Europe: Technology

Equity Research

EU Tech Update: IDR, WLN, IFX to Neutral; raise PT on STM, TEMN

Downgrade Infineon, Indra and Worldline post outperformance

Following share price outperformance we downgrade Infineon, Indra and Worldline to Neutral from Buy. Our fundamental views are unchanged. We retain our structural positive view on Infineon given its exposure to dynamic growth areas such as Electric Vehicles and Autonomous Driving, but move to Neutral following outperformance vs. FTSE World Europe/EU Tech Hardware, and in the context of relative up/downside potential within our coverage. We expect Worldline to continue to benefit from structural and secular drivers in the European payments industry as well as participate in industry consolidation. We believe Indra's self-help story remains on track with management focused on operational efficiency improvements and improved working capital driving free cash flow growth and balance sheet deleveraging. We make minor changes to estimates and while our PT is unchanged for WLN, it is modestly lower for IDR.

Raise price targets on ST Micro and Temenos, but remain Neutral

We raise our estimates for Temenos and continue to forecast robust growth – 11% revenue CAGR and 18% EPS (2016-21E). As a result, we raise our 12-month price target to CHF96. We believe Temenos remains well positioned to capture increased bank IT spending to 3rd party software vendors as banks look to digitize while lowering absolute costs. Valuation at 1.8x CY18E PEG appears full in our view and thus we remain Neutral on the shares. We raise our STM 12-month price targets to €16.3 (ADR $19.5) from €14.1 (ADR $16.0) driven by a higher target multiple and estimates. We raise our price target multiple to 9.0x 2018E EV/EBITDA (from 7.0x), given an improved margin profile vs. its history. STM has traded at c.7x 1-year-forward EBITDA, with only lower single digit EBIT margins vs c.9.6% margins in 2Q17 (GSe 2018E EBIT margins at c.12%). We slightly lower our 12-month price targets for NOK and ERIC to adjust for FX.

Stock picks: SAP, Sage, Capgemini, Wirecard (all Buy, on CL)

We reiterate our Buy ratings on SAP, Sage, Capgemini and Wirecard (all are on the Conviction List) given a combination of structural and product cycle related growth or strategic appeal. We are also Buy rated on Nokia, Ericsson, ASML, Dassault Systemes, Simcorp and EVRY. We reiterate our Sell ratings on Ingenico and Software AG, both of which we view as structurally challenged and valuation remains uncompelling given lacklustre earnings growth.

RATINGS AND 12-MONTH PRICE TARGETS

Company name	Old Rating	New Rating	Pricing currency	Old PT	New PT
ASML Holding	Buy	Buy	EUR	144.0	144.0
Ericsson	Buy	Buy	SEK	60.0	57.0
Ericsson	Buy	Buy	USD	7.2	7.2
Gemalto	Neutral	Neutral	EUR	43.0	43.0
Infineon	Buy	Neutral	EUR	21.3	21.3
Ingenico SA	Sell	Sell	EUR	75.0	75.0
Nokia	Buy	Buy	EUR	6.4	6.2
Nokia	Buy	Buy	USD	7.2	7.4
STMicroelectronics	Neutral	Neutral	EUR	14.1	16.3
STMicroelectronics	Neutral	Neutral	USD	16.0	19.5
Spirent Communications Plc	Neutral	Neutral	GBP	110.0	110.0
Technicolor	Neutral	Neutral	EUR	3.3	3.3
Atos	Neutral	Neutral	EUR	137.0	137.0
Aveva	Sell	Sell	GBP	1,850.0	1,850.0
Capgemini	Buy*	Buy*	EUR	116.0	116.0
Dassault Systemes	Buy	Buy	EUR	94.0	94.0
EVRY AS	Buy	Buy	NOK	36.5	36.5
Hexagon AB	Neutral	Neutral	SEK	435.0	435.0
Indra	Buy	Neutral	EUR	15.0	14.5
SAP	Buy*	Buy*	USD	120.0	120.0
SAP	Buy*	Buy*	EUR	108.0	108.0
Sage Group	Buy*	Buy*	GBP	825.0	825.0
Simcorp A/S	Buy	Buy	DKK	450.0	450.0
Software AG	Sell	Sell	EUR	35.0	35.0
Temenos	Neutral	Neutral	CHF	90.0	96.0
Wirecard	Buy*	Buy*	EUR	84.0	84.0
Worldline	Buy	Neutral	EUR	39.0	39.0

* denotes stock is on Conviction List. All price targets have 12-month time horizon.
Source: Goldman Sachs Global Investment Research; FactSet.

