

SMTC F3Q, QCOM Analyst Day

SMTC		Semtech	
Qtr:	F3Q	Grade:	D
Rev:	148.9	Rev:	+++
GM:	60.3%	EPS:	++
EPS:	\$0.46	Fcst:	---
		Growth(qtr-qtr)	
		Rev:	+2.2%
		Fcst:	-14-11%
		Div:	

Semtech (SMTC, \$24.28 -0.56, Rated Hold/Not Compelling in my latest Chip Investment Ideas)

Disappointing F3Q: SMTC announced mixed October-ended F3Q results where earnings exceeded expectations as revenue fell short, at least after adjusting for a \$4.1M benefit. Strength from high-end consumer and industrial was offset by weakness from communications and enterprise computing, and bookings were weak. Nevertheless, management expects design wins to drive FY15 growth from: proximity sensors into a number of markets; wireless thanks to the LTE ramp in China and a Korean handset recovery; video surveillance and broadcast from UltraHD; and high-margin power management when it ultimately recovers.

Revenue grew by +2.2% sequentially, although would have declined by -0.6% and missed consensus excluding an un-forecasted gain of \$4.1M associated with resolution of a settlement with Nokia/MSFT related to 3D-touch sensor devices. Earnings were still strong, since this deal occurred at an inferior 29.3% gross margin. Asia accounted for 70% of revenue, North America 18% and Europe 10%, with distribution at 54% and the book-to-bill ratio under parity. Protection/power management/high-reliability products grew by +6% sequentially to 47% of sales; signal integrity products were down -6% to 38% as LTE in China slowed despite PON strength; wireless sensing and timing grew +15% to 15% of sales on pronounced consumer strength and despite a decline in timing. F4Q guidance is worse than typical seasonal weakness even after adjusting for the \$4.1M benefit last quarter as Korean handset maker's correct inventory and Chinese LTE weakness persists.

Share price weakness could create an opportunity for potential incremental upside given valuation fundamentals of 3x sales and 17x earnings on a trailing basis depending on expected growth next year, although it could be dead money if guidance for F1Q falls short at the next earnings call in three months, in my opinion. I like the arguments for growth, although would prefer the odds tilt more in my favor with a lower share price.

Qualcomm (QCOM, \$70.47 -1.54, Rated Hold/Not Compelling in my latest Chip Investment Ideas)

Analyst Day: Pretty much impossible NOT to be impressed by this smartphone juggernaut as it guided for +8+10% long-term revenue growth and greater earnings leverage as LTE ultimately displaces the installed base of 2G/3G handsets and expands into automotive, mobile computing, IoT and even networking. I very much agree with management's argument that worse-than-expected ASP erosion will likely be offset by unit growth upside, and I also think the China problems (NDRC monopoly investigation, underreporting, unlicensed suppliers, licensing disputes) are likely to be largely resolved in months or quarters rather than years. I think the Chinese government has motivation to resolve the issues given the growing importance LTE technology and its progress has to both its domestic and export markets, as well as IP in-general with respect to domestic suppliers (think Huawei). And while the shares will probably never get cheap enough for my frugality, yesterday's weakness resulting in 4.5x trailing sales and 13.4x earnings are probably as good an entry point as ever for this unusually long-term tech holding.

—Dan K. Scovel
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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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