



Qualcomm Inc (QCOM)

Updated November 5th, 2021 by Nate Parsh

Key Metrics

Current Price:	\$165	5 Year CAGR Estimate:	8.2%	Market Cap:	\$186 billion
Fair Value Price:	\$162	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	12/1/2021
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.3%	Dividend Payment Date:	12/16/2021
Dividend Yield:	1.6%	5 Year Price Target	\$228	Years Of Dividend Growth:	19
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	4.6%

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 \$170 billion and should generate sales of more than \$33 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 fourth quarter and fiscal year 2021 results on 11/03/2021 (the company’s fiscal year ends September 30th). For the quarter, revenue grew 43.7% to \$9.3 billion, beating estimates by \$500 million. Adjusted earnings-per-share of \$2.55 compared favorably to adjusted earnings-per-share of \$1.45 in the previous year and was \$0.29 better than expected. For the fiscal year, revenue increased 43% to \$33.6 billion while adjusted earnings-per-share of \$8.54 more than doubled from the prior year. This was also \$0.28 ahead of our estimates.

Revenues for Qualcomm CDMA Technologies, or QCT, increased 56%% to \$7.7 billion for the quarter due once again to gains in handsets, 5G, automotive and Internet of Things businesses. Qualcomm Technology Licensing, or QTL, improved 3% to \$1.6 billion. The company reaffirmed its expectations that handset shipments will grow at a high single-digit rate to a range of 500 million to 550 million for calendar year 2021, up from 450 million to 550 million previously. Qualcomm repurchased another five million shares during the quarter. Analysts expect \$10.14 of earnings-per-share in fiscal 2022. We have initiated our estimates accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.71	\$4.51	\$5.27	\$4.66	\$4.44	\$4.28	\$3.69	\$3.59	\$4.19	\$8.54	\$10.14	\$14.22
DPS	\$0.93	\$1.20	\$1.54	\$1.80	\$2.02	\$2.20	\$2.43	\$2.48	\$2.60	\$2.72	\$2.72	\$3.81
Shares¹	1706	1685	1669	1524	1476	1474	1470	1470	1130	1114	1114	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 2027 to 7% from 6.6%. Applying the expected growth rate to our guidance for fiscal 2022 of \$10.14, Qualcomm could earn \$14.22 by fiscal 2027.

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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After increasing its dividend 4.6% for the 3/25/2021 payment, marking the second dividend increase within the last year. Qualcomm has raised its dividend for 19 consecutive years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.9	14.2	14.3	14.5	12.1	13.7	16.6	18.6	21	15.1	16.3	16.0
Avg. Yld.	1.6%	1.9%	2.0%	2.7%	3.8%	3.8%	3.9%	3.8%	2.9%	2.1%	1.6%	1.7%

Shares of Qualcomm have increased \$15, or 9.9%, since our 7/30/2021 report. Based off of the earnings forecast for fiscal 2022, the stock trades with a price-to-earnings ratio of 16.3. Qualcomm's stock had an average price-to-earnings ratio of 15.2 over the last decade, but we feel that 16 times earnings is an appropriate valuation target given recent results and tailwinds from 5G. If the stock were to revert to our new P/E target by fiscal 2027, valuation would be a 0.3% headwind to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

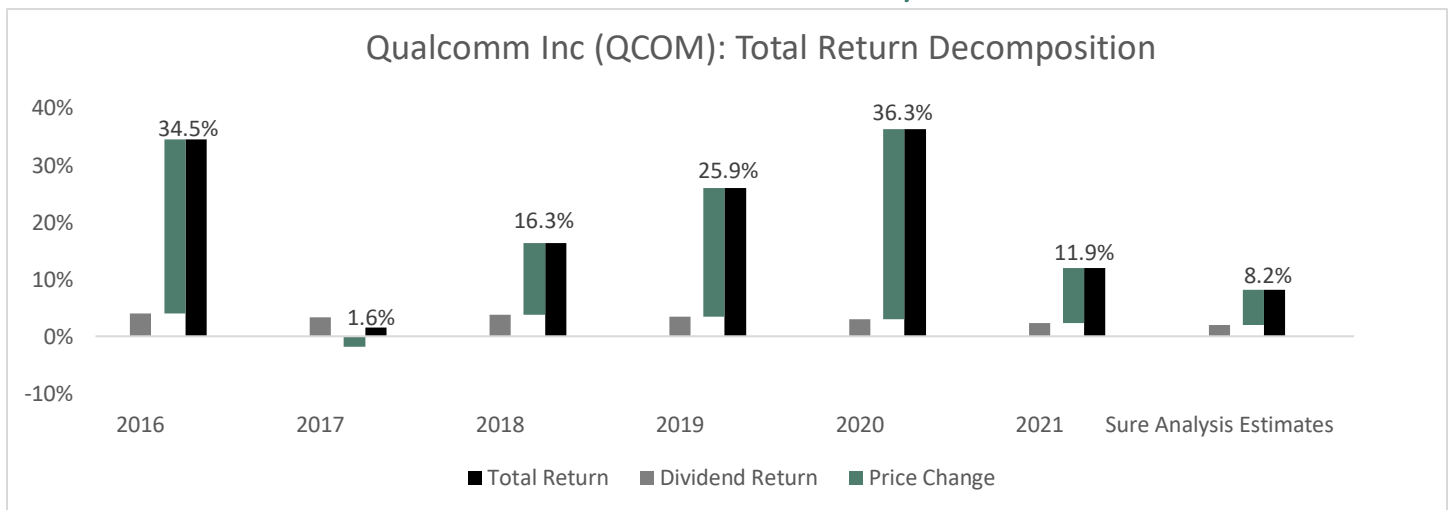
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	25%	27%	29%	39%	46%	51%	67%	69%	62%	32%	27%	27%

