



Qualcomm (QCOM)

Updated February 4th, 2018 by Nate Parsh

Key Metrics

Current Price:	\$50	5 Year CAGR Estimate:	9.4%	Volatility Percentile:	83.4%
Fair Value Price:	\$51	5 Year Growth Estimate:	4.0%	Momentum Percentile:	16.1%
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.4%	Growth Percentile:	22.1%
Dividend Yield:	5.0%	5 Year Price Target	\$65	Valuation Percentile:	50.1%
Dividend Risk Score:	C	Retirement Suitability Score:	B	Total Return Percentile:	46.1%

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 \$60 billion and generated sales of more than \$22 billion in fiscal 2018.

Qualcomm released financial results for the first quarter of fiscal 2019 on January 30th. The company earned \$1.20 per share during the quarter, \$0.11 above estimates and 22% growth from the prior year. Revenue declined nearly 20% to \$4.8 billion. Revenue results missed the company’s forecast by \$100 million and consensus estimates by \$80 million.

Qualcomm’s ongoing dispute with Apple and its contract over royalties continues to weigh on results. Qualcomm has sued Apple in Germany in an effort to ban the sale of iPhones containing the company’s chips. While the country’s court rejected Qualcomm’s software patent lawsuit, it did approve of a ban in December on certain iPhones due to hardware patents. It is not expected that Apple will pay any royalties until the dispute is resolved. Qualcomm does have an interim agreement in place with Huawei for that company to pay partial revenues while the two sides work towards a full agreement. Huawei paid \$150 million in royalties during the quarter, adding \$0.11 to earnings-per-share results.

After failing to close on its acquisition of NXP Semiconductors (NXPI), Qualcomm authorized a share repurchase of up to \$30 billion. As of the end of 2018, the company had repurchased \$22.2 billion worth of its own stock. The remaining repurchase authorization represents more than 13% of the current market cap.

Qualcomm expects to earn \$0.70 per share in the second quarter of fiscal 2019, a 12.5% decrease from the previous year. We have lowered our earnings-per-share estimate for fiscal 2019 to \$3.80 due to results and guidance for the second quarter.

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	\$3.80	\$4.62
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. We target an earnings growth rate of 4% per year due to the royalty dispute with Apple.

Qualcomm has increased its dividend for 16 consecutive years. The average raise over the past five years is 18.3%.



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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	13.7	14
Avg. Yld.	1.7%	1.8%	1.5%	1.6%	1.9%	2.0%	2.7%	3.8%	3.8%	3.9%	5.0%	4.6%

Shares of Qualcomm have declined \$8, or 14%, since our November 8th update. Based off of current earnings forecast for the year, the stock trades with a price to earnings ratio of 13.7. Qualcomm's stock had an average price-to-earnings ratio of 15.6 from 2009 through 2018. Due to the ongoing dispute with Apple and the reduction in earnings-per-share estimates for the current year, we have lowered our target price-to-earnings ratio to 14 from 15.6. If shares were to revert to our target valuation, investors would see an additional 0.4% added to annual returns through 2024.

Safety, Quality, Competitive Advantage, & Recession Resiliency

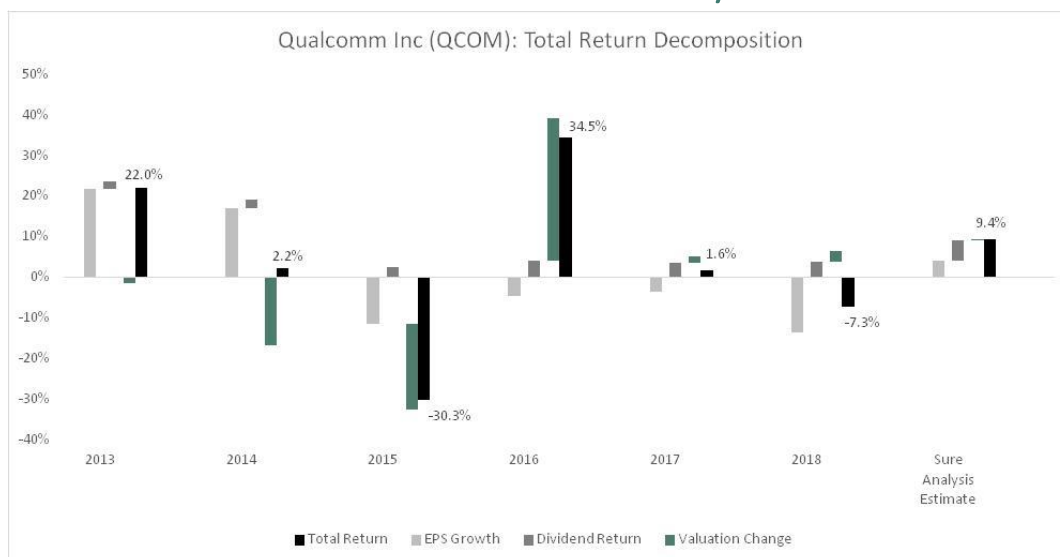
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	34.7%	29.3%	25.3%	25.1%	26.6%	29.2%	38.6%	45.5%	51.4%	67.3%	65.3%	65.4%

Qualcomm earnings declined during the last recession and would likely do so in the event of the next one. While handheld devices have become a necessity amongst consumers, the company would likely see a decline in earnings-per-share due to their high costs. The components that Qualcomm produces are considered to be the best available, so phone makers will likely continue using the company's products in future iterations of their devices. That being said, Qualcomm's dispute with Apple continues to weigh on results and will do so until the two companies can reach an agreement regarding royalty payments.

Final Thoughts & Recommendation

After first quarter results, we now estimate that Qualcomm can offer an annual return of 9.4% through 2024, down from our previous estimate of 11.2%. This return is a combination of growth (4%), dividends (5%) and multiple expansion (0.4%). The dispute with Apple remains a sizeable headwind for the company. Those looking for a company in this space with a higher expected growth rate and more visibility in its business forecast are encouraged to consider Intel (INTC). We have lowered our 2024 target price \$17 to \$65 due to lower than expected earnings-per-share and a lowered target price to earnings ratio. Qualcomm is a hold at current prices.

Total Return Breakdown by Year



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



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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.

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