

Qualcomm Incorporated (QCOM)

\$75.81 (As of 03/13/20)

Price Target (6-12 Months): **\$80.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 01/06/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: C

Growth: D

Momentum: F

Summary

Qualcomm is focused on retaining its position in the chipset market and mobile connectivity with several technological achievements and innovative product launches. It offers the flexibility and scalability needed for broad and fast 5G adoption through commercialization by OEMs. While the company expanded its leadership to the high tiers with Snapdragon 700, Snapdragon 800 solutions should continue defining the premium tier benchmarks. It is poised to benefit significantly from the settlement with Apple. However, Qualcomm is likely to face softness in demand from China with Huawei gaining prominence in the local market and OEMs managing their inventory ahead of 5G. In addition, margins have decreased sharply due to high operating expenses and R&D costs. Aggressive competition in the mobile phone chipset market is also likely to hurt profits.

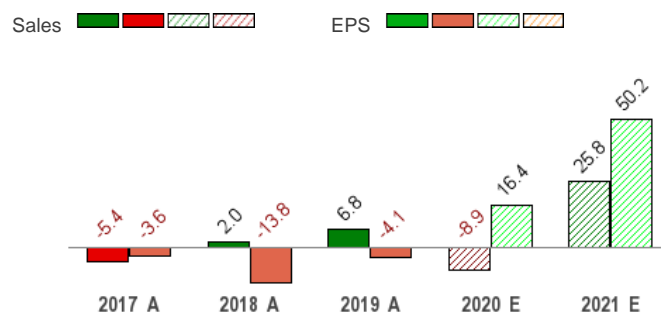
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$96.17 - \$54.92
20 Day Average Volume (sh)	12,233,463
Market Cap	\$86.7 B
YTD Price Change	-14.1%
Beta	1.46
Dividend / Div Yld	\$2.48 / 3.3%
Industry	Wireless Equipment
Zacks Industry Rank	Top 17% (44 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.5%
Last Sales Surprise	5.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/06/2020
Earnings ESP	-3.3%
P/E TTM	22.7
P/E F1	18.4
PEG F1	1.0
P/S TTM	3.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	7,320 E	6,461 E	6,605 E	7,246 E	27,826 E
2020	5,077 A	5,192 E	5,324 E	6,571 E	22,113 E
2019	4,842 A	4,982 A	9,635 A	4,814 A	24,273 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.71 E	\$1.31 E	\$1.36 E	\$1.60 E	\$6.19 E
2020	\$0.99 A	\$0.84 E	\$0.90 E	\$1.37 E	\$4.12 E
2019	\$1.20 A	\$0.77 A	\$0.80 A	\$0.78 A	\$3.54 A

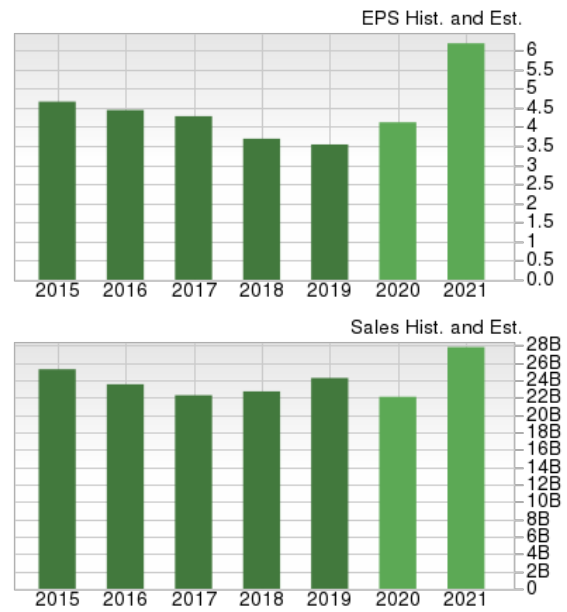
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/13/2020. The reports text is as of 03/16/2020.

