

Silicon Motion (SIMO)

\$46.05 (As of 02/10/20)

Price Target (6-12 Months): **\$53.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 01/14/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: B

Summary

Silicon Motion's Q4 earnings beat the Zacks Consensus Estimate. Moreover, both earnings and revenues improved year over year and sequentially. The company's fourth-quarter revenues benefited from robust adoption of SSD Solutions, driven by improving demand for Shannon and Ferri products. Moreover, revenues from eMMC and UFS controllers improved sequentially, on account of increasing adoption of mobile embedded memory controllers. Notably, the company's Open-Channel Shannon SSDs are being commercially deployed in data centers of Alibaba and another "B-A-T customer," which is a significant milestone. Improving demand for UFS mobile embedded memory products in smartphones and growing adoption of eMMC by module makers holds promise. Notably, shares of the company have outperformed the industry in the past six-month period.

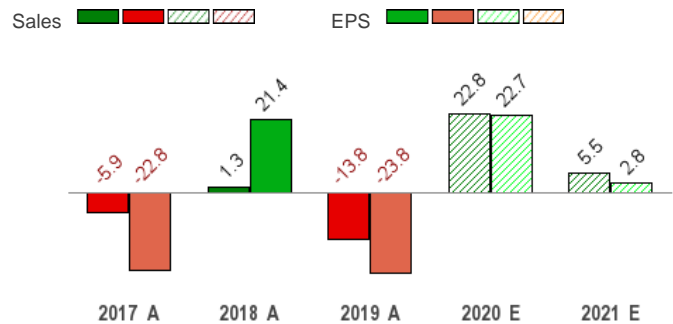
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$53.04 - \$30.86
20 Day Average Volume (sh)	289,045
Market Cap	\$1.7 B
YTD Price Change	-9.2%
Beta	1.27
Dividend / Div Yld	\$1.39 / 3.0%
Industry	Electronics - Semiconductors
Zacks Industry Rank	Top 6% (16 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.9%
Last Sales Surprise	7.3%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	05/07/2020
Earnings ESP	-0.9%
P/E TTM	23.9
P/E F1	14.4
PEG F1	2.9
P/S TTM	3.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	134 E	145 E	154 E	151 E	592 E
2020		133 E	142 E	146 E	561 E
2019	95 A	99 A	111 A	153 A	457 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.28 E
2020	\$0.70 E	\$0.75 E	\$0.84 E	\$0.92 E	\$3.19 E
2019	\$0.42 A	\$0.52 A	\$0.69 A	\$0.96 A	\$2.60 A

*Quarterly figures may not add up to annual.

Overview

Founded in 1995, Silicon Motion Technology Corporation is a leading developer of microcontroller ICs for NAND flash storage devices.

The semiconductor company also designs, develops and markets high-performance, low-power semiconductor solutions for original equipment manufacturers ("OEM") and other customers.

On May 31, 2019, Silicon Motion announced that it has concluded the sale of mobile communications business (FCI product line) to Dialog Semiconductor Plc. for \$45 million.

Post the divestiture, the company's product portfolio is primarily aimed at SSD controllers in the mobile storage market.

Mobile storage: The main offerings of the market are Embedded memory controllers, SSD controllers & solutions, Flash memory card controllers and USB flash drive controllers.

Embedded memory controllers product offering includes controllers for eMMC and its derivative multi-chip package ("MCP") embedded memory, which combine NAND flash and mobile DRAM in an integrated solution; controllers for other embedded memory solutions and commercial-grade and industrial-grade products.

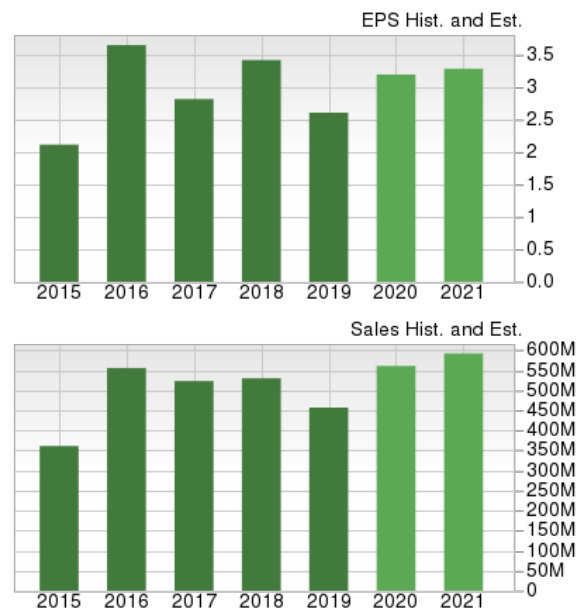
On the other hand, SSD controllers and solutions comprises SATA 6Gb/s SSD controllers for both NAND-cache SSDs and full-size client SSDs; controllers for single-chip SSDs and IDE/PATA disk-on-modules ("DOMs"); Ferri single-package SSD solutions, small single-chip SSDs.

