



Qualcomm (QCOM)

Updated May 6th, 2019 by Nate Parsh

Key Metrics

Current Price:	\$88	5 Year CAGR Estimate:	1.8%	Volatility Percentile:	91.4%
Fair Value Price:	\$59	5 Year Growth Estimate:	6.6%	Momentum Percentile:	99.4%
% Fair Value:	149%	5 Year Valuation Multiple Estimate:	-7.6%	Growth Percentile:	65.5%
Dividend Yield:	2.8%	5 Year Price Target	\$107	Valuation Percentile:	7.8%
Dividend Risk Score:	C	Retirement Suitability Score:	C	Total Return Percentile:	10.6%

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 \$109 billion and generated sales of more than \$22 billion in fiscal 2018.

Qualcomm released financial results for the second quarter of fiscal 2019 on May 1st. The company earned \$0.77 per share, a \$0.06 beat of estimates, but a decline of 4% from the prior year. Revenue dropped 6.6% to \$4.9 billion, which was \$58 million above expectations.

After a more than two-year legal dispute between Qualcomm and Apple (AAPL), the two companies announced that they had agreed to dismiss all litigation worldwide. The companies also reached a six-year license agreement with options to add two additional years. The two companies also have a multiyear agreement for chipset supplies. Apple will also pay Qualcomm \$4.7 billion payment in the third quarter. Once product shipments ramp, Qualcomm expects to see an additional \$2 added to earnings-per-share. Also benefiting Qualcomm is that 5G commercial launches will start to take place around the globe. 3G/4G/5G device shipments are expected to grow 3% from 2018 to an estimated ~1.85 billion in 2019. After buying back nearly \$23 billion in shares in fiscal 2018, Qualcomm has already retired another \$1 billion in the current fiscal year. The company has \$7.8 billion remaining on its current stock repurchase authorization.

We expect Qualcomm to earn \$3.80 per share in fiscal 2019. The product ramp with Apple should be well underway by fiscal 2020 and we expect the company to earn \$5.30 per share during that year.

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	\$6.84
DPS	\$0.66	\$0.72	\$0.81	\$0.93	\$1.20	\$1.54	\$1.80	\$2.02	\$2.20	\$2.43	\$2.48	\$3.41
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. An agreement with Apple, a lower share count and leadership in 5G should allow the company to grow earnings-per-share by at least 6.6% through 2024. Applying the expected growth rate to our guidance for fiscal 2020 of \$5.30, Qualcomm could earn \$6.84 by fiscal 2024. Note that we see a material difference between Qualcomm in this fiscal year and next fiscal year thanks to the agreement with Apple.

Qualcomm has increased its dividend for 16 consecutive years. Qualcomm usually announces an increase coinciding with the June payment during the middle of April, but the company has not yet declared a dividend for this month. The average raise over the past five years is 18.3%.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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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	23.2	15.6
Avg. Yld.	1.7%	1.8%	1.5%	1.6%	1.9%	2.0%	2.7%	3.8%	3.8%	3.9%	2.8%	3.2%

Shares of Qualcomm have increased \$38, or 76%, since our February 4th update. Almost all of this gain is directly tied to the end of disputes with Apple. Based off of current earnings forecast for the year, the stock trades with a price to earnings ratio of 23.2. Qualcomm's stock had an average price-to-earnings ratio of 15.6 from 2009 through 2018. Due to resolution with Apple, we have increased our 2024 valuation target to 15.6 from 14 previously. If the stock were to revert to our new P/E target by 2024, valuation would be a 7.6% headwind to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

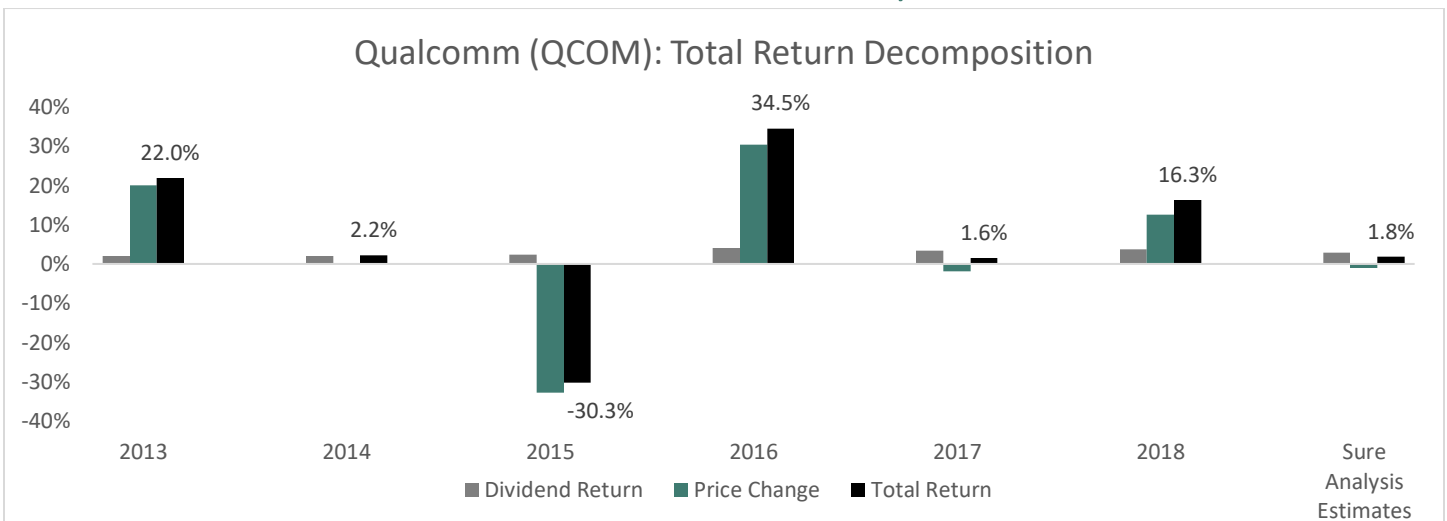
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	35%	29%	25%	25%	27%	29%	39%	46%	51%	67%	65%	50%

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. This is especially true once 5G launches occur.

Final Thoughts & Recommendation

After a 70%+ return since our last report, we now estimate that Qualcomm can offer a total annual return of just 1.8% through 2024, down from 9.4% previously. This return is a combination of growth (6.6%), dividends (2.8%) and multiple reversion (7.6%). The ending of litigation between Qualcomm and Apple has driven shares of Qualcomm to new highs. While we find the company much more attractive now that it has signed a licensing deal with Apple, we find Qualcomm's current valuation too rich at the moment. As such, Qualcomm receives a sell recommendation from Sure Dividend at this time. We have increased our 2024 target price \$42 to \$107 due to a combination of increases in expected earnings for fiscal 2020, a higher earnings growth rate through 2024 and a higher P/E multiple target.

Total Return Breakdown by Year



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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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