

Sensata Technologies Holdings Plc

Takeaways from meetings with ST CFO
Brian Roberts

Maintain Rating: NEUTRAL | PO: 38.00 USD | Price: 34.73 USD

Focus on profitable growth and delivering on expectations

We hosted in-person investor meetings in NYC with Sensata Technologies (ST) CFO Brian Roberts on 2/28. Mr Roberts was appointed CFO in November 2023 and has a strong background in financial, operational, and corporate leadership. Despite a reset of expectations after the F4Q23 earnings release, ST Mgmt still remains confident that there is a path to 21% margins by 2026. CFO Roberts reminded investors that even at 19%, ST is still a top-quartile margin player. Sensata is a long cycle business focused on the growing electrification trend and hitting the company's \$2bn in electrification revenue by 2026. Maintain Neutral as the near-term headwinds including lower margins in F24, limited upside to estimates in F24 and slow recovery in cash flows are offset by attractive valuation and longer-term growth opportunity from electrification.

Electrification trend still in early days - \$2bn goal for 2026

Currently, ST's goals remain \$2bn in electrification revenue for 2026. \$1.2bn of this is planned to come from e-Mobility or electrification in autos while the other \$800mn from industrial electrification trends. Mgmt noted that R&D spend is not tied to revenue but new business wins while many of their electrification products are still in their first generation. The long-term plan is for R&D spend to come down while revenue grows as the company builds out its electrification platform. The company expects to improve its position in Europe EVs given its design wins (currently under-indexed given the later start in EV wins in Europe). Any slowdown in the rate and pace of electrification should also drive a faster improvement in margins (EV margins lower than ICE at current scale).

Still on track for long-term margin expectations of 21%

End-market mix can sway margins up or down in the short-term (Industrial margins higher) while the global auto markets transition to EVs. The company still expects to achieve 21%+ operating margins by FY26 with potential upside if EV Mix, overall rev mix and cost initiatives all end up favorably. Transitions can be choppy and productivity improvements will be a natural tailwind to margins over the next few years.

Estimates unchanged; PO stays at \$38

Our F24E rev/EPS ests stay at \$4.1bn/\$3.70. PO stays at \$38 on 10x F24E EPS of \$3.70.

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)			3.71	4.18	4.76
DPS	0.33	0.47	0.48	0.48	0.48
Valuation (Dec)					
P/E	10.2x	9.6x	9.4x	8.5x	7.8x
GAAP P/E	17.5x	NM	NM	NM	NM
Dividend Yield	1.0%	1.4%	1.4%	1.4%	1.4%
EV / EBITDA*	10.9x	10.9x	10.7x	9.9x	9.2x
Free Cash Flow Yield*	5.9%	5.2%	5.6%	4.0%	2.2%

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

04 March 2024

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Stock Data

Price	34.73 USD
Price Objective	38.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-2-7
52-Week Range	30.56 USD - 52.05 USD
Mkt Val (mn) / Shares Out	5,257 USD / 151.4 (mn)
Free Float	99.3%
Average Daily Value (mn)	86.79 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

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Timestamp: 03 March 2024 11:52PM EST

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 2,499,125

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



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.

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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
	Super Micro Computer Inc.	SMCI	SMCI US	Ruplu Bhattacharya
	TD Synnex Corp	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL 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
	Teradata Corporation	TDC	TDC 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

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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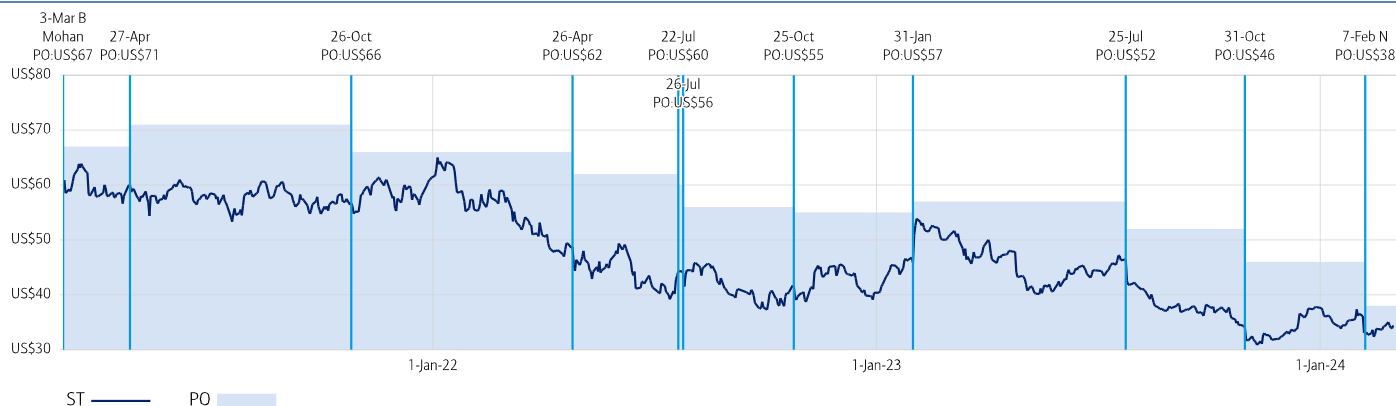
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Sensata (ST) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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.

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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.

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