

STMicroelectronics NV

Feedback from management meetings

Reiterate Rating: BUY | PO: 57.00 EUR | Price: 41.30 EUR

Feedback from mgmt meetings

We hosted STMicroelectronics (STM) CEO Jean Marc Chery, CFO Lorenzo Grandi, Head of IR Celine Berthier and IR Director Cedric Pugni for investor meetings in London.

Positives: GM, Pricing, Autos, long-term outlook, SiC, Apple

(A) Gross Margin upside: STM expects to exit FY24 with GM >45%, with Q1 the bottom (impacted by \$100mn of under capacity utilisation charges in Q1 and Q2), and upside coming from potential higher ramp of Agrate 300mm fab and better revenue mix.

(B) Pricing: STM highlighted no additional pricing pressure from its Autos customers.

(C) Autos backlog: STM's backlog covers now more than 85% of its FY24E Autos revenue. Management was also confident there is no excess inventory outside of ADAS.

(D) '25-27 outlook: STM confirmed its '25-27 outlook, with 50% GM target not assuming much capacity reservation fees and no particular pricing strength (2-3% decline per year). **(E) SiC:** STM is diversifying its customer base away from Tesla (50% of SiC revenue in '24), with the remainder coming from EU/Korea/Asia/US customers.

(F) Apple: revenue from Apple is expected to remain well below 20% with visibility 3 years out.

Risks: weak industrial, T&Cs, China, M&A

(A) Industrial: weakness in Industrials is mainly coming from a weak residential market/consumer industrials facing weak demand/high level of inventory coupled with low visibility on recovery. Lead times are now <3 months (for Industrial MCUs, which declined 50% since peak), which means orders in Feb/March will be critical for H2 recovery. **(B) T&Cs:** STM highlighted its backlog and sales conditions are back to normal instead of being "non-cancellable" back in a supply constrained environment. **(C) China substitution:** Risk remains limited to mainstream MCUs; Sanan JV should position STM in a better strategic position than US peers. **(D) M&A:** M&A is going back up on capital allocation pecking order, although nothing specific or imminent.

Separately, we tweak our estimates with lower revenue (-0.7/-0.6% in FY24-25E) on industrial slump, but raise our GM (+~40bps) on more optimistic view on mix in H2. FY24/25E EPS little changed. Reiterate Buy/top pick in Autos semis with €57/\$61.

Estimates (Dec) (USD)	2022A	2023A	2024E	2025E	2026E
EPS (Adjusted Diluted)	4.19	4.46	3.27	4.51	5.63
EPS Change (YoY)	93.3%	6.5%	-26.6%	37.9%	24.8%
Dividend / Share	0.24	0.30	0.45	0.45	0.45
ADR EPS (Adjusted Diluted - US\$)	4.19	4.46	3.27	4.51	5.63
ADR Dividend / Share (US\$)	0.24	0.30	0.45	0.45	0.45
Valuation (Dec)					
P/E	10.5x	10.2x	13.7x	9.94x	7.96x
Dividend Yield	0.53%	0.67%	1.00%	1.00%	1.00%
EV / EBITDA*	7.24x	6.63x	7.92x	6.11x	5.12x
Free Cash Flow Yield*	4.12%	4.53%	5.52%	8.93%	13.1%

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

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Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 29 January 2024 10:06AM EST

29 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	16,430.7	16,323.7
2025E Rev (m)	18,888.0	18,773.2
2026E Rev (m)	20,614.4	20,640.7
2024E EPS	3.26	3.27
2025E EPS	4.50	4.51
2026E EPS	5.62	5.63

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Stock Data

Price (Common / ADR)	41.30 EUR / 44.62 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)	38,942 EUR
Shares Outstanding (mn)	942.9 / 942.9
Average Daily Value (mn)	72.64 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

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 objective for that company. For full details, refer to "[BofA ESGMeter Methodology](#)".

Glossary

MCU: Microcontroller unit
M&A: Mergers and Acquisitions
SiC: Silicon Carbide
T&Cs: Terms and conditions

iQprofileSM STMicroelectronics NV

Key Income Statement Data (Dec)

(US\$ Millions)

	2022A	2023A	2024E	2025E	2026E
Sales	16,128	17,286	16,324	18,773	20,641
EBITDA Adjusted	5,656	6,172	5,171	6,700	8,002
Depreciation & Amortization	(1,216)	(1,561)	(1,780)	(2,085)	(2,300)
EBIT Adjusted	4,440	4,611	3,391	4,615	5,702
Net Interest & Other Income	46.0	151	266	366	438
Tax Expense / Benefit	(519)	(540)	(585)	(797)	(982)
Net Income (Adjusted)	3,961	4,211	3,064	4,176	5,150
Average Fully Diluted Shares Outstanding	946	944	936	925	914

