STOCKTRADES PREMIUM COMPANY SUMMARY

ASML HOLDINGS

ASML

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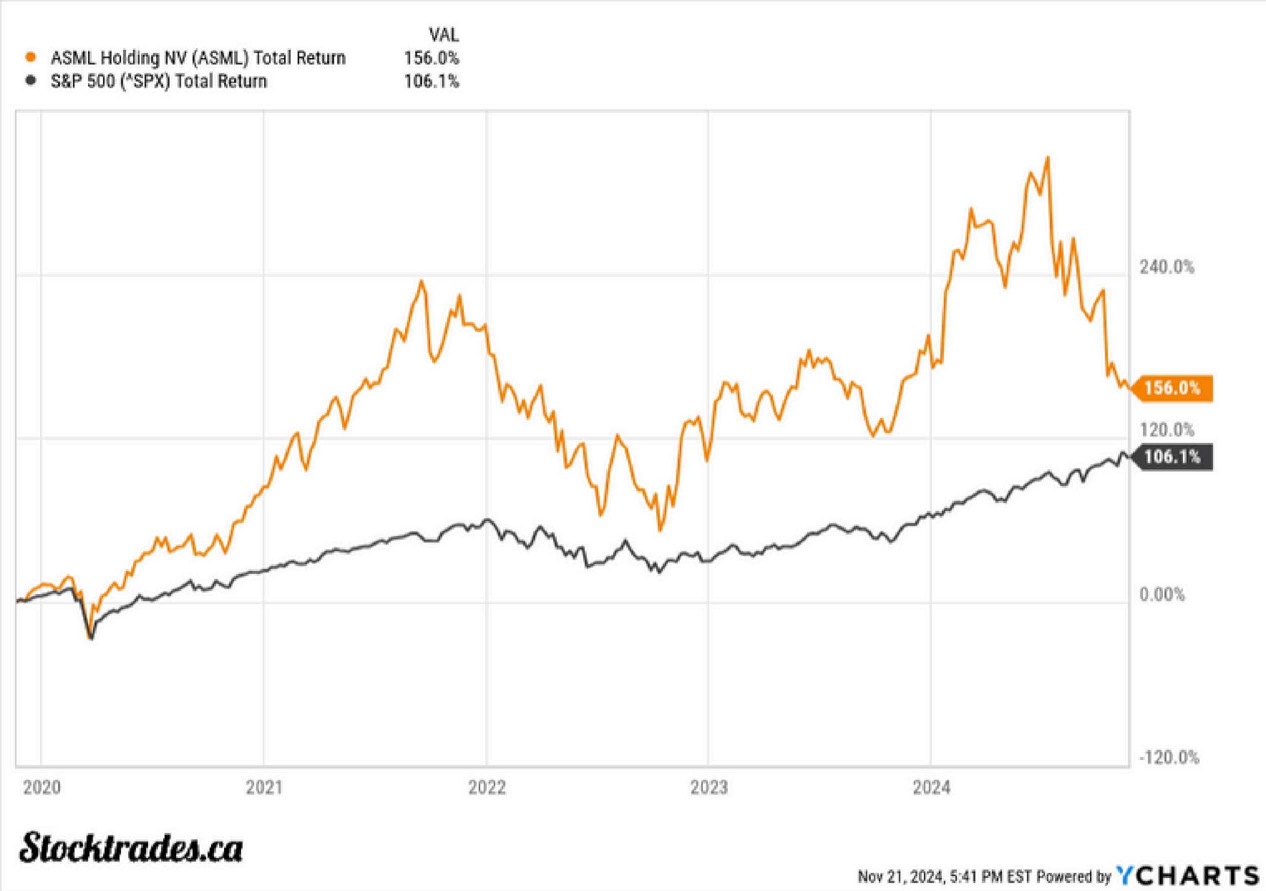

ASML is the leader in photolithography systems used in the manufacturing of semiconductors. Photolithography is the process in which a light source is used to expose circuit patterns from a photo mask onto a semiconductor wafer. The latest technological advances in this segment allow chipmakers to continually increase the number of transistors on the same area of silicon, with lithography historically representing a high portion of the cost of making cutting-edge chips. ASML outsources the manufacturing of most of its parts, acting like an assembler. ASML's main clients are TSMC, Samsung, and Intel.

Focus Areas	Score (0/100)	Focus Areas	Score (0/100)
Valuation	47	Dividend	82
Profitability	66	Outlook	64
Risk	26	Debt	45
Returns	57	Growth	67
Overall	57		

*Our Risk Rating: Our opinion of the overall risk an investment presents. Can be shown as Defensive (DEF), Moderate (MOD), or Aggressive (AGG). By no means is this an indication of future potential gains or lower volatility.

