



Broadcom Inc. (AVGO)

Updated September 11th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$146	5 Year CAGR Estimate:	0.2%	Market Cap:	\$683B
Fair Value Price:	\$87	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	12/05/24 ¹
% Fair Value:	167%	5 Year Valuation Multiple Estimate:	-9.8%	Dividend Payment Date:	12/10/24 ²
Dividend Yield:	1.5%	5 Year Price Target	\$134	Years Of Dividend Growth:	14
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 third quarter earnings results on September 5. The company generated revenues of \$13.1 billion during the quarter, which represents an increase of 47% 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 as well as by M&A, primarily the VMWare takeover. The company outperformed revenue expectations easily.

Broadcom reported earnings-per-share of \$1.24 for the fiscal third quarter, which was ahead of the analyst consensus estimate. The company expects that revenues will come in at around \$14 billion during the fourth quarter, which would represent a nice revenue increase on a sequential basis as well as on a year-over-year basis. The company's 10-for-1 stock split took effect since our last update.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$0.49	\$0.90	\$1.15	\$1.60	\$2.08	\$2.13	\$2.22	\$2.80	\$3.76	\$4.23	\$4.85	\$7.46
DPS	\$0.12	\$0.16	\$0.25	\$0.48	\$0.70	\$1.06	\$1.30	\$1.44	\$1.64	\$1.84	\$2.12	\$3.11
Shares³	2540	2760	3980	4090	4160	4160	4260	4290	4290	4300	4680	4500

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	30.1	18.0
Avg. Yld.	1.7%	1.3%	1.6%	2.1%	3.2%	3.6%	3.7%	2.7%	3.5%	2.2%	1.5%	2.3%

Broadcom's shares have pulled back since our last update, which has made them less expensive compared to the peak levels seen in early summer. Shares are still trading well above our fair value estimate, however, as shares are still up by more than 30% in 2024 so far. We believe that Broadcom's valuation will decrease in the future. Broadcom's dividend yield has declined to around 1.5%. The yield is below the average seen over the last couple of 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%	43.7%	41.7%

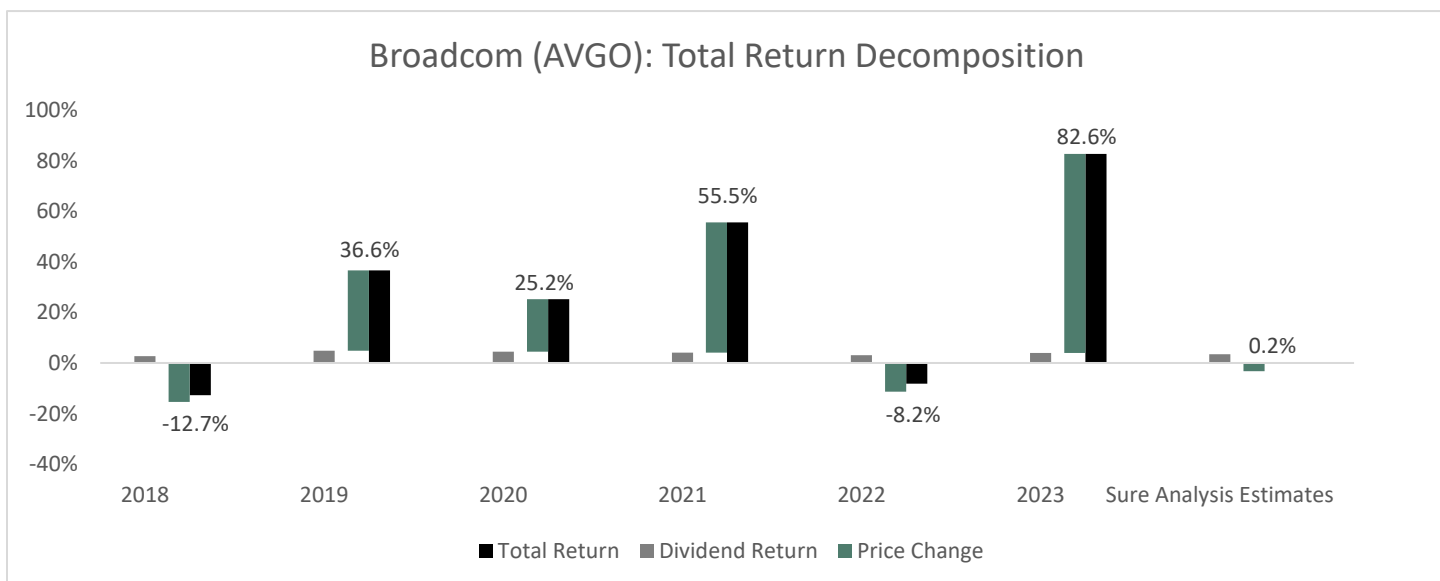
Broadcom's dividend payout ratio has risen considerably over the last couple of years, due to the large dividend increases that Broadcom has offered to its owners. Between 2010 and 2021, Broadcom increased its dividend by an incredible factor of more than 100. Broadcom's dividend still looks relatively 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 fabless 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 fabless 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 weak 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.

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