



Qualcomm Inc (QCOM)

Updated February 6th, 2020 by Nate Parsh

Key Metrics

Current Price:	\$91	5 Year CAGR Estimate:	2.9%	Market Cap:	\$103.5 billion
Fair Value Price:	\$65	5 Year Growth Estimate:	6.6%	Ex-Dividend Date:	3/4/2020
% Fair Value:	139%	5 Year Valuation Multiple Estimate:	-6.4%	Dividend Payment Date:	3/26/2020
Dividend Yield:	2.7%	5 Year Price Target	\$90	Years Of Dividend Growth:	17
Dividend Risk Score:	C	Retirement Suitability Score:	D	Last Dividend Increase:	8.8%

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 \$103 billion and should generate sales of more than \$22 billion this year.

On 5/22/2019, a U.S. District Judge ruled that Qualcomm’s business practices had violated antitrust law. The decision would force the company to renegotiate its licensing agreements with customers. This ruling would also prevent the company from signing exclusive supply agreements with smartphone makers. Qualcomm has appealed the decision.

On 4/16/2019, Qualcomm and Apple (AAPL) agreed to settle all disputes, dismissing all litigation between the two companies. Qualcomm recognized \$4.7 billion in licensing revenue in the third quarter of fiscal 2019 related to its settlement with Apple. The two companies have a six-year license agreement with options to add two additional years.

Qualcomm reported earnings results for the first quarter of fiscal 2020 on 2/6/2020. The company’s adjusted earnings-per-share was \$0.99, coming in \$0.14 ahead of estimates. This was a 17.5% decline from the previous year. Revenue increased 5.4% to \$5.1 billion, which was \$250 million above expectations.

Revenues for Qualcomm CDMA Technologies, or QCT, was down 3% to \$3.6 billion from the previous year and flat from Q4 fiscal 2019. Chip shipments were down 34% year-over-year. Chip shipments dropped 17% year-over-year. Qualcomm Technology Licensing, or QTL, revenues for the quarter were higher by 38% to \$1.4 billion. Qualcomm retired 9.2 million shares at an average price of ~\$83 during the quarter. Qualcomm should benefit from continued 5G rollout as consumers upgrade their smartphones. The company signed several agreements during the past fiscal year that should allow it to take a leadership position with 5G. Shares ended the trading session up more than 2% after the earnings release. Consensus estimates for fiscal 2020 have been raised to \$4.19 from \$4.13, which would be a 17% increase from fiscal 2019.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$2.46	\$3.20	\$3.71	\$4.51	\$5.27	\$4.66	\$4.44	\$4.28	\$3.69	\$3.59	\$4.19	\$5.77
DPS	\$0.72	\$0.81	\$0.93	\$1.20	\$1.54	\$1.80	\$2.02	\$2.20	\$2.43	\$2.48	\$2.48	\$3.41
Shares¹	1612	1681	1706	1685	1669	1524	1476	1474	1470	1470	1160	1100

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 2025. Applying the expected growth rate to our guidance for fiscal 2020 of \$4.19, Qualcomm could earn \$5.77 by fiscal 2025.

¹ In millions of shares

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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Qualcomm has increased its dividend for 17 consecutive years. Qualcomm usually announces an increase in the middle of April, but the dividend payment will remain the same at least through September. The average dividend raise over the past five years is 6.6%.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	16.5	16.4	15.9	14.2	14.3	14.5	12.1	13.7	17.7	21.2	21.7	15.6
Avg. Yld.	1.8%	1.5%	1.6%	1.9%	2.0%	2.7%	3.8%	3.8%	3.9%	3.3%	2.7%	3.8%

Shares of Qualcomm have increased \$1, or 1.1%, since our 11/7/2019 report. Based off of the earnings forecast for fiscal 2020, the stock trades with a price-to-earnings ratio of 21.7. 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 2025 valuation target to 15.6 from 14 previously. If the stock were to revert to our new P/E target by 2025, valuation would be a 6.6% headwind to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