PROS

- ASML is the sole supplier of extreme ultraviolet (EUV) lithography machines and has a 90%~ market share
- The increasing adoption of technologies like AI, 5G, IoT, and electric vehicles drives long-term demand for advanced chips, which ultimately will benefit ASML
- Although the company's bookings are softer than expected, this is likely a cyclical downtrend that will not last
- The company has achieved near-50% returns on equity and 37% returns on invested capital
- The company has exceptional margins, with gross margins of over 50% and operating margins of 31%
- The company carries little debt ($5B in debt versus $3.1B in trailing twelve-month free cash flows)
- The company expects to grow at a double-digit compound annual growth rate through 2030, primarily fueled by 10%~ annual growth in the semiconductor market

CONS

- The company relies heavily on a small customer base. Companies like Samsung, Intel, and Taiwan Semiconductors make up a large chunk of revenue
- Trade wars and geopolitical risks. Export restrictions and global tensions could disrupt the company's supply chains and its ability to sell to particular markets. This could put significant pressure on the stock price
- The AI industry is young. Although ASML maintains a dominant market share right now, new advancements in technology could reduce the overall demand for its machines
- Although the company is one of the cheaper options in the semiconductor space, valuations are still at the point where double-digit growth will be needed to justify them

OVERALL THESIS

I have been waiting for an opportunity to enter the semiconductor space for quite some time, and the recent weakness in terms of ASML's share price is one that I will be pouncing on.

The company manufactures photolithography machines. What do these machines do? They utilize a beam of light to essentially produce a blueprint onto a silicon wafer. Imagine a standard construction blueprint. Now, amplify the detail of that blueprint by 100x and reduce the size of it down to a wafer utilized in a computer chip. These machines are expensive, often in excess of $150M, and with a 90%+ market share on deep ultraviolet (DUV) lithography and extreme ultraviolet (EUV) lithography machines, companies are almost forced to head to ASML holdings to buy them.

This creates a reliable revenue stream for the company in terms of new orders and the maintenance of those machines. As demand for artificial intelligence and technology in general increases, ASML should continue to benefit from the maintenance of existing machines and the production of new machines. Although there is a chance technological advancement could disrupt EUV and DUV machines, we're likely a ways away from that. And even if this were to be the case, I would predict that ASML would be at the forefront of that innovation anyway.

With the semiconductor industry expected to grow at a double-digit pace over the next half-decade, ASML should be able to continue to grow revenue and free cash flow by at least that amount, if not higher.

The company has fallen drastically in share price due to some global tensions between the United States, China, and Taiwan. However, I do not expect these issues to last over the long term, and I am more than happy to initiate a position. Considering the company's economic moat, strong margin profile, and the overall growth of the semiconductor industry, it will be a position I am comfortable holding over the long term while withstanding potential volatility over the short term.

POTENTIAL RISKS

ASML's machines are extremely expensive. As mentioned above, they often come in at a minimum of $150M. For this reason, the company's client base is hyper-focused on larger players in the industry. With the company holding a 90%+ market share in the EUV/DUV market, there is the possibility that the scaled-back ordering and maintenance of these machines would materially impact revenue. We witnessed this in 2024, as bookings came in softer than anticipated.

Another risk, and one that is likely to cause the largest amount of volatility in terms of share price, is geopolitical tensions. China is a large market for the company. However, pressure from the United States has caused the company to be limited in the EUV machines it sells to China. It can still sell its DUV machines there, but there are talks of furthering the restrictions to exclude these as well. Although the company has already issued a significant reduction in guidance in terms of Chinese revenue for 2025, which is likely already reflected in its share price, it is the risk of further restrictions that could cause volatility.

Beta	**1.5**
Alpha	**0.1**
Our Risk Rating	**AGG***
Max Drawdown	**56.7%**

Additionally, while ASML is by far the world leader in EUV and DUV machines, technological disruptions in such a young industry are always an added risk. If new technology materializes and produces products at a lower cost point, we could see a reduction in demand for ASML systems if they do not have a significant share in the technological advancement.

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VALUATION

	TTM	5 Year Average	Forward Numbers
P/E	35	43	27
P/S	9.26	11.28	7.73
P/B	14.6	21.9	N/A
P/FCF	85.82	46.86	N/A
PEG Ratio	N/A	N/A	1.99

ASML is one of the more attractive companies in the semiconductor space right now on a valuation basis. It trades at a discount to a major company like NVIDIA (35x expected earnings) and around the same valuations as Advanced Micro Devices (27x expected earnings).