Shannon enterprise SSD solutions aimed at enterprise and hyperscale data centers offer high storage capacity, low latency, higher input/output operations per second (IOPS), and high performance capabilities.

Flash memory card controllers offers an extensive line of high-performance controllers for all major flash memory card formats, including Compact Flash ("CF"), SD and Memory Stick ("MS").

USB flash drive controllers include USB flash drives that are popular in computing and consumer electronics markets for portable storage of files.

In 2019, Silicon Motion reported non-GAAP revenues of \$449.4 million, down 10% on a year-over-year basis.



Reasons To Buy:

- ▲ Silicon Motion has established itself as the leading merchant supplier of client SSD controller to module makers, including most market leaders in the U.S., Taiwan and China. Most of the company's clients are ditching MLC flash for TLC flash. This has made the company focus on manufacturing SSD controllers that can manage TLC flash. Going forward, Silicon Motion believes the market will be dominated by SSDs that use TLC flash, which will further bolster their use in PC's, thereby displacing mechanical HDDs. As TLC SSD offers higher performance and competitive advantage over HDDs, PCs are increasingly adopting them. Furthermore, the company believes a majority of its client SSD controller will be used for managing 3D flash, going forward. Silicon Motion believes it is well-equipped to adapt to industry changes as it has collaborated with flash vendors for nearly two years for developing proprietary controller technology to overcome existing weakness of 3D NAND and outshine peers. The company has commenced initial sales of 3D SSD controllers to flash partners and expect this controller to be a significant SSD controller growth driver for the next year, as NAND Flash partners' 3D capacity expands. Also, it commenced mass production of PCIe NVMe client SSD controller for flash partners. We believe accelerated product sales – along with favorable industry trends – signals bright prospects forward for Silicon Motion. In fact, Silicon Motion concluded the sale of mobile communications business (FCI product line) to Dialog Semiconductor Plc. to focus on SSD controllers domain. The company has also rolled out SM3282, a single chip flash controller, featuring accelerated performance and high storage capacity capabilities for cost-efficient external SSDs. Backed by pipeline expansion, Silicon Motion is banking on robust growth in SSD controllers for 2020. Further, management projects SSD solutions sales to rebound in 2020.
- ▲ Silicon Motion's eMMC is showing strong signals of rebound, thereby adding to the strength of its overall embedded storage market that comprises both SSD controllers and eMMC embedded memory. As market trends suggest the balance is tilting from transitioning of eMMC 4.5 toward that of eMMC 5.0, the company foresees lucrative prospects for eMMC 5.1 controller sales. We believe an expanding customer base and innovative products will likely act as tailwinds for the company's top-line growth, going forward. As a matter of fact, over the last 10 years, Silicon Motion has shipped over five billion controllers cumulatively – more than any other company in the world. On a yearly basis, Silicon Motion ships over 750 million NAND controllers.
- ▲ Silicon Motion has a keen eye for acquisitions that supplement its growth initiatives. In 2015, the company completed the acquisition of China's leading enterprise grade PCIe SSD and storage array vendor, Shannon Systems. The growing clout of Shannon products among leading Internet and e-commerce companies to utilities, telcos and other state-owned enterprises including government agencies, bodes well. Silicon Motion, expecting the high-end enterprise market of China to grow at least 15% for the next few years, has positioned itself well for catering to these needs. Shannon's strong leadership position, robust business pipeline and market opportunity in China will help it to achieve targeted growth in the long haul. Notably, the company's Open-Channel Shannon SSDs are being commercially deployed in data centers of Alibaba and another "B-A-T customer," which is a significant milestone. In addition, Ferri SSD controllers, also a part of the enterprise and industrial SSD offerings, is focusing on customized solution for industrial applications and gaining solid popularity among Japanese OEMs. Silicon Motion is expected to benefit from adoption of its enterprise and industrial SSD offerings.
- ▲ Silicon Motion directs considerable resources toward research and development in order to outshine its peers on that front. The company has an expert engineering team with profound knowledge in system architecture, digital, mixed-signal and RF IC design, and software engineering. For instance, in order to address the issue of affordability and to capture the higher-density equipment market, the company has planned to design its UFS2 controllers such that they can be deployed in cheap versions of TLC NAND flash as well as futuristic high-density 3D NAND. Apart from this, the company's robust liquidity position allows it to undertake diligent capital deployment initiatives that supplements long-term growth. As of Mar 31, 2019, the company had 1,456 patents (and 1,281 in pending applications) globally.