COVERAGE VIEWS:
SOFTWARE: ATTRACTIVE
IT SERVICES: NEUTRAL
SEMICONDUCTORS: NEUTRAL
COMMUNICATIONS TECHNOLOGY: NEUTRAL

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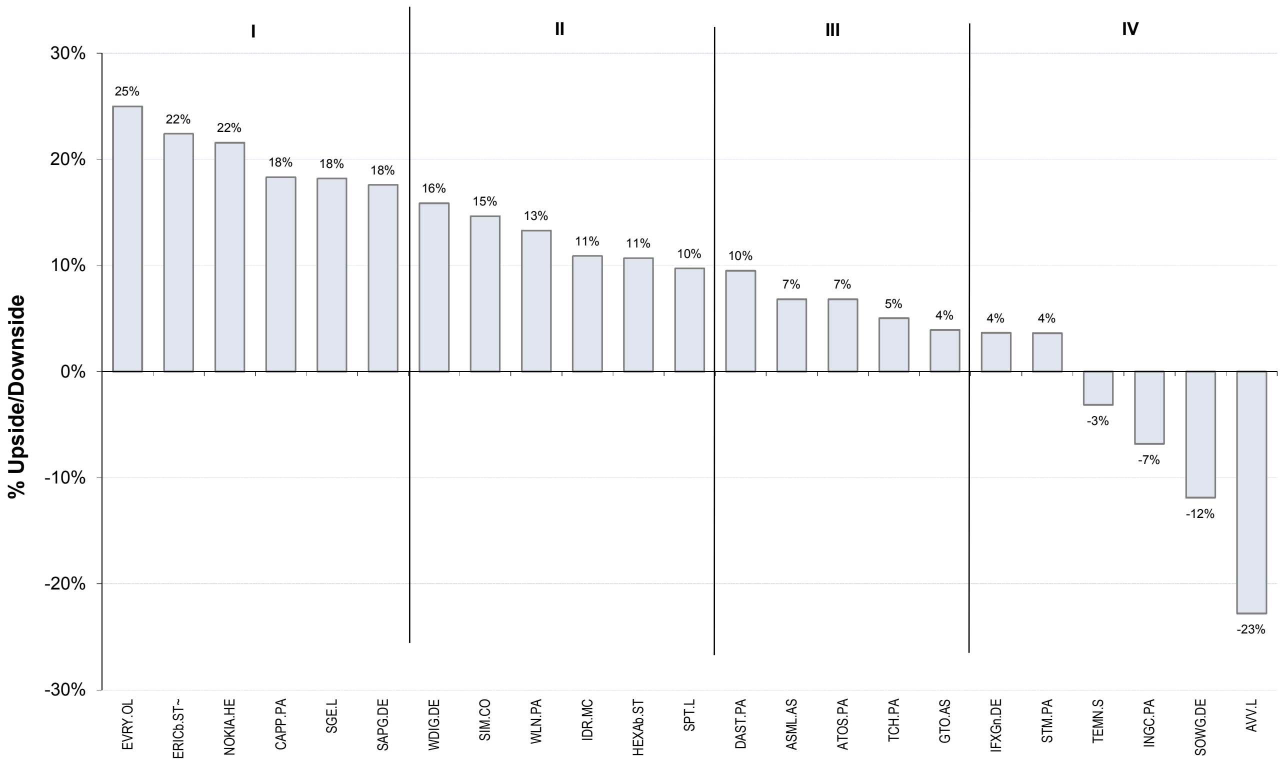
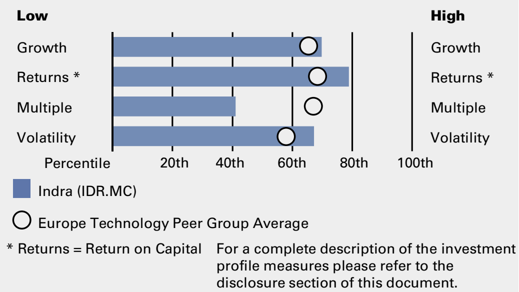
Exhibit 1: Upside/downside to revised 12-month price targets (based on 2018E valuation)
Based on close of September 12, 2017 close



Source: DataStream, Goldman Sachs Global Investment Research.