The difference when we look to a company like AMD is the expected growth rates and margins. Although they operate in different businesses, ASML's operating margins are nearly 5x that of AMD. In addition, the company is projected to have larger growth rates in the future after absorbing the short-term headwinds of geopolitical issues and softer bookings.

ASML projects it will earn between $46B-$63B in revenue by 2030, with gross margins expected to be between 56%-60%. At the top end of guidance, this would represent a 16% compound annual growth rate on revenue, and at the bottom end, 9.2%. So, what investors can take from this guidance is the fact that the company is expecting to hit double-digit growth rates on a compound annual basis moving forward for the next half-decade.

I would expect earnings and free cash flow to expand at this pace as well, at minimum. If the company hits its gross margin targets, it would represent a possible 9% improvement to gross margins on the top end of guidance, which would have earnings and free cash flow outpacing revenue growth.

Running a relatively basic discounted cash flow analysis on the company, I believe there is a double-digit margin of safety here at the midpoint of the company's 2030 guidance. If it can hit the upper ends of guidance, the margin gets much larger.

From a valuation standpoint, the main risk would be the company's bookings and demand remaining soft moving into the future and guidance coming in lower.

Overall, I believe ASML to be a Growth at a Reasonable Price play in a rapidly expanding industry, but one that will be heavily cyclical based on overall order demand and the growth of the industry in general.

COMPETITOR ANALYSIS

	ASML	AMAT	LRCX
P/E	35	20	23.26
P/S	9.2	5.3	6.06
P/B	14.6	7.5	10.9
P/FCF	86	19.3	19.5

As you can see from the table above, ASML is the most expensive out of major industry competitors. However, one thing to note is that the price-to-free cash flow ratio is slightly inflated due to some larger capital expenditures regarding production capacity. This ratio is likely to normalize over the next bit here.

The company trades at a premium to the other manufacturers on this list. One important thing to consider here is that they are not direct competitors to ASML. In fact, ASML has nearly no direct competitors, as it holds a 90%+ market share in the production and sale of EUV and DUV machines. For this reason, the company trades at a large premium to these other industry players, who have much more competition to contend with.

DIVIDEND ANALYSIS

Yield	Payout Ratio (EPS)	5 Year Dividend Growth %	Dividend Growth Streak
1%	35%	30.9%	0

ASML's dividend is quite sporadic. There are a few reasons for this, with the first being that it is paid out in Euros. If you buy ASML on the US markets, you are buying a NYRS (A New York Registry Share). The main difference between an American Depository Receipt and a NYRS is the fact that NYRS's are issue directly by the company themselves whereas ADRs are issued by depository banks.

ASML will convert the dividend from Euro's to USD and pays it out that way to shareholders who hold it on the US market. Foreign currency fluctuations will come into play here, and it is unlikely you ever receive the same dividend on a quarterly basis unless the USD/EURO stays very stable.

The company has been a relatively consistent dividend grower, but the growth accelerated during the COVID-19 pandemic, with the company bumping its distribution from €2.75 per share in 2020 to €5.50 in 2021. Since then, it has made annual €0.30 raises to the dividend.

The large boost from 2020/2021 is spiking the company's 5 year dividend growth rate to over 30%. Don't expect this type of dividend growth from ASML moving forward. However, it is reasonable to expect mid to high single-digit boosts on an annual basis.

RECENT EARNINGS

Earnings Estimates	2024	2025	2026
EPS	$20.22	$24.66	$31.14
Revenue	$29.7B	$34B	$39B
EBITDA	$10.25B	$12.58B	$15.27B
EBITDA Margin	34.5%	37%	39%

ASML reported a strong quarter on a headline basis; however, weaker bookings and management companies on short-term demand caused it to fall in price. The company reported revenue of $8.14B when $7.8B was expected, and earnings per share of $5.76 came in ahead of estimates for $5.30.

The company's total sales grew by 19% year over year, and net income was up by 31% over the same time period. The company sold 106 new lithography systems on the quarter, and 10 used systems.

The large volatility in price came from its bookings and overall guidance. "Bookings" refers to a confirmed customer order, which is then placed into its backlog. The revenue is not recognized until the equipment is delivered. Bookings came in at $2.633B, which is down by more than 50% from the previous quarter.

The company stated that the low order intake was primarily due to customers being a bit cautious in the current environment. As it stands right now, the company's backlog sits at over €36B.

The company issued its guidance for 2025, which expects sales to come in at the lower half of previously issued guidance, being €30-35B. One of the main drivers for this is the company's overly cautious approach to sales in China due to possible export restrictions.

Overall, it was a solid quarter from the company. Some speculative headwinds based on geopolitical tensions caused the company to be tempered in its guidance, ultimately impacting the share price.

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