



Qualcomm Inc (QCOM)

Updated February 6th, 2021 by Nate Parsh

Key Metrics

Current Price:	\$146	5 Year CAGR Estimate:	3.7%	Market Cap:	\$168 billion
Fair Value Price:	\$114	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	3/3/2021
% Fair Value:	128%	5 Year Valuation Multiple Estimate:	-4.9%	Dividend Payment Date:	3/25/2021
Dividend Yield:	1.8%	5 Year Price Target	\$160	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 \$168 billion and should generate sales of more than \$31 billion this year.

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 released earnings results for the first quarter of fiscal 2021 on 2/3/2021 (the company’s fiscal year ends September 30th). Revenue grew 62.2% to \$8.24 billion, but came in \$20 million short of expectations. Adjusted earnings-per-share grew 165% to \$2.17, \$0.07 above estimates. Net income surged 165% to \$2,455M.

Revenues for Qualcomm CDMA Technologies, or QCT, improved 81% to \$6,533M due in large part to growth in handsets and 5G, but the automotive and Internet of Things businesses also performed well. Qualcomm Technology Licensing, or QTL, had revenue growth of 18% to \$1,660M. Shipments for 3G/4G/5G handset shipments fell 12% due to the COVID-19 pandemic. The company expects handset growth in the high-single digits for the current fiscal year. Qualcomm repurchased 3 million shares at an average price of \$148 during the quarter. Analysts expect \$7.29 of earnings-per-share in fiscal 2021, up from \$7.05 previously. We have adjusted our estimates accordingly.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$3.20	\$3.71	\$4.51	\$5.27	\$4.66	\$4.44	\$4.28	\$3.69	\$3.59	\$4.19	\$7.29	\$10.22
DPS	\$0.81	\$0.93	\$1.20	\$1.54	\$1.80	\$2.02	\$2.20	\$2.43	\$2.48	\$2.60	\$2.60	\$3.65
Shares¹	1681	1706	1685	1669	1524	1476	1474	1470	1470	1130	1127	1000

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 headsets will increase following a recovery from the COVID-19 pandemic. We are raising our earnings-per-share growth rate through 2026 to 7% from 6.6%. Applying the expected growth rate to our guidance for fiscal 2021 of \$7.29, Qualcomm could earn \$10.22 by fiscal 2026.

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

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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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.4	15.9	14.2	14.3	14.5	12.1	13.7	17.7	21.2	28.1	20.0	15.6
Avg. Yld.	1.5%	1.6%	1.9%	2.0%	2.7%	3.8%	3.8%	3.9%	3.3%	2.2%	1.8%	2.3%

Even though the stock suffered a steep decline following the release of Q1 earnings, shares of Qualcomm have increased \$1, or 0.7%, since our 11/6/2020 report. Based off of the earnings forecast for fiscal 2021, the stock trades with a price-to-earnings ratio of 20.0. Qualcomm's stock had an average price-to-earnings ratio of 15.6 over the last decade. If the stock were to revert to our new P/E target by 2026, valuation would be a 4.9% headwind to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

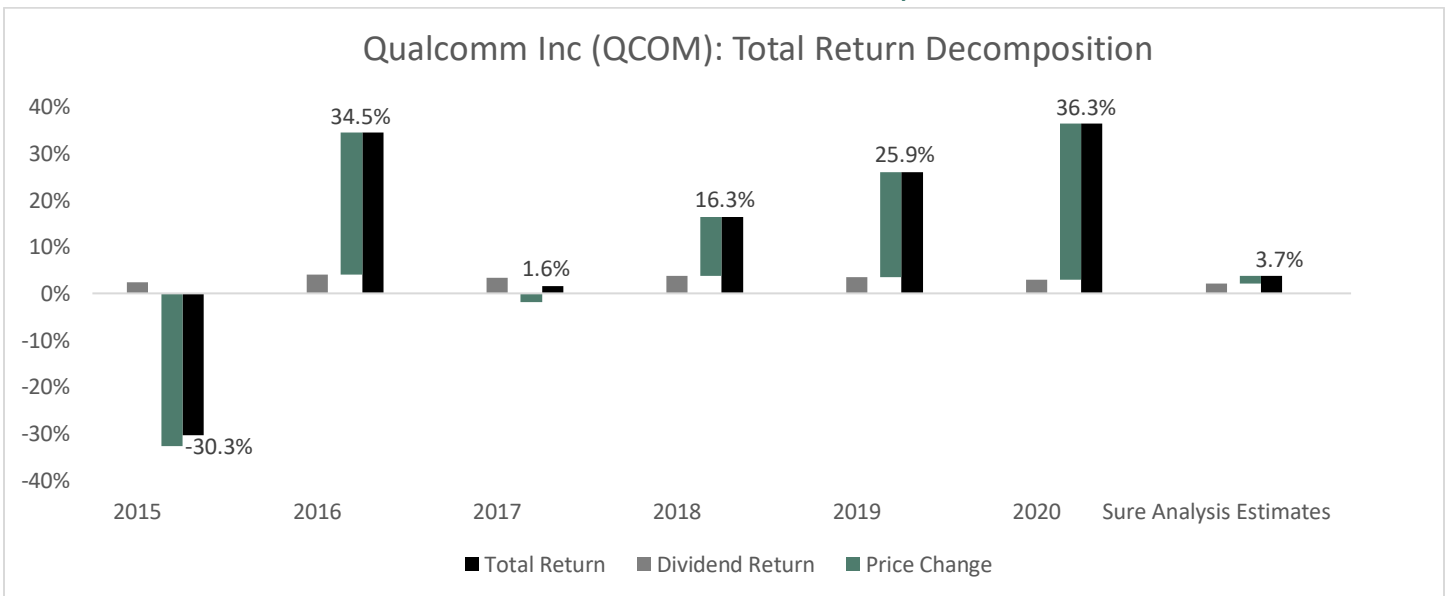
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	25%	25%	27%	29%	39%	46%	51%	67%	69%	62%	36%	36%