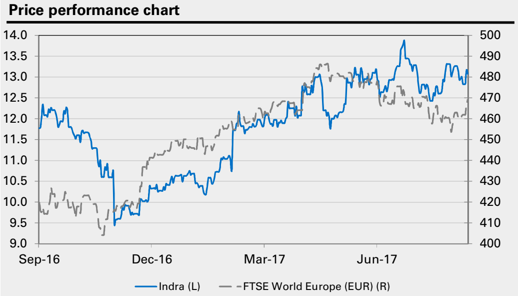
Indra (IDR.MC): Near-term valuation reflects first leg of self-help story; down to Neutral post outperformance

Investment Profile



Key data				Current
Price (€)				13.08
12 month price target (€)				14.50
Upside/(downside) (%)				11
Market cap (€ mn)				2,622.7
Enterprise value (€ mn)				2,981.6
	12/16	**12/17E**	**12/18E**	**12/19E**
Revenue (€ mn) New	**2,709.3**	**3,036.3**	**3,219.2**	**3,321.4**
Revenue revision (%)	0.0	0.0	0.0	0.0
EBIT (€ mn) New	**161.5**	**232.5**	**304.5**	**330.7**
EBIT revision (%)	0.0	(1.1)	(0.5)	0.0
EPS (€) New	**0.38**	**0.56**	**0.90**	**1.07**
EPS (€) Old	0.38	0.57	0.92	1.08
EV/EBITDA (X)	10.1	10.0	8.0	7.3
P/E (X)	26.6	23.2	14.5	12.2
Dividend yield (%)	0.0	2.0	3.2	3.8
FCF yield (%)	12.4	5.3	9.4	11.2
CROCI (%)	11.8	11.3	13.8	15.8

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	1.6	10.8	11.1
Rel. to FTSE World Europe (EUR)	2.9	8.3	(0.6)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 9/12/2017 close.

What happened

We downgrade Indra to Neutral from Buy following share price outperformance which in our view was due to consistent execution on margin improvement (especially on an LTM basis). Our fundamental thesis on Indra is unchanged, however, as we see it as a self-help story poised for a potential turnaround, with a management team focused on operational efficiency. We update our estimates for FX, and our price target falls modestly to €14.5. With c.11% upside potential we see greater upside elsewhere in our coverage. Since being added to the Buy List on January 21, 2016, the shares are up 57% vs. the FTSE World Europe index up 17%.

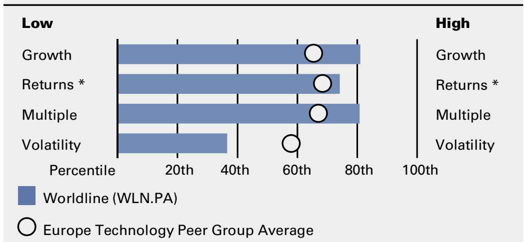
Current view

While lower levels of activity in the Transport division in 1H remains a structural concern, we believe organizational changes and repositioning of this business should drive stabilization. On the other hand, one-off headwinds (loss of the Vodafone contract in Spain in 3Q16 and seasonality of the elections business) should fade into 2H and a strong pipeline in the elections business should underpin growth reacceleration and margin expansion given its high visibility and structurally higher profitability. While there could be upside risks to our medium-term forecasts driven by synergies from the Tecnocom acquisition, we believe that near-term valuation reflects this and thus see more limited upside relative to the rest of our coverage. Hence, our downgrade to Neutral. We also continue to see upside risks to our medium-term margin forecasts driven by scale benefits in the IT services business (aided by Tecnocom integration) and operating leverage in the T&D (Transport & Defence) segment. We believe Indra's CMD (post 3Q results) where management is likely to provide new medium-term targets remains a key catalyst for the shares. On our modestly lower estimates, our 12-month price target falls to €14.5 (from €15), and is based on 15x CY18E PF EPS. Key risks: Higher-than-expected cash charges/asset write-downs; higher than expected synergies from the recent acquisitions like Tecnocom, execution risks associated with M&A; worse than expected WC/debt management; greater resilience in end markets like Europe and LATAM; better than expected execution of the cost optimization plan resulting in better than expected margin improvement, better or worse macro backdrop.

Source: Company data, Goldman Sachs Global Investment Research, FactSet.

