



Skyworks Solutions Inc (SWKS)

Updated May 14th, 2023 by Felix Martinez

Key Metrics

Current Price:	\$97	5 Year CAGR Estimate:	9.6%	Market Cap:	\$15.5 B
Fair Value Price:	\$109	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	05/26/23
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.2%	Dividend Payment Date:	06/20/23
Dividend Yield:	2.6%	5 Year Price Target	\$139	Years of Dividend Growth:	9
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Hold

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 \$15.5 billion.

On May 6th, 2023, Skyworks reported second-quarter results for Fiscal Year (FY)2023. The company fiscal year ends at the end of September. In the second fiscal quarter of 2023, the company generated \$1.153 billion in revenue. The GAAP operating income for the quarter was \$273.3 million, resulting in a diluted earnings per share of \$1.46. On a non-GAAP basis, the operating income was \$386.1 million, resulting in a non-GAAP diluted earnings per share of \$2.02. Revenue was in-line with analyst estimates but EPS missed by \$0.01. The company is focused on improving its operations and making them more efficient. They are also using their advanced technology and excellent manufacturing abilities to take advantage of new opportunities with a growing number of customers.

Skyworks management team provided an outlook for the third quarter of the Fiscal Year 2023. They anticipate revenue between \$1.05 billion and \$1.09 billion, with non-GAAP diluted earnings per share of \$1.67 at the midpoint. We estimate EPS for FY2023 to come in at \$8.35, decreasing (25.7)% from FY2022 earnings.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.20	\$3.24	\$5.27	\$5.57	\$6.45	\$7.22	\$6.17	\$6.13	\$10.50	\$11.24	\$8.35	\$10.66
DPS	\$0.00	\$0.22	\$0.65	\$1.06	\$1.16	\$1.34	\$1.58	\$1.88	\$2.24	\$2.30	\$2.48	\$3.48
Shares¹	192.0	192.0	195.0	192.0	186.0	183.0	175.0	169.0	167.0	163.0	163.0	163.0

Skyworks has enjoyed tremendous growth over the past decade thanks to smartphones' proliferation that use its chips. The company increased its EPS by 19.9% per year over the past ten years and 3.0% over the past five years. These past 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 13.1%, and it has a low payout ratio of 30% based on this year's expected earnings of \$8.35 a share.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	11.6	19.4	14.4	12.9	14.3	9.6	19.6	23.5	15.7	7.6	12.5	13.0
Avg. Yld.	---	0.4%	0.8%	1.4%	1.1%	1.5%	2.0%	1.3%	1.3%	2.7%	2.1%	2.5%

¹ Share count is in millions.

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Skyworks has averaged a 14.9 P/E ratio over the past ten years. We consider a P/E ratio of approximately 13.0x 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 slightly undervalued to our fair price. The current dividend yield is higher than its five-year average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

