

SIMO Skips a Beat on LTE

SIMO		<i>Silicon Motion</i>	
Qtr:	1Q	Grade:	<i>D</i>
Rev:	57.4	Rev:	+
GM:	41.0%	EPS:	--
EPS:	\$0.17	Fcst:	---
		Growth(qtr-qtr)	
		Rev:	-18.7%
		Fcst:	+5+10%
		Div:	\$0.15

Silicon Motion (*SIMO, \$11.51 +0.75, Rated Buy on my latest Chip Investment Ideas*)

Not Much LTE Business this Year: SIMO announced 1Q earnings late-yesterday and held a conference call this morning. The big news is bad: SIMO will miss a generation of LTE transceivers into Samsung handsets this year due to lack of support for the carrier aggregation feature. This had been the most exciting near-term growth vector for the company as it diversified away from its primary business supplying NAND flash controllers in my opinion, and the lack of any expected meaningful business this year is very much a surprise—even to the company, since management had still expected considerable growth as late as February. The good news is SIMO remains profitable; will continue to pay its quarterly dividend; will probably not burn cash this year; and it still has a number of avenues that offer significant potential for future growth. The bad news is that revenue growth for 2013 will likely be limited to single-digits. I still consider the shares to be attractive on a fundamental basis with trailing 12-month price-sales at 1.4x, price-earnings at 7.7x, and price-book at 1.5x, and continue to recommend it as a Buy. The company also holds just under \$5 in cash at this point. Nevertheless, I expect significant share price weakness today following this announcement and consider upside potential likely to be limited over the next 6-9 months until expected future potential growth opportunities become more visible in terms of timing and magnitude.

SIMO has been working with Samsung since 2008 as the sole-source supplier of LTE transceivers for handset platforms from Samsung that use Samsung’s internally-generated, captive baseband processor. That business established a foothold last year and was expected to ramp this year. Unfortunately it appears that Samsung recently made the decision that its handset offerings need to support carrier aggregation; its own baseband processor does not support carrier aggregation; and so neither does SIMO’s (custom) transceiver. SIMO will continue to work with Samsung and expects to recover this LTE transceiver business next year, but activity this year will be focused on implementing the carrier aggregation feature into the next generation product offering.

In the mean time, the rest of SIMO’s primarily NAND controller business at 85% of sales is expected to grow by +0+10% during 2013 with an improving gross margin profile. NAND controllers categorized as mobile storage accounted for 76% of sales last quarter and mobile communications that includes the LTE transceiver business as well as some mobile TV chips accounted for 21%.

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