Worldline (WLN.PA): Down to Neutral following outperformance

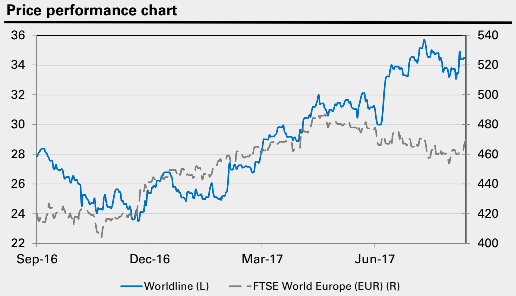
Investment Profile



* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data				Current
Price (€)				34.43
12 month price target (€)				39.00
Upside/(downside) (%)				13
Market cap (€ mn)				4,580.2
Enterprise value (€ mn)				4,553.9
	12/16	**12/17E**	**12/18E**	**12/19E**
Revenue (€ mn) New	**1,309.2**	**1,585.3**	**1,672.8**	**1,788.8**
Revenue revision (%)	0.0	(0.1)	(0.2)	(0.2)
EBIT (€ mn) New	**210.0**	**186.7**	**256.0**	**290.3**
EBIT revision (%)	0.0	(0.2)	(0.3)	(0.3)
EPS (€) New	**1.09**	**0.86**	**1.18**	**1.45**
EPS (€) Old	1.09	0.86	1.18	1.44
EV/EBITDA (X)	14.4	15.0	11.7	12.1
P/E (X)	22.8	40.2	29.2	23.7
Dividend yield (%)	0.0	0.6	0.9	1.1
FCF yield (%)	4.1	3.6	4.6	4.9
CROCI (%)	16.3	17.3	19.9	16.5

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	13.1	26.8	23.6
Rel. to FTSE World Europe (EUR)	14.5	23.9	10.6

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 9/12/2017 close.

What happened

We downgrade Worldline to Neutral from Buy following outperformance YTD, given continued evidence of execution around topline growth. Our fundamental view on the company is unchanged as we believe Worldline should benefit from secular and structural drivers in the European market with its broad portfolio offering, while also actively participating in market consolidation utilizing its strong balance sheet. Our estimates change modestly to reflect the updated valuation of its remaining stake (36.5%) in Equens, which Worldline indicated it would most likely purchase by 2019, while our 12 month price target is unchanged at €39. We believe the next key catalyst for the shares will be the Analyst Day in Paris on October 3 where we believe the company might indicate it is more likely to grow towards the upper end of its 5%-7% mid-term organic revenue growth targets given improved execution as well as positive tailwinds from an attractive industry backdrop and regulations such as PSD2 positively impacting the higher margin financial processing business. Given our raised estimates (as discussed in "Revenue growth acceleration ahead + M&A optionality; reiterate Buy", August 1, 2017) and the valuation re-rating of the shares - now trading at c.12x EV/EBITDA and 19x EV/FCF CY18) vs. 11x and 19x, respectively, for US payment processors) - we see less scope for the shares to outperform. Since adding to the Buy List on January 19, 2017, the shares are +35% vs. +5.1% for the FTSE World Europe and c.+20% for our European tech coverage (unweighted).

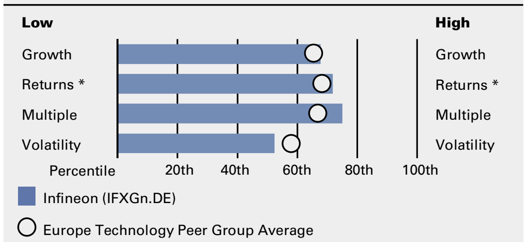
Current view

We expect Worldline's organic growth to demonstrate acceleration in 2H17 (7% vs. 2% in 1H17) as contract-specific headwinds abate. Furthermore we believe the market backdrop is favourable in payments in merchant acquiring given the strong GDP and consumer growth in continental Europe and in issuer processing as banks outsource payment processing to 3rd party vendors as they face rising costs and the need to be PSD2 compliant. The key upside risk beyond organic growth acceleration remains M&A where we expect Worldline to play an active role in consolidating both issuer processing as well as the merchant acquiring market in Europe. However we also note a competitive backdrop with private equity competing for targets that Worldline may be evaluating while we believe that it has significant balance sheet firepower – we forecast FY17 end net cash of €573mn with additional scope to lever up given its target of 1.5x-2.5x net debt/EBITDA. We also see some scope for upside from the synergies associated with the Equens acquisition which have already exceeded plan. Our 12-month price target remains €39, based on 13.5x 2018E PF EV/EBITDA (ex-minorities). Key up and downside risks to our view and price target include: A fragmented competitive landscape and disruption from new entrants; availability of accretive M&A; M&A integration risks, potential risks from regulatory changes like PSD2 (potential positive) and interchange regulation (potential headwinds); risks around contract renewals; pricing pressure around the negotiation of outsourcing contracts competition; maintaining a specialized focus.

