



# ASML Holding N.V. (ASML)

Updated July 21<sup>st</sup>, 2024, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$895	<b>5 Year CAGR Estimate:</b>	14.1%	<b>Market Cap:</b>	\$355 B
<b>Fair Value Price:</b>	\$738	<b>5 Year Growth Estimate:</b>	18.0%	<b>Ex-Dividend Date:</b>	07/26/2024
<b>% Fair Value:</b>	121%	<b>5 Year Valuation Multiple Estimate:</b>	-3.8%	<b>Dividend Payment Date:</b>	08/07/2024
<b>Dividend Yield:</b>	0.8%	<b>5 Year Price Target</b>	\$1,688	<b>Years Of Dividend Growth:</b>	8
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	F	<b>Rating:</b>	Buy

## Overview & Current Events

ASML Holding is one of the largest manufacturers of chip-making equipment in the world. The company's customers include a wide variety of industries, and ASML is present in 16 countries with about 31,000 employees. The company is headquartered in the Netherlands and is listed on both the Euronext Amsterdam and NASDAQ, both under the ASML ticker. ASML has a current market capitalization of \$355 billion and produces more than \$30 billion in annual revenue. ASML reports results in euro but unless otherwise noted, all figures in this report are in USD.

ASML posted second quarter earnings on July 17<sup>th</sup>, 2024, and results were somewhat weak, sending the stock lower. Earnings-per-share came to \$4.37, while revenue was off 10% year-over-year to \$6.75 billion.

Although net bookings soared 54% quarter-over-quarter, investors are concerned about the macro environment. The US government is considering trade curbs that would disallow China access to advanced semiconductor technology. That would directly impact ASML's sales in that country. ASML is being targeted because of its monopoly on making EUV machines. That makes an enormous competitive advantage but also makes it susceptible to anti-monopoly sentiments, should those come to fruition. China was about half of sales in Q2, so the danger is significant.

The company continues to say this is a transition year in terms of capacity and technology investments. The outlook for demand from management is very strong, but results this year won't necessarily reflect that.

We see \$20.50 in adjusted earnings-per-share for this year, unchanged from our prior outlook.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$2.63	\$2.91	\$2.67	\$4.12	\$6.92	\$6.82	\$10.26	\$15.77	\$15.42	\$21.65	<b>\$20.50</b>	<b>\$46.90</b>
<b>DPS</b>	\$0.84	\$0.81	\$1.15	\$1.31	\$1.78	\$2.34	\$2.86	\$3.95	\$6.64	\$6.45	<b>\$6.90</b>	<b>\$10.14</b>
<b>Shares<sup>1</sup></b>	440	433	428	432	426	422	418	404	392	393	<b>393</b>	<b>393</b>

ASML's earnings growth has been nothing short of outstanding. The company saw its earnings-per-share grow at a rate of 25% annually from 2016 to 2018, but 2019 saw a deviation from that trend. That sort of growth is very difficult to come by in any industry, and ASML's share price has appreciated accordingly. We see 18% growth annually in the coming years as ASML continues to take advantage of favorable macro trends, and the pause in earnings growth for 2024 makes ASML's base from which to grow more sustainable. We see weakness in earnings for 2024, but above-trend growth in 2025 and 2026.

We see continued revenue growth as the primary driver of future returns. ASML is the only source of Extreme Ultraviolet, or EUV, lithography machines, which allows customers to produce ever-smaller integrated circuits. In a sense, ASML has what amounts to a monopoly on a very lucrative segment of the semiconductor industry. This should help drive low double digit or better revenue gains in the years to come, on average. We also see operating leverage, such as what we saw for 2020 with higher gross margins. As ASML grows its revenue, it should see better gross margins and leveraging down SG&A and R&D costs. We see this as a tailwind for earnings growth as well, amounting to low or mid-single digits annually. We note the fast shipment policy will cause some volatility in gross margins and revenue from

<sup>1</sup> Share count in millions

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quarter to quarter, but longer-term, gross margins should remain elevated, and the long-term trajectory of revenue is firmly higher.

