



Qualcomm Inc (QCOM)

Updated July 30th, 2020 by Nate Parsh

Key Metrics

Current Price:	\$103	5 Year CAGR Estimate:	-0.5%	Market Cap:	\$104 billion
Fair Value Price:	\$60	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	9/2/2020
% Fair Value:	171%	5 Year Valuation Multiple Estimate:	-10.2%	Dividend Payment Date:	9/24/2020
Dividend Yield:	2.5%	5 Year Price Target	\$84	Years Of Dividend Growth:	18
Dividend Risk Score:	B	Retirement Suitability Score:	C	Last Dividend Increase:	4.8%

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 \$104 billion and should generate sales of more than \$21 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 and Huawei reached a settlement agreement in July. The two companies had been in dispute regarding royalty payments due to Qualcomm. Qualcomm should receive \$1.8 billion for past due royalties in the fourth quarter.

Qualcomm released earnings results for the third quarter of fiscal 2020 on 7/29/2020. Revenue of \$4.9 billion was essentially flat year-over-year, but topped estimates by \$86 million. Adjusted earnings-per-share improved \$0.06, or 7%, to \$0.86, \$0.15 higher than expected. Net income was unchanged from the previous year.

Revenues for Qualcomm CDMA Technologies, or QCT, were up 7% to \$3.8 billion, though chip shipments decreased 17% from Q3 FY 2019. This matched the same decline in chips Q2 FY 2020. Revenue for Qualcomm Technology Licensing, or QTL, declined 19% to \$1 billion. Shipments for 3G/4G/5G headsets were down 20% year-over-year due to the COVID-19 pandemic. The company stated on the conference call that 5G shipments represented just under two-thirds of total shipments in China during the quarter. Qualcomm has guided towards 5G shipments of 175 million to 225 million for the year. Consensus estimates continue to call for \$3.86 of EPS for the fiscal year. Qualcomm repurchased 1.6 million shares at an average price of at an average price \$69 during the third quarter.

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	\$3.86	\$5.41
DPS	\$0.72	\$0.81	\$0.93	\$1.20	\$1.54	\$1.80	\$2.02	\$2.20	\$2.43	\$2.48	\$2.60	\$3.65
Shares¹	1612	1681	1706	1685	1669	1524	1476	1474	1470	1470	1139	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 and Huawei, a lower share count and leadership in 5G should allow the company to grow in the coming years. We also believe that demand for 3G/4G/5G

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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headsets will increase following a recovery from the COVID-19 pandemic. We are raising our earnings-per-share growth rate through 2025 to 7% from 6.6%. Applying the expected growth rate to our guidance for fiscal 2020 of \$3.86, Qualcomm could earn \$5.41 by fiscal 2025.

After increasing its dividend 4.8% for the 6/25/2020 payment, Qualcomm has raised its dividend for 18 consecutive years.

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	26.7	15.6
Avg. Yld.	1.8%	1.5%	1.6%	1.9%	2.0%	2.7%	3.8%	3.8%	3.9%	3.3%	2.5%	4.3%

Shares of Qualcomm have increased \$24, or 30%, since our 4/30/2020 report. Based off of the earnings forecast for fiscal 2020, the stock trades with a price-to-earnings ratio of 26.7. Qualcomm's stock had an average price-to-earnings ratio of 15.6 from 2009 through 2018. Due to resolution with Apple and now Huawei, we reaffirm 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 10.2% headwind to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

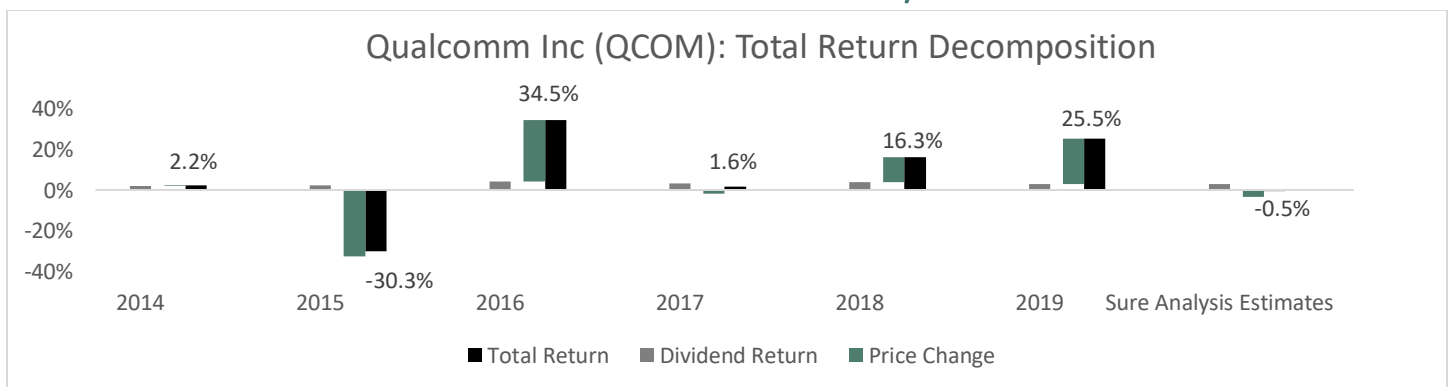
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	29%	25%	25%	27%	29%	39%	46%	51%	67%	69%	67%	67%

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 third quarter results, Qualcomm is expected to lose 0.5% annually through 2025, down from 4.9% previously. The company managed to maintain revenue and net income in a difficult operating environment. The agreement with Huawei removes an additional obstacle to results and 5G should also be a positive for Qualcomm. However, shares trade at 171% of our estimated fair value. We maintain our 2025 price target of \$84 and encourage investors to consider taking profits in Qualcomm the current level.

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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