



Broadcom Inc. (AVGO)

Updated December 22nd, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$221	5 Year CAGR Estimate:	-2.9%	Market Cap:	\$1.03T
Fair Value Price:	\$114	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	03/05/25 ¹
% Fair Value:	193%	5 Year Valuation Multiple Estimate:	-12.4%	Dividend Payment Date:	03/10/25 ²
Dividend Yield:	1.1%	5 Year Price Target	\$176	Years Of Dividend Growth:	15
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 fourth quarter earnings results on December 12. The company generated revenues of \$14.1 billion during the quarter, which represents an increase of 51% 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. The company hit estimates, as analysts were expecting a huge revenue increase for the quarter.

Broadcom reported earnings-per-share of \$1.42 for the fiscal fourth quarter, which was ahead of the analyst consensus estimate. The company expects that revenues will come in at around \$14.6 billion during the first quarter, which would represent a nice revenue increase on a sequential basis as well as on a year-over-year basis. The company also increased its dividend by 11%, to \$0.59 per share, in December.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$0.90	\$1.15	\$1.60	\$2.08	\$2.13	\$2.22	\$2.80	\$3.76	\$4.22	\$4.87	\$6.35	\$9.77
DPS	\$0.16	\$0.25	\$0.48	\$0.70	\$1.06	\$1.30	\$1.44	\$1.64	\$1.84	\$2.12	\$2.36	\$3.47
Shares³	2760	3980	4090	4160	4160	4260	4290	4290	4300	4300	4680	4500

Broadcom's profitability has exploded over the last decade. Indeed, its earnings-per-share rose more than fivefold between 2015 and 2024. This earnings growth was driven by a significant amount of M&A, where Broadcom has always been very active, which includes the merger with Avago in 2015.

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 moved away from a pure chip focus and diversified the business to some degree.

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, including thanks to massive investments in AI data centers by the Hyperscalers such as Microsoft, 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	13.9	13.5	14.4	10.6	13.8	15.8	18.9	12.4	19.9	34.9	34.8	18.0
Avg. Yld.	1.3%	1.6%	2.1%	3.2%	3.6%	3.7%	2.7%	3.5%	2.2%	1.2%	1.1%	2.0%

Broadcom’s shares have risen sharply over the last year, which has made them more expensive compared to how they were valued, on average, in the past. Shares are trading well above our fair value estimate, as the recent share price increase was more pronounced than Broadcom’s earnings growth. We believe that Broadcom’s valuation will decrease in the future and that this will be a meaningful headwind for total returns going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	18.3%	22.0%	30.0%	33.6%	49.8%	58.7%	51.4%	43.6%	43.6%	43.5%	37.2%	35.5%

