



Broadcom Inc. (AVGO)

Updated March 25th, 2024 by Jonathan Weber

Key Metrics

| | | | | | |
|-----------------------------|---------|--|---------|----------------------------------|-----------------------|
| Current Price: | \$1,350 | 5 Year CAGR Estimate: | -0.3% | Market Cap: | \$632B |
| Fair Value Price: | \$851 | 5 Year Growth Estimate: | 7.0% | Ex-Dividend Date: | 06/14/24 ¹ |
| % Fair Value: | 159% | 5 Year Valuation Multiple Estimate: | -8.8% | Dividend Payment Date: | 06/19/24 ² |
| Dividend Yield: | 1.6% | 5 Year Price Target | \$1,194 | Years Of Dividend Growth: | 13 |
| Dividend Risk Score: | D | Retirement Suitability Score: | F | Rating: | Sell |

Overview & Current Events

Broadcom designs, develops, and sells semiconductors under the following business units: Wired infrastructure, wireless communication, enterprise storage and industrial. Its offerings include data center chips, factory automation, energy systems and power generation, broadband access, and home connectivity. Broadcom is a fabless semiconductor company, which means that the products it designs are manufactured by other companies/foundries. Broadcom domiciled to the US a couple of years ago and is now headquartered in San Jose, CA.

Broadcom reported its first quarter earnings results on March 7. The company generated revenues of \$12.0 billion during the quarter, which represents an increase of 34% compared to the prior year's quarter. The strong revenue growth performance was driven by AI data center investments by many of Broadcom's customers. The company outperformed revenue expectations easily.

Broadcom reported earnings-per-share of \$10.99 for the fiscal first quarter, which was ahead of the analyst consensus estimate. The company expects that revenues will come in at around \$50 billion during the current fiscal year, which would represent a nice revenue increase compared to the previous year. Broadcom's acquisition of VMware will be a growth tailwind for the company during the current year.

Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---------------------------|--------|--------|---------|---------|---------|---------|---------|---------|---------|---------|----------------|----------------|
| EPS | \$4.90 | \$8.98 | \$11.45 | \$16.02 | \$20.82 | \$21.29 | \$22.16 | \$28.00 | \$37.64 | \$42.25 | \$47.30 | \$66.34 |
| DPS | \$1.23 | \$1.64 | \$2.52 | \$4.81 | \$7.00 | \$10.60 | \$13.00 | \$14.40 | \$16.40 | \$18.40 | \$21.00 | \$30.86 |
| Shares³ | 254 | 276 | 398 | 409 | 416 | 416 | 426 | 429 | 429 | 430 | 468 | 425 |

Broadcom's profitability has exploded over the last decade. Indeed, its earnings-per-share rose tenfold between 2011 and 2020. This earnings growth was driven by a significant amount of M&A, the most important one being the merger between Broadcom and Avago Technologies. Broadcom has since made several other major takeovers, including its acquisition of Brocade for \$6 billion that closed in late 2017, and its takeover of CA that closed in late 2018.

These acquisitions naturally have impacted Broadcom's growth tremendously, so what we see in the above table is not purely the result of Broadcom's organic growth rate. By moving towards acquisitions in the software industry with its CA takeover, Broadcom has found a new way of generating inorganic growth.

Broadcom's biggest market is wireless communication, where the company owns a strong connectivity portfolio that includes advanced LTE, Bluetooth 5.x, Wi-Fi, GNSS (GPS, Galileo, etc.), and so on. Broadcom is also well positioned in the enterprise storage market, where it provides switching and other connectivity solutions and storage products such as SSD controllers. These markets will continue to grow, and even without any major acquisitions, Broadcom's revenues should continue to grow as well. The combination of acquisitions and organic growth should result in solid revenue growth and increasing tailwinds for profitability stemming from improving economics of scale.

