Skyworks Solutions (SWKS)

Updated May 23rd, 2019 by Jonathan Weber

Key Metrics

Current Price:	$69	**5 Year CAGR Estimate:**	17.3%	**Volatility Percentile:**	79.1%
Fair Value Price:	$93	**5 Year Growth Estimate:**	9.0%	**Momentum Percentile:**	11.2%
% Fair Value:	74%	**5 Year Valuation Multiple Estimate:**	6.1%	**Growth Percentile:**	86.7%
Dividend Yield:	2.2%	**5 Year Price Target**	$143	**Valuation Percentile:**	89.6%
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Total Return Percentile:**	92.6%

Overview & Current Events

Skyworks Solutions is a semiconductor company that designs, develops, manufactures, and markets proprietary semiconductor products around the globe. Its products include antenna tuners, amplifiers, converters, modulators, receivers, switches, etc. Skyworks' products are used in a diverse range of industries, including automotive, connected home, industrial, medical, smartphones, and defense. Skyworks Solutions was founded in 1962. The company is headquartered in Woburn, Massachusetts. Skyworks Solutions has a market capitalization of $11.8 billion.

Skyworks Solutions reported its second quarter earnings results on May 2. The company reported that it generated revenues of $810 million during its fiscal second quarter. This was 11.3% less than the revenues that Skyworks generated during the previous year's quarter, yet this still was more than what the analyst community had forecast, as Skyworks beat the analyst consensus slightly. Skyworks generated earnings-per-share of $1.47 during the second quarter, which beat the consensus estimate, but was down from $1.64 one year earlier.

During the second quarter earnings call, Skyworks provided guidance numbers for its third quarter. The company expects to generate revenues of $815 million to $835 million during Q3, which would represent a sequential increase. Skyworks also guides for earnings-per-share of $1.50 for its third quarter.

Skyworks spent $140 million on share repurchases during the second quarter, which equates to an annual share repurchase pace of ~5% of its outstanding stock at current prices.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.55	$0.75	$1.19	$1.05	$1.45	$2.38	$4.10	$5.18	$6.45	$7.22	***$6.65***	***$10.23***
DPS	----	----	----	----	----	$0.22	$0.65	$1.06	$1.16	$1.34	***$1.52***	***$2.80***
Shares	173	180	188	194	188	191	190	185	183	177	***170***	***155***

Skyworks Solutions' earnings-per-share rose very rapidly throughout the last decade, between 2009 and 2018 profits rose by a factor of 13, or by 33% annually. In recent years this growth has slowed down to a more sustainable growth rate. During the last financial crisis Skyworks' earnings-per-share declined by 24% between 2008 and 2009, but the company got back to pre-crisis profitability in 2010.

According to management's guidance and most analysts' estimates, 2019 will be a down year for Skyworks Solutions, which is something that has been visible across the whole semiconductor industry, and which is also not a large surprise after many years of rapid growth. The long-term outlook for Skyworks Solutions remains favorable, though, which is why 2019 will likely only be a dent in a growth track record that should remain in place over the long run.

Skyworks Solutions' solid long-term outlook rests on the fact that the company is a supplier to several industries that benefit from long-term growth tailwinds, such as aeronautics and defense. With automobiles becoming ever more interconnected, Skyworks' outlook in this market is positive as well. Last but not least, it is likely that Skyworks' exposure to the smartphone industry will have a positive impact on the company's future revenue performance as well, as smartphones become ever more important. With new technologies such as 5G approaching, there is significant demand for new products from both smartphone producers (to which Skyworks supplies), as well as from end users.

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.

Skyworks Solutions (SWKS)

Updated May 23rd, 2019 by Jonathan Weber

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	14.9	20.6	22.2	22.8	15.5	16.2	20.7	13.7	14.5	13.8	***10.4***	***14.0***
Avg. Yld.	----	----	----	----	----	0.6%	0.8%	1.5%	1.2%	1.3%	***2.2%***	***2.0%***

Skyworks Solutions' shares trade for slightly more than 10 times this year's net profits right now. During the last decade shares traded for more than 20 times net profits several times, which has been justified, in retrospect, due to the very strong earnings growth that Skyworks experienced in that time frame. The median earnings multiple over the last decade was a little below 16, but due to the lower forecasted earnings growth over the coming years and trade war worries, we believe that a somewhat lower multiple of 14 times net profits would represent a fair valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	----	----	----	----	----	9.2%	15.9%	20.5%	18.0%	18.6%	***22.9%***	***27.4%***

