



Skyworks Solutions Inc (SWKS)

Updated August 20th, 2022 by Felix Martinez

Key Metrics

Current Price:	\$108	5 Year CAGR Estimate:	11.4%	Market Cap:	\$17.4 B
Fair Value Price:	\$133	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	08/24/22
% Fair Value:	81%	5 Year Valuation Multiple Estimate:	4.3%	Dividend Payment Date:	09/15/22
Dividend Yield:	2.1%	5 Year Price Target	\$170	Years of Dividend Growth:	9
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Skyworks Solutions is a semiconductor company that designs, develops, and markets proprietary semiconductor products 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 \$17.4 billion.

On August 4th, 2022, Skyworks reported third-quarter results for Fiscal Year (FY)2022. The company fiscal year ends at the end of September. Revenue grew 10.4% for the third quarter to \$1.232 billion compared to 3Q21, which was in line with consensus estimates. On a GAAP basis, operating income for the quarter was \$325.8 million with diluted earnings per share of \$1.66. On a non-GAAP basis, operating income was \$439.7 million with non-GAAP diluted earnings per share of \$2.44.

Skyworks' board of directors has declared a cash dividend of \$0.62 per share, representing an 11% increase from the prior quarterly dividend of \$0.56 per share.

Skyworks management team provided an outlook for the fourth quarter of the Fiscal Year 2022. They anticipate revenue between \$1.375 billion and \$1.425 billion, with non-GAAP diluted earnings per share of \$2.90 at the midpoint. We estimate EPS for FY2022 to come in at \$11.12, increasing 5.9% from FY2021 earnings.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.90	\$2.20	\$3.24	\$5.27	\$5.57	\$6.45	\$7.22	\$6.17	\$6.13	\$10.50	\$11.12	\$14.19
DPS	\$0.00	\$0.00	\$0.22	\$0.65	\$1.06	\$1.16	\$1.34	\$1.58	\$1.88	\$2.24	\$2.36	\$3.63
Shares¹	192.0	192.0	192.0	195.0	192.0	186.0	183.0	175.0	169.0	167.0	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 20.9% per year over the past ten years and 11.6% over the past five years. These past two years of 2020 and 2021 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 ~5% growth over the next five years. The company has been increasing its dividend since 2014, where the five-year average dividend growth rate is 15.3%, and it has a low payout ratio of 21% based on this year's expected earnings of \$11.12 a share.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	10.3	11.6	19.4	14.4	12.9	14.3	9.6	19.6	23.5	15.7	9.7	12.0
Avg. Yld.	---	---	0.4%	0.8%	1.4%	1.1%	1.5%	2.0%	1.3%	1.3%	2.1%	1.5%

¹ Share count is in millions.

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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Skyworks has averaged a 15.1 P/E ratio over the past ten years. We consider a P/E ratio of approximately 12.0x to be fair. At least until the company can demonstrate a broader customer base and diversify away from its smartphone focus. However, the stock is undervalued to our fair price. The current dividend yield is higher than its five-year average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

