

Skyworks Solutions Inc (SWKS)

Updated October 20th, 2020 by Felix Martinez

Key Metrics

Current Price:	\$153	5 Year CAGR Estimate:	0.0%	Market Cap:	\$25.9 B
Fair Value Price:	\$87	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	12/03/20 ¹
% Fair Value:	176%	5 Year Valuation Multiple Estimate:	-10.7%	Dividend Payment Date:	12/24/20 ²
Dividend Yield:	1.3%	5 Year Price Target	\$140	Years of Dividend Growth:	6
Dividend Risk Score:	B	Retirement Suitability Score:	D	Last Dividend Increase:	13.6%

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 diverse 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 \$25.9 billion.

On July 23, 2020, Skyworks reported third quarter Fiscal Year (FY)2020 earnings. The Company saw revenue down by (3.9)% compared to 3Q19, and for the first nine months of FY2020, revenues are down (5.9)%. Gross profit was down and net income for the quarter and the first nine months. For example, the Company made \$643 million in profit for the nine months in FY2019, but only made \$567.9 million in profit this year for the first nine months, or down (11.7%). However, the CEO of Skyworks mentioned that the company "delivered results well above expectations in the June quarter." Skyworks management team provided an outlook for the fourth quarter. They anticipate revenue to be between \$830 million and \$850 million with non-GAAP diluted earnings per share of \$1.51 at the midpoint. The Company also recently increased its dividend payment from \$0.44/share quarterly to now \$0.50/share quarterly. This represents a dividend increase of 13.6%. We increased our EPS estimate from the last report of \$5.59 a share to now \$5.79 a share.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.26	\$1.89	\$1.90	\$2.20	\$3.24	\$5.27	\$5.57	\$6.45	\$7.22	\$6.17	\$5.79	\$9.32
DPS	---	---	---	---	\$0.22	\$0.65	\$1.06	\$1.16	\$1.34	\$1.64	\$2.00	\$3.08
Shares ³	183.0	190.0	192.0	192.0	192.0	195.0	192.0	186.0	183.0	175.0	169.0	169.0

Skyworks has enjoyed tremendous growth over the past decade thanks to smartphones' proliferation that use its chips. The company increased its EPS by 19.3% per year over the past nine years and 1.2% over the past five years. This past year of 2019 saw a significant downturn for many semiconductor companies, including Skyworks, but analysts, on average, expect 10.5% earnings growth over the next three years. Our base case is for ~10.0% growth over the next five years.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	20.2	8.6	10.3	11.6	19.4	14.4	12.9	14.3	9.6	20.1	26.4	15.0
Avg. Yld.	---	---	---	---	0.4%	0.8%	1.4%	1.1%	1.5%	2.0%	1.3%	2.2%

¹ Estimate

² Estimate

³ Share count is in millions.

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Skyworks has averaged a 14.1 P/E ratio over the past nine years. Due to reduced growth expectations going forward and 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 broader customer base and diversify away from its smartphone focus. The company has also been increasing its dividend since 2014, where the three-year average dividend growth rate is 14.9%, and it has a meaningful payout ratio of 35% based on this year expected earnings of \$5.79 a share.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	6.8%	12.3%	19.0%	18.0%	18.6%	25.6%	35%	33%

Skyworks's advanced products give it a slight economic moat in the niche of wireless technology, but the company is heavily reliant on the smartphone market, 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. Still, 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. Still, it 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.

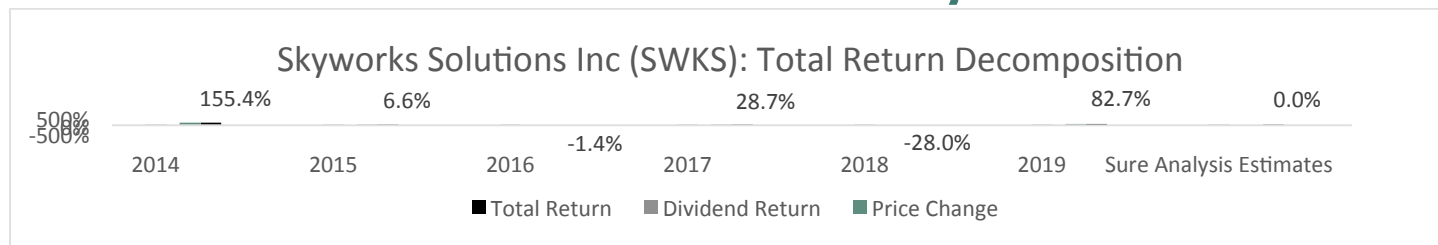
Recent reports of Broadcom potentially taking away some of its Apple business is both a blessing and a curse. On the one hand, it validates the market's concerns about the security of its cash flows. On the other, it should provide further incentive for management to hasten its transition towards other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

Skyworks has over \$1.2 billion in cash and cash equivalents and zero debt. This gives the company tremendous flexibility and resiliency to offset some of the risks 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 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 capital returns during the past decade. Going forward, the company's earnings growth will likely be less stellar because its crucial growth driver in recent years, the smartphone market, has matured. The key opportunity and challenge for Skyworks will be to diversify into other industries and broaden its customer base while maintaining a strong presence in the phone market. We expect 0.0% forward returns, and we are changing our HOLD recommendation from last report to now a Sell as the price has increased substantially and the stock price is now overvalued.

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.

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