



Qualcomm Inc (QCOM)

Updated November 13th, 2023 by Nate Parsh

Key Metrics

Current Price:	\$124	5 Year CAGR Estimate:	12.8%	Market Cap:	\$138 B
Fair Value Price:	\$147	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	11/29/23
% Fair Value:	84%	5 Year Valuation Multiple Estimate:	3.5%	Dividend Payment Date:	12/14/23
Dividend Yield:	2.6%	5 Year Price Target	\$207	Years Of Dividend Growth:	21
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	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 \$138 billion and has annual sales of ~\$36 billion.

On April 12th, 2023, Qualcomm increased its quarterly dividend 6.7% to \$0.80, marking the company’s 21st consecutive year of dividend growth.

On November 1st, 2023, Qualcomm reported results for the fourth quarter and fiscal year 2023 for the period ending September 24th, 2023. For the quarter, revenue decreased 24% to \$8.67 billion, but this was \$150 million more than expected. Adjusted earnings-per-share of \$2.02 compared unfavorably to \$3.13 in the previous year, but was \$0.11 above estimates. For the fiscal year, revenue decreased 19% to \$35.8 billion while adjusted earnings-per-share of \$8.43 compared to \$12.53 in the prior period. Adjusted earnings-per-share for the year also came in ahead of our projections.

For the quarter, revenues for Qualcomm CDMA Technologies, or QCT, fell 26% to \$7.4 billion. Automotive sales increased 15% to \$535 million while Handsets decreased 27% to \$5.46 billion and Internet of Things was down 31% to \$1.38 billion. Qualcomm Technology Licensing, or QTL, declined 12% to \$1.26 billion. Qualcomm repurchased 25 million shares at an average price of \$118.93 during the fiscal year.

Qualcomm is projected to earn \$9.21 per share in fiscal 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$5.27	\$4.66	\$4.44	\$4.28	\$3.69	\$3.59	\$4.19	\$8.54	\$12.53	\$8.43	\$9.21	\$12.92
DPS	\$1.54	\$1.80	\$2.02	\$2.20	\$2.43	\$2.48	\$2.60	\$2.72	\$2.86	\$3.10	\$3.20	\$4.49
Shares¹	1669	1524	1476	1474	1470	1470	1130	1114	1113	1125	1125	1050

Qualcomm’s earnings-per-share declined almost 16% during the last recession. The company has grown earnings-per-share at a rate of 5.4% per year over the last decade, but that growth rate accelerates to nearly 21% for the last five years. 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 reaffirm our earnings-per-share growth rate of 7% through fiscal year 2029. Applying the expected growth rate to our guidance for fiscal 2024, Qualcomm could earn \$12.92 by fiscal year 2029.

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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.3	14.5	12.1	13.7	16.6	18.6	21.0	15.1	9.7	12.8	13.5	16.0
Avg. Yld.	2.0%	2.7%	3.8%	3.8%	3.9%	3.8%	2.9%	2.1%	2.4%	2.9%	2.6%	2.2%

Shares of Qualcomm have increased \$5, or 4.2%, since our August 3rd, 2023 report. Based off the earnings forecast for fiscal 2024, the stock trades with a price-to-earnings ratio of 13.5. Qualcomm's stock had an average price-to-earnings ratio of 14.8 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 2029, valuation would be a 3.5% tailwind to annual returns over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

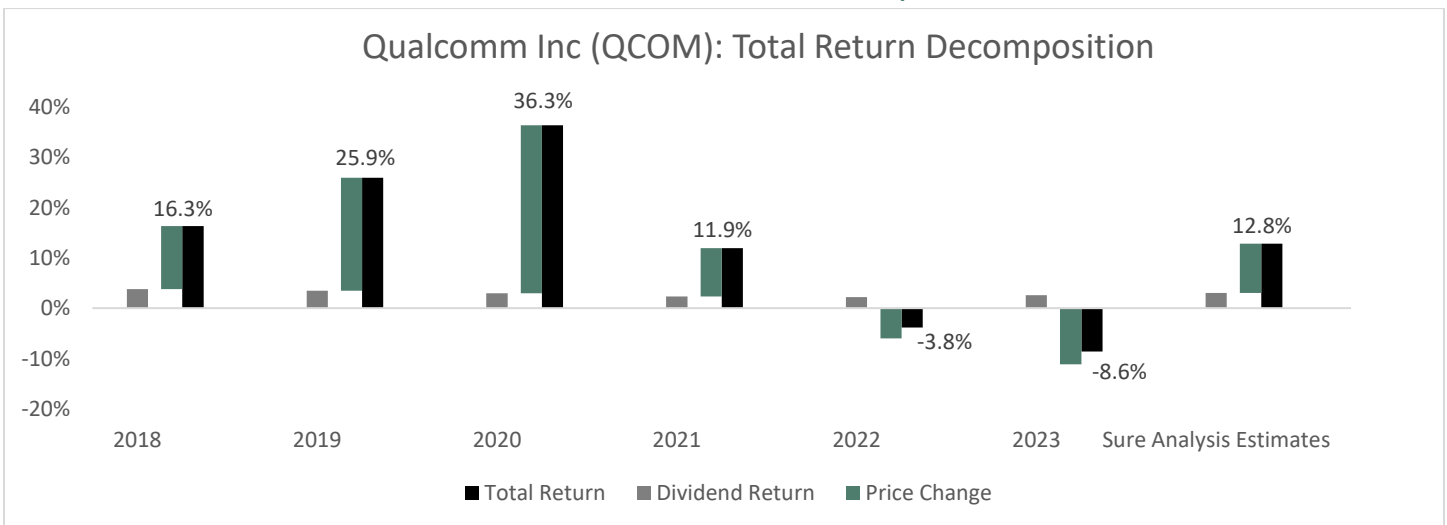
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	29%	39%	46%	51%	67%	69%	62%	32%	23%	37%	35%	35%