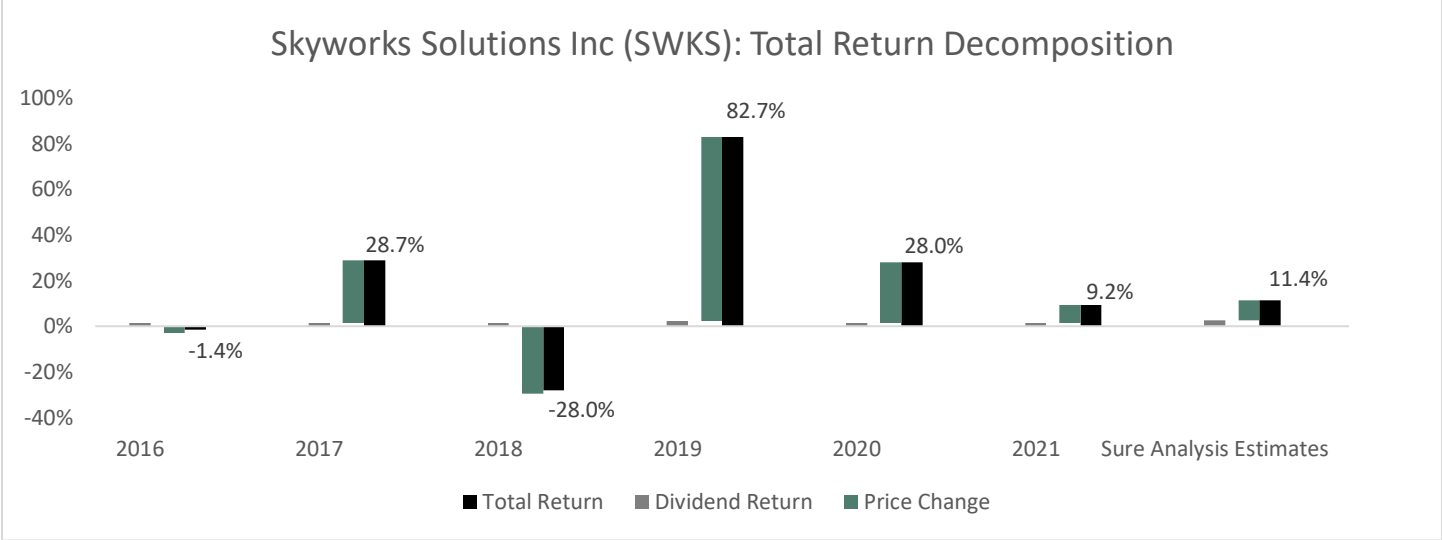
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	6.8%	12.3%	19.0%	18.0%	18.6%	25.6%	30.7%	21.3%	21%	26%

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 \$662.2 million in cash and cash equivalents and \$2.1 million 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. The company's earnings growth will likely be less stellar in the future 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. However, we expect 11.4% forward returns for the next five years. We give SWKS a buy recommendation as the price has gone lower from our last report.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1569	1792	2292	3258	3289	3651	3868	3377	3356	5109
Gross Profit	667	767	1023	1555	1665	1842	1951	1604	1613	2512
Gross Margin	42.5%	42.8%	44.6%	47.7%	50.6%	50.4%	50.4%	47.5%	48.1%	49.2%
SG&A Exp.	158	160	179	191	196	205	208	198	231	323
D&A Exp.	103	103	123	196	248	255	299	372	364	437
Operating Profit	263	352	566	1027	1124	1254	1320	959	906	1622
Operating Margin	16.8%	19.6%	24.7%	31.5%	34.2%	34.4%	34.1%	28.4%	27.0%	31.7%
Net Profit	202	278	458	798	995	1010	918	854	815	1498
Net Margin	12.9%	15.5%	20.0%	24.5%	30.3%	27.7%	23.7%	25.3%	24.3%	29.3%
Free Cash Flow	191	376	564	563	882	1141	830	944	806	1120
Income Tax	53	66	108	225	205	247	414	107	77	100

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2137	2333	2974	3719	3855	4574	4829	4840	5107	8591
Cash & Equivalents	307	511	806	1044	1084	1617	733	851	567	
Accounts Receivable	298	293	318	538	417	455	656	465	394	756
Inventories	233	230	271	268	424	494	490	610	806	885
Goodwill & Int. Ass.	895	865	926	902	940	951	1334	1298	1243	3875
Total Liabilities	231	232	441	560	314	508	732	717	943	3294
Accounts Payable	141	127	201	291	110	258	230	191	227	236
Shareholder's Equity	1906	2101	2532	3159	3541	4066	4097	4122	4164	5297

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	10.0%	12.4%	17.2%	23.9%	26.3%	24.0%	19.5%	17.7%	16.4%	21.9%
Return on Equity	11.5%	13.9%	19.8%	28.1%	29.7%	26.6%	22.5%	20.8%	19.7%	31.7%
ROIC	11.4%	13.9%	19.8%	28.1%	29.7%	26.6%	22.5%	20.8%	19.7%	25.6%
Shares Out.	192.0	192.0	192.0	195.0	192.0	186.0	183.0	175.0	169.0	167.0
Revenue/Share	8.18	9.32	11.90	16.72	17.12	19.56	21.11	19.35	19.75	30.59
FCF/Share	1.00	1.96	2.93	2.89	4.59	6.11	4.53	5.41	4.74	6.71

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

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