

## STMicroelectronics NV

## 20-F takeaways: Apple continues to decrease, flat capacity and more...

Reiterate Rating: BUY | PO: 57.00 EUR | Price: 41.38 EUR

## Apple concentration decreasing to 12.3% vs 16.8% in '22

STM recently published its 20-F report which reveals continued decreased customer concentration at Apple (CY23 at 12.3% vs. 16.8% in '22). Decreasing Apple concentration should continue help narrow the multiple gap to peers. Apple exposure is now broadly in-line with industry average (c10%). STMicro remains our top pick in EU Autos semis as we believe the company is well positioned to outperform broader semis driven by (A) inflection in fundamentals in industrial and consumer in 2H24, (B) idiosyncratic revenue drivers (SiC, Space-X), and (C) continued market share gains. We are in-line/3% ahead of css on '24 revenue/EBITDA. STMicro now trades on 5.1x '25E EV/EBITDA, at the bottom of its US/EU peer group range of 5x-19x. Reiterate Buy with PO of €57.

## Apple contribution continues to decline

Apple accounted for 12.3% of sales in CY23, down from 16.8% in CY22 and 20.5% in CY21. This implies Apple-related sales declined by 22% in '23 (mostly due to the loss of the optical module, which declined c47% in '23) vs. STM's ex-Apple revenue growing at 13%.

## Flat front-end capacity vs 2022; Lower backlog

STM's front-end wafer capacity (200mm equivalents) was flat at 140k wspw (vs 140k last year) vs. capex growth +17% (at \$4.1bn), an indication of the long-lead times required in adding wafer capacity. STM entered CY24 with lower backlog than in CY23, yet it still covers now more than 85% of its FY24E Autos revenue. Management was also confident there is no excess inventory outside of ADAS. STM is significantly reducing its capex and expects to spend \$2.5bn in FY24E. Revenue per wafer grew 14% yoy to \$1,900 in CY23 vs. \$1,662 in CY22 and range of \$1,017-\$1,382 over 2011-21, likely indicative of improved mix and pricing. Sub-contracting decreased 5ppts 20% of total revenue, implying external-based revenue decreased 14% yoy vs internal grew at 14%.

## Pricing/mix were strong tailwinds especially in Autos

STM disclosed that pricing and mix were favourable last year to compensate for lower volumes with **ADG** vols -16% and ASPs up 48% yoy (vs CY21 vols -3% vs ASPs up 40%), **AMS** vols -13% yoy and ASPs -6% yoy (vs CY22 vols -11% yoy and ASPs +18%) and **MDG** vols -3% yoy and ASPs +7% (vs CY22 vols +14% and ASPs +24%). Re-assuringly STM indicated at its FY results it does not see abnormal pricing pressure and expect a low-single digit decline in CY24E, while H1 GM is likely to be materially impacted by fab underloading charges (\$200mn in '24, largely in H1) and ramp of 300mm in Agrate (\$100mn cost, mostly in H1). STM expects to exit CY24E with GM >45%, and upside coming from potential higher ramp of Agrate 300mm fab and better revenue mix.

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Timestamp: 26 February 2024 11:00PM EST

27 February 2024

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## Stock Data

Price (Common / ADR)	41.38 EUR / 44.85 USD
Price Objective	57.00 EUR / 61.00 USD
Date Established	25-Jan-2024 / 25-Jan-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	35.15 EUR-50.46 EUR
Market Value (mn)	39,017 EUR
Shares Outstanding (mn)	942.9 / 942.9
Average Daily Value (mn)	70.35 USD
Free Float	72.5%
BofA Ticker / Exchange	STMEF / ENP
BofA Ticker / Exchange	STM / NYS
Bloomberg / Reuters	STMPA FP / STMPA.PA
ROE (2024E)	17.1%
Net Dbt to Eqty (Dec-2023A)	-18.7%
ESGMeter™	High

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AMS: Analog, MEMS and Sensor

MDG: Microcontrollers and Digital IC

ADG: Automotive and Discrete

Wspw: wafer start per week

SiC: silicon carbide

MCU: microcontroller

ADAS: Autonomous driving assistance system

## Price objective basis & risk

### STMicroelectronics NV (STMEF / STM)

We value STM using a FY25E EV/EBITDA of 8.1x, vs EU/US peers on 7-14x reflecting higher Apple exposure and lower cash conversion. Using this multiple, we derive our PO of €57/US\$61. We think that concerns over the size of its Apple exposure and related loss of a major contract are baked in at the current price. Yet we estimate that the company will outgrow its peers in terms of both sales and EBITDA over the next two years. Hence we would expect a gradual rerating once we have clarity over Apple relationship and the market better appreciates the growth prospects of the company.