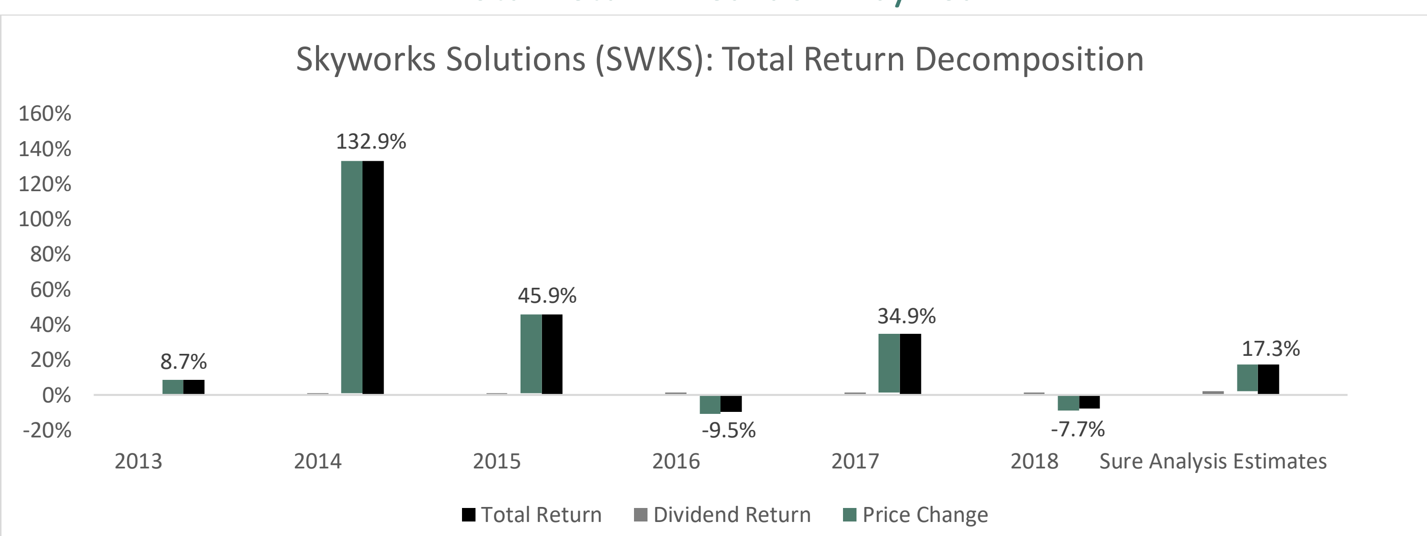
Skyworks only started to make dividend payments in 2014, so the company does not have a long dividend growth track record. During that time frame, Skyworks raised its dividend at an attractive rate. The most recent dividend raise was a 13% hike. The company's dividend payout ratio is still relatively low, as it pays out around one fifth of its profits in the form of dividends. This means that a lot of cash is available for other things, such as buybacks.

Skyworks Solutions is not the biggest semiconductor company by far, but it is one of the most important companies in its niche. It is a key supplier to the largest smartphone companies, including Apple. Due to the existing ties and relationships to Apple and others, it is unlikely that Skyworks will be replaced as a supplier by a competitor.

Final Thoughts & Recommendation

Skyworks Solutions is a specialized semiconductor company that has generated highly attractive growth rates during the last decade. Going forward the company's earnings growth will be less stellar, as it gets harder to maintain high growth rates with increasing size. It still is likely that investors will see sizeable total returns from their investment in Skyworks Solutions from the current level, as there is a lot of multiple expansion potential at the current valuation, while the dividend is at an above-average level as well. Overall, we rate Skyworks as a buy at current prices.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Skyworks Solutions (SWKS)

Updated May 23rd, 2019 by Jonathan Weber

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	803	1072	1419	1569	1792	2292	3258	3289	3651	3868
Gross Profit	318	457	620	667	767	1023	1555	1665	1842	1951
Gross Margin	39.6%	42.6%	43.7%	42.5%	42.8%	44.6%	47.7%	50.6%	50.4%	50.4%
SG&A Exp.	100	118	137	158	160	179	191	196	205	208
D&A Exp.	51	55	78	103	103	123	196	248	255	299
Operating Profit	88	199	298	263	352	566	1027	1124	1254	1320
Operating Margin	10.9%	18.5%	21.0%	16.8%	19.6%	24.7%	31.5%	34.2%	34.4%	34.1%
Net Profit	95	137	227	202	278	458	798	995	1010	918
Net Margin	11.8%	12.8%	16.0%	12.9%	15.5%	20.0%	24.5%	30.3%	27.7%	23.7%
Free Cash Flow	180	134	265	191	376	564	563	882	1141	830
Income Tax	-25	58	67	53	66	108	225	205	247	414

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	1353	1564	1890	2137	2333	2974	3719	3855	4574	4829
Cash & Equivalents	364	453	410	307	511	806	1044	1084	1617	733
Accounts Receivable		175	178	298	293	318	538	417	455	656
Inventories	86	125	198	233	230	271	268	424	494	490
Goodwill & Int. Ass.	501	498	750	895	865	926	902	940	951	1334
Total Liabilities	244	247	281	231	232	441	560	314	508	732
Accounts Payable	69	112	115	141	127	201	291	110	258	230
Long-Term Debt	123	75	26	0	0	0	0	0	0	0
Shareholder's Equity	1109	1317	1609	1906	2101	2532	3159	3541	4066	4097
D/E Ratio	0.11	0.06	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	7.3%	9.4%	13.1%	10.0%	12.4%	17.2%	23.9%	26.3%	24.0%	19.5%
Return on Equity	9.3%	11.3%	15.5%	11.5%	13.9%	19.8%	28.1%	29.7%	26.6%	22.5%
ROIC	8.0%	10.5%	15.0%	11.4%	13.9%	19.8%	28.1%	29.7%	26.6%	22.5%
Shares Out.	173	180	188	194	188	191	190	185	183	177
Revenue/Share	4.73	5.87	7.44	8.18	9.32	11.90	16.72	17.12	19.56	21.11
FCF/Share	1.06	0.73	1.39	1.00	1.96	2.93	2.89	4.59	6.11	4.53

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