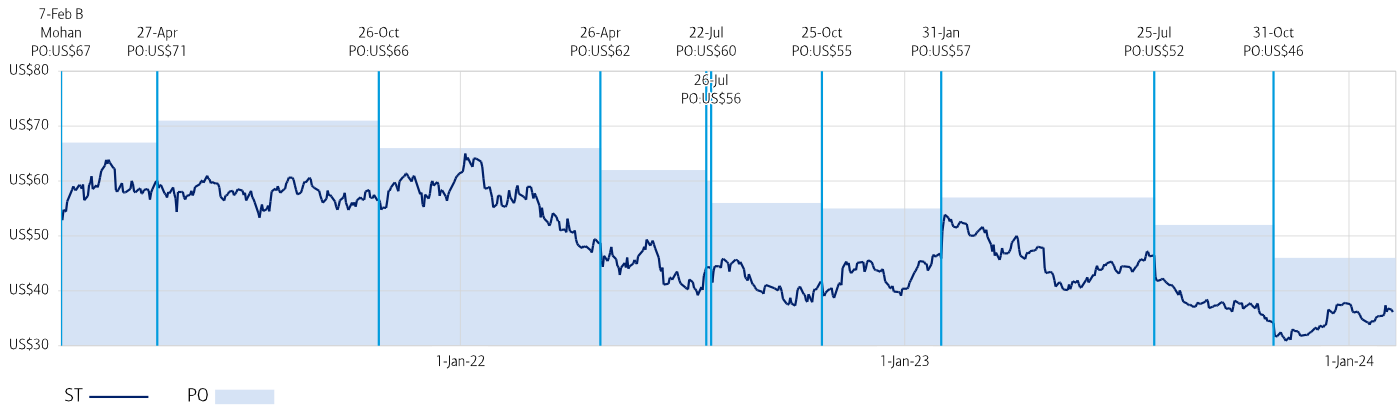
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Disclosures

Important Disclosures

Sensata (ST) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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