Overview

Qualcomm Incorporated designs, manufactures and markets digital wireless telecom products and services based on the Code Division Multiple Access (CDMA) technology. The products include CDMA-based integrated circuits (ICs) and system software for wireless voice and data communications as well as global positioning system (GPS) products. Qualcomm's business is organized into two reporting segments as follows:

- Qualcomm CDMA Technologies (QCT)** (71.3% of GAAP revenues in first-quarter fiscal 2020): This segment reports operating results for sales of CDMA-based integrated circuit devices (chips) and system software for wireless voice and data communications, as well as GPS products. QCT's integrated circuit (IC) products are used mainly in mobile phones, wireless data access cards and infrastructure equipment. QCT offers a broad portfolio of products that support CDMA2000 1X, 1xEV-DO, EV-DO Revision A, EV-DO Revision B and UMB. Qualcomm also develops IC that supports GSM/GPRS, WCDMA, HSDPA and HSUPA technologies.
- Qualcomm Technology Licensing (QTL)** (27.7%): This segment reports revenues received from licenses to the intellectual property portfolio, which includes CDMAOne, CDMA2000 1X EV-DO/1xEV-DV, TD-SCDMA, and WCDMA technology solutions. QTL generates revenues from license fees as well as royalties based on global sales by licensees of products incorporating or using Qualcomm's intellectual property.



Reasons To Buy:

- ▲ Qualcomm's patent settlement with Apple has ensured a steady revenue stream as the agreement included a six-year license agreement effective Apr 1, 2019 along with a two-year extension option and a multi-year chipset supply agreement. Apple is expected to license the chips directly from Qualcomm instead of relying on OEMs to do it on its behalf. This will likely involve recurring payments to the mobile chip manufacturer. In first-quarter fiscal 2020, QTL revenues were up 38% year over year to \$1,404 million and was at the top end of management's guided range, driven by strong licensing business.
- ▲ For calendar year 2020, Qualcomm estimates sales of 1.75 billion to 1.85 billion units, up approximately 3% at the midpoint with 175 million to 225 million 5G handset units. The company anticipates witnessing two inflection points in fiscal 2020. The first inflection point realized during the fiscal first quarter is likely to continue in the first half of fiscal 2020 with continued strength and acceleration of 5G demand. The next inflection point is anticipated to be realized in the fiscal fourth quarter with the launch of additional 5G flagship handsets and is likely to extend into fiscal 2021.
- ▲ Qualcomm has raised the bar for driverless cars as it unveiled the first-of-its-kind automotive platform — Snapdragon Ride — which enables automakers to transform their vehicles into self-driving cars using AI. Snapdragon's scalable platform comprises the Snapdragon Ride Safety system-on-a-chip, Accelerator and the Snapdragon Ride Autonomous Stack. The combination of these self-driving algorithms facilitates a robust architecture of hardware and software that supports advanced driver assistance systems like automatic emergency braking, traffic sign recognition, lane keeping, self-parking and automated highway driving technology, commonly known as Level 1 and Level 2 systems. This augurs well for its long-term growth proposition.
- ▲ Qualcomm is one of the largest manufacturers of wireless chipset based on baseband technology. The company is focusing to retain its leadership in 5G, chipset market and mobile connectivity with several technological achievements and innovative product launches. Qualcomm has redefined the computing and mobile ecosystem across the globe with the launch of QCA6390 Connectivity SoC product. This game-changing and arguably the most advanced integrated offering from Qualcomm is likely to deliver path-breaking performance in the 5G era and provide it a competitive advantage against rivals. Built on indigenous technologies, the QCA6390 is designed to meet the growing need for faster connectivity options and data speed. Supporting all the feature suites of both Wi-Fi 6 and Bluetooth 5.1, it offers faster, more secure and robust Wi-Fi experiences and enhanced Bluetooth capabilities. These include ultra-high-definition voice and low-latency gaming over wireless headphones, earbuds and speakers. The QCA6390 sets a new industry standard with the world's first announced 14nm integrated SoC that boasts extended features and cutting-edge design. It is likely to help users experience seamless transition to super-fast 5G networks, delivering low-power resilient multi-gigabit connectivity with unprecedented range and Qualcomm's best-in-class security. This, in turn, would further offer the flexibility and scalability needed for broad and fast 5G adoption through accelerated commercialization by OEMs. With more than 150 5G design wins, Qualcomm is reportedly the only chipset vendor with 5G system level solutions spanning both sub-6, gigahertz and millimeter wave bands.

Qualcomm anticipates witnessing two inflection points in fiscal 2020 backed by new product launches including devices with 5G chipsets and growth in adjacent businesses.