Silicon Motion has established itself as the leading merchant supplier of client SSD controller to module makers, including most market leaders in the U.S., Taiwan and China.

Risks

- The semiconductor industry, in general, is highly competitive which subjects Silicon Motion to stiff rivalry from peers. In the mobile storage market, the company encounters major competitors like Alcor Micro, ASolid, Marvell and Phison. Of late, intensifying competition in the company's card and USB flash drive controller markets are proving to be major headwinds. Apart from this, the semiconductor industry is highly dynamic as it is prone to quick technological changes, competition from evolving industry standards and declining average selling prices. Also, customers sometimes develop their own products which reduce the need of the products supplied by the company. These factors may pose as threats.
 - Silicon Motion also faces macroeconomic risks like political, economic and social instability and certain industry-specific regulations in geographies where the company operates. The tense political condition between Taiwan and People's Republic of China increases the extent of political risk for the company. Moreover, North Korea's nuclear and ballistic missile testing programs, deteriorating relationship with South Korea, leadership woes and strained relations with the U.S. are likely to affect the nation's economic conditions that will, in turn, be harmful for the company's business. Sluggishness in the global economy is likely to weigh on the company's wireless and broader semiconductor market. Uncertain macroeconomic conditions and imposition of tariff owing to trade war between the United States and China has kept the company's OEM customers and NAND flash vendors on tenterhooks for quite some time now, which is a concern.
 - Silicon Motion continues to acquire a large number of companies. While this improves revenue opportunities, business mix and profitability, it also adds to integration risks. Moreover, frequent acquisitions are a distraction for management, which could impact organic growth, going forward. We note that the buyouts negatively impacted the company's balance sheet in the form of high level of goodwill and net intangible assets. Notably, on May 15, 2019, Silicon Motion had revealed in annual filing that it is trimming Shannon sales forecast for 2019 "meaningfully." The declining operating performance of Shannon led to approximately \$5.0 million in inventory write-down in the second quarter. The company completed further write-down of goodwill and intangible assets in the third quarter of 2019 by \$16 million.
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Last Earnings Report

Silicon Motion Q4 Earnings Beat Estimate, Revenues Up Y/Y

Silicon Motion Technology Corporation reported fourth-quarter 2019 non-GAAP earnings of 96 cents per American Depositary Share (ADS), which surpassed the Zacks Consensus Estimate by 12.9% and improved 39.1% sequentially. Moreover, the figure improved 17.1% from the year-ago quarter.

Net sales (non-GAAP) increased 32% from the year-ago quarter and improved 35% sequentially to \$153 million.

On a GAAP basis, net sales increased 39% from the year-ago figure and improved 24% sequentially to \$153.2 million.

The Zacks Consensus Estimate for revenues was pegged at \$142 million.

Quarter in Detail

Sales of SSD controllers surged 25% sequentially.

Moreover, revenues from eMMC and UFS controllers improved 70% sequentially, on account of increasing adoption of mobile embedded memory controllers.

Notably, revenues from SSD solutions improved 60% sequentially on improving demand for Shannon and Ferri products.

Margins

Non-GAAP gross margin of 49.3% contracted 50 basis points (bps) on a year-over-year basis and 90 bps sequentially.

Non-GAAP operating expenses as a percentage of revenues came in at 24.9% expanding 120 bps year over year. The figure contracted 280 bps sequentially.

Consequently, non-GAAP operating margin contracted 210 bps on year-over-year basis to 24.4%. Nonetheless, the figure expanded 230 bps sequentially.

Balance Sheet & Cash Flow

Silicon Motion ended the fourth quarter with cash, cash equivalents, restricted cash and short-term investments of \$350.3 million, compared with \$337.9 million reported in the prior quarter.

The company generated \$29.4 million cash from operations during the reported quarter compared with \$4.1 million in the previous quarter.

On Oct 25, 2019, the company's board declared a new annual dividend of \$1.40 per ADS, up from \$1.20 in the past year. Quarterly installments to be paid by the company are 35 cents per ADS. Notably, on Nov 21, 2019, the company paid out \$12.1 million as annual dividend to shareholders, which marked its first installment.

Further, on Nov 21, 2018, Silicon Motion announced a new buyback program spread over a two-year period. According to terms of the program, the company will repurchase approximately \$200 million per ADS. In the reported quarter, the company did not make any repurchases. Under the buyback program, the company has repurchased shares worth \$59.8 million.

Guidance

For first-quarter 2020, Silicon Motion expects non-GAAP revenues to be in the range of \$130 million to \$138 million (indicating sequential decline of 15-10%).