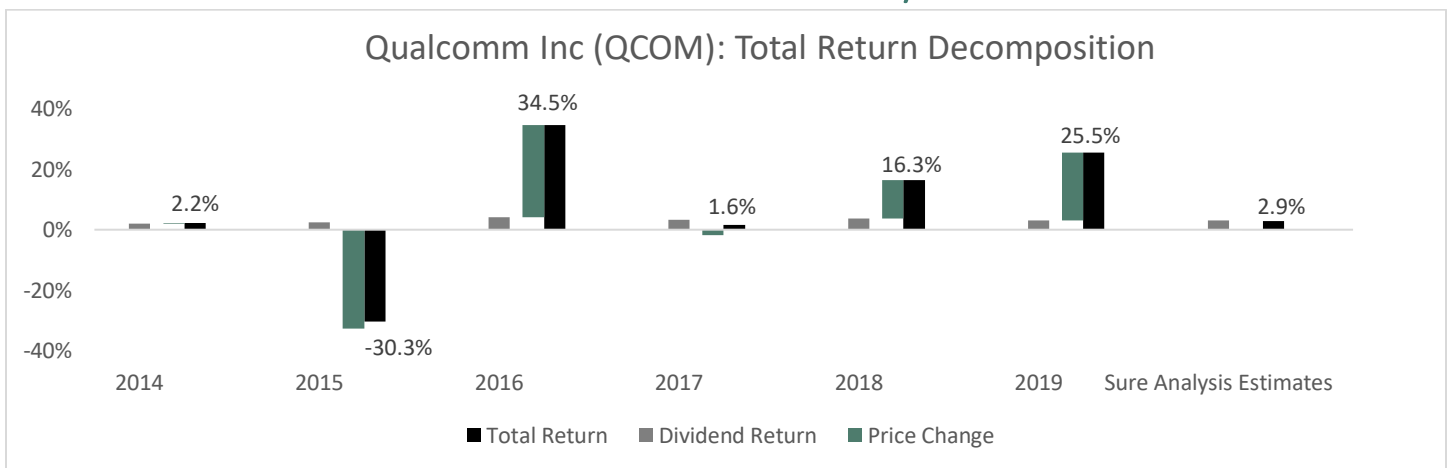
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	29%	25%	25%	27%	29%	39%	46%	51%	67%	69%	59%	59%

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 as 5G launches occur.

Final Thoughts & Recommendation

Following first quarter results, Qualcomm is expected to return 2.9% through 2025, matching our previous estimate. Shares of the company have returned more than 77% over the last year, which explains our low projected returns over the next five years. We have raised our 2025 price target \$1 to \$90 due to the increase in earnings estimates for the current year, but reiterate our sell rating on the stock. Investors interested in owning Qualcomm are encouraged to wait for a pullback before purchasing shares.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	10982	14957	19121	24866	26487	25281	23554	22258	22611	24273
Gross Profit	7681	10080	12025	15046	15801	14903	13805	12466	12367	15674
Gross Margin	69.9%	67.4%	62.9%	60.5%	59.7%	58.9%	58.6%	56.0%	54.7%	64.6%
SG&A Exp.	1503	1945	2270	2518	2290	2344	2385	2658	2986	2195
D&A Exp.	666	1061	897	1017	1150	1214	1428	1461	1561	1401
Operating Profit	3727	5026	5682	7230	7550	5776	6495	2581	621	7667
Op. Margin	33.9%	33.6%	29.7%	29.1%	28.5%	22.8%	27.6%	11.6%	2.7%	31.6%
Net Profit	3247	4260	6109	6853	7967	5271	5705	2445	-4964	4386
Net Margin	29.6%	28.5%	31.9%	27.6%	30.1%	20.8%	24.2%	11.0%	-22.0%	18.1%
Free Cash Flow	2586	4307	4714	7730	7702	4512	7093	4311	3124	6399
Income Tax	973	1132	1279	1349	1244	1219	1131	543	5356	3095

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	30572	36422	43012	45516	48574	50796	52359	65486	32718	32957
Cash & Equivalents	3547	5462	3807	6142	7907	7560	5946	35029	11777	11839
Acc. Receivable	730	951	1418	2066	2362	1941	2194	3576	2667	1046
Inventories	528	765	1030	1302	1458	1492	1556	2035	1693	1400
Goodwill & Int.	4510	6531	6855	6529	7068	9221	9179	10360	9453	8454
Total Liabilities	9714	9450	9467	9429	9408	19382	20591	34740	31911	28048
Accounts Payable	1014	969	1298	1554	2183	1300	1858	1971	1825	1368
Long-Term Debt	1086	994	0	0	0	10969	11757	21893	16370	15933
Total Equity	20858	26951	33523	36088	39169	31421	31778	30746	807	4909
D/E Ratio	0.05	0.04	0.00	0.00	0.00	0.35	0.37	0.71	20.29	3.25

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	11.2%	12.7%	15.4%	15.5%	16.9%	10.6%	11.1%	4.1%	-10.1%	13.4%
Return on Equity	15.8%	17.8%	20.2%	19.7%	21.2%	14.9%	18.1%	7.8%	-31.5%	153.5%
ROIC	15.4%	17.1%	19.9%	19.7%	21.2%	12.9%	13.3%	5.1%	-14.2%	23.1%
Shares Out.	1612	1681	1706	1685	1669	1524	1476	1474	1470	1470
Revenue/Share	6.62	8.85	10.98	14.18	15.45	15.42	15.72	14.94	15.46	19.90
FCF/Share	1.56	2.55	2.71	4.41	4.49	2.75	4.74	2.89	2.14	5.25

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

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