SIMG 1Q Preview: Looking for Upside

Silicon Image *(SIMG, $4.83 +0.05, Buy, Target $8, CY13: $0.24 on $279M, CY14: $0.43 on $320M)*
1Q Preview: SIMG is scheduled to announce 1Q earnings after the close today and I expect the company to exceed 1Q expectations and—hopefully—at least meet 2Q expectations for double-digit growth with guidance and trigger potential share price upside. I am not concerned about the company's business and the fundamental valuation on the shares remains attractive, but the Street has set fairly high expectations for the next couple quarters, in my opinion.

MHL is currently driving revenue growth with increasing penetration into expanding mobile markets for smartphones and tablets, as well as stabilizing more lackluster consumer markets with increasing penetration into digital TVs, home theaters and AV receivers. Recall SIMG had a weak 4Q with revenue down by -19% due to an inventory correction at a major customer (read, Samsung), and guided for a flattish 1Q with a significant up-tick in operating expenses due to seasonal factors, new product tape-outs, and CES and MWC trade shows. I expect the company to exceed 1Q revenue expectations on MHL market and penetration strength, and 1Q EPS by even more via potential operating leverage. My 1Q revenue and EPS estimates are consistent with guidance and consensus.

I am less comfortable that management guidance for 2Q will exceed Street expectations, although hopefully the share price will respond favorably if guidance at least gets in the ballpark. As you can see in the tables below, my 2Q numbers are below the low-end of the range of published estimates (as well as for this year and next, although both of those factors hinge on expected growth over the next two quarters). Last year SIMG grew 2Q and 3Q sequentially by +15/+16% each as a proxy for seasonality (while 4Q and 1Q declined). This year my model reflects +12/+13% with the haircut due to macroeconomic uncertainty, while published Street estimates approximate +20% (as those analysts attempt to satisfy longer-term management guidance calling for annual growth of +15+20%, in my opinion, which I think might be on the aggressive side this year).

So, why do I think 2Q guidance only needs to get close instead of exceed expectations for the shares to rally? I think the shares have significant upside potential based on valuation fundamentals and my numbers are *below* the low-end, which probably indicates that investors are skeptical of those (aggressive) published estimates. Let's face it: if investors actually believed those forecasts, then it's unlikely the shares would trade at these lower levels (in my opinion). However, if guidance at least approximates those numbers then it will give those estimates credibility and trigger potential share price upside—even if the estimates need to come down a bit (again, in my opinion).

I am very comfortable with my Buy recommendation and 12-month target price of $8 based on two-times expected 2014 sales, which appears to be fairly conservative relative to published estimates at this time.

Revenue (5 est)	1Q13	2Q13	2013	2014
Tokeneke	*$60.0*	*$67.2*	*$279.2*	*$319.7*
Consensus	$60.2	$71.1	$291.5	$332.3
Highest Estimate	$60.8	$74.9	$300.0	$340.0
Lowest Estimate	$60.0	$68.1	$280.1	$324.5

pro forma EPS	1Q13	2Q13	2013	2014
Tokeneke	*$0.01*	*$0.04*	*$0.24*	*$0.43*
Consensus	$0.01	$0.07	$0.31	$0.49
Highest Estimate	$0.01	$0.09	$0.36	$0.50
Lowest Estimate	$0.00	$0.05	$0.28	$0.47

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