Skyworks Solutions Inc (SWKS)

Updated September 4th, 2021 by Felix Martinez

Key Metrics

Current Price:	$183	**5 Year CAGR Estimate:**	7.8%	**Market Cap:**	$30.3 B
Fair Value Price:	$156	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	11/18/21[1]
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.1%	**Dividend Payment Date:**	12/10/21[2]
Dividend Yield:	1.2%	**5 Year Price Target**	$251	**Years of Dividend Growth:**	7
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	12%

Overview & Current Events

Skyworks Solutions is a semiconductor company that designs, develops, and markets proprietary semiconductor products used worldwide. 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 $30.3 billion.

On July 29, 2021, Skyworks reported third-quarter earnings for Fiscal Year (FY)2021. Revenue grew 52% for the third quarter to $1.116 billion compared to 3Q20, which exceeded consensus estimates. On a GAAP basis, operating income for the third fiscal quarter was $339.8 million, with diluted earnings per share of $2.02. On a non-GAAP basis, operating income was $403.4 million, with non-GAAP diluted earnings per share of $2.15. This is an increase of 72% on a per-share basis compared to the third quarter of FY2020. The management team was very excited about the second-quarter results as it set new records. The management team expects the Company to capture an outsized portion of the opportunities with its pending acquisition of the Infrastructure and Automotive business of Silicon Labs. Key business highlights for the quarter were a Launched connected home and security solutions at Honeywell; Shipped cognitive audio platforms to Samsung and Vizio for their home theater systems, and Captured design wins at Peloton supporting home fitness applications.

Skyworks management team provided an outlook for the fourth quarter for Fiscal Year 2021. They anticipate revenue between $1.270 billion and $1.330 billion, with non-GAAP diluted earnings per share of $2.53 at the midpoint. We estimate EPS for FY2021 to come in at $10.41, an increase of 1.0% from our last report's expected earnings of $10.31. The new expected earnings will be an increase of 69.8% compared to FY2020. Also, Skyworks' board of directors has declared a dividend of $0.56 per, representing a 12% increase from the prior quarterly dividend of $0.50 per share.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.89	$1.90	$2.20	$3.24	$5.27	$5.57	$6.45	$7.22	$6.17	$6.13	***$10.41***	***$16.77***
DPS	$0.00	$0.00	$0.00	$0.22	$0.65	$1.06	$1.16	$1.34	$1.58	$1.88	***$2.24***	***$3.45***
Shares[3]	190.0	192.0	192.0	192.0	195.0	192.0	186.0	183.0	175.0	175.0	***167.0***	***167.0***

Skyworks has enjoyed tremendous growth over the past decade thanks to smartphones' proliferation that use its chips. The Company increased its EPS by 14% per year over the past nine years and 13.1% over the past five years. This past year of 2020 saw a significant upturn for many semiconductor companies, including Skyworks, but analysts, on average, expect 15% earnings growth over the next three years. However, our base case is for ~10.0% growth over the next five

[1] Estimate
[2] Estimate
[3] Share count is in millions.

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years. The Company has been increasing its dividend since 2014, where the three-year average dividend growth rate is 16.1%, and it has a low payout ratio of 22% based on this year's expected earnings of $10.41 a share.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	8.6	10.3	11.6	19.4	14.4	12.9	14.3	9.6	19.6	23.5	***17.6***	***15.0***
Avg. Yld.	---	---	---	0.4%	0.8%	1.4%	1.1%	1.5%	2.0%	1.3%	***1.2%***	***1.4%***

Skyworks has averaged a 14.4 P/E ratio over the past nine years. 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. Thus, the stock is a little overvalued to our fair price. The current dividend yield is right in line with its five-year average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