¹ Estimated date

² Estimated date

³ 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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Valuation Analysis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 14.7 | 13.9 | 13.5 | 14.4 | 10.6 | 13.8 | 15.8 | 18.9 | 12.4 | 19.9 | 28.5 | 18.0 |
| Avg. Yld. | 1.7% | 1.3% | 1.6% | 2.1% | 3.2% | 3.6% | 3.7% | 2.7% | 3.5% | 2.2% | 1.6% | 2.6% |

Broadcom's shares have risen sharply since our last update, which has made them more expensive compared to how they were valued in the recent past. Shares are trading well above our fair value estimate, based on this year's expected net profits. We believe that Broadcom's valuation will decrease in the future. Broadcom's dividend yield has declined to significantly less than 2%. The yield is below the average seen over the last several years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Payout | 25.1% | 18.3% | 22.0% | 30.0% | 33.6% | 49.8% | 58.7% | 51.4% | 43.6% | 43.6% | 44.4% | 46.5% |

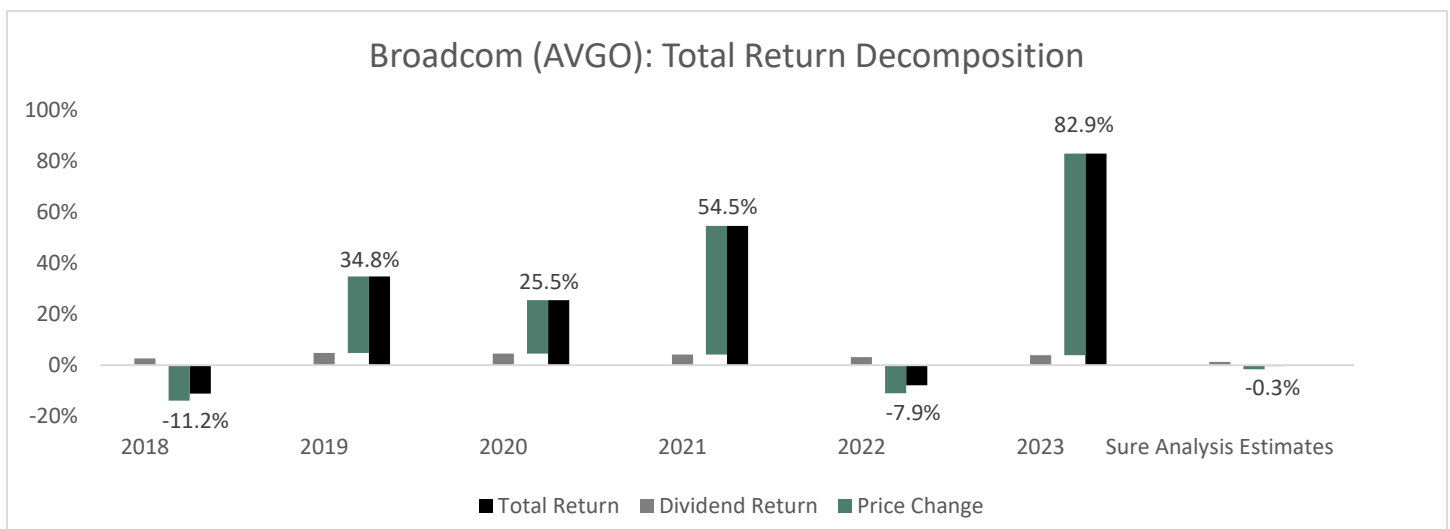
Broadcom's dividend payout ratio has risen considerably over the last couple of years, due to the large dividend increases that Broadcom has offered to its owners. Between 2010 and 2021, Broadcom increased its dividend by an incredible factor of more than 100. Broadcom's dividend still looks relatively safe, however, as it is well-covered by both profits as well as by the cash flows that the company generates.

Broadcom did not remain profitable during the last financial crisis, but the company was much smaller and less diversified back then. Due to low fixed costs, as Broadcom is operating a fables business, and due to a lot of diversification across industries and across geographic markets, the company is better positioned to weather future crises -- including the current pandemic, during which the company has performed very well. Due to its strong IP portfolio with tens of thousands of patents, Broadcom is well positioned in the markets it targets.