Reasons To Sell:

- ▼ Over the past few years, Qualcomm's margins have decreased sharply due to high operating expenses and R&D costs. The company expects softness in the handset market and weaker overall mix of devices to remain in the near future. In addition, Qualcomm faces huge concentration risks as bulk of its revenues is generated from a handful of customers - a trend that is expected to continue in the ensuing quarters. Moreover, majority of these customers include Chinese manufacturers, which further cloud the revenue-generating potential owing to strained bilateral trade relationship with the United States.
- ▼ Shift in the share among OEMs (original equipment manufacturer) at the premium tier has reduced Qualcomm's near-term opportunity to sell integrated chipsets from the Snapdragon platform. Aggressive competition in the mobile phone chipset market is also likely to hurt Qualcomm's profits in the future. The company is facing severe competitive threat from its closest rival Intel, which has been redesigning its chipsets for the mobile computing market. Competition is also likely to come from formidable rivals like Broadcom and Nvidia.
- ▼ Qualcomm is anticipated to face continued softness in demand from China with Huawei gaining prominence in the local market and OEMs managing their inventory ahead of 5G deployment. Due to latent Sino-U.S. trade tensions, there has been a marked shift in OEM share towards Huawei, as the leading Chinese smartphone manufacturer increases its focus on domestic sales. In addition, Chinese OEMs are pulling back on new 4G device orders and managing their inventory in advance of the transition to 5G in early 2020. Consequently, Qualcomm expects a significant impact on device shipment as sell-in and sell-through growth rates realign and channel inventory levels are drawn down in China. Global 3G, 4G, 5G device shipments in 2020 are anticipated to be affected by lengthening of handset replacement rates, likely impacting unit volumes.
- ▼ Moreover, Qualcomm has been facing challenges from low-cost chip manufacturers like MediaTek and Rockchip as well as handset manufacturers' SoC projects such as Exynos by Samsung. Although the global smartphone market is expected to maintain its momentum over the next three to four years, major portion of this growth is likely to come from the low-cost emerging markets, which may weigh on Qualcomm's margins. In addition, adverse court rulings relating to its licensing business could impair its growth potential to some extent.

Aggressive competition in the mobile phone chipset market continues to bother Qualcomm. In addition, margins have decreased sharply over the years due to high operating expenses and R&D costs.

Last Earnings Report

Qualcomm Trumps Q1 Earnings Estimate on 5G Strength

Qualcomm reported solid first-quarter fiscal 2020 results with healthy year-over-year top-line increase, primarily driven by the ramp up of 5G-enabled chips. In addition, both the top and the bottom-line figures beat the respective Zacks Consensus Estimate as the company reached a significant inflection point.

Net Income

On a GAAP basis, net income for the December quarter was \$925 million or 80 cents per share compared with \$1,068 million or 87 cents per share in the prior-year quarter. The decline in GAAP earnings was primarily attributable to an income tax benefit realized in the year-earlier quarter.

Quarterly non-GAAP net income came in at \$1,151 million or 99 cents per share compared with \$1,464 million or \$1.20 per share in the year-ago quarter. The bottom line exceeded the top end of management's guidance and beat the Zacks Consensus Estimate by 14 cents.

Revenues

On a GAAP basis, total revenues in the fiscal first quarter were \$5,077 million compared with \$4,842 million in the prior-year quarter. The figure surpassed the consensus estimate of \$4,825 million and was near the higher end of the earlier guided range, driven by 5G strength, high-performing core chipsets and new RF front-end content.

Segment Results

Quarterly revenues from Qualcomm CDMA Technologies (QCT) declined 3.2% year over year to \$3,618 million. This was because strength across 5G, RF front-end and adjacent platforms was offset by lower Mobile Station Modem (MSM) chip shipments due to decrease in 4G premium tier shipments. MSM shipments in the quarter were 155 million, down from 186 million. Although EBT margin decreased to 13% from 16% in the year-ago quarter, it was well above the guided range of 10-12%.

Qualcomm Technology Licensing (QTL) revenues were \$1,404 million, up 38% year over year and was at the top end of management's guided range driven by strong licensing business and seasonally high quarter. EBT margin was 72% compared with 58% in the year-ago quarter on lower operating expenses, and was at the mid-point of the company's guidance.

Cash Flow & Liquidity

Qualcomm generated \$1,118 million of net cash from operating activities during the quarter compared with \$356 million in the year-ago quarter. At quarter end, the company had \$11,109 million in cash and equivalents with \$13,437 million of long-term debt.

During the reported quarter, Qualcomm paid out cash dividends totaling \$710 million or 62 cents per share and repurchased 9.2 million shares for \$762 million. At quarter-end, the company had \$6.3 billion available for repurchase under its \$30 billion stock buyback program.

