Broadcom Inc. (AVGO)

Updated September 14th, 2021 by Jonathan Weber

Key Metrics

Current Price:	$500	**5 Year CAGR Estimate:**	6.8%	**Market Cap:**	$205B
Fair Value Price:	$420	**5 Year Growth Estimate:**	7.5%	**Ex-Dividend Date:**	09/21/21[1]
% Fair Value:	119%	**5 Year Valuation Multiple Estimate:**	-3.4%	**Dividend Payment Date:**	09/30/21[2]
Dividend Yield:	2.9%	**5 Year Price Target**	$603	**Years Of Dividend Growth:**	10
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	10.8%

Overview & Current Events

Broadcom designs, develops and sells semiconductors under the following business units: Wired infrastructure, wireless communication, enterprise storage and industrial. Its offerings include data center chips, factory automation, energy systems and power generation, broadband access, and home connectivity. Broadcom is a fabless semiconductor company, which means that the products it designs are manufactured by other companies (so-called foundries). Broadcom domiciled to the US a couple of years ago and is now headquartered in San Jose, CA.

Broadcom reported its third quarter (fiscal 2021) earnings results on September 2. The company generated revenues of $6.8 billion during the quarter, which represents an increase of 17% compared to the prior year's quarter. The strong revenue growth performance was possible thanks to beating estimates in the semiconductor solutions unit, while its Infrastructure software business generated solid growth as well.

Broadcom reported earnings-per-share of $6.96 for the third quarter, which was ahead of the analyst consensus estimate. The company expects that revenues will come in at $7.35 billion during the fourth quarter of fiscal 2021, which is ahead of the analyst consensus and indicates that growth will remain strong throughout the current fiscal year, as the forecast implies a revenue growth rate of 16% over the fourth quarter of the previous fiscal year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.28	$2.77	$2.89	$4.90	$8.98	$11.45	$16.02	$20.82	$21.29	$22.16	***$28.00***	***$40.20***
DPS	$0.40	$0.61	$0.88	$1.23	$1.64	$2.52	$4.81	$7.00	$10.60	$13.00	***$14.40***	***$21.16***
Shares[3]	246	245	249	254	276	398	409	416	416	426	***425***	***420***

Broadcom's profitability has exploded over the last decade. Indeed, its earnings-per-share rose tenfold between 2011 and 2020. This earnings growth was driven by a significant amount of M&A, the most important one being the merger between Broadcom and Avago Technologies. Broadcom has since made several other major takeovers, including its acquisition of Brocade for $6 billion that closed in late 2017, and its takeover of CA that closed in late 2018.

These acquisitions naturally have impacted Broadcom's growth tremendously, so what we see in the above table is not purely the result of Broadcom's organic growth rate. By moving towards acquisitions in the software industry with its CA takeover, Broadcom has found a new way of generating inorganic growth.

Broadcom's biggest market is wireless communication, where the company owns a strong connectivity portfolio that includes advanced LTE, Bluetooth 5.x, Wi-Fi, GNSS (GPS, Galileo, etc.), and so on. Broadcom is also well positioned in the enterprise storage market, where it provides switching and other connectivity solutions and storage products such as SSD controllers. These markets will continue to grow, and even without any major acquisitions, Broadcom's revenues should continue to grow as well. The combination of acquisitions and organic growth should result in solid revenue growth and increasing tailwinds for profitability stemming from improving economics of scale.

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[1] Estimated date

[2] Estimated date

[3] In Millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.6	13.0	13.4	14.7	13.9	13.5	14.4	10.6	13.8	15.8	***17.9***	***15.0***
Avg. Yld.	1.3%	1.7%	2.3%	1.7%	1.3%	1.6%	2.1%	3.2%	3.6%	3.7%	***2.9%***	***3.5%***

Broadcom's shares have mostly moved sideways in recent months, while earnings-per-share estimates for 2021 continued to climb, which is why shares got slightly less expensive. Shares are still trading above our fair value estimate, based on this year's expected net profits. We believe that Broadcom's valuation will decline to some degree in the future. Broadcom's above-average dividend yield of 2.9% adds significantly to the company's total return potential.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	17.5%	22.0%	30.4%	25.1%	18.3%	22.0%	30.0%	33.6%	49.8%	58.7%	***51.4%***	***52.6%***

