Skyworks Solutions Inc (SWKS)

Updated April 17th, 2020 by Samuel Smith

Key Metrics

Current Price:	$95	**5 Year CAGR Estimate:**	11.2%	**Market Cap:**	$15.8B
Fair Value Price:	$88	**5 Year Growth Estimate:**	11.2%	**Ex-Dividend Date:**	5/10/20[1]
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.5%	**Dividend Payment Date:**	6/3/20[2]
Dividend Yield:	1.9%	**5 Year Price Target**	$150	**Years of Dividend Growth:**	5
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	15.8%

Overview & Current Events

Skyworks Solutions 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 and switches. 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 $16 billion.

On January 23rd, 2020, Skyworks reported first quarter 2020 results. Earnings-per-share came in at $1.68, beating estimates by $0.02. Revenue came in at $896.1 million, beating estimates by $14.3 million. Adjusted gross margin was 50.1%, slightly above the 50% consensus estimate, while operating margin also beat 35% estimates with a 35.2% result. Cash flow from operations totaled $398 million.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$0.75	$1.19	$1.05	$1.45	$2.38	$4.10	$5.18	$6.45	$7.22	$6.15	***$5.87***	***$10.00***
DPS	---	---	---	---	$0.22	$0.65	$1.06	$1.16	$1.34	$1.64	***$1.76***	***$2.83***
Shares[3]	180	188	194	188	191	190	185	183	177	173	***170***	***165***

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 26.3% per year over the past nine years, and 22.0% over the past five years. The company initiated a small dividend in 2014 and has grown it quickly into a meaningful payout. This past year of 2019 saw a significant downturn for many semiconductor companies including Skyworks, but analysts on average expect 12.8% earnings growth over the next three years. Our base case is for ~11.0% growth over the next five years.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	20.6	22.2	22.8	15.5	16.2	20.7	13.7	14.5	13.8	13.4	***16.2***	***15.0***
Avg. Yld.	---	---	---	---	0.6%	0.8%	1.5%	1.2%	1.3%	2.0%	***1.9%***	***1.9%***

Skyworks has averaged a 17.3 P/E ratio over the past nine years. Due to reduced growth expectations going forward, along with considerable uncertainty in the semiconductor industry, we consider a P/E ratio of approximately 15 to be fair, at least until the company can demonstrate a wider customer base and diversify away from its smart phone focus.

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[1] Estimate

[2] Estimate

[3] Share count is in millions.

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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	9%	16%	20%	18%	19%	27%	***30%***	***28%***

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%-51% 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 returns on invested capital, often over 20% per year.

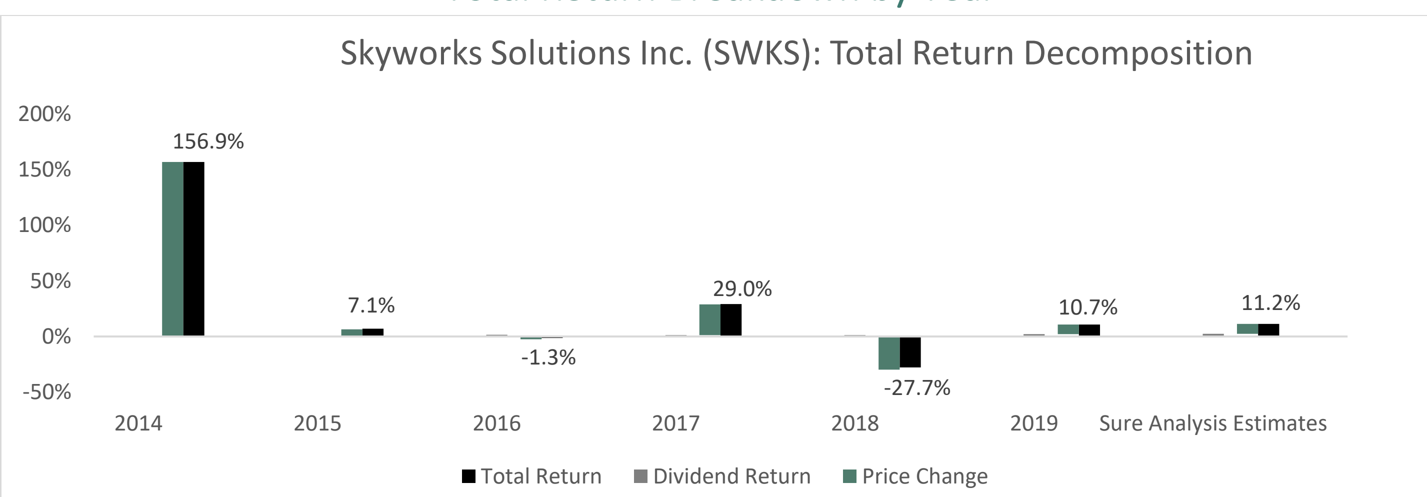
Recent reports of Broadcom potentially taking away some of its Apple business is both a blessing and a curse. On the one hand, it validates the market's concerns about the security of its cash flows. On the other, it should provide further incentive for management to hasten its transition towards other revenue sources.