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 fourth quarter results, Qualcomm is projected to return 12.8% annually through fiscal 2029, up from 11.6% previously. Our expected return stems from a 7% earnings growth rate, a starting yield of 2.6%, and a low single-digit contribution from multiple expansion. Qualcomm experienced tremendous growth in the prior fiscal year and expectations for a retraction from those levels came to fruition as the handset business faced extremely difficult comparisons. However, estimates for the new fiscal year are for a return to growth. Shares still offer a double-digit total return. We have raised our five-year price target \$21 to \$207 due to earnings estimates for the fiscal year. We continue to rate shares of Qualcomm as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	26487	25281	23554	22258	22611	24273	23531	33566	44200	44200
Gross Profit	15801	14903	13805	12466	12367	15674	14276	19304	25565	25565
Gross Margin	59.7%	58.9%	58.6%	56.0%	54.7%	64.6%	60.7%	57.5%	57.8%	57.8%
SG&A Exp.	2290	2344	2385	2658	2986	2195	2074	2339	2570	2570
D&A Exp.	1150	1214	1428	1461	1561	1401	1393	1582	1762	1762
Operating Profit	7550	5776	6495	2581	621	7667	6255	9789	15860	15860
Op. Margin	28.5%	22.8%	27.6%	11.6%	2.7%	31.6%	26.6%	29.2%	35.9%	35.9%
Net Profit	7967	5271	5705	2445	-4964	4386	5198	9043	12936	12936
Net Margin	30.1%	20.8%	24.2%	11.0%	-22.0%	18.1%	22.1%	26.9%	29.3%	29.3%
Free Cash Flow	7702	4512	7093	4311	3124	6399	4407	8648	6834	6834
Income Tax	1244	1219	1131	543	5356	3095	521	1231	2012	2012

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	48574	50796	52359	65486	32718	32957	35594	41240	49014	51040
Cash & Equivalents	7907	7560	5946	35029	11777	11839	6707	7116	2773	8450
Acc. Receivable	2362	1941	2194	3576	2667	1046	2687	2214	4175	1923
Inventories	1458	1492	1556	2035	1693	1400	2598	3228	6341	6422
Goodwill & Int.	7068	9221	9179	10360	9453	8454	7976	8704	12390	12050
Total Liabilities	9408	19382	20591	34740	31911	28048	29517	31290	31001	29459
Accounts Payable	2183	1300	1858	1971	1825	1368	2248	2750	3796	1912
Long-Term Debt	0	10969	11757	21893	16370	15933	15726	15745	15482	15398
Total Equity	39169	31421	31778	30746	807	4909	6077	9950	18013	21581
LTD/E Ratio	0.00	0.35	0.37	0.71	20.29	3.25	2.59	1.58	0.86	0.71

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	16.9%	10.6%	11.1%	4.1%	-10.1%	13.4%	15.2%	23.5%	28.7%	14.5%
Return on Equity	21.2%	14.9%	18.1%	7.8%	-31.5%	153.5%	94.6%	112.8%	92.5%	36.5%
ROIC	21.2%	12.9%	13.3%	5.1%	-14.2%	23.1%	24.4%	38.1%	43.7%	20.5%
Shares Out.	1669	1524	1476	1474	1470	1470	1130	1114	1113	1125
Revenue/Share	15.45	15.42	15.72	14.94	15.46	19.90	20.48	29.21	38.87	31.81
FCF/Share	4.49	2.75	4.74	2.89	2.14	5.25	3.84	7.53	6.01	8.75

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

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