Skyworks Solutions Inc (SWKS)

Updated February 21st, 2024 by Felix Martinez

Key Metrics

Current Price:	$104	**5 Year CAGR Estimate:**	4.8%	**Market Cap:**	$16.7 B
Fair Value Price:	$89	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	02/16/24
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-2.9%	**Dividend Payment Date:**	03/12/24
Dividend Yield:	2.7%	**5 Year Price Target**	$114	**Years of Dividend Growth:**	10
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 $16.7 billion.

On January 30th, 2024, Skyworks reported first-quarter results for Fiscal Year (FY)2024. The company fiscal year ends at the end of September. The company reported revenue of $1.202 billion. Noteworthy in this quarter were the GAAP operating income of $258.3 million, leading to an earnings per share (EPS) of $1.44, alongside a non-GAAP operating income of $365.7 million, resulting in a non-GAAP EPS of $1.97. CEO Liam K. Griffin expressed satisfaction with the company's resilience amid macroeconomic challenges, emphasizing a record-breaking quarterly free cash flow of $753 million. Griffin underscored Skyworks' strategic positioning, particularly in key growth sectors like the Internet of Things (IoT), automotive electrification, and artificial intelligence (AI).

The first fiscal quarter witnessed significant achievements, including securing design wins in infrastructure, expanding the Wi-Fi design pipeline with industry leaders such as Cisco, and delivering innovative solutions in collaboration with Google's Nest and Itron. Furthermore, Skyworks experienced notable growth in the automotive segment, with design wins in telematics, infotainment systems, and on-board chargers across leading Original Equipment Manufacturers (OEMs). Looking ahead to Q2 2024, Skyworks provided earnings guidance on a non-GAAP basis, anticipating revenue in the range of $1.02 to $1.07 billion. At the mid-point of this range, a non-GAAP EPS of $1.52 is projected. The company foresees a seasonal sequential decline in the mobile business but expects modest growth in broad markets compared to the previous quarter. Additionally, Skyworks declared a cash dividend of $0.68 per share of common stock, payable on March 12, 2024, to stockholders of record as of February 20, 2024.

In summary, Skyworks not only continues to exhibit robust financial performance and strategic vision in key sectors but also reinforces its commitment to shareholder value through dividends.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.24	$5.27	$5.57	$6.45	$7.22	$6.17	$6.13	$10.50	$11.24	$8.52	***$6.86***	***$8.76***
DPS	$0.22	$0.65	$1.06	$1.16	$1.34	$1.58	$1.88	$2.24	$2.30	$2.54	***$2.72***	***$3.81***
Shares[1]	192.0	195.0	192.0	186.0	183.0	175.0	169.0	167.0	163.0	160.3	***161.0***	***161.0***

Skyworks has enjoyed tremendous growth over the past decade thanks to smartphones' proliferation that use its chips. The company increased its EPS by 11.3% per year over the past ten years and 2.1% 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 4% earnings growth over the next three years. However, our base case is for ~5% growth over the

[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.

next five years. The company has been increasing its dividend since 2014, where the five-year average dividend growth rate is 10%, and it has a low payout ratio of 40% based on this year's expected earnings of $6.86 a share.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	19.4	14.4	12.9	14.3	9.6	19.6	23.5	15.7	7.6	11.6	***15.1***	***13.0***
Avg. Yld.	0.4%	0.8%	1.4%	1.1%	1.5%	2.0%	1.3%	1.3%	2.7%	2.6%	***2.7%***	***3.4%***

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 overvalued to our fair price. The current dividend yield is higher than its five-year average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

