

AVGO, SPRD and GIG Earnings

AVGO		<i>Avago Technologies</i>	
Qtr:	F1Q	Grade:	<i>D</i>
Rev:	576	Rev:	<i>o</i>
GM:	50.7%	EPS:	<i>+++</i>
EPS:	\$0.65	Fcst:	<i>--</i>
		Growth(qtr-qtr)	
		Rev:	<i>-6.8%</i>
		Fcst:	<i>-5-2%</i>
		Div:	<i>\$0.17</i>

AVGO (\$33.13). I am a big fan of the CEO and this former chip operation of Agilent/HP, but do not consider the shares to be compelling as either a Long or Short based on fundamental valuation metrics at current price levels. The CFO resigned and is going to LRCX, and the Controller will assume his role pending a permanent replacement.

Wireless at 53% of sales declined by -2% sequentially as expected and benefited from multiple smartphone launches, but will decline this quarter due to a product transition at (Apple) that will partially be offset by (Samsung and) other customer ramps including increasing FBAR content. Wired Infrastructure at 25% of sales fell by -10%, better than expected, but will grow this quarter by high-single-digits as CSCO rolls out its next-gen Nexus 6000 40G data center with more content—and despite continued weakness in carrier routing. Industrial/other at 22% of sales dropped by -14%, or a normalized -8% adjusting for the addition of ‘other.’ It was slightly worse than expected as China recovered nicely in the low-double-digits, the US was flat, and Japan and Europe declined significantly.

SPRD		<i>Spreadtrum Communications</i>	
Qtr:	4Q	Grade:	<i>B</i>
Rev:	203.1	Rev:	<i>++</i>
GM:	37.2%	EPS:	<i>+++</i>
EPS:	\$0.59	Fcst:	<i>+++</i>
		Growth(qtr-qtr)	
		Rev:	<i>+8.1%</i>
		Fcst:	<i>-11-8%</i>
		Div:	<i>\$0.10</i>

SPRD (\$15.71). I am very bullish on this Chinese supplier of smartphone chips trading at 1x-sales and 8x-earnings, and consider upside potential significantly more likely than downside risk at the current share price level.

Smartphones accounted for 54% of sales 4Q (with the balance to feature phones and other) and 24% for the year, growing from 1Mu 2Q to over 30Mu for the year as it expanded its TD-SCDMA modems to multiple handsets at Samsung and HTC. SPRD believes it has over 50% share in TD-SCDMA which is a market that China Mobile expects to double to 120Mu this year. SPRD expects to ship 80-100Mu smartphone devices this year at over 50% of sales due to its new dual-core TD-SCDMA part and expansion into WCDMA and LTE and quad-core offerings.

GIG		<i>GigOptix</i>	
Qtr:	4Q	Grade:	<i>E</i>
Rev:	7.9	Rev:	<i>o</i>
GM:	60%	EPS:	<i>--</i>
EPS:	(\$0.01)	Fcst:	<i>na</i>
		Growth(qtr-qtr)	
		Rev:	<i>-21.8%</i>
		Fcst:	<i>flat</i>
		Div:	

GIG (\$1.10). I rate this stock as Long—But Distressed. I consider the shares to be very attractive based on fundamental valuation metrics, I like the CEO, and I consider the market opportunity for its semiconductors and optical components supporting 40-400G transfer rates to be attractive. Nevertheless, the significant potential upside also has considerable risk that includes limited revenue, limited asset base, and a lack of sustained profitability.

Annual sales of \$36.7M +14% driven by +60% growth in core optical telecom and datacom offerings. GIG is restructuring and will introduce high-performance gesture tracking products for consumer applications as well as next-generation telecom and datacom offerings ahead of an expected rebound in spending from Carriers and OEMs this year. A trade secret lawsuit against MTSI and three former GIG employees will go to trial on August 26.

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