Final Thoughts & Recommendation

Broadcom is one of the largest semiconductor companies in the world. The company's fables model results in high cash flows and low capital expenditures, which is why Broadcom has ample free cash that is available for dividend payments and acquisitions. Industry tailwinds should allow for solid earnings growth going forward, and Broadcom hit new record profits in fiscal 2023. But due to the high valuation and low forecasted returns, we rate Broadcom a sell right here.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|-------------------------|-------|-------|---------|--------|---------|--------|--------|--------|--------|--------|
| Revenue | 4,269 | 6,824 | 13,240 | 17,636 | 20,848 | 22,597 | 23,888 | 27,450 | 33,203 | 35,819 |
| Gross Profit | 1,877 | 3,553 | 5,940 | 8,509 | 10,733 | 12,483 | 13,516 | 16,844 | 22,095 | 24,690 |
| Gross Margin | 44.0% | 52.1% | 44.9% | 48.2% | 51.5% | 55.2% | 56.6% | 61.4% | 66.5% | 68.9% |
| SG&A Exp. | 407 | 486 | 806 | 789 | 1,056 | 1,709 | 1,935 | 1,347 | 1,382 | 1,592 |
| D&A Exp. | 625 | 962 | 3,042 | 4,737 | 4,081 | 5,808 | 6,905 | 6,041 | 4,984 | 3,835 |
| Operating Profit | 578 | 1,769 | 587 | 2,654 | 5,368 | 4,180 | 4,212 | 8,667 | 14,282 | 16,451 |
| Operating Margin | 13.5% | 25.9% | 4.4% | 15.0% | 25.7% | 18.5% | 17.6% | 31.6% | 43.0% | 45.9% |
| Net Profit | 263 | 1,364 | (1,739) | 1,784 | 12,259 | 2,724 | 2,960 | 6,736 | 11,495 | 14,082 |
| Net Margin | 6.2% | 20.0% | -13.1% | 10.1% | 58.8% | 12.1% | 12.4% | 24.5% | 34.6% | 39.3% |
| Free Cash Flow | 766 | 1,725 | 2,688 | 5,482 | 8,245 | 9,265 | 11,598 | 13,321 | 16,312 | 17,633 |
| Income Tax | 33 | 76 | 642 | 35 | (8,084) | (510) | (518) | 29 | 939 | 1,015 |

Balance Sheet Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets | 10,491 | 10,515 | 49,966 | 54,418 | 50,124 | 67,493 | 75,933 | 75,570 | 73,249 | 72,861 |
| Cash & Equivalents | 1,604 | 1,822 | 3,097 | 11,204 | 4,292 | 5,055 | 7,618 | 12,163 | 12,416 | 14,189 |
| Accounts Receivable | 782 | 1,019 | 2,181 | 2,448 | 3,325 | 3,259 | 2,297 | 2,071 | 2,958 | 3,154 |
| Inventories | 519 | 524 | 1,400 | 1,447 | 1,124 | 874 | 1,003 | 1,297 | 1,925 | 1,898 |
| Goodwill & Int. Ass. | 5,213 | 4,951 | 39,800 | 35,538 | 37,675 | 54,268 | 60,229 | 54,824 | 50,725 | 47,520 |
| Total Liabilities | 7,248 | 5,801 | 28,090 | 31,232 | 23,467 | 42,523 | 52,032 | 50,581 | 50,540 | 48,873 |
| Accounts Payable | 515 | 617 | 1,261 | 1,105 | 811 | 855 | 836 | 1,086 | 998 | 1,210 |
| Long-Term Debt | 5,509 | 3,872 | 13,642 | 17,548 | 17,493 | 32,798 | 41,062 | 39,665 | 39,456 | 39,180 |
| Shareholder's Equity | 3,243 | 4,714 | 18,892 | 20,285 | 26,657 | 24,941 | 23,874 | 24,962 | 22,709 | 23,988 |
| LTD/E Ratio | 1.70 | 0.82 | 0.72 | 0.87 | 0.66 | 1.31 | 1.72 | 1.59 | 1.74 | 1.63 |

Profitability & Per Share Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|-------------------------|-------|-------|--------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 3.8% | 13.0% | -5.8% | 3.4% | 23.5% | 4.6% | 4.1% | 8.9% | 15.4% | 19.3% |
| Return on Equity | 8.6% | 34.3% | -14.7% | 9.1% | 52.2% | 10.6% | 12.1% | 27.6% | 48.2% | 60.3% |
| ROIC | 4.5% | 15.7% | -7.9% | 4.7% | 28.9% | 5.3% | 4.8% | 10.4% | 18.1% | 22.5% |
| Shares Out. | 254 | 276 | 398 | 409 | 416 | 416 | 426 | 429 | 429 | 430 |
| Revenue/Share | 15.99 | 24.28 | 34.57 | 41.89 | 48.25 | 53.80 | 56.60 | 63.83 | 78.30 | 83.89 |
| FCF/Share | 2.87 | 6.14 | 7.02 | 13.02 | 19.08 | 22.06 | 27.48 | 30.97 | 38.47 | 41.30 |

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

Disclaimer

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