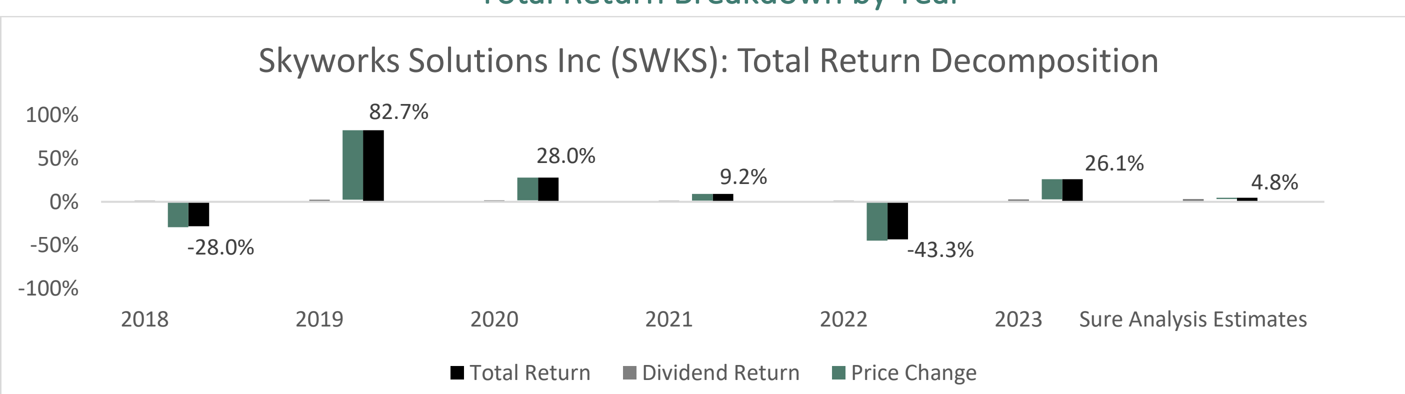
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	6.8%	12.3%	19.0%	18.0%	18.6%	25.6%	30.7%	21.3%	20.5%	29.8%	***40%***	***44%***

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. 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 4.8% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2292	3258	3289	3651	3868	3377	3356	5109	5486	4772
Gross Profit	1023	1555	1665	1842	1951	1604	1613	2512	2604	2107
Gross Margin	44.6%	47.7%	50.6%	50.4%	50.4%	47.5%	48.1%	49.2%	47.5%	44.2%
SG&A Exp.	179	191	196	205	208	198	231	323	330	314
D&A Exp.	123	196	248	255	299	372	364	437	690	614
Operating Profit	566	1027	1124	1254	1320	959	906	1622	1558	1153
Operating Margin	24.7%	31.5%	34.2%	34.4%	34.1%	28.4%	27.0%	31.7%	28.4%	24.2%
Net Profit	458	798	995	1010	918	854	815	1498	1275	983
Net Margin	20.0%	24.5%	30.3%	27.7%	23.7%	25.3%	24.3%	29.3%	23.2%	20.6%
Free Cash Flow	564	563	882	1141	830	944	806	1120	915	1620
Income Tax	108	225	205	247	414	107	77	100	201	96

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2974	3719	3855	4574	4829	4840	5107	8591	8912	8427
Cash & Equivalents	806	1044	1084	1617	733	851	567			719
Accounts Receivable	318	538	417	455	656	465	394	756	1094	864
Inventories	271	268	424	494	490	610	806	885	1212	1120
Goodwill & Int. Ass.	926	902	940	951	1334	1298	1243	3875	3621	3399
Total Liabilities	441	560	314	508	732	717	943	3294	3443	2344
Accounts Payable	201	291	110	258	230	191	227	236	274	159
Shareholder's Equity	2532	3159	3541	4066	4097	4122	4164	5297	5469	6083

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	17.2%	23.9%	26.3%	24.0%	19.5%	17.7%	16.4%	21.9%	14.6%	11.4%
Return on Equity	19.8%	28.1%	29.7%	26.6%	22.5%	20.8%	19.7%	31.7%	23.7%	17.0%
ROIC	19.8%	28.1%	29.7%	26.6%	22.5%	20.8%	19.7%	25.6%	16.8%	13.1%
Shares Out.	192.0	195.0	192.0	186.0	183.0	175.0	169.0	167.0	163.3	160.3
Revenue/Share	11.90	16.72	17.12	19.56	21.11	19.35	19.75	30.59	33.59	29.77
FCF/Share	2.93	2.89	4.59	6.11	4.53	5.41	4.74	6.71	5.60	10.11

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

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