Source: Company data, Goldman Sachs Global Investment Research, FactSet.

Infineon (IFXGn.DE): Remain positive on structural growth trends; down to Neutral on outperformance

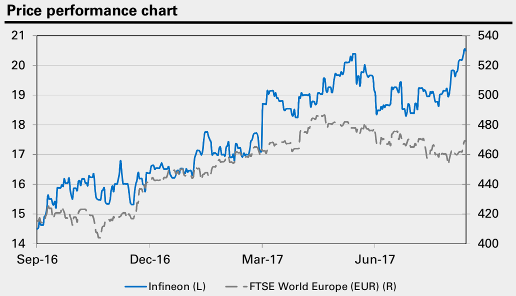
Investment Profile



* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data				Current
Price (€)				20.48
12 month price target (€)				21.30
Upside/(downside) (%)				4
Market cap (€ mn)				23,004.2
Enterprise value (€ mn)				23,052.3
	9/16	9/17E	9/18E	9/19E
Revenue (€ mn) New	**6,474.0**	**7,081.6**	**7,615.0**	**8,180.0**
Revenue revision (%)	0.0	0.0	0.0	0.0
EBIT (€ mn) New	**762.0**	**1,003.6**	**1,155.1**	**1,327.6**
EBIT revision (%)	0.0	0.0	0.0	0.0
EPS (€) New	**0.66**	**0.75**	**0.87**	**1.01**
EPS (€) Old	0.66	0.75	0.87	1.01
EV/EBITDA (X)	9.1	12.7	11.3	10.4
P/E (X)	19.4	27.2	23.4	20.3
Dividend yield (%)	1.6	1.1	1.3	1.3
FCF yield (%)	3.2	3.6	5.3	3.8
CROCI (%)	12.1	12.9	12.8	12.8

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	4.3	19.2	41.2
Rel. to FTSE World Europe (EUR)	6.2	17.0	25.1

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 9/13/2017 close.

What happened

We retain our structural positive view on Infineon given exposure to dynamic growth areas like Electric Vehicles and Autonomous Driving, but downgrade to Neutral from Buy following c.20% outperformance vs. EU Tech Hardware since May, and in the context of relative up/downside potential within our EU Tech coverage (upper 4th quartile upside/downside positioning). Stock outperformance, in our view, was driven by a solid “beat and raise” 2Q print from global semi peers (e.g. ADI, TXN, APH) despite some market fears around peaking of the US SAAR. We also note continued positive data points on EVs e.g. the Volkswagen announcement of plans to launch c.80 EV models by 2030 (from prior plan of 30 models) and on ADAS e.g. the Tesla Model 3 becoming equipped with autopilot as a standard feature. Since adding to the Buy List on May 15, 2017, the shares are +7.6% vs. the FTSE World Europe -3.5%.

Current view

We continue to see IFX as an enabler of autonomous driving and Electric Vehicles and forecast that both these trends will drive c.55% of Auto segment revenue growth in the next 5 years. We also remain positive on margin expansion potential driven by cost benefits from the ongoing transition to the 300mm fab. That said, the latest semi cycle data points were somewhat less positive vs. at the time of our Buy upgrade. Analog semi shipments are currently trending c.8% above the long-term trend line (vs. c.3% at the start of 1Q17). We also note Auto supplier inventory is now c.13% above historical average (vs. c.1% in May) while Industrial inventory is c.20% above historical average (vs. c.12% in May). That said, as detailed in our report, *Improving Autos trends, technological edge, M&A value; up to Buy* (May 15, 2017), we continue to see IFX as a strategic asset given its unique technology offering (i.e. 300mm), a valuable customer base (top 8 out of 10 EVs embed IFX power semis) and potential for cost synergies in an M&A scenario (via product crossover). Hence, we retain a 30% M&A weighting in our valuation methodology. Our revenue/EBIT estimates for 2017-21 are unchanged and we maintain our 12-month price target at €12.3 based on a core valuation multiple at 8.5x 2018E EV/EBITDA (implying a core valuation of €17/share) and an M&A component (30%, based on 16.0x 2018E EV/EBITDA, the median of semis M&A transactions since 2011). Key risks to our view include a weaker/stronger auto/industrials end markets (IFX has c40% exposure to Autos and there could be potential risks from slowdown in the US SAAR growth), semi cycle dynamics (mean reversion risks given IFX’s cyclical characteristics) and better/worse macro growth (given Infineon’s revenues have a strong correlation with global GDP growth).

