



Country FR
Sector Technology
Factset STMPA-FR
ISIN NL0000226223

Market capitalization (bn) EUR 43,8
Free float 71,5%
Closing price EUR 45,85
ESG Risk score* 18,7 Low risk

Perf. since reco. (%)
STMicroelectronics NV 84,9
Sector 21,2



Profile

STMicroelectronics (ST) is one of the world's 10 largest semiconductor producers in terms of turnover. Formed in 1987 (a merger between SGS Microelectronica and the civilian semiconductor business of Thomson Semiconducteurs), the Group has undergone a long restructuring phase since 2012. In terms of products, ST offers a wide range (analog, digital, mixed-signal, microelectromechanical system (MEMS) devices, etc.) on diversified markets (telecoms, automotive, industry, consumer products, etc.). The largest customer is Apple (approximately 25% of turnover). Three business segments: MDG (Microcontrollers & Digital ICs Group) for 35% of turnover, ADG (Automotive & Discrete Group) for 35%, and AMS (Analog, MEMS, Sensors) for 30%.

Strengths/opportunities

- ⊕ A large customer portfolio and strong links with the most important ones.
- ⊕ Diversified technologies (a leading company for ADAS, 3D, SiC, ...).
- ⊕ Wide opportunities for 5G telecoms, Internet of Things, automotive (connected, electric/hybrid vehicles).

Weaknesses/threats

- ⊖ Significant exposure to consumer electronics and automotive markets.
- ⊖ Track record and financial strength more limited than peers.
- ⊖ Increased competition in some markets (e.g. 3D sensors).

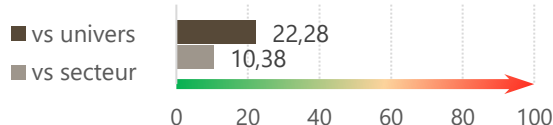
Investment case

- ⊕ Despite some supply chain concerns (notably through its exposure to the automotive and industrial sectors), ST reported better-than-expected Q3 results and raised its 2023 annual outlook, again citing strong growth in automotive and industrial B2B.
- ⊕ After the long period of transformation (where the Group remained below its forecasts), ST has been systematically meeting its goals for several quarters (NB: this was particularly the case in the second half of 2019, in a difficult economic environment). The credibility of management has been strengthened. The competitive positioning and the business mix are much better than in the past. ST is gaining market share, especially in new materials such as Silicon Carbide (SiC) and Gallium Nitride (GaN). At the last CMD in May 2022, STMicro put forward ambitious targets: \$20bn in revenues by 2025-2027, a gross margin of 50%, an Ebit margin >30% and a FCF margin >25%.
- ⊕ New technologies and new materials open the door to significant potential opportunities: imaging (in the field of smartphones and consumer electronics); structural growth in industry and especially new applications in the automotive sector (migration to electric or hybrid vehicles, ADAS driving assistance, etc.).
- ⊕ The Internet of Things (use of numerous sensors, smart cities, connected cars) and 5G (ongoing deployment of 5th generation mobile networks) also represent interesting opportunities for ST.

Valuation

ST is one of the cheapest semiconductor stocks in the industry. The valuation is attractive with a PER 2022e of 9.7x and 2023e of 10.7x. STMicro is at a slight discount to its peers due to the risk of "Apple" (c. 25% of sales in 2021).

ESG risk vs. universe & sector (percentile)*



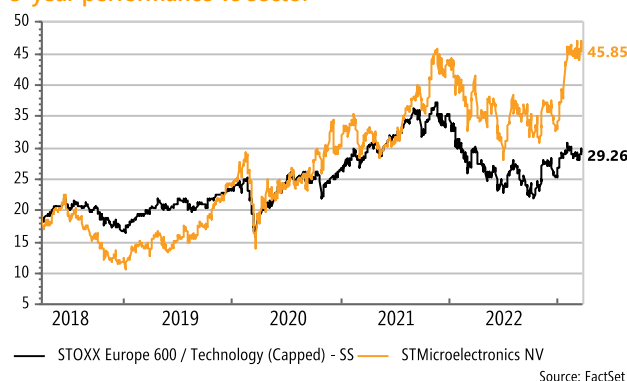
USD	12/2021	2022e	2023e
Sales revenue (mio)	16 128	17 234	18 118
Sales growth	57,8%	6,9%	5,1%
EBIT adjusted (mio)	4 280	4 512	4 755
% of sales	26,5%	26,2%	26,2%
Net income (mio)	3 960	3 853	4 066
Net income growth	258,0%	-2,7%	5,5%
FCF/Sales	#N/A	5,9%	11,2%
Net debt/Ebitda	#N/A	-0,4x	-0,7x
Dividend yield	0,5%	0,5%	0,5%
PE	8,4x	12,1x	11,4x
P/BV	2,5x	2,9x	2,3x

Factset estimates

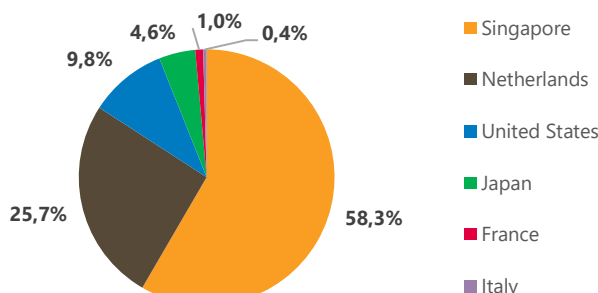
ESG - risks and key points

- ⊕ ST is classified as "low risk" in terms of ESG. No controversies.
- ⊕ Natural resources: The semiconductor sector uses a large volume of water (and even ultra-pure water). Water is 45% recycled.
- ⊕ Human Resources: The level of R&D involves key personnel. Each employee receives an average of 47 hours of training per year.
- ⊕ Product governance: Respect for intellectual property is crucial in this segment. ST shares sensitive R&D information with some 160 partners.

5-year performance vs sector



Sales breakdown - 12/2021



Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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