Skyworks Solutions Inc (SWKS)

Updated August 26th, 2019 by Lyn Alden

Key Metrics

Current Price:	$74	**5 Year CAGR Estimate:**	13.7%	**Volatility Percentile:**	86.2%
Fair Value Price:	$84	**5 Year Growth Estimate:**	9.0%	**Momentum Percentile:**	21.7%
% Fair Value:	88%	**5 Year Valuation Multiple Estimate:**	2.6%	**Growth Percentile:**	88.1%
Dividend Yield:	2.2%	**5 Year Price Target**	$129	**Valuation Percentile:**	68.1%
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Total Return Percentile:**	75.0%

Overview & Current Events

Skyworks Solutions (SWKS) is a semiconductor company that designs, develops, and markets proprietary semiconductor products used around the world. 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. The company traces its roots back to a merger in 2002, is headquartered in Woburn, Massachusetts, employs over 8,400 people, and has a market capitalization of $12.6 billion.

On August 7th, 2019, Skyworks reported third quarter results for the period ended June 28th, 2019. The company reported $0.83 in diluted GAAP EPS, which was down from $1.57 from the same period last year. On a non-GAAP basis, the company reported $1.35 in diluted EPS for the quarter. Revenue was also down 14% from the same period last year. However, the company raised its quarterly dividend 16% from $0.38 to $0.44 and cited strong confidence and cash flows in the core business despite external volatility in the industry.

The company gave midpoint guidance of $1.50 in non-GAAP diluted EPS for the fourth quarter. Ongoing global uncertainty and a slowing growth rate of its primary customer, Apple, are contributing to headwinds for Skyworks at the current time.

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	***$6.00***	***$9.23***
DPS	---	---	---	---	---	$0.22	$0.65	$1.06	$1.16	$1.34	***$1.64***	***$2.52***
Shares[1]	173	180	188	194	188	191	190	185	183	177	***171***	***155***

Skyworks has enjoyed tremendous growth over the past decade thanks to the proliferation of smart phones that use its chips. The company increased its EPS by 27% per year over the past ten years, and approximately 20% over the past five years. The company initiated a small dividend in 2014 and has grown it quickly into a meaningful payout. However, analysts expect earnings to decline through 2019 and for sluggish growth over the next couple of years as the global semiconductor is in a severe downturn and the growth of smartphones has flatlined. From this low point in 2019, we anticipate 9.0% growth over the next 5 years, although that would represent only 4.2% annual growth over the 6-year period starting from its high point in 2018.

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	***12.3***	***14.0***
Avg. Yld.	---	---	---	---	---	0.6%	0.8%	1.5%	1.2%	1.3%	***2.3%***	***2.0%***

[1] Share count is in millions.

Disclosure: This analyst is long SWKS.

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Skyworks has averaged a 17.5 P/E ratio over the past ten years. Due to reduced growth expectations going forward, along with considerable uncertainty in the semiconductor industry, we consider a P/E ratio of approximately 14 to be fair, at least until the company can demonstrate a wider customer base and diversify away from its smart phone focus.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	---	9.2%	15.8%	20.5%	18.0%	18.6%	***27.3%***	***27.3%***

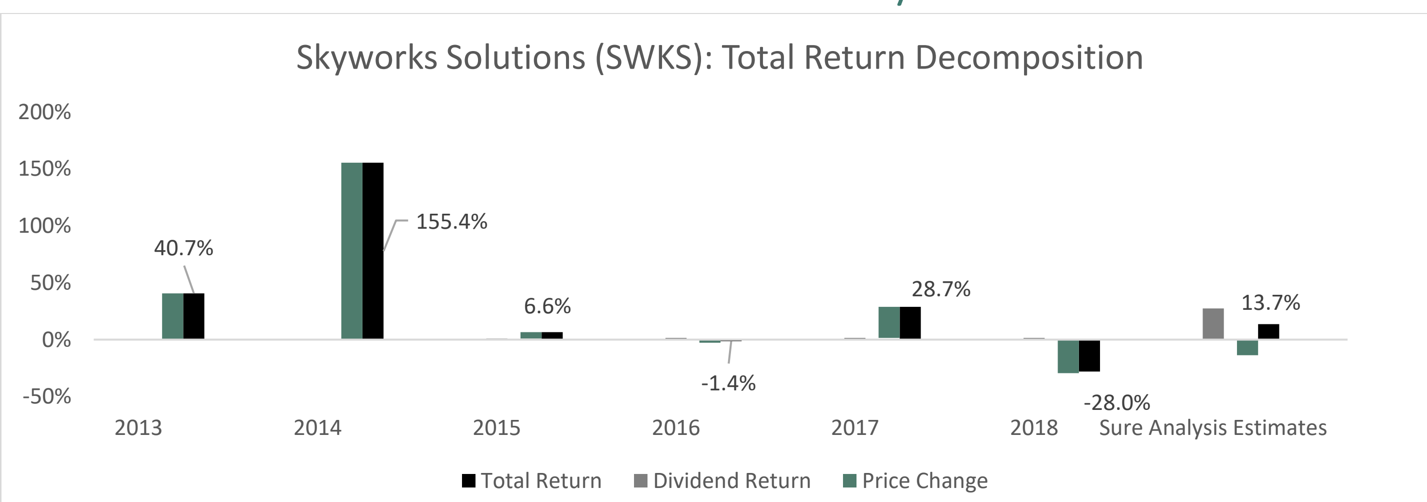
Skyworks' advanced products give it a slight economic moat in the niche of wireless technology, but the company is heavily reliant on the smart phone market, and particularly on Apple. Over the past three years, Skyworks has generated 39%-47% of its annual revenue from Apple. During the proliferation of iPhones and other smartphones over the past decade, this has been a tremendously profitable relationship for Skyworks, but as iPhones and other smartphones become saturated in the marketplace, Skyworks is increasingly looking to diversify into other markets. The company is expected to benefit from the shift to 5G cellphone technology with more revenue earned per phone, but is seeking to strengthen its foothold in automobile connectivity, smart homes, and other Internet of Things end markets to diversify its customer base outside of the phone market. Thus far, the company has generated very high levels of ROIC, often over 20% per year.

Skyworks has over $700 million in cash and zero debt. This gives the company tremendous flexibility and resiliency to offset some of the risk of its concentrated customer base and to move forward with its growth plans. The dividend is new but very well covered by earnings, and we consider it to be relatively safe. The company remained profitable during the previous recession.

Final Thoughts & Recommendation

Skyworks is a specialized semiconductor company that has generated highly attractive growth rates and returns on capital during the past decade. Going forward, the company's earnings growth will likely be less stellar because its key growth driver in recent years, the smart phone market, has matured. The key opportunity and challenge for Skyworks will be to diversify into other industries and to broaden its customer base while maintaining a strong presence in the phone market going forward. We expect substantial 13.7% forward returns, albeit with a wide degree of variance, and consider the stock to be a buy.

Total Return Breakdown by Year



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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.