Source: Company data, Goldman Sachs Global Investment Research, FactSet.

Other estimate and price target changes

Temenos (Neutral, 12-month price target SFr96)

We remain Neutral-rated on Temenos, as we balance a premium valuation against the structural growth opportunity and the strategic value of the company's products. We continue to believe that bank IT spending will shift in favour of 3rd party software vendors like Temenos driven by a confluence of factors: cost cutting, digitization, and modernisation of legacy platforms. We raise our underlying estimates for licenses growth given ongoing strength in the marketplace, which would lead to faster license growth and greater operating leverage, resulting in sustained strong EPS growth. Our revised revenue, adjusted EBIT and adjusted EPS estimates are 3%-15% ahead of Bloomberg consensus over 2017-20. All in, our organic CAGR forecast is 11% over FY16-21 (2x the market) and we forecast an EBIT margin of c.36.1% in 2021. We also update our estimates for FX. While we believe Temenos remains one of the best-positioned vendors in the core banking software market, the stock trades at a near-peak valuation relative to its history: c.33.5x 2-year forward P/E, a c.80% premium to its last 10-year mean. To justify this premium, we believe Temenos would need to demonstrate continued strong execution, especially in light of the relatively tough comps in the next few quarters. Based on our reverse DCF analysis, the current share price discounts c.10% growth in operating margins over the medium term (36.1% margins by 2021), which is broadly in line with our estimate of c.11% organic top-line growth (Exhibit 3). On our higher estimates our new 12-month price target is SFr96 (up from SFr90), derived by assigning an 85% weighting to our core P/E-based valuation of SFr96/sh (30.5x 2018E PF EPS) and a 15% weighting to our M&A valuation of SFr98/sh (8.5x 2018E EV/sales, based on historical sector transactions). Key risks to our view and price target: Quarterly volatility around deal closure could result in better/lower than expected growth; dependence on the ramp-up in IT services partnerships; Integration risks associated with M&A; Higher than expected synergies from recent acquisitions such as Rubik.

Exhibit 2: Temenos: Changes to estimates
US$mn, except per share

Year to December	2017E OLD	2017E NEW	*% Chg.*	2018E OLD	2018E NEW	*% Chg.*	2019E OLD	2019E NEW	*% Chg.*	2020E OLD	2020E NEW	*% Chg.*	2021E OLD	2021E NEW	*% Chg.*
License Revenue	241	253	*5%*	277	300	*9%*	309	333	*8%*	343	370	*8%*	377	407	*8%*
Y/Y growth	18%	23%		15%	19%		12%	11%		11%	11%		10%	10%	
Y/Y growth, org. ex-fx	16.4%	21.4%		13.0%	16.5%		11.5%	11.0%		11.0%	11.0%		10.0%	10.0%	
Total Revenue	719	731	*2%*	811	841	*4%*	888	924	*4%*	972	1014	*4%*	1061	1111	*5%*
Y/Y growth	13%	15%		13%	15%		10%	10%		9%	10%		9%	10%	
Y/Y growth, org. ex-fx	10.5%	12.0%		10.1%	11.6%		9.5%	9.8%		9.4%	9.8%		9.2%	9.5%	
Adjusted EBIT	220	227	*3%*	263	281	*7%*	298	317	*7%*	337	359	*7%*	377	401	*6%*
Adjusted EBIT margin	30.6%	31.1%		32.4%	33.4%		33.5%	34.3%		34.7%	35.4%		35.5%	36.1%	
Y/Y growth	16%	20%		19%	24%		13%	13%		13%	13%		12%	12%	
Proforma EPS	2.42	2.50	*4%*	2.92	3.13	*7%*	3.43	3.66	*7%*	3.96	4.23	*7%*	4.51	4.81	*7%*
Y/Y growth	13%	17%		21%	25%		17%	17%		16%	16%		14%	14%	
Reported EPS (IFRS, Diluted)	1.84	1.93	*5%*	2.51	2.72	*8%*	3.00	3.24	*8%*	3.53	3.80	*8%*	4.08	4.38	*7%*
Y/Y growth	11%	16%		36%	41%		20%	19%		18%	17%		15%	15%	
FCF	194	200	*3%*	242	258	*7%*	281	299	*6%*	321	341	*6%*	359	383	*7%*
Y/Y growth	6%	9%		25%	29%		16%	16%		14%	14%		12%	12%	

