



NXP Semiconductors (NXPI)

Updated July 25th, 2024, by Derek English

Key Metrics

Current Price:	\$253	5-Year CAGR Estimate:	7.8%	Market Cap:	\$64.8 B
Fair Value Price:	\$245	5-Year Growth Estimate:	7.0%	Ex-Dividend Date:	09/12/24
% Fair Value:	103%	5-Year Valuation Multiple Estimate:	-0.7%	Dividend Payment Date:	10/07/24
Dividend Yield:	1.6%	5-Year Price Target	\$343	Years of Dividend Growth:	5
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Hold

Overview & Current Events

NXP Semiconductors N.V. is a global Dutch semiconductor designer and manufacturer. It is headquartered in Eindhoven, Netherlands, and operates in over 30 countries with a workforce of approximately 31,000 employees. The company, spun off from Philips (PHG) in 2006 and went public in 2010, is listed on the NASDAQ exchange as NXPI. NXP is a leading provider of innovative solutions for automotive, industrial, IoT, mobile, and communication infrastructure markets and holds over 9,500 patent families. It is a co-inventor of near-field communication (NFC) technology and provides NFC chipsets for secure mobile payments and data exchange. The company also manufactures chips for eGovernment applications and public transit systems using MIFARE technology and offers secure automotive gateways to protect in-vehicle networks.

NXP Semiconductors N.V. reported financial results for Q2 2024 on the July 22nd, 2024. NXP reported quarterly revenue of \$3.13 billion, which despite being a 5% year-over-year decline, aligned with their guidance and expectations across all focus end-markets. Management expects Q3 to follow the same trend and believes that the businesses will resume sequential growth in Q4.

Despite the lower revenue, the company achieved a GAAP gross margin of 57.3%, a GAAP operating margin of 28.7%, and a GAAP diluted net income per share of \$2.54. On a non-GAAP basis, the gross margin was 58.6%, the operating margin was 34.3%, and the diluted net income per share was \$3.20. Cash flow from operations was \$761 million, resulting in a non-GAAP free cash flow of \$577 million after net capital expenditures.

During the quarter, the company announced some key initiatives, including extending its automotive radar one-chip family, collaborating with ZF Friedrichshafen AG, a global leader in e-mobility, and a plan to create a manufacturing joint-venture VisionPower Semiconductor Manufacturing Company with TSMC. Additionally, NXP announced its Investor Day for 2024 will take place on November 7th.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.17	\$6.10	\$0.58	\$6.41	\$6.72	\$0.85	\$0.18	\$6.79	\$10.55	\$10.70	\$13.60	\$19.07
DPS	\$0.00	\$0.00	\$0.00	\$0.00	\$0.50	\$1.25	\$1.50	\$2.25	\$3.38	\$4.06	\$4.06	\$5.43
Shares	249	250	348	346	329	286	284	276	264	261	260	255

Since 2014, earnings-per-share have grown at an impressive average of 19.4% annually, with even higher growth of 74.1% for the last five years. The most significant jump came from 2021 to 2022. The inflationary effects of increased input costs from suppliers were passed along to end customers through higher average selling prices coupled with strong customer demand. Our EPS target of \$13.60 for 2024 is based on management projects and a solid start for 2024. We predict a 7% growth rate based on the expected growth rate of the industry through 2030.

The company saw significant dividend growth, with an average annual rate of 26.6% over the past five years. Although the company has maintained its dividend for the last six quarters, we have aligned our dividend growth rate with the earnings growth rate and estimate a 6% growth rate through 2029. Our 2029 target dividend per share is \$5.43.

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	26.3	13.8	136.2	15.4	13.8	109.4	633.3	28.1	15.8	17.6	18.6	18.0
Avg. Yld.	0.0%	0.0%	0.0%	0.0%	0.5%	1.3%	1.3%	1.2%	2.0%	2.2%	1.6%	1.6%

Due to strong customer demand, NXP Semiconductor expects high single-digit growth over the next five years. The company serves over 25,000 customers in various sectors, with the top 20 End customers contributing just under 45% of revenue. Excluding outlier years in 2016, 2019 and 2020, the average EPS is 18.7. We believe a P/E ratio of 18 is reasonable for a company with solid growth prospects in a growing industry. We estimate the stock is trading at 103% of its \$245 fair value. Our 5-year price target is \$343, based on an average P/E ratio of 18.

