



Qualcomm (QCOM)

Updated November 8th, 2018 by Nate Parsh

Key Metrics

Current Price:	\$58	5 Year CAGR Estimate:	11.2%	Volatility Percentile:	82.7%
Fair Value Price:	\$67	5 Year Growth Estimate:	4.0%	Momentum Percentile:	22.8%
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.9%	Growth Percentile:	20.1%
Dividend Yield:	4.3%	5 Year Price Target	\$82	Valuation Percentile:	79.3%
Dividend Risk Score:	C	Retirement Suitability Score:	B	Total Return Percentile:	71.1%

Overview & Current Events

“Quality Communications” was started in the living room of Dr. Irwin Jacobs in 1985. The company’s first product and service was a satellite used by long-haul trucking companies that could locate and message drivers. Qualcomm, as it is known today, develops and sells integrated circuits for use in voice and data communications. The chip maker receives royalty payments for its patents used in devices that are on 3G and 4G networks. Qualcomm has a current market capitalization of \$85 billion and generated sales of more than \$22 billion in 2017.

Qualcomm released 4th quarter earnings for fiscal 2018 on November 7th. The company earned \$0.90 per share, beating estimates by \$0.07, but declining 2.2% from the prior year. Revenue decreased 2.2% to \$5.83 billion, but came in \$300 million above expectations. For fiscal 2018, Qualcomm had adjusted earnings-per-share of \$3.69, a nearly 14% decline year-over-year. Revenue for the year was \$22.7 billion, a 1.8% increase from fiscal 2017. The decline in both earnings and revenues is due to Qualcomm’s ongoing dispute with Apple (AAPL) regarding royalties.

Qualcomm said on the conference call that they expect the midpoint for revenue for the 1st quarter of fiscal 2019 to be \$4.9 billion, well below the average analysts’ estimate of \$5.6 billion. If achieved, this would represent a mid-double digit decline in revenues year-over-year. The cause of this decline is due to two factors: the licensing dispute with Apple and an expected 20% drop in chip shipments for smart phones in the upcoming quarter. Shares of Qualcomm suffered an 8.2% decline the day of the earnings release.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.90	\$2.46	\$3.20	\$3.71	\$4.51	\$5.27	\$4.66	\$4.44	\$4.28	\$3.69	\$4.30	\$5.23
DPS	\$0.66	\$0.72	\$0.81	\$0.93	\$1.20	\$1.54	\$1.80	\$2.02	\$2.20	\$2.43	\$2.48	\$3.02
Shares	1669	1612	1681	1706	1685	1669	1524	1476	1474	1470	1200	1150

Qualcomm’s earnings per share declined almost 16% during the last recession. The company has grown earnings per share at a rate of 6.6% per year over the last decade. The non-payment of royalties from Apple have had a significant impact on Qualcomm’s earnings recently though this issue could be resolved by agreement or lawsuit in the future. Qualcomm has stated that they are willing to reduce their licensing fee. There are also patent infringement lawsuits in China and Germany that could occur before the end of 2018. The average analysts’ estimate for fiscal 2019 is \$4.30. We target an earnings growth rate of 4% per year due to the dispute with Apple.

For almost two years, Qualcomm tried to acquire NXP Semiconductors (NXPI). After extending its cash tender offer for shares almost 30 times, Qualcomm finally agreed to terminate the acquisition. In place of purchasing NXP, Qualcomm announced it would repurchase \$30 billion of its shares (more than a third of the current market cap). The company repurchased more than \$21 billion worth of its own stock during the 4th quarter, retiring more than 250 million shares. Qualcomm has increased its dividend for 16 consecutive years. The average raise over the past 5 years is 18.3%.



Qualcomm (QCOM)

Updated November 8th, 2018 by Nate Parsh

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	21	16.5	16.4	15.9	14.2	14.3	14.5	12.1	13.7	17.7	13.5	15.6
Avg. Yld.	1.7%	1.8%	1.5%	1.6%	1.9%	2.0%	2.7%	3.8%	3.8%	3.9%	4.3%	3.7%

Shares of Qualcomm have decreased \$6, or 9.4%, since our August 1st update. Qualcomm's stock had an average P/E multiple of 15.6 from 2009 through 2018. Based off of current EPS expectations for fiscal 2019, the stock trades with a P/E of 13.5. If shares were to expand to meet the decade long average valuation, then an additional 2.9% would be added to annual returns through 2024.

