



# Qualcomm Inc (QCOM)

Updated February 7<sup>th</sup>, 2023 by Nate Parsh

## Key Metrics

<b>Current Price:</b>	\$133	<b>5 Year CAGR Estimate:</b>	11.3%	<b>Market Cap:</b>	\$149 B
<b>Fair Value Price:</b>	\$149	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	03/01/23
<b>% Fair Value:</b>	89%	<b>5 Year Valuation Multiple Estimate:</b>	2.3%	<b>Dividend Payment Date:</b>	03/23/23
<b>Dividend Yield:</b>	2.3%	<b>5 Year Price Target</b>	\$209	<b>Years Of Dividend Growth:</b>	20
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## 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, 4G, and 5G networks. Qualcomm has a current market capitalization of \$149 billion and has annual sales of ~\$38 billion.

On April 13<sup>th</sup>, 2022, Qualcomm increased its quarterly dividend 10.3% to \$0.75, marking the company’s 20<sup>th</sup> consecutive year of dividend growth.

On February 2<sup>nd</sup>, 2023, Qualcomm announced results for the first quarter of fiscal year 2023 for the period ending December 25<sup>th</sup>, 2022. For the quarter, revenue decreased 11.6% to \$9.46 billion, which missed estimates by \$110 million. Adjusted earnings-per-share of \$2.37 compared unfavorably to \$3.23 in the previous year, but was \$0.02 above expectations.

For the quarter, revenues for Qualcomm CDMA Technologies, or QCT, declined 11% to \$7.9 billion. Automotive and Internet of Things grew 58% and 7%, respectively while Handsets, the largest contributor to results, were down 18%. Qualcomm Technology Licensing, or QTL, fell 16% to \$1.8 billion. Qualcomm repurchased 11 million shares at an average price of \$118 during the period.

Guidance for the second quarter was set at a range of \$2.05 to \$2.25, which was below consensus estimates of \$2.24. Qualcomm is projected to earn \$9.31 in fiscal year 2023, down from \$10.23 previously.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$4.51	\$5.27	\$4.66	\$4.44	\$4.28	\$3.69	\$3.59	\$4.19	\$8.54	\$12.53	<b>\$9.31</b>	<b>\$13.06</b>
<b>DPS</b>	\$1.20	\$1.54	\$1.80	\$2.02	\$2.20	\$2.43	\$2.48	\$2.60	\$2.72	\$2.86	<b>\$3.00</b>	<b>\$4.21</b>
<b>Shares<sup>1</sup></b>	1685	1669	1524	1476	1474	1470	1470	1130	1114	1113	<b>1131</b>	<b>1050</b>

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 reaffirm our earnings-per-share growth rate of 7% through fiscal year 2028. Applying the expected growth rate to our guidance for fiscal 2023, Qualcomm could earn \$13.06 by fiscal year 2028.

<sup>1</sup> 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.2	14.3	14.5	12.1	13.7	16.6	18.6	21.0	15.1	9.7	<b>14.3</b>	<b>16.0</b>
Avg. Yld.	1.9%	2.0%	2.7%	3.8%	3.8%	3.9%	3.8%	2.9%	2.1%	2.4%	<b>2.3%</b>	<b>2.0%</b>

Shares of Qualcomm have increased \$12, or 9.2%, since our November 12<sup>th</sup>, 2022 report. Based off of the earnings forecast for fiscal 2023, the stock trades with a price-to-earnings ratio of 14.3. Qualcomm's stock had an average price-to-earnings ratio of 15 for 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 2028, valuation would be a 2.3% tailwind to annual returns over this time period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

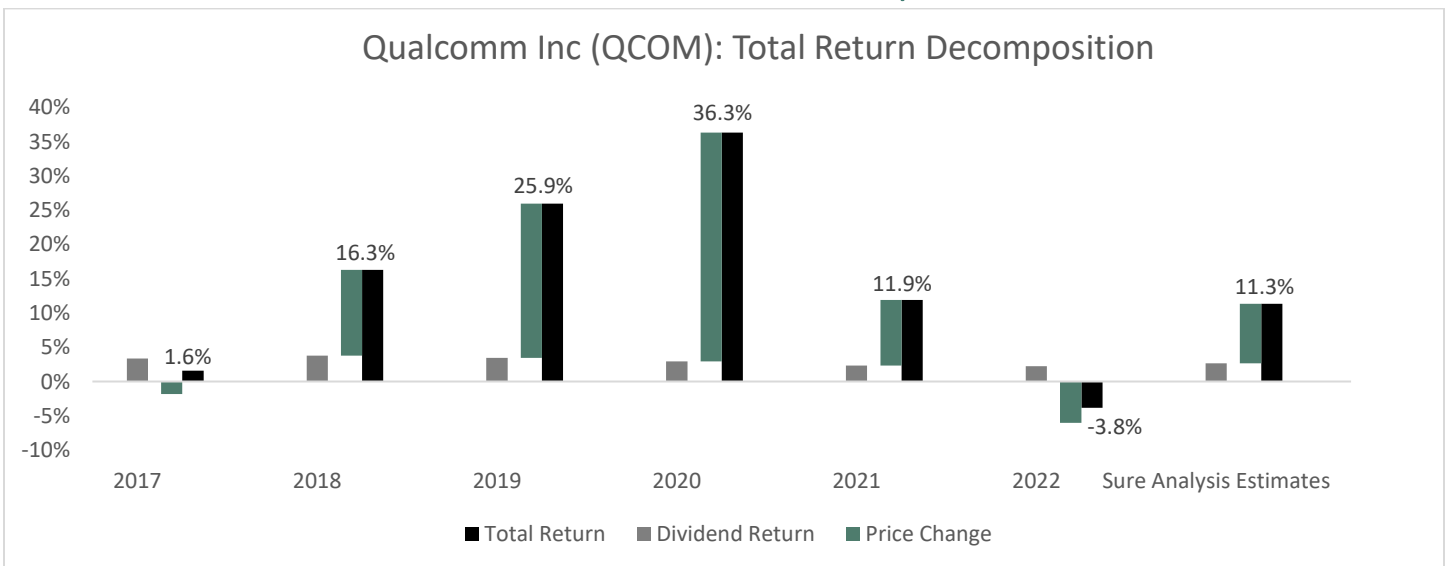
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	27%	29%	39%	46%	51%	67%	69%	62%	32%	23%	<b>32%</b>	<b>32%</b>