For 2024, we expect \$6.90 per share in dividends, but note that ASML's dividend policy is quite variable, both in amount declared and the translation between euro and USD. For 2024, we're estimating a final dividend payment of about \$1.80 per share, based on historical patterns.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	35.3	34.1	37.3	35.5	38.9	32.0	33.9	44.4	35.4	35.0	43.7	36.0
Avg. Yld.	0.9%	0.8%	1.2%	0.9%	0.9%	1.1%	0.8%	0.6%	1.2%	0.9%	0.8%	0.6%

ASML's valuation has exploded higher in recent years as its growth has picked up. We see fair value at 36 times earnings, below the current valuation of 43.7 times earnings. Fair value is based upon the company's impressive growth outlook, but also peer valuations. ASML, in our view, deserves a premium to its peers given its competitive position and growth. Given the move up in the share price, the valuation has deteriorated. We see the yield remaining about where it is in the coming years as the payout grows with earnings.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

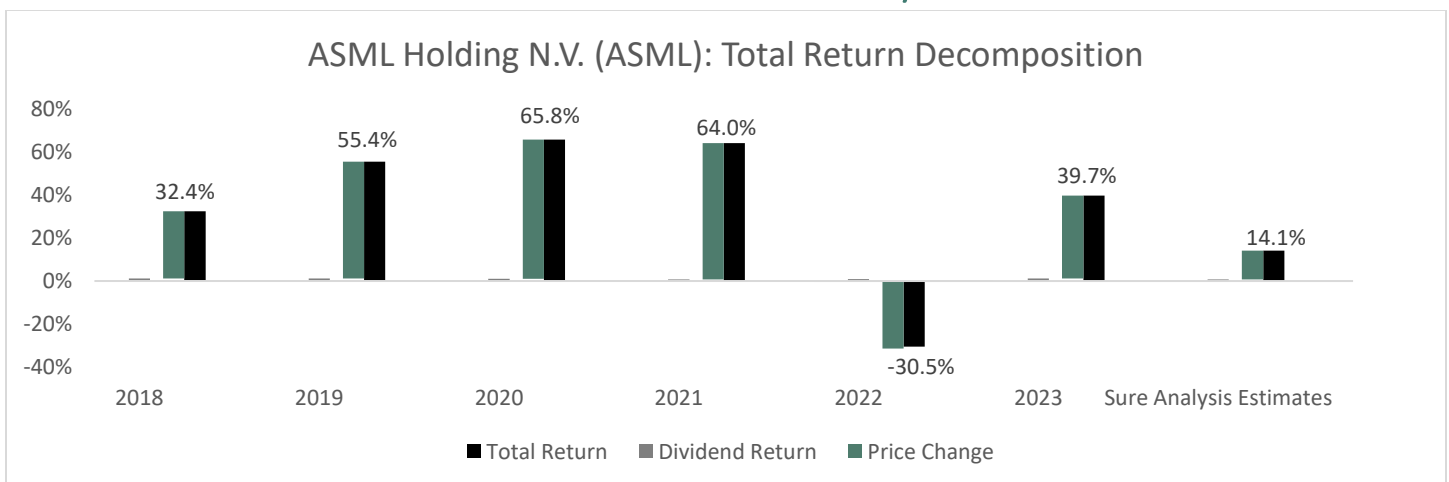
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	32%	28%	43%	32%	25%	34%	28%	25%	43%	30%	34%	22%

ASML's competitive advantage is in its EUV capabilities. ASML has a monopoly in this next-generation technology, and we see this as a significant advantage for years to come. The dividend is also secure at 34% of earnings. ASML is committed to returning excess capital to shareholders and has grown its dividend enormously in the past decade; we see sizable payout growth continuing. Finally, ASML will be susceptible to recessions given it produces products for industries that have cyclical demand. Indeed, the company produced a loss in 2009. We note, however, that the company thrived in 2020, and continues to do so today.