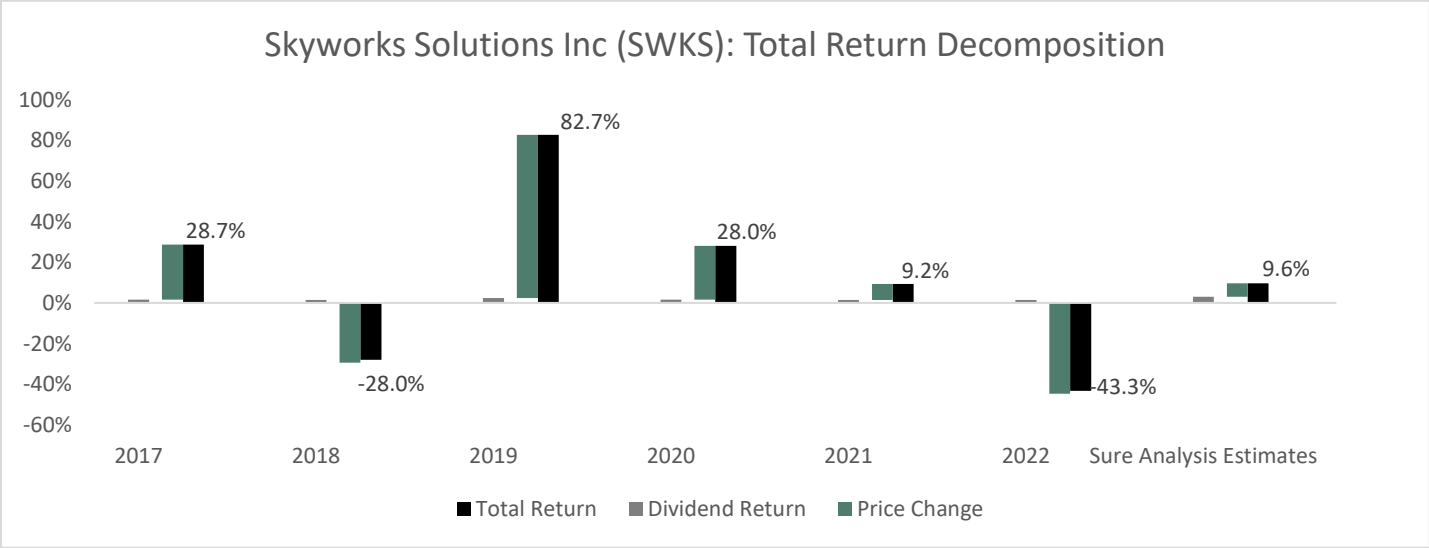
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	6.8%	12.3%	19.0%	18.0%	18.6%	25.6%	30.7%	21.3%	20.5%	27%	32%

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 \$1,061 million in cash and cash equivalents and \$1.99 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 9.6% forward returns for the next five years. We give SWKS a hold recommendation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1792	2292	3258	3289	3651	3868	3377	3356	5109	5486
Gross Profit	767	1023	1555	1665	1842	1951	1604	1613	2512	2604
Gross Margin	42.8%	44.6%	47.7%	50.6%	50.4%	50.4%	47.5%	48.1%	49.2%	47.5%
SG&A Exp.	160	179	191	196	205	208	198	231	323	330
D&A Exp.	103	123	196	248	255	299	372	364	437	690
Operating Profit	352	566	1027	1124	1254	1320	959	906	1622	1558
Operating Margin	19.6%	24.7%	31.5%	34.2%	34.4%	34.1%	28.4%	27.0%	31.7%	28.4%
Net Profit	278	458	798	995	1010	918	854	815	1498	1275
Net Margin	15.5%	20.0%	24.5%	30.3%	27.7%	23.7%	25.3%	24.3%	29.3%	23.2%
Free Cash Flow	376	564	563	882	1141	830	944	806	1120	915
Income Tax	66	108	225	205	247	414	107	77	100	201

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2333	2974	3719	3855	4574	4829	4840	5107	8591	8912
Cash & Equivalents	511	806	1044	1084	1617	733	851	567		
Accounts Receivable	293	318	538	417	455	656	465	394	756	1094
Inventories	230	271	268	424	494	490	610	806	885	1212
Goodwill & Int. Ass.	865	926	902	940	951	1334	1298	1243	3875	3621
Total Liabilities	232	441	560	314	508	732	717	943	3294	3443
Accounts Payable	127	201	291	110	258	230	191	227	236	274
Shareholder's Equity	2101	2532	3159	3541	4066	4097	4122	4164	5297	5469

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	12.4%	17.2%	23.9%	26.3%	24.0%	19.5%	17.7%	16.4%	21.9%	14.6%
Return on Equity	13.9%	19.8%	28.1%	29.7%	26.6%	22.5%	20.8%	19.7%	31.7%	23.7%
ROIC	13.9%	19.8%	28.1%	29.7%	26.6%	22.5%	20.8%	19.7%	25.6%	16.8%
Shares Out.	192.0	192.0	195.0	192.0	186.0	183.0	175.0	169.0	167.0	163.3
Revenue/Share	9.32	11.90	16.72	17.12	19.56	21.11	19.35	19.75	30.59	33.59
FCF/Share	1.96	2.93	2.89	4.59	6.11	4.53	5.41	4.74	6.71	5.60

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

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