Safety, Quality, Competitive Advantage, & Recession Resiliency

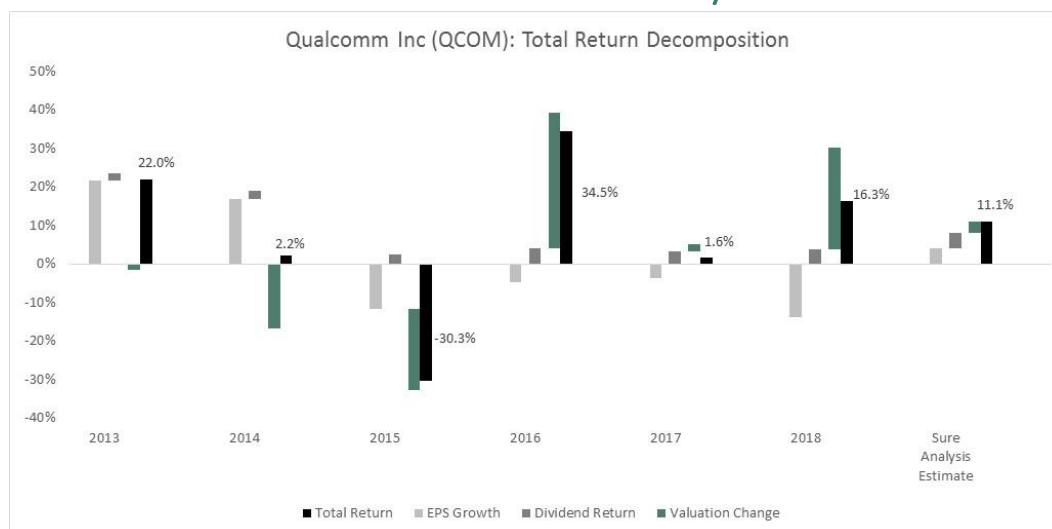
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	26.4%	25.1%	27.7%	28%	33.1%	32.5%	29.3%	26.4%	19.1%	20.8%	22%	26.8%
Debt/A	26%	31.8%	25.9%	22%	20.7%	19.4%	38.2%	39.3%	53%	48.5%	45.3%	30.3%
Int. Cov.	---	---	---	---	---	---	---	---	---	---	---	---
Payout	34.7%	29.3%	25.3%	25.1%	26.6%	29.2%	38.6%	45.5%	51.4%	67.3%	57.7%	57.7%
Std. Dev.	24.5%	34.3%	25.8%	23%	13.6%	12.4%	23.4%	23.5%	34.4%	32.7%	31.1%	24.8%

Qualcomm suffered a severe decline in earnings during the last recession. While handheld devices have become more of a necessity amongst consumers, the company would likely see a decline in EPS due to their high costs. Qualcomm's gross profits to asset ratio has declined steadily, but much of this is likely due to Apple's lack of royalty payments.

Final Thoughts & Recommendation

We now anticipate that shares of Qualcomm can return 11.2% annually through 2024, up from our previous estimated return of 3.3%. This return is a combination of growth (4%), dividends (4.3%) and multiple expansion (2.9%). Investors with a longer-term horizon and those looking for income should find Qualcomm's yield attractive. Value investors could be drawn to Qualcomm due to its low P/E relative to its historical valuation. We have a 2024 price target of \$82 for shares of Qualcomm, but Qualcomm is certainly not without risks. As a result, we rate it as a hold currently. Investors looking for a stock in this space with less short term uncertainty are encouraged to consider Intel (INTC).

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has a long position in the security discussed in this research report.



Qualcomm (QCOM)

Updated November 8th, 2018 by Nate Parsh

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	10416	10982	14957	19121	24866	26487	25281	23554	22291	22732
Gross Profit	7235	7681	10080	12025	15046	15801	14903	13805	12499	12488
Gross Margin	69.5%	69.9%	67.4%	62.9%	60.5%	59.7%	58.9%	58.6%	56.1%	54.9%
SG&A Exp.	1556	1503	1945	2270	2518	2290	2344	2385	2658	2986
D&A Exp.	635	666	1061	897	1017	1150	1214	1428	1461	1561
Operating Profit	3009	3727	5026	5682	7230	7550	5776	6495	2614	742
Op. Margin	28.9%	33.9%	33.6%	29.7%	29.1%	28.5%	22.8%	27.6%	11.7%	3.3%
Net Profit	1592	3247	4260	6109	6853	7967	5271	5705	2466	-4864
Net Margin	15.3%	29.6%	28.5%	31.9%	27.6%	30.1%	20.8%	24.2%	11.1%	-21.4%
Free Cash Flow	6411	2586	4307	4714	7730	7702	4512	7093	4311	3111
Income Tax	484	973	1132	1279	1349	1244	1219	1131	555	5377

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	27445	30572	36422	43012	45516	48574	50796	52359	65486	32686
Cash & Equivalents	2717	3547	5462	3807	6142	7907	7560	5946	35029	11777
Acc. Receivable	700	730	983	1450	2093	2379	1952	2214	3616	2868
Inventories	453	528	765	1030	1302	1458	1492	1556	2035	1693
Goodwill & Int.	4557	4510	6531	6855	6529	7068	9221	9179	10360	9453
Total Liabilities	7129	9714	9450	9467	9429	9408	19382	20591	34740	31758
Accounts Payable	636	1014	969	1298	1554	2183	1300	1858	1971	1825
Long-Term Debt	0	1086	994	0	0	0	10969	11757	21893	16370
Total Equity	20316	20858	26951	33523	36088	39169	31421	31778	30746	928
D/E Ratio	0.00	0.05	0.04	0.00	0.00	0.00	0.35	0.37	0.71	17.64

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	6.1%	11.2%	12.7%	15.4%	15.5%	16.9%	10.6%	11.1%	4.2%	-9.9%
Return on Equity	8.3%	15.8%	17.8%	20.2%	19.7%	21.2%	14.9%	18.1%	7.9%	-30.7%
ROIC	8.3%	15.4%	17.1%	19.9%	19.7%	21.2%	12.9%	13.3%	5.1%	-13.9%
Shares Out.	1669	1612	1681	1706	1685	1669	1524	1476	1474	1470
Revenue/Share	6.23	6.62	8.85	10.98	14.18	15.45	15.42	15.72	14.96	15.54
FCF/Share	3.83	1.56	2.55	2.71	4.41	4.49	2.75	4.74	2.89	2.13

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.