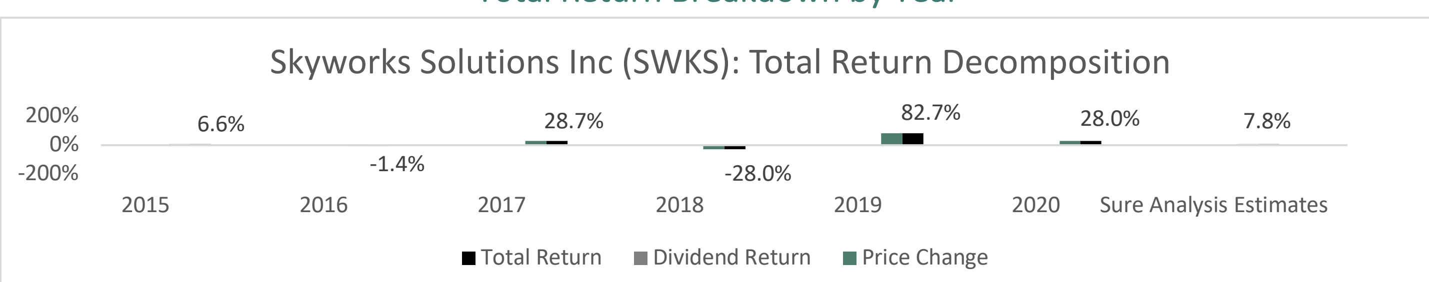
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	6.8%	12.3%	19.0%	18.0%	18.6%	25.6%	30.7%	***22%***	***21%***

Skyworks's advanced products give it a small 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. This has been a tremendously profitable Skyworks relationship during the proliferation of iPhones and other smartphones over the past decade. 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 5G cellphone technology shift with more revenue earned per phone. Still, it seeks 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. Skyworks has over $2,978.1 million in cash and cash equivalents and zero debt. This gives the Company tremendous flexibility and resiliency to offset some of its concentrated customer base risks and 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 desirable growth rates and capital returns during the past decade. In the future, the Company's earnings growth will likely be less stellar because its crucial growth driver in recent years, the smartphone market, has matured. Skyworks' key opportunity and challenge will be diversifying into other industries and broadening its customer base while maintaining a solid presence in the phone market. We expect 7.8% forward returns for the next five years. We give SWKS a Hold recommendation as the price has gone up from our last report.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1419	1569	1792	2292	3258	3289	3651	3868	3377	3356
Gross Profit	620	667	767	1023	1555	1665	1842	1951	1604	1613
Gross Margin	43.7%	42.5%	42.8%	44.6%	47.7%	50.6%	50.4%	50.4%	47.5%	48.1%
SG&A Exp.	137	158	160	179	191	196	205	208	198	231
D&A Exp.	78	103	103	123	196	248	255	299	372	364
Operating Profit	298	263	352	566	1027	1124	1254	1320	959	906
Operating Margin	21%	17%	20%	25%	32%	34.2%	34.4%	34.1%	28.4%	27.0%
Net Profit	227	202	278	458	798	995	1010	918	854	815
Net Margin	16.0%	12.9%	15.5%	20.0%	24.5%	30.3%	27.7%	23.7%	25.3%	24.3%
Free Cash Flow	265	191	376	564	563	882	1141	830	944	806
Income Tax	67	53	66	108	225	205	247	414	107	77

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1890	2137	2333	2974	3719	3855	4574	4829	4840	5107
Cash & Equivalents	410	307	511	806	1044	1084	1617	733	851	567
Accounts Receivable	178	298	293	318	538	417	455	656	465	394
Inventories	198	233	230	271	268	424	4934	490	610	806
Goodwill & Int. Ass.	750	895	865	926	902	940	951	1334	1298	1243
Total Liabilities	281	231	232	441	560	314	508	732	717	943
Accounts Payable	115	141	127	201	291	110	258	230	191	227
Shareholder's Equity	26	0	0	0	0	3541	4066	4097	4122	4164

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	13.1%	10.0%	12.4%	17.2%	23.9%	26.3%	24.0%	19.5%	17.7%	16.4%
Return on Equity	15.5%	11.5%	13.9%	19.8%	28.1%	29.7%	26.6%	22.5%	20.8%	19.7%
ROIC	15.0%	11.4%	13.9%	19.8%	28.1%	29.7%	26.6%	22.5%	20.8%	19.7%
Shares Out.	190.0	192.0	192.0	192.0	195.0	192.0	186.0	183.0	175.0	175.0
Revenue/Share	7.44	8.18	9.32	11.90	16.72	17.12	19.56	21.11	19.35	19.75
FCF/Share	1.39	1.00	1.96	2.93	2.89	4.59	6.11	4.53	5.41	4.74

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