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

After fourth quarter results, Qualcomm is projected to return 8.2% annually through fiscal 2027, up from 5.6% previously. Our expected return stems from a 7% earnings growth rate and starting yield of 1.6% offset by a slight headwind from multiple contraction. Both segments within Qualcomm continue show growth and the company should experience significant tailwinds from the 5G rollout. We have increased our five-year price target \$46 to \$228 and rate shares of Qualcomm as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	19121	24866	26487	25281	23554	22258	22611	24273	23531	33,566
Gross Profit	12025	15046	15801	14903	13805	12466	12367	15674	14276	19,304
Gross Margin	62.9%	60.5%	59.7%	58.9%	58.6%	56.0%	54.7%	64.6%	60.7%	57.5%
SG&A Exp.	2270	2518	2290	2344	2385	2658	2986	2195	2074	2,339
D&A Exp.	897	1017	1150	1214	1428	1461	1561	1401	1393	1,582
Operating Profit	5682	7230	7550	5776	6495	2581	621	7667	6255	9,789
Op. Margin	29.7%	29.1%	28.5%	22.8%	27.6%	11.6%	2.7%	31.6%	26.6%	29.2%
Net Profit	6109	6853	7967	5271	5705	2445	-4964	4386	5198	9,043
Net Margin	31.9%	27.6%	30.1%	20.8%	24.2%	11.0%	-22.0%	18.1%	22.1%	26.9%
Free Cash Flow	4714	7730	7702	4512	7093	4311	3124	6399	4407	8,648
Income Tax	1279	1349	1244	1219	1131	543	5356	3095	521	1,231

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	43012	45516	48574	50796	52359	65486	32718	32957	35594	41,240
Cash & Equivalents	3807	6142	7907	7560	5946	35029	11777	11839	6707	7,116
Acc. Receivable	1418	2066	2362	1941	2194	3576	2667	1046	2687	2,214
Inventories	1030	1302	1458	1492	1556	2035	1693	1400	2598	3,228
Goodwill & Int.	6855	6529	7068	9221	9179	10360	9453	8454	7976	8,704
Total Liabilities	9467	9429	9408	19382	20591	34740	31911	28048	29517	31,290
Accounts Payable	1298	1554	2183	1300	1858	1971	1825	1368	2248	2,750
Long-Term Debt	0	0	0	10969	11757	21893	16370	15933	15726	15,745
Total Equity	33523	36088	39169	31421	31778	30746	807	4909	6077	9,950
D/E Ratio	0.00	0.00	0.00	0.35	0.37	0.71	20.29	3.25	2.59	1.58

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	15.4%	15.5%	16.9%	10.6%	11.1%	4.1%	-10.1%	13.4%	15.2%	23.5%
Return on Equity	20.2%	19.7%	21.2%	14.9%	18.1%	7.8%	-31.5%	153.5%	94.6%	112.8%
ROIC	19.9%	19.7%	21.2%	12.9%	13.3%	5.1%	-14.2%	23.1%	24.4%	38.1%
Shares Out.	1706	1685	1669	1524	1476	1474	1470	1470	1130	1114
Revenue/Share	10.98	14.18	15.45	15.42	15.72	14.94	15.46	19.90	20.48	29.21
FCF/Share	2.71	4.41	4.49	2.75	4.74	2.89	2.14	5.25	3.84	7.53

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

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