Key Cash Flow Statement Data

Net Income (Reported)	3,961	4,211	3,064	4,176	5,150
Depreciation & Amortization	1,216	1,561	1,780	2,085	2,300
Change in Working Capital	(130)	59.0	(123)	(210)	212
Deferred Taxation Charge	0	0	0	0	0
Other CFO	155	161	0	0	0
Cash Flow from Operations	5,202	5,992	4,721	6,051	7,661
Capital Expenditure	(3,528)	(4,154)	(2,500)	(2,500)	(2,500)
(Acquisition) / Disposal of Investments	(1,455)	(202)	0	0	0
Other CFI	4.00	(1,410)	0	0	0
Cash Flow from Investing	(4,979)	(5,766)	(2,500)	(2,500)	(2,500)
Share Issue / (Repurchase)	(346)	(260)	(550)	(550)	(550)
Cost of Dividends Paid	(218)	(283)	(421)	(416)	(411)
Increase (decrease) debt	178	210	0	0	0
Other CFF	(170)	6.00	0	0	0
Cash Flow from Financing	(556)	(327)	(971)	(966)	(961)
Total Cash Flow (CFO + CFI + CFF)	(333)	(101)	1,249	2,584	4,200
FX and other changes to cash	1,335	1,666	0	0	0
Change in Cash	1,002	1,565	1,249	2,584	4,200
Change in Net Debt	(824)	(1,355)	(1,249)	(2,584)	(4,200)
Net Debt	(1,801)	(3,156)	(4,405)	(6,990)	(11,190)

Key Balance Sheet Data

Property, Plant & Equipment	8,201	10,554	11,274	11,689	11,889
Goodwill	297	303	303	303	303
Other Intangibles	405	367	367	367	367
Other Non-Current Assets	1,274	1,422	1,422	1,422	1,422
Trade Receivables	1,970	1,731	2,014	2,178	2,394
Cash & Equivalents	4,518	6,083	7,332	9,917	14,117
Other Current Assets	3,317	3,993	4,024	4,494	4,196
Total Assets	19,982	24,453	26,737	30,370	34,688
Long-Term Debt	2,542	2,710	2,710	2,710	2,710
Other Non-Current Liabilities	845	1,161	1,161	1,161	1,161
Short-Term Debt	175	217	217	217	217
Other Current Liabilities	3,662	3,513	3,704	4,127	4,258
Total Liabilities	7,224	7,601	7,792	8,215	8,346
Total Equity	12,758	16,852	18,945	22,154	26,342
Total Equity & Liabilities	19,982	24,453	26,737	30,370	34,688

Business Performance*

Return On Capital Employed	27.4%	22.8%	14.0%	17.0%	18.2%
Return On Equity	36.0%	28.4%	17.1%	20.3%	21.2%
Operating Margin	27.5%	26.7%	20.8%	24.6%	27.6%
Free Cash Flow (MM)	1,674	1,838	2,221	3,551	5,161

Quality of Earnings*

Cash Realization Ratio	1.31x	1.42x	1.54x	1.45x	1.49x
Asset Replacement Ratio	2.90x	2.66x	1.40x	1.20x	1.09x
Tax Rate	11.6%	11.3%	16.0%	16.0%	16.0%
Net Debt/Equity	-14.1%	-18.7%	-23.3%	-31.6%	-42.5%
Interest Cover	NA	NA	NA	NA	NA

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

Company Sector

Semiconductors

Company Description

STMicro is a global manufacturer of logic and analog chips with broad exposure to the industrial, automotive, smartphone, smart card & networking verticals. Around 27.5% of the shares/votes are equally controlled by the French & Italian governments.

Investment Rationale

We think the stock trades at a discount to peers given the market's concern around the Apple exposure (c16.5% sales in 2022). However, we expect the stock to re-rate this year on the back of improved pricing leading to higher than expected gross margins. Medium term, we think that pricing power will improve for STMicro given solid positions in Autos (EVs, ADAS), Industrial and IoT markets.