Guidance

For the second quarter of fiscal 2020, Qualcomm expects revenues of \$4.9-\$5.7 billion. Non-GAAP earnings are projected in the 80-95 cents per share range. Revenues at QTL are expected between \$1 billion and \$1.2 billion. For QCT, the company anticipates revenues between \$3.9 billion and \$4.5 billion on MSM shipments in the range of 125 million to 145 million units.

For calendar year 2020, the company estimates sales of 1.75 billion to 1.85 billion units, up approximately 3% at the midpoint, reflecting flat handsets and low double-digit growth in non-handsets. Qualcomm expects 175 million to 225 million 5G handset units for the year.

Qualcomm anticipates witnessing two inflection points in fiscal 2020. The first inflection point realized during the fiscal first quarter is likely to continue in the first half of fiscal 2020 with continued strength and acceleration of 5G demand. The next inflection point is anticipated to be realized in the fiscal fourth quarter with the launch of additional 5G flagship handsets and is likely to extend into fiscal 2021.

Quarter Ending **12/2019**

Report Date	Feb 05, 2020
Sales Surprise	5.22%
EPS Surprise	16.47%
Quarterly EPS	0.99
Annual EPS (TTM)	3.34

Recent News

On Mar 10, 2020, Qualcomm announced a 5% year-over-year hike in its quarterly dividend payout to 65 cents per share or \$2.60 on an annualized basis. A steady dividend payout is part of the long-term strategy of Qualcomm to provide attractive risk-adjusted returns to its stockholders. Additionally, healthy dividend increases at periodic intervals have been its strength.

On Feb 18, 2020, Qualcomm unveiled Snapdragon-backed third-generation 5G modem — X60. Upping its 5G chip dominance in the global market, the much-awaited launch is likely to boost network performance and provide flexibility to operators with optimized spectrum resources, in the face of universal migration from 4G to full-fledged 5G ecosystem. The innovation in the Snapdragon 8 Series is specifically designed for top-notch 5G services with the help of sub-6 GHz spectrum and millimeter wave technology. The company has primarily been focused on developing premium category chipsets that reportedly delivered speeds of up to 7 gigabits per second with a more powerful X55 5G modem. These chips are mostly found in high-end smartphone devices.

On Jan 6, 2020, Qualcomm unveiled the first-of-its-kind automotive platform — Snapdragon Ride — which enables automakers to transform their vehicles into self-driving cars using AI. Snapdragon's scalable platform comprises the Snapdragon Ride Safety system-on-a-chip, Accelerator and the Snapdragon Ride Autonomous Stack. The combination of these self-driving algorithms facilitates a robust architecture of hardware and software that supports advanced driver assistance systems like automatic emergency braking, traffic sign recognition, lane keeping, self-parking and automated highway driving technology, commonly known as Level 1 and Level 2 systems.

Valuation

Qualcomm shares are up 33.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 7.6% over the past year, but stocks in the Zacks Computer and Technology sector are up 0.6% in the same time frame.

The S&P 500 Index is down 5.1% in the past year.

The stock is currently trading at 10.76X trailing 12-month EV/EBITDA, which compares to 17.34X for the Zacks sub-industry, 10.41X for the Zacks sector and 10.05X for the S&P 500 Index.

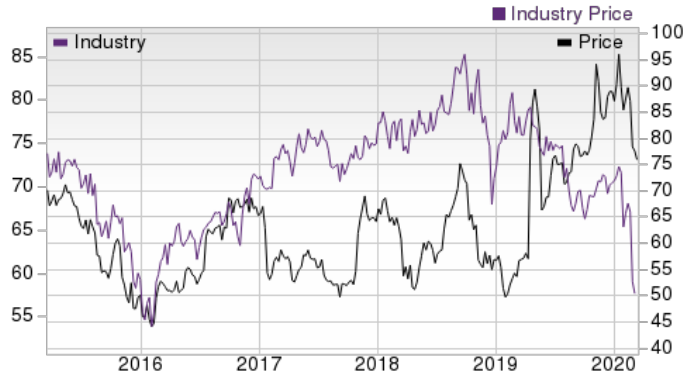
Over the past five years, the stock has traded as high as 20.12X and as low as 4.71X, with a 5-year median of 10.08X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$80 price target reflects 5.34X forward 12-month earnings.