Skyworks has over $1 billion in cash and cash-equivalents, 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 very 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 11.2% forward returns, albeit with a wide degree of variance, and rate the stock as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	1072	1419	1569	1792	2292	3258	3289	3651	3868	3377
Gross Profit	457	620	667	767	1023	1555	1665	1842	1951	1604
Gross Margin	42.6%	43.7%	42.5%	42.8%	44.6%	47.7%	50.6%	50.4%	50.4%	47.5%
SG&A Exp.	118	137	158	160	179	191	196	205	208	198
D&A Exp.	55	78	103	103	123	196	248	255	299	372
Operating Profit	199	298	263	352	566	1027	1124	1254	1320	959
Operating Margin	18.5%	21.0%	16.8%	19.6%	24.7%	31.5%	34.2%	34.4%	34.1%	28.4%
Net Profit	137	227	202	278	458	798	995	1010	918	854
Net Margin	12.8%	16.0%	12.9%	15.5%	20.0%	24.5%	30.3%	27.7%	23.7%	25.3%
Free Cash Flow	134	265	191	376	564	563	882	1141	830	944
Income Tax	58	67	53	66	108	225	205	247	414	107

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	1564	1890	2137	2333	2974	3719	3855	4574	4829	4840
Cash & Equivalents	453	410	307	511	806	1044	1084	1617	733	851
Accounts Receivable	175	178	298	293	318	538	417	455	656	465
Inventories	125	198	233	230	271	268	424	494	490	610
Goodwill & Int. Ass.	498	750	895	865	926	902	940	951	1334	1298
Total Liabilities	247	281	231	232	441	560	314	508	732	717
Accounts Payable	112	115	141	127	201	291	110	258	230	191
Long-Term Debt	75	26	0	0	0	0	0	0	0	0
Shareholder's Equity	1317	1609	1906	2101	2532	3159	3541	4066	4097	4122
D/E Ratio	0.06	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	9.4%	13.1%	10.0%	12.4%	17.2%	23.9%	26.3%	24.0%	19.5%	17.7%
Return on Equity	11.3%	15.5%	11.5%	13.9%	19.8%	28.1%	29.7%	26.6%	22.5%	20.8%
ROIC	10.5%	15.0%	11.4%	13.9%	19.8%	28.1%	29.7%	26.6%	22.5%	20.8%
Shares Out.	180	188	194	188	191	190	185	183	177	173
Revenue/Share	5.87	7.44	8.18	9.32	11.90	16.72	17.12	19.56	21.11	19.35
FCF/Share	0.73	1.39	1.00	1.96	2.93	2.89	4.59	6.11	4.53	5.41

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