

BRCM Earnings, HIMX Drama

BRCM		<i>Broadcom</i>	
Qtr:	3Q	Grade:	<i>D</i>
Rev:	2,260	Rev:	+++
GM:	54.3%	EPS:	++
EPS:	\$0.91	Fcst:	-
		Growth(qtr-qtr)	
		Rev:	+10.7%
		Fcst:	-12-5%
		Div:	\$0.12

Broadcom (*BRCM, \$37.33 +1.03, Rated Hold/Not Compelling in my latest Chip Investment Ideas*)

3Q Strong, Outlook Weak: BRCM announced very strong 3Q earnings well ahead of expectations after the close yesterday, although 4Q guidance for a ‘normal seasonal decline’ fell short. 3Q revenue upside was due to stronger than expected growth from broadband/connectivity products to settop boxes, smartphones and tablets, as well as discontinued cellular baseband offerings to a lesser degree—which, unfortunately, resulted in gross margin pressure of approximately 170 basis points that limited what would have been even better EPS.

Broadband/connectivity products grew by a better-than-expected +16.1% sequentially and accounted for 67% of revenue on strength from: settop box markets due to share gains in emerging markets, especially in Latin America; broadband access; and WiFi 802.11ac connectivity into smartphones and tablets. Infrastructure/networking products were flat, as expected, as weakness from data centers and service providers was very nearly offset by strength from the enterprise and home. Soon-to-be-shuttered cellular baseband business at only 4% of sales grew by +15.5% and was nearly double what had been expected. The bad news was the headwind this upside provided to gross margin, but the good news is that operating expense reductions for this sunset business ran ahead of plan and will be virtually complete by the end of this year. 4Q guidance assumes both broadband/connectivity and infrastructure/networking decline seasonally, while cellular baseband gets halved—but this time will put a tailwind on gross margin and cut operating expenses by -\$40M to -\$60M. Analyst Day scheduled for December 9.

I am ambivalent on BRCM at 2.9x sales, although my interest is piqued at 11.5x next year’s EPS given improving margins; market leadership in settop boxes and WiFi on smartphones; the pending closure of its cellular baseband business; and opportunities for growth from next-generation HEVC video, small cells, and its Internet of Things development platform. Frankly, I am awaiting share price weakness to provide an attractive entry point.

Himax (*HIMX, \$8.02 -0.69, Rated Long—But Upside Incremental in my latest Chip Investment Ideas*)

Google Doesn’t Raise: Late-yesterday HIMX announced that Google will not make an additional investment in HIMX’s LCOS display technology subsidiary, although remains on the board and will continue to work with HIMX as a strategic partner on this ‘technology of choice’ for Google Glass. Obviously, bad news for HIMX, although I remain positive on the shares with a target price around \$10: GOOG is still a partner; HIMX has many other potential LCOS customers; and I always considered this business to be the source of more hype than volume for revenue or earnings. I would consider likely share price weakness today to be a buying opportunity.

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LEGEND		Grade	
+++	exceeded the high-end of the range	A	all +++
++	above consensus, within the high-end of the range	B	all +
+	slightly above consensus	C	all o/+
o	met consensus	D	mixed -/o/+
-	slightly below consensus	E	all o/-
--	missed consensus, within the low-end of the range	F	all -
---	missed the low-end of the range		

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