Stock Data

Shares / ADR	1.00
Price to Book Value	2.1x

Quarterly Earnings Estimates

	2023	2024
Q1	1.10A	0.63E
Q2	1.06A	0.69E
Q3	1.15A	0.87E
Q4	1.14A	1.08E

Key Changes

(US\$)	Previous	Current
2024E EPS	3.26	3.27
2025E EPS	4.50	4.51
2026E EPS	5.62	5.63

Changes to estimates

Exhibit 1: We tweak our estimates with lower revenue (-0.7/-0.6% in FY24-25E) on industrial demand slump but raise our GM (+~40bps) on more optimistic view on pricing/mix in H2

STMicroelectronics changes to estimates, FY24E-26E

US\$m	FY24E			FY25E			FY26E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Total sales	16,430.7	16,323.7	-0.7%	18,888	18,773	-0.6%	20,614	20,641	0.1%
YoY growth (%)	-4.9%	-5.6%	-62 bps	15.0%	15.0%	5 bps	9.1%	9.9%	81 bps
Gross Profit	7,174.4	7,194.2	0.3%	8,699.6	8,714.6	0.2%	10,039.2	10,052.0	0.1%
Gross margin (%)	43.7%	44.1%	41 bps	46.1%	46.4%	36 bps	48.7%	48.7%	-
Opex (net)	-3,800.0	-3,803.0	0.1%	-4,100.0	-4,100.0	0.0%	-4,350.0	-4,350.0	0.0%
EBIT (reported)	3,374.4	3,391.2	0.5%	4,599.6	4,614.6	0.3%	5,689.2	5,702.0	0.2%
Margin (%)	20.5%	20.8%	24 bps	24.4%	24.6%	23 bps	27.6%	27.6%	3 bps
EBIT (Adj.)	3,374.4	3,391.2	0.5%	4,599.6	4,614.6	0.3%	5,689.2	5,702.0	0.2%
Margin (%)	20.5%	20.8%	24 bps	24.4%	24.6%	23 bps	27.6%	27.6%	3 bps
EBITDA (Adj.)	5,154.4	5,171.2	0.3%	6,684.6	6,699.6	0.2%	7,989.2	8,002.0	0.2%
Margin (%)	31.4%	31.7%	31 bps	35.4%	35.7%	30 bps	38.8%	38.8%	1 bps
Net income (Adj.)	3,050.0	3,064.0	0.5%	4,163.1	4,175.7	0.3%	5,138.8	5,149.6	0.2%
Net Margin (%)	18.6%	18.8%	21 bps	22.0%	22.2%	20 bps	24.9%	24.9%	2 bps
Net income (reported)	3,050.0	3,064.0	0.5%	4,163.1	4,175.7	0.3%	5,138.8	5,149.6	0.2%
Net Margin (%)	18.6%	18.8%	21 bps	22.0%	22.2%	20 bps	24.9%	24.9%	2 bps
Stated Basic EPS	3.40	3.42	0.5%	4.70	4.71	0.3%	5.87	5.88	0.2%
Stated diluted EPS	3.26	3.28	0.5%	4.50	4.52	0.3%	5.62	5.63	0.2%
Adjusted Diluted EPS	3.26	3.28	0.5%	4.50	4.52	0.3%	5.62	5.63	0.2%
Capex	-2,500.0	-2,500.0	0.0%	-2,500.0	-2,500.0	0.0%	-2,500.0	-2,500.0	0.0%
Tax rate (%)	16.0%	16.0%	-	16.0%	16.0%	-0 bps	16.0%	16.0%	-
Net Debt	-4,353.9	-4,405.5	1.2%	-6,947.7	-6,989.8	0.6%	-11,138.3	-11,189.8	0.5%
Dividend (declared)	0.45	0.45	0.0%	0.45	0.45	0.0%	0.45	0.45	0.0%
FCF	2,169.1	2,220.7	2.4%	3,560.1	3,550.6	-0.3%	5,151.9	5,161.3	0.2%

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH



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\$.

Analyst Certification

I, Didier Scemama, 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.

EMEA - Technology Hardware Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	ASMI	ASMXF	ASM NA	Didier Scemama
	ASML Holding N.V.	ASMLF	ASML NA	Didier Scemama
	ASML Holding N.V.	ASML	ASML US	Didier Scemama
	Comet Holding AG	XCHHF	COTN SW	Marie Ganneval
	Infineon Technologies AG	IFNNF	IFX GY	Didier Scemama
	Infineon Technologies AG	IFNNY	IFNNY US	Didier Scemama
	Logitech International S.A.	XLGKF	LOGN SW	Didier Scemama
	Logitech International S.A.	LOGI	LOGI US	Didier Scemama
	Nordic Semiconductor	NDCVF	NOD NO	Didier Scemama
	Soitec	SLOIF	SOI FP	Didier Scemama
	STMicroelectronics NV	STMEF	STMPA FP	Didier Scemama
	STMicroelectronics NV	STM	STM US	Didier Scemama
	Technoprobe S.p.A.	XMDDF	TPRO IM	Marie Ganneval
NEUTRAL				
	Aixtron	AIXXF	AIXA GR	Didier Scemama
	BE Semiconductor Industries N.V.	BESVF	BESI NA	Didier Scemama
	Nokia	NOKBF	NOKIA FH	Didier Scemama
	Nokia	NOK	NOK US	Didier Scemama
	VAT Group AG	VTTGF	VACN SW	Didier Scemama
UNDERPERFORM				
	ams Osram AG	AUKUF	AMS SW	Didier Scemama
	Ericsson	ERIXF	ERICB SS	Didier Scemama
	Ericsson	ERIC	ERIC US	Didier Scemama
	Inficon Holding AG	IFCNF	IFCN SW	Marie Ganneval
	Siltronic AG	SLLF	WAF GR	Marie Ganneval