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 continue to occur.

## Final Thoughts & Recommendation

After first quarter results, Qualcomm is projected to return 11.3% annually through fiscal 2028, down from 15.4% previously. Our expected return stems from a 7% earnings growth rate, a starting yield of 2.3%, and a low single-digit contribution from multiple expansion. Qualcomm experienced tremendous growth in the prior fiscal year and expectations are for a retraction from those levels as comparative handset weakness is impacting results. We have lowered our five-year price target \$21 to \$209 due to earnings estimates for the fiscal year. That said, we maintain our buy rating on of Qualcomm due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	24866	26487	25281	23554	22258	22611	24273	23531	33566	44,200
<b>Gross Profit</b>	15046	15801	14903	13805	12466	12367	15674	14276	19304	25,565
<b>Gross Margin</b>	60.5%	59.7%	58.9%	58.6%	56.0%	54.7%	64.6%	60.7%	57.5%	57.8%
<b>SG&amp;A Exp.</b>	2518	2290	2344	2385	2658	2986	2195	2074	2,339	2,570
<b>D&amp;A Exp.</b>	1017	1150	1214	1428	1461	1561	1401	1393	1,582	1,762
<b>Operating Profit</b>	7230	7550	5776	6495	2581	621	7667	6255	9,789	15,860
<b>Op. Margin</b>	29.1%	28.5%	22.8%	27.6%	11.6%	2.7%	31.6%	26.6%	29.2%	35.9%
<b>Net Profit</b>	6853	7967	5271	5705	2445	-4964	4386	5198	9,043	12,936
<b>Net Margin</b>	27.6%	30.1%	20.8%	24.2%	11.0%	-22.0%	18.1%	22.1%	26.9%	29.3%
<b>Free Cash Flow</b>	7730	7702	4512	7093	4311	3124	6399	4407	8,648	6,834
<b>Income Tax</b>	1349	1244	1219	1131	543	5356	3095	521	1,231	2,012

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	45516	48574	50796	52359	65486	32718	32957	35594	41240	49,014
<b>Cash &amp; Equivalents</b>	6142	7907	7560	5946	35029	11777	11839	6707	7,116	2,773
<b>Acc. Receivable</b>	2066	2362	1941	2194	3576	2667	1046	2687	2,214	4,175
<b>Inventories</b>	1302	1458	1492	1556	2035	1693	1400	2598	3,228	6,341
<b>Goodwill &amp; Int.</b>	6529	7068	9221	9179	10360	9453	8454	7976	8,704	12,390
<b>Total Liabilities</b>	9429	9408	19382	20591	34740	31911	28048	29517	31,290	31,001
<b>Accounts Payable</b>	1554	2183	1300	1858	1971	1825	1368	2248	2,750	3,796
<b>Long-Term Debt</b>	0	0	10969	11757	21893	16370	15933	15726	15745	15,482
<b>Total Equity</b>	36088	39169	31421	31778	30746	807	4909	6077	9,950	18,013
<b>LTD/E Ratio</b>	0.00	0.00	0.35	0.37	0.71	20.29	3.25	2.59	1.58	0.86

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	15.5%	16.9%	10.6%	11.1%	4.1%	-10.1%	13.4%	15.2%	23.5%	28.7%
<b>Return on Equity</b>	19.7%	21.2%	14.9%	18.1%	7.8%	-31.5%	153.5%	94.6%	112.8%	92.5%
<b>ROIC</b>	19.7%	21.2%	12.9%	13.3%	5.1%	-14.2%	23.1%	24.4%	38.1%	43.7%
<b>Shares Out.</b>	1685	1669	1524	1476	1474	1470	1470	1130	1114	1113
<b>Revenue/Share</b>	14.18	15.45	15.42	15.72	14.94	15.46	19.90	20.48	29.21	38.87
<b>FCF/Share</b>	4.41	4.49	2.75	4.74	2.89	2.14	5.25	3.84	7.53	6.01

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

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