Source: Goldman Sachs Global Investment Research.

Exhibit 3: Current share price discounts c.10% top-line growth with operating leverage over the longer term
Reverse DCF analysis

Year to December, USD mn	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Adjusted EBITA	86	113	128	157	190	227	270	306	348	391	431	476	525	579	638	704
Tax	-11	-8	-8	-11	-10	-32	-38	-43	-49	-55	-60	-67	-73	-81	-89	-99
After-tax EBITA	76	105	119	146	179	196	232	263	299	336	371	409	451	498	549	606
D&A	32	35	43	45	47	59	65	71	79	87	96	105	116	128	141	156
Chg. In working capital	(8)	10	(3)	18	2	15	16	18	20	22	24	26	29	32	35	39
Capex	(51)	(50)	(53)	(55)	(56)	(73)	(81)	(89)	(98)	(108)	(119)	(132)	(145)	(160)	(177)	(195)
Non-cash SBC	0	0	0	12	26	26	26	26	26	26	26	26	26	26	26	26
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Free Cash Flow	**49**	**99**	**105**	**154**	**173**	**196**	**232**	**263**	**299**	**336**	**371**	**409**	**451**	**498**	**549**	**606**
Discount Calculator							-	1	2	3	4	5	6	7	8	9
Discount Factor							100%	92%	84%	77%	71%	65%	59%	54%	50%	46%
Discounted Cash Flow							**232**	**241**	**251**	**259**	**262**	**265**	**268**	**271**	**274**	**277**

Control Panel:			**Valuation:**		**Current Price - Valuation:**	
Current Price	CHF98.3		Sum of DCFs	2,601	Price	CHF98
Current Year	2018		Terminal Value	9,979	Market Cap	7,031
Perpetuity Growth	3.0%		Discounted TV	4,569	Ent. Value	7,209
Risk free rate (%)	1.5%				17 FCF Yield	2.8%
Spread over Rf (%)	3.0%		Firm Value/EV	7,170	18 FCF Yield	3.3%
Tax Rate (%)	14.0%		Cash	(178)	17 P/E	39.3
Risk Premium (%)	7.0%		Equity Value	6,992	18 P/E	31.4
Beta (X)	1.10					
Terminal Multiple	16.5		Shares outst.	71.5	**At DCF Price - Valuation:**	
					Price	CHF98
Market Cap.	7,031	% mix	**Fair value (CHF)**	**98**	Market Cap	6,992
Net Cash/(Net Debt)	(178)	98%	**Fair value (USD)**	**$98**	Ent. Value	7,170
Enterprise Value	7,209	2%	USD CHF Rate	1.00	17 FCF Yield	2.8%
					18 FCF Yield	3.3%
Cost of Equity	9.2%		**Value Mix**		17 P/E	39.1
Cost of Debt	3.9%		Sum of DCFs	37%	18 P/E	31.2
WACC	**9.1%**		Terminal Value	65%		
			Cash	-3%		

DCF Assumptions	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Sales	450	468	469	559	635	731	807	890	982	1,083	1,194	1,317	1,453	1,603	1,768	1,950
YoY Growth		4%	0%	19%	14%	15%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
Adjusted EBITA	86	113	128	157	190	227	270	306	348	391	431	476	525	579	638	704
Margin	19.2%	24.1%	27.3%	28.1%	29.9%	31.1%	33.4%	34.3%	35.4%	36.1%	36.1%	36.1%	36.1%	36.1%	36.1%	36.1%
D&A as % of sales	7%	7%	9%	8%	7%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%
Working Capital as % of sales	-2%	2%	-1%	3%	0%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Capex as % of sales	11%	11%	11%	10%	9%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Tax rate	12.4%	7.0%	6.6%	6.9%	5.5%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
D&A	32.3	34.7	42.8	45.2	47.2	58.5	64.5	71.2	78.5	86.6	95.5	105.4	116.2	128.2	141.4	156.0

Source: Company data, Goldman Sachs Global Investment Research.