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

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

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

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

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + 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

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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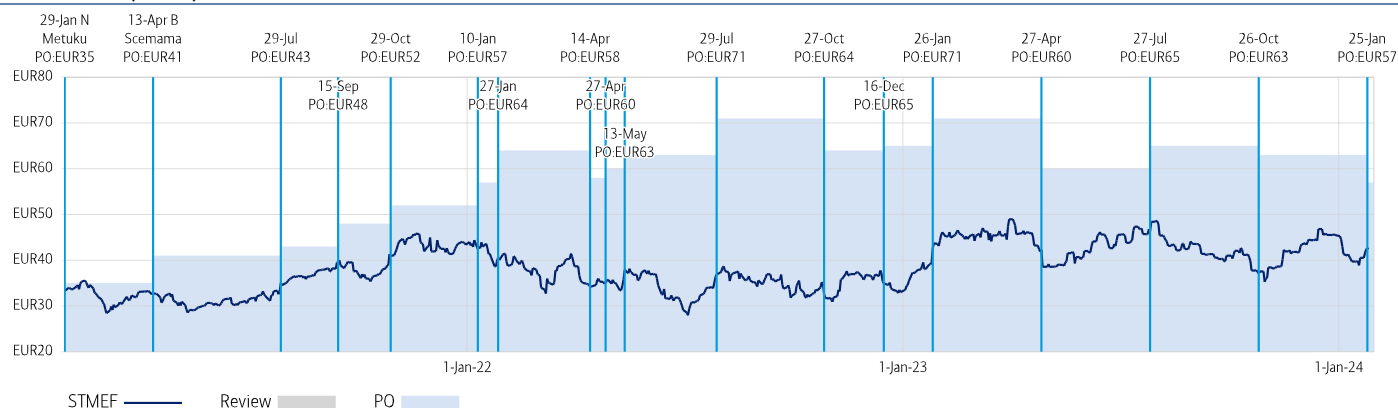
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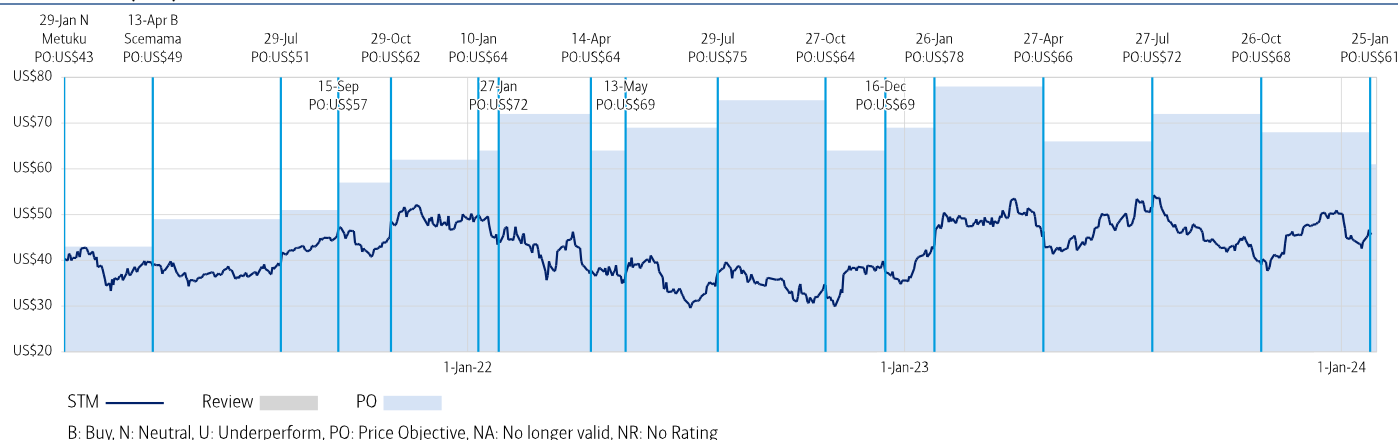
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STMicroelectronics (STMEF) Price Chart



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.

STMicroelectronics (STM) 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.

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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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