Safety, Quality, Competitive Advantage, & Recession Resiliency

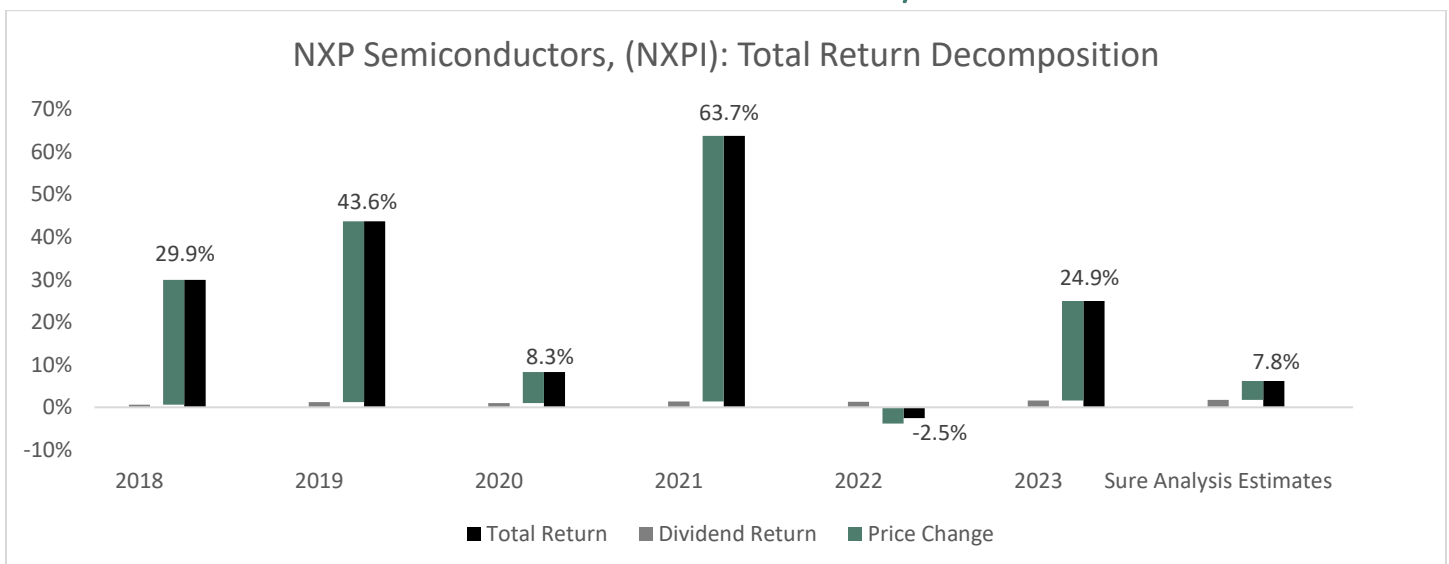
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	0%	0%	0%	0%	7%	147%	833%	33%	32%	38%	30%	28%

NXP Semiconductors' competitive advantages include a strong IP and patent portfolio that promotes innovation and increases barriers to entry, a broad range of mixed-signal products serving diverse markets, and advanced process technology ensuring high performance and efficiency. The company excels in cryptography, low-power RF technologies, and mixed-signal MCU system design. The opportunity for NXP is in the estimated \$1.2 trillion automotive and industrial electronics market. Even though the EV market has cooled down over the last 12 months, the shift towards high-tech electric automotive solutions is expected to grow over the next ten years. We expect NXP to continue with a ~30% payout ratio as they prefer to buy back shares. NXP has a solid balance sheet, with current assets exceeding total liabilities. The business also has \$3.8 billion in cash and cash equivalents, which is greater than what the company will pay out in dividends for the fiscal year 2024.

Final Thoughts & Recommendation

NXP Semiconductors has benefited from increased customer demand as the shift to electric cars has accelerated since 2020. The recent cool-off in the EV sector leads to questions about NXP's growth prospects; however, we are confident that the shift to EVs will increase the demand for the company's products. The stock is currently above our fair value target and has an expected five-year return of 7.8% CAGR. As such, we rate NXPI as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5,647	6,101	9,498	9,256	9,407	8,877	8,612	11,063	13,205	13,276
Gross Profit	2,640	2,787	4,069	4,619	4,851	4,618	4,235	6,067	7,517	7,553
Gross Margin	46.8%	45.7%	42.8%	49.9%	51.6%	52.0%	49.2%	54.8%	56.9%	56.9%
SG&A Exp.	686	922	1,141	1,090	993	924	879	956	1,066	1,159
D&A Exp.	405	517	2,205	2,173	1,987	2,047	1,988	1,262	1,250	1,106
Operating Profit	1,039	752	(159)	527	709	616	304	2,583	3,794	3,676
Operating Margin	18.4%	12.3%	-1.7%	5.7%	7.5%	6.9%	3.5%	23.3%	28.7%	27.7%
Net Profit	539	1,526	200	2,215	2,208	243	52	1,871	2,787	2,797
Net Margin	9.5%	25.0%	2.1%	23.9%	23.5%	2.7%	0.6%	16.9%	21.1%	21.1%
Free Cash Flow	1,103	977	1,855	1,829	3,708	1,745	1,960	2,145	2,668	2,507
Income Tax	40	(104)	(851)	(483)	176	20	(83)	272	529	523

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	6,850	26,354	24,898	24,049	21,530	20,016	19,847	20,864	23,236	24,353
Cash & Equivalents	1,185	1,614	1,894	3,547	2,789	1,045	2,275	2,830	3,618	3,648
Accounts Receivable	546	1,047	1,033	879	792	667	765	923	960	894
Inventories	755	1,879	1,113	1,236	1,279	1,192	1,030	1,189	1,782	2,134
Goodwill & Int. Ass.	2,694	18,018	16,186	14,729	13,324	13,569	12,226	11,655	11,254	10,877
Total Liabilities	6,049	14,551	13,742	10,333	10,840	10,361	10,696	14,094	15,496	15,393
Accounts Payable	729	1,014	973	1,146	999	944	991	1,252	1,185	1,164
Long-Term Debt	3,956	9,212	9,187	6,565	7,354	7,365	7,609	10,572	11,165	11,175
Shareholder's Equity	538	11,515	10,935	13,527	10,505	9,441	8,944	6,528	7,449	8,644
LTD/E Ratio	7.35	0.80	0.84	0.49	0.70	0.78	0.85	1.62	1.50	1.29

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.1%	9.2%	0.8%	9.1%	9.7%	1.2%	0.3%	9.2%	12.6%	11.8%
Return on Equity	45.9%	24.2%	1.7%	17.8%	18.1%	2.4%	0.6%	23.5%	38.4%	33.5%
ROIC	11.2%	11.8%	1.0%	10.9%	11.5%	1.4%	0.3%	11.0%	15.4%	14.3%
Shares Out.	249	250	348	346	329	286	284	276	264	261
Revenue/Share	22.71	24.39	27.32	26.77	28.63	31.05	30.34	40.13	50.01	50.79
FCF/Share	4.44	3.91	5.34	5.29	11.28	6.10	6.91	7.78	10.10	9.59

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

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