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 projected to return 3.7% annually through fiscal 2026, up from an expected loss of 3.3% previously. Qualcomm's most recent quarter was mixed, with revenue coming just under what had been expected and EPS topping estimates. The company experienced strength in its QTL business, but global handset shipments were weak. 5G rollout should be a benefit to the company, but we feel much of that is already priced into the stock. We have raised our five-year price target \$6 to \$160, but maintain our sell rating on Qualcomm.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	14957	19121	24866	26487	25281	23554	22258	22611	24273	23531
Gross Profit	10080	12025	15046	15801	14903	13805	12466	12367	15674	14276
Gross Margin	67.4%	62.9%	60.5%	59.7%	58.9%	58.6%	56.0%	54.7%	64.6%	60.7%
SG&A Exp.	1945	2270	2518	2290	2344	2385	2658	2986	2195	2074
D&A Exp.	1061	897	1017	1150	1214	1428	1461	1561	1401	1393
Operating Profit	5026	5682	7230	7550	5776	6495	2581	621	7667	6255
Op. Margin	33.6%	29.7%	29.1%	28.5%	22.8%	27.6%	11.6%	2.7%	31.6%	26.6%
Net Profit	4260	6109	6853	7967	5271	5705	2445	-4964	4386	5198
Net Margin	28.5%	31.9%	27.6%	30.1%	20.8%	24.2%	11.0%	-22.0%	18.1%	22.1%
Free Cash Flow	4307	4714	7730	7702	4512	7093	4311	3124	6399	4407
Income Tax	1132	1279	1349	1244	1219	1131	543	5356	3095	521

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	36422	43012	45516	48574	50796	52359	65486	32718	32957	35594
Cash & Equivalents	5462	3807	6142	7907	7560	5946	35029	11777	11839	6707
Acc. Receivable	951	1418	2066	2362	1941	2194	3576	2667	1046	2687
Inventories	765	1030	1302	1458	1492	1556	2035	1693	1400	2598
Goodwill & Int.	6531	6855	6529	7068	9221	9179	10360	9453	8454	7976
Total Liabilities	9450	9467	9429	9408	19382	20591	34740	31911	28048	29517
Accounts Payable	969	1298	1554	2183	1300	1858	1971	1825	1368	2248
Long-Term Debt	994	0	0	0	10969	11757	21893	16370	15933	15726
Total Equity	26951	33523	36088	39169	31421	31778	30746	807	4909	6077
D/E Ratio	0.04	0.00	0.00	0.00	0.35	0.37	0.71	20.29	3.25	2.59

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	12.7%	15.4%	15.5%	16.9%	10.6%	11.1%	4.1%	-10.1%	13.4%	15.2%
Return on Equity	17.8%	20.2%	19.7%	21.2%	14.9%	18.1%	7.8%	-31.5%	153.5%	94.6%
ROIC	17.1%	19.9%	19.7%	21.2%	12.9%	13.3%	5.1%	-14.2%	23.1%	24.4%
Shares Out.	1681	1706	1685	1669	1524	1476	1474	1470	1470	1130
Revenue/Share	8.85	10.98	14.18	15.45	15.42	15.72	14.94	15.46	19.90	20.48
FCF/Share	2.55	2.71	4.41	4.49	2.75	4.74	2.89	2.14	5.25	3.84

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

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