

SWKS F1Q Exceeds, Huge Growth Opportunity

SWKS		Skyworks Solutions		
Qtr:	F1Q	Grade:	B	Growth(qtr-qtr)
Rev:	914.3	Rev:	+++	Rev: +9.4%
GM:	51.2%	EPS:	+++	Fcst: -8%
EPS:	\$1.61	Fcst:	++	Div: \$0.28

Skyworks Solutions (SWKS, \$78.46 -0.81, Rated Hold/Marginal Upside in my latest Chip Investment Ideas)

F1Q Exceeds: SWKS announced December-ended F1Q results late yesterday and authorized \$500M more in share repurchases. Revenue and earnings exceeded the high-end of the range of expectations primarily due to Mobile (smartphone) strength. SWKS has a number of vectors for solid double-digit growth as it enables enhanced mobility with its broad range of RF and mixed-signal capabilities to smartphones and IoT, including automotive.

Mobile was 60% of sales, Broad-Market (IoT, Auto) was 25%, and power amplifiers (PAs) were 15%. Apple was over 40%, China was 25% (including both handsets and infrastructure), Huawei is now the second largest customer, and Samsung was just under 10%. Gross margin goal is 53% and will come from higher volume, operating efficiencies, and the continued ramp of its wholly-owned Japanese TC-SAW filter factory.

Mobile: Seasonal softness this quarter is partially offset by a recovery and content growth at Samsung; inventory has been largely corrected at Apple; and new design wins in China are ramping. SkyOne platform design wins at multiple Tier 1 OEMs as they move up to higher levels of complexity. SkyBlue technology integrating low-, mid- and high-band solutions in Huawei's flagship Mate9 is ramping production and serves as an example in China for other value-tier players that are moving up in performance and complexity such as Oppo, Vivo, Meizu and Xiaomi as baseband partnerships with HiSilicon and MediaTek begin to pay off.

Mobile offerings such as streaming 4K video, social media, mobile payment, augmented reality, virtual assistance and the connected car require a variety of RF technologies included in customized system solutions that SWKS provides, including Wi-Fi, Bluetooth, ZigBee, GPS, LTE, power management, antenna tuning and signal conditioning. Future 5G data rates will approximate 10-times the speed of 4G and LTE, and will require carrier aggregation, higher modulation schemes and MIMO architectures. Time Division Duplex (TDD) requires a different technology mix than Frequency Division (FDD). SWKS either has organic capabilities in-house or via partners for numerous technologies, including GaAs, (temperature compensated) TC-SAW filtering, BAW filtering, GaN, SOI, packaging and testing. And all of this capability is leveraged into other, broad-based markets as well.

Broad-Markets: IoT and automotive will grow +10+12% this quarter and +10+15% annually. Current applications include home security, cable modems, broadband gateways, voice assistants, home Wi-Fi mesh networks, and multiple connected car sub-systems including vehicle to vehicle communication and 4G telematics. Each autonomous car in 2020 is expected to consume the same data per day of over 2,000 smartphones in 2017.

Marginal Upside: Great company with tons of cash and all the RF resources to fuel outstanding double-digit growth—despite over-exposure to Apple. However, at 4-times sales much of that has been captured in the current valuation, although 12-14-times earnings probably leaves at least some room for upside, in my opinion.

—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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