

SWKS Upside, INTC Preview

Skyworks (SWKS, \$45.32 -1.69, Rated Hold/Not Compelling in my latest Chip Investment Ideas)

F4Q Upside: SWKS preannounced expected September-ended F4Q upside before the markets opened today due to broad based strength at this wireless, microcontroller and analog chip supplier. Expected quarterly revenue of \$718M will be up by +22.3% sequentially compared to original guidance calling for \$680M or +15.8%, with non-GAAP EPS of \$1.08 rather than \$1.00. Results are scheduled to be released after the close on November 6.

Very good news from this fabless supplier that diversified into analog/mixed-signal products and embraced the Internet of Things from its core wireless RF offerings some time ago. Business is great, but share price valuation at over 4-times sales tempers my enthusiasm on the stock which is down by -22% on the month—although still up by +59% on the year.

Intel (INTC, \$31.47 -0.44, Hold, Target Price \$28.50, 2014: \$2.13 on \$55.4B, 2015: \$2.21 on \$57.5B)

3Q Preview: INTC is scheduled to announce 3Q earnings today, after the close. I expect the company to meet or slightly exceed expectations and to provide guidance that will likely result in a fine-tuning to existing expectations—albeit with a slight bias to the downside.

I am concerned that PC market weakness will continue to constrain growth given that it accounts for over 60% of sales, but am encouraged by the restraint reflected in consensus revenue expectations that is very close to the mid-point of guidance at just over +4% sequential growth. If there happens to be any revenue upside I fear that it would then adversely affect 4Q guidance. On the other hand, I am more confident in the company’s ability to preserve and extend EPS via factors it can control that include gross margin, operating expenses, interest and other income, taxes, and share count. Hence, I am less concerned that consensus EPS is more optimistic than my own.

In the meantime I remain ambivalent about the shares at current price levels where it trades somewhat above the average fundamental valuation metrics of its peers. My recommendation remains Hold/Not Compelling.

<i>Diluted EPS, GAAP</i>	3Q14	2014	2015
<i>Tokeneke</i>	\$0.63	\$2.13	\$2.21
<i>Consensus</i>	\$0.65	\$2.19	\$2.31
<i>Highest Estimate</i>	\$0.68	\$2.28	\$2.87
<i>Lowest Estimate</i>	\$0.62	\$2.11	\$1.57

<i>Revenue, 39 estimates</i>	3Q14	2014	2015
<i>Tokeneke</i>	\$14,400	\$55,395	\$57,545
<i>Consensus</i>	\$14,450	\$55,510	\$56,950
<i>Highest Estimate</i>	\$14,660	\$56,360	\$60,040
<i>Lowest Estimate</i>	\$14,380	\$55,080	\$49,440

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