STMicroelectronics (Neutral, 12m price target €16.3/ADR $19.5)

We raise our 2017/18 revenue estimates by 0%/2% and EBIT estimates by 1%/4%, to reflect our higher estimates in the "Others" segment, which includes sales from 3D sensors (i.e. Time-of-Flight (ToF) sensors), alongside raised margin assumptions. We note that the new iPhone 8 and 8 plus models will have 1/2 ToF sensors in their cameras respectively, a market segment where STM has gained solid traction in recent quarters (along with winning the ToF slot in the previous iPhone model). Additionally, we also expect margin expansion at a group level (GSe c.12% EBIT margins in 2018E vs. c.4% margins in 2016) from the restructuring of the STB business.

We raise our price target multiple to 9.0x 2018E EV/EBITDA (from 7.0x), given an improved margin profile vs. its history. STMicro has traded at 7.0x 1-year-forward EBITDA, with only lower single digit EBIT margins vs. c.9.6% margins in 2Q17. Our 12-month price target increases to €16.3 (ADR $19.5) from €14.1 (ADR $16.0) as a result of a higher multiple and estimates. We remain Neutral-rated given mid fourth-quartile upside vs. our coverage and note that global analog shipments are currently trending c.8% above long-term demand. Key risks to our view and price target include market share gains/losses, industrial/auto trends, semi cycle dynamics.

Nokia (Buy, 12m price target €6.2/ ADR $7.4)

We adjust our 2017-21 estimates to reflect recent moves in FX (strengthening of the € vs US$) and some wireless project delays in 2H (which will negatively impact top line in 2H). The € has appreciated c.2% vs. US$ post 2Q update and as such we lower 2017-21 group revenue estimates by c.1% and group adj. EBIT estimates by c.2%-3%, noting c.50%/c.40% USD revenue/cost exposure. Our underlying investment thesis on Nokia is unchanged. On our new estimates, our 12m price targets fall to €6.2/ADR $7.40 (from €6.4/ ADR $7.20), based on a SOTP, with Networks valued on 7.5x 2018E EV/EBITDA (unchanged) and patents on a DCF. We remain Buy rated on Nokia given c.22% upside potential, implying first-quartile upside/downside positioning vs. our EU Tech coverage. Key downside risks to our view and price target include worse-than-expected wireless capex, integration risk and pricing pressure.

Ericsson (Buy, 12m price target SKr57/ADR $7.2)

We adjust our 2017-21 estimates to reflect recent moves in FX (weakening of the US$ vs. SEK). The US$ has depreciated c.3% vs. SEK post 2Q update and as such we lower 2017-21 group revenue estimates by c.1% and group adj. EBIT estimates by c.3%-6%, noting c.50%/c.40%/20% USD revenue/COGS/opex exposure. Our underlying investment thesis on Ericsson is unchanged. On our new estimates, our 12m price target falls to SKr57/ADR $7.20 (from SKr60/ADR $7.20), based on an unchanged 8.5x 2018E EV/EBITDA multiple. We remain Buy rated on Ericsson given c.24% upside potential, implying first-quartile upside/downside positioning vs. our EU Tech coverage. Key downside risks to our view and price target include worse cost control, wireless market dynamics and market share loss.

Rating and pricing information

ASML Holding (B/N, €135.00), Capgemini (B/N, €99.41), Dassault Systemes (B/A, €85.84), Evry AS (B/N, Nkr29.00), Ingenico SA (S/N, €79.50), Sage Group (B/A, 702.00p), SAP (B/A, €92.28), Simcorp A/S (B/A, Dkr394.20), Software AG (S/A, €40.03) and Wirecard (B/N, €72.70), Atos (N/N, €128.80), Aveva (S/A, 2,375.00p), Gemalto (N/N, €41.26), Hexagon AB (N/A, Skr397.60), Spirent Communications Plc (N/N, 99.50p) and Technicolor (N/N, €3.14).

Disclosure Appendix

Reg AC

We, Mohammed Moawalla, Alexander Duval, Gautam Pillai, CFA, Deepshikha Agarwal, Hameed Awan and Piyush Maheshwari, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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