## Final Thoughts & Recommendation

We see ASML as a very attractive growth story, but the stock is still overvalued. ASML's first mover advantage in EUV technology is extremely valuable, and historical earnings growth validate that growth story. Total projected returns of 14.1% have us reiterating the stock at a buy rating. We see the growth runway for ASML as very long. We note 18% growth, a 0.8% yield, and a meaningful negative impact from the valuation.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	7,788	6,977	7,609	10,150	12,923	13,232	15,964	22,020	22,329	29,835
<b>Gross Profit</b>	3,453	3,213	3,481	4,553	5,939	5,911	7,763	11,606	11,284	15,304
<b>Gross Margin</b>	44.3%	46.1%	45.7%	44.9%	46.0%	44.7%	48.6%	52.7%	50.5%	51.3%
<b>SG&amp;A Exp.</b>	427	384	415	472	576	583	622	859	998	1,205
<b>D&amp;A Exp.</b>	339	329	395	473	499	502	561	557	615	801
<b>Operating Profit</b>	1,597	1,644	1,842	2,654	3,501	3,124	4,627	7,734	6,856	9,789
<b>Operating Margin</b>	20.5%	23.6%	24.2%	26.2%	27.1%	23.6%	29.0%	35.1%	30.7%	32.8%
<b>Net Profit</b>	1,591	1,539	1,724	2,359	3,060	2,902	4,058	6,725	5,931	8,487
<b>Net Margin</b>	20.4%	22.1%	22.7%	23.2%	23.7%	21.9%	25.4%	30.5%	25.9%	28.4%
<b>Free Cash Flow</b>	883	1,834	1,484	1,654	2,909	2,676	4,142	11,720	7,559	3,515
<b>Income Tax</b>	102	179	259	347	415	215	630	1,208	1,023	1,554

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	14,840	14,535	18,189	21,821	23,035	25,349	33,538	34,228	38,929	44,169
<b>Cash &amp; Equivalents</b>	2,942	2,688	3,073	2,710	3,570	3,957	7,441	7,871	7,795	7,743
<b>Accounts Receivable</b>	1,280	879	740	2,088	1,714	2,002	1,612	3,428	5,709	4,791
<b>Inventories</b>	3,101	2,814	2,940	3,546	3,934	4,267	5,620	5,864	7,721	9,784
<b>Goodwill &amp; Int. Ass.</b>	3,747	3,676	6,551	6,847	6,457	6,324	6,984	6,236	5,789	5,892
<b>Total Liabilities</b>	5,705	5,364	7,808	8,893	9,718	11,244	16,484	22,747	29,480	29,299
<b>Accounts Payable</b>	603	577	627	1,005	1,103	1,190	1,695	2,396	2,751	2,595
<b>Long-Term Debt</b>	1,403	1,235	3,509	3,629	3,462	3,482	5,754	4,614	4,569	5,120
<b>Shareholder's Equity</b>	9,135	9,172	10,382	12,928	13,316	14,105	17,054	11,481	9,449	14,870
<b>D/E Ratio</b>	0.15	0.13	0.34	0.28	0.26	0.25	0.34	0.48	0.40	0.34

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	10.4%	10.5%	10.5%	11.8%	13.6%	12.0%	13.8%	19.8%	16.2%	20.4%
<b>Return on Equity</b>	17.0%	16.8%	17.6%	20.2%	23.3%	21.2%	26.0%	47.1%	56.7%	69.8%
<b>ROIC</b>	14.7%	14.7%	14.2%	15.5%	18.4%	16.9%	20.1%	34.6%	38.7%	49.9%
<b>Shares Out.</b>	440	433	428	432	426	422	418	404	398	394
<b>Revenue/Share</b>	17.71	16.13	17.79	23.52	30.31	31.39	38.09	53.66	56.09	75.70
<b>FCF/Share</b>	2.01	4.24	3.47	3.83	6.82	6.35	9.88	28.56	18.99	8.92

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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