Downside risks to our PO are:

- 1) Weakening macro conditions leading to decreasing demand and destocking which would negatively impact revenues and earnings.
- 2) Loss of recent design wins at Apple and potential pricing pressure.
- 3) A strengthening of the EUR/\$ rate to >1.20 as the company's earnings/opex would suffer from a weaker US\$.

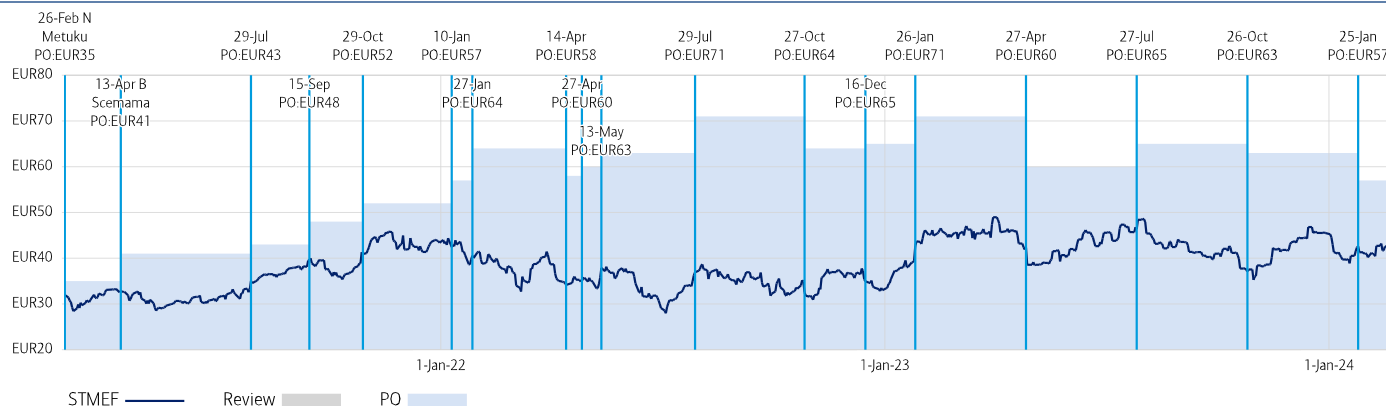
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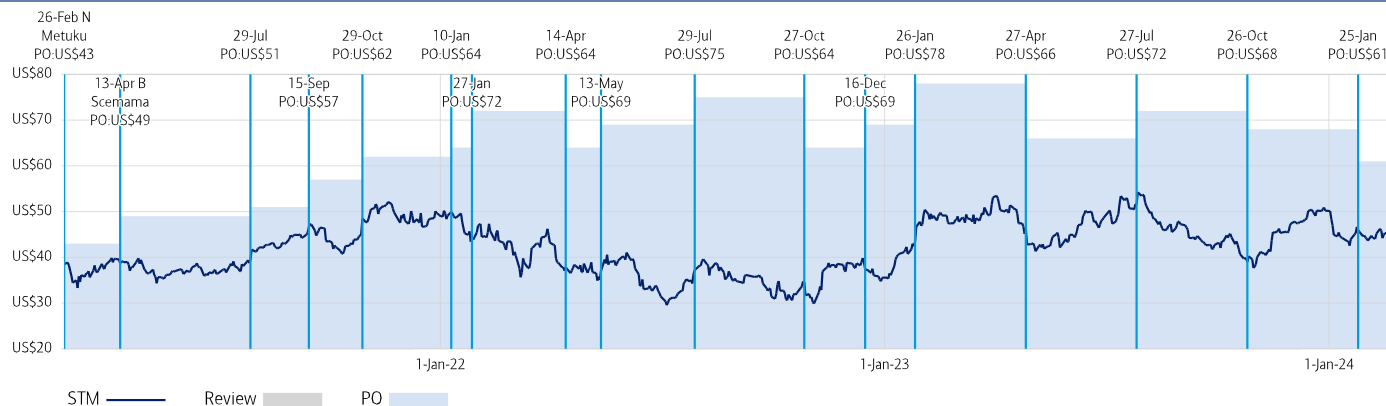
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### STMicroelectronics (STM) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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