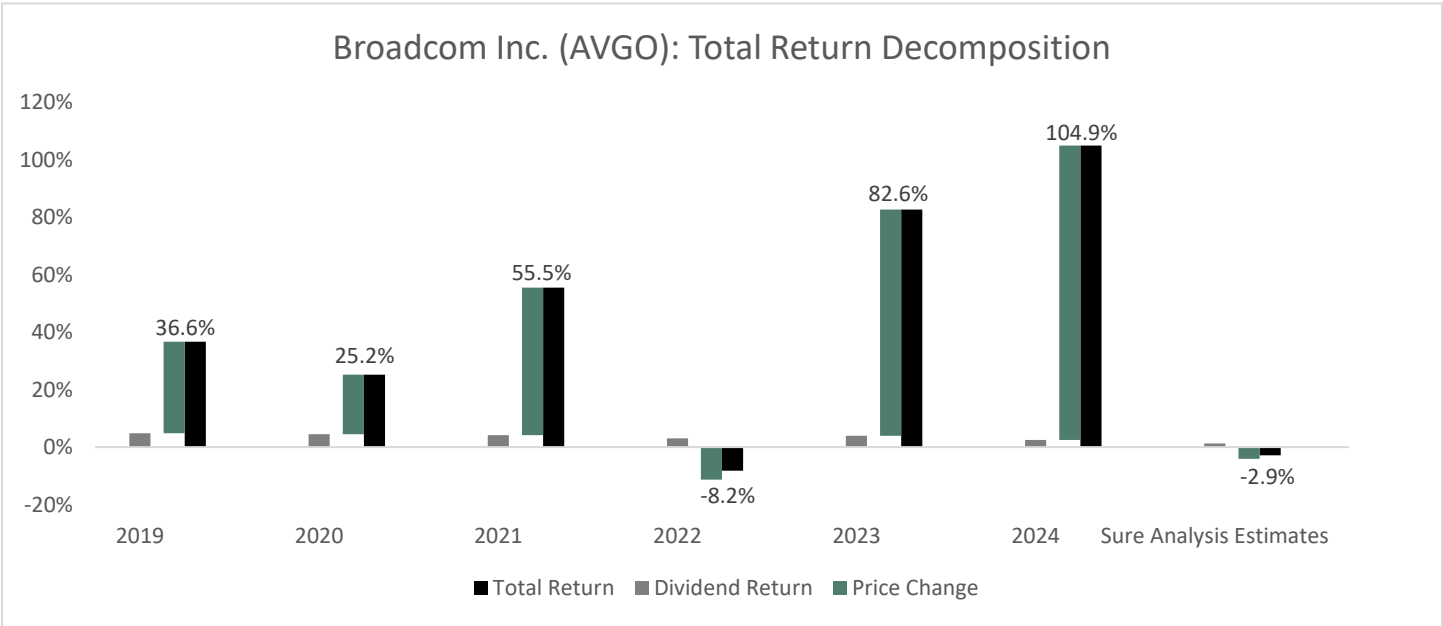
Broadcom’s dividend payout ratio has risen considerably over the last decade, due to the huge dividend increases that Broadcom has offered to its owners over that time frame. Since 2010, Broadcom increased its dividend by an incredible factor of more than 100. Broadcom’s dividend still looks relatively 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 Great Recession, 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 well-prepared for future recessions. 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 2024. 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	6,824	13,240	17,636	20,848	22,597	23,888	27,450	33,203	35,819	51,574
Gross Profit	3,553	5,940	8,509	10,733	12,483	13,516	16,844	22,095	24,690	32,509
Gross Margin	52.1%	44.9%	48.2%	51.5%	55.2%	56.6%	61.4%	66.5%	68.9%	63.0%
SG&A Exp.	486	806	789	1,056	1,709	1,935	1,347	1,382	1,592	4,959
D&A Exp.	962	3,042	4,737	4,081	5,808	6,905	6,041	4,984	3,835	10,010
Operating Profit	1,769	587	2,654	5,368	4,180	4,212	8,667	14,282	16,451	14,996
Operating Margin	25.9%	4.4%	15.0%	25.7%	18.5%	17.6%	31.6%	43.0%	45.9%	29.1%
Net Profit	1,364	(1,739)	1,784	12,259	2,724	2,960	6,736	11,495	14,082	5,895
Net Margin	20.0%	-13.1%	10.1%	58.8%	12.1%	12.4%	24.5%	34.6%	39.3%	11.4%
Free Cash Flow	1,725	2,688	5,482	8,245	9,265	11,598	13,321	16,312	17,633	19,414
Income Tax	76	642	35	(8,084)	(510)	(518)	29	939	1,015	3,748

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	10,515	49,966	54,418	50,124	67,493	75,933	75,570	73,249	72,861	165,645
Cash & Equivalents	1,822	3,097	11,204	4,292	5,055	7,618	12,163	12,416	14,189	9,348
Accounts Receivable	1,019	2,181	2,448	3,325	3,259	2,297	2,071	2,958	3,154	4,416
Inventories	524	1,400	1,447	1,124	874	1,003	1,297	1,925	1,898	1,760
Goodwill & Int. Ass.	4,951	39,800	35,538	37,675	54,268	60,229	54,824	50,725	47,520	138,456
Total Liabilities	5,801	28,090	31,232	23,467	42,523	52,032	50,581	50,540	48,873	97,967
Accounts Payable	617	1,261	1,105	811	855	836	1,086	998	1,210	1,662
Long-Term Debt	3,872	13,642	17,548	17,493	32,798	41,062	39,665	39,456	39,180	67,566
Shareholder's Equity	4,714	18,892	20,285	26,657	24,941	23,874	24,962	22,709	23,988	67,678
LTD/E Ratio	0.82	0.72	0.87	0.66	1.31	1.72	1.59	1.74	1.63	1.00

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	13.0%	-5.8%	3.4%	23.5%	4.6%	4.1%	8.9%	15.4%	19.3%	4.9%
Return on Equity	34.3%	-13.1%	7.9%	49.2%	10.6%	12.1%	27.6%	48.2%	60.3%	12.9%
ROIC	15.7%	-7.9%	4.7%	28.9%	5.3%	4.8%	10.4%	18.1%	22.5%	5.9%
Shares Out.	2760	3980	4090	4160	4160	4260	4290	4290	4300	4300
Revenue/Share	2.43	3.46	4.19	4.83	5.38	5.66	6.40	7.85	8.39	10.79
FCF/Share	0.61	0.70	1.30	1.91	2.21	2.75	3.11	3.86	4.13	4.06

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

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