The table below shows summary valuation data for QCOM

Valuation Multiples - QCOM					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	10.76	17.34	10.41	10.05
	5-Year High	20.12	25.84	12.76	12.87
	5-Year Low	4.71	9.84	7.6	8.31
	5-Year Median	10.08	16.08	10.59	10.79
P/E F12M	Current	14.97	15.41	18.46	15.74
	5-Year High	26.69	30.47	22.04	19.34
	5-Year Low	11.29	13.61	16.87	15.18
	5-Year Median	15.89	18.22	19.32	17.42
P/S F12M	Current	3.49	2.69	3.06	2.9
	5-Year High	5.15	3.51	3.58	3.44
	5-Year Low	2.82	2.07	2.3	2.54
	5-Year Median	3.86	2.77	3.06	3

As of 03/13/2020

Industry Analysis Zacks Industry Rank: Top 17% (44 out of 253)



Top Peers

Cirrus Logic, Inc. (CRUS)	Outperform
Intel Corporation (INTC)	Outperform
Analog Devices, Inc. (ADI)	Neutral
Advanced Micro Devices, Inc. (AMD)	Neutral
Broadcom Inc. (AVGO)	Neutral
NVIDIA Corporation (NVDA)	Neutral
Texas Instruments Incorporated (TXN)	Neutral
Xilinx, Inc. (XLNX)	Neutral

Industry Comparison Industry: Wireless Equipment				Industry Peers		
	QCOM Neutral	X Industry	S&P 500	AMD Neutral	INTC Outperform	TXN Neutral
VGM Score	F	-	-	C	C	D
Market Cap	86.65 B	231.89 M	19.05 B	51.35 B	232.80 B	99.04 B
# of Analysts	10	3	13	11	14	12
Dividend Yield	3.27%	0.00%	2.31%	0.00%	2.43%	3.39%
Value Score	C	-	-	F	C	D
Cash/Price	0.13	0.19	0.05	0.03	0.06	0.05
EV/EBITDA	9.13	9.13	11.57	66.75	7.02	14.24
PEG Ratio	0.97	1.42	1.68	1.68	1.46	2.25
Price/Book (P/B)	19.19	1.32	2.56	17.29	3.01	11.13
Price/Cash Flow (P/CF)	18.16	10.74	10.18	57.72	7.16	16.34
P/E (F1)	18.40	17.70	14.94	39.36	10.94	21.00
Price/Sales (P/S)	3.54	1.12	2.02	7.63	3.23	6.89
Earnings Yield	5.43%	5.43%	6.67%	2.55%	9.13%	4.76%
Debt/Equity	2.98	0.24	0.70	0.17	0.33	0.60
Cash Flow (\$/share)	4.17	0.49	7.01	0.76	7.60	6.49
Growth Score	D	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	-8.91%	-4.51%	10.85%	NA	20.24%	20.28%
Proj. EPS Growth (F1/F0)	16.38%	22.81%	5.99%	74.30%	2.13%	-3.63%
Curr. Cash Flow Growth	-22.34%	-8.77%	6.15%	44.79%	6.53%	-4.66%
Hist. Cash Flow Growth (3-5 yrs)	-10.62%	4.04%	8.52%	27.24%	9.99%	8.82%
Current Ratio	1.76	1.85	1.24	1.95	1.40	4.13
Debt/Capital	74.86%	25.07%	42.57%	14.67%	24.62%	37.32%
Net Margin	17.31%	3.15%	11.64%	5.07%	29.25%	34.83%
Return on Equity	66.54%	3.33%	16.74%	26.22%	29.01%	56.21%
Sales/Assets	0.73	0.78	0.54	1.26	0.54	0.81
Proj. Sales Growth (F1/F0)	-8.90%	1.21%	3.54%	29.58%	2.04%	-1.27%
Momentum Score	F	-	-	C	F	D
Daily Price Chg	13.11%	4.98%	8.21%	12.53%	19.52%	8.73%
1 Week Price Chg	-1.06%	0.00%	-0.67%	6.84%	0.45%	-0.86%
4 Week Price Chg	-15.79%	-23.35%	-22.67%	-19.49%	-19.29%	-20.16%
12 Week Price Chg	-14.33%	-23.68%	-20.46%	2.50%	-6.09%	-16.11%
52 Week Price Chg	36.84%	-28.06%	-10.79%	92.38%	1.85%	-0.99%
20 Day Average Volume	12,233,463	98,554	3,061,271	87,017,544	32,349,268	6,647,817
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.59%	-0.24%	-1.09%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.32%	0.12%	-0.24%	-1.09%
(F1) EPS Est 12 week change	5.75%	-2.82%	-0.65%	1.44%	5.34%	1.37%
(Q1) EPS Est Mthly Chg	-5.54%	-5.54%	-0.62%	-3.91%	-0.59%	-1.97%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	D
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.