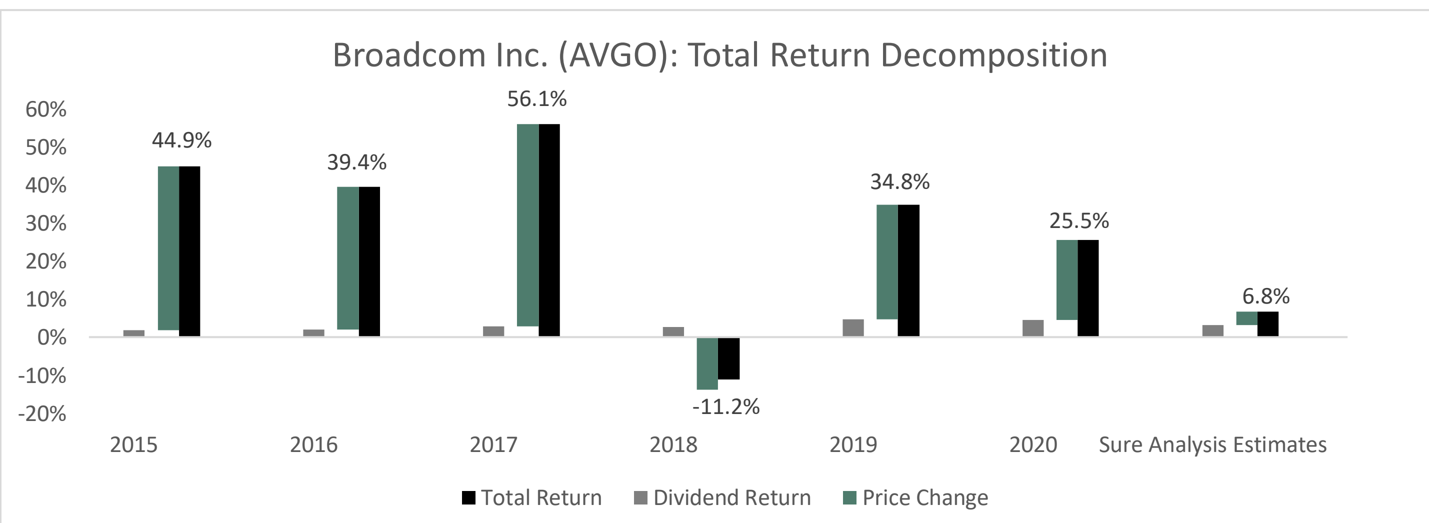
Broadcom's dividend payout ratio has risen considerably over the last couple of years, due to the large dividend increases that Broadcom has offered to its owners. Between 2010 and 2021, Broadcom increased its dividend by an incredible factor of more than 100. Broadcom's dividend still looks relatively safe, however, as it is well-covered by both profits as well as by the cash flows that the company generates.

Broadcom did not remain profitable during the last financial crisis, but the company was much smaller and less diversified back then. Due to low fixed costs, as Broadcom is operating a fabless business, and due to a lot of diversification across industries and across geographic markets, the company is better positioned to weather future crises -- including the current pandemic, during which the company has performed very well. Due to its strong IP portfolio with more than 22,000 patents, Broadcom is well positioned in the markets it targets.

Final Thoughts & Recommendation

Broadcom is one of the largest semiconductor companies in the world. The company's fabless model results in high cash flows and low capital expenditures, which is why Broadcom has ample free cash that is available for dividend payments and acquisitions. Industry tailwinds should allow for solid earnings growth going forward, while Broadcom is also weathering the current crisis very well. Due to a somewhat expensive valuation, we still only rate the stock a hold.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	2,336	2,364	2,520	4,269	6,824	13,240	17,636	20,848	22,597	23,888
Gross Profit	1,147	1,142	1,198	1,877	3,553	5,940	8,509	10,733	12,483	13,516
Gross Margin	49.1%	48.3%	47.5%	44.0%	52.1%	44.9%	48.2%	51.5%	55.2%	56.6%
SG&A Exp.	220	199	222	407	486	806	789	1,056	1,709	1,935
D&A Exp.	157	155	187	625	962	3,042	4,737	4,081	5,808	6,905
Operating Profit	588	587	554	578	1,769	587	2,654	5,368	4,180	4,212
Operating Margin	25.2%	24.8%	22.0%	13.5%	25.9%	4.4%	15.0%	25.7%	18.5%	17.6%
Net Profit	552	563	552	263	1,364	(1,739)	1,784	12,610	2,724	2,960
Net Margin	23.6%	23.8%	21.9%	6.2%	20.0%	-13.1%	10.1%	60.5%	12.1%	12.4%
Free Cash Flow	614	452	486	766	1,725	2,688	5,482	8,245	9,265	11,598
Income Tax	9	22	16	33	76	642	35	(8,084)	(510)	(518)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	2,446	2,862	3,415	10,491	10,515	49,966	54,418	50,124	67,493	75,933
Cash & Equivalents	829	1,084	985	1,604	1,822	3,097	11,204	4,292	5,055	7,618
Accounts Receivable	328	341	418	782	1,019	2,181	2,448	3,325	3,259	2,297
Inventories	194	194	285	519	524	1,400	1,447	1,124	874	1,003
Goodwill & Int. Ass.	676	602	883	5,213	4,951	39,800	35,538	37,675	54,268	60,229
Total Liabilities	440	443	529	7,248	5,801	28,090	31,232	23,467	42,523	52,032
Accounts Payable	221	248	278	515	617	1,261	1,105	811	855	836
Long-Term Debt	-	-	-	5,509	3,872	13,642	17,548	17,493	32,798	41,062
Shareholder's Equity	2,006	2,419	2,886	3,243	4,714	18,892	20,285	26,657	24,941	23,874
D/E Ratio	-	-	-	1.70	0.82	0.72	0.87	0.66	1.31	1.72

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	24.0%	21.2%	17.6%	3.8%	13.0%	-5.8%	3.4%	24.1%	4.6%	4.1%
Return on Equity	31.4%	25.4%	20.8%	8.6%	34.3%	-14.7%	9.1%	53.7%	10.6%	12.1%
ROIC	29.5%	25.4%	20.8%	4.5%	15.7%	-7.9%	4.7%	29.7%	5.3%	4.8%
Shares Out.	246	245	249	254	276	398	409	416	416	426
Revenue/Share	9.29	9.48	10.03	16.03	24.35	34.66	42.00	48.49	54.07	56.74
FCF/Share	2.44	1.81	1.93	2.88	6.15	7.04	13.05	19.18	22.17	27.55

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