Non-GAAP gross margin is anticipated within 44-46%. Non-GAAP operating margin is projected to lie in the range of 18% to 20%.

For 2020, Silicon Motion expects non-GAAP revenues to be in the range of \$539 million to \$584 million (indicating year-over-year growth of 20-30%).

Non-GAAP gross margin is anticipated within 46-48%. Non-GAAP operating margin is anticipated to lie in the range of 21.5% to 23.5%.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	7.32%
EPS Surprise	12.94%
Quarterly EPS	0.96
Annual EPS (TTM)	2.59

Recent News

On Feb 3, 2020, Silicon Motion confirmed quarterly dividend of 35 cents per ADS to be paid on Feb 27 to shareholders of record as on Feb 13.

On Jan 7, 2020, Silicon Motion announced preliminary fourth quarter 2019 results. The company expects non-GAAP revenues within 10% greater than the higher end of the prior guided range of \$133-\$139 million. Non-GAAP gross margin is projected to come in near the lower-end of the prior guided range of 48.5%-50.5%.

On Oct 25, 2019, Silicon Motion declared a new annual dividend of \$1.40 per ADS, up from \$1.20 in the past year. Quarterly installments to be paid by the company are 35 cents per ADS. Notably, the first installment, per the revised dividend, is payable on Nov 21, 2019.

On Oct 7, 2019, Silicon Motion announced preliminary third quarter 2019 results. The company expects non-GAAP revenues within 5% greater than the higher end of the prior guided range of \$104-\$108 million. Non-GAAP gross margin is projected to come in near the high-end of the prior guided range of 48%-50%.

Valuation

Silicon Motion shares are up 43.9% in the past six-month period and 15.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 28.4% and 24% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 42.2% and 30.7%, respectively.

The S&P 500 index is up 17.9% in the past six-month period and 23.8% in the past year.

The stock is currently trading at 14.38X forward 12-month earnings, which compares to 13.02X for the Zacks sub-industry, 23.08X for the Zacks sector and 19.27X for the S&P 500 index.

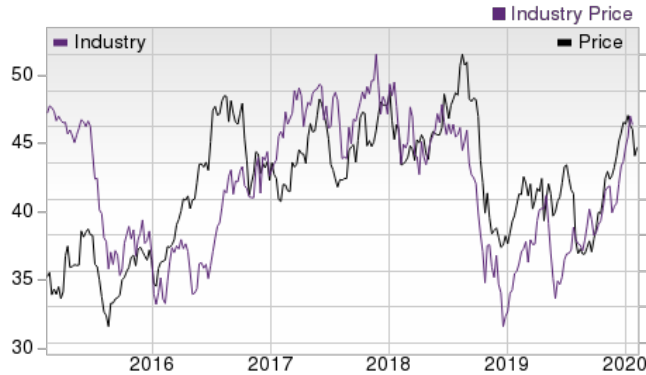
Over the past five years, the stock has traded as high as 30.43X and as low as 10.59X, with a 5-year median of 16.14X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$53 price target reflects 16.56X forward 12-month earnings.

The table below shows summary valuation data for SIMO

Valuation Multiples - SIMO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.38	13.02	23.08	19.27
	5-Year High	30.43	27.5	23.08	19.34
	5-Year Low	10.59	5.74	16.87	15.18
	5-Year Median	16.14	11.42	19.32	17.47
P/S F12M	Current	3.04	7.06	3.76	3.55
	5-Year High	4.23	7.06	3.76	3.55
	5-Year Low	1.89	2.89	2.3	2.54
	5-Year Median	2.81	5.86	3.02	3
EV/Sales TTM	Current	2.95	6.97	4.47	3.08
	5-Year High	3.92	6.97	4.47	3.27
	5-Year Low	1.57	2.69	2.56	2.15
	5-Year Median	2.59	5.29	3.46	2.77

As of 02/10/2020

Industry Analysis Zacks Industry Rank: Top 6% (16 out of 255)



Top Peers

Microchip Technology Incorporated (MCHP)	Outperform
Broadcom Inc. (AVGO)	Neutral
Cyclacel Pharmaceuticals, Inc. (CYCC)	Neutral
Marvell Technology Group Ltd. (MRVL)	Neutral
Micron Technology, Inc. (MU)	Neutral
Netlist, Inc. (NLST)	Neutral
QUALCOMM Incorporated (QCOM)	Neutral
ON Semiconductor Corporation (ON)	Underperform

Industry Comparison Industry: Electronics - Semiconductors				Industry Peers		
	SIMO Outperform	X Industry	S&P 500	MRVL Neutral	MU Neutral	ON Underperform
VGM Score	D	-	-	F	C	D
Market Cap	1.66 B	745.09 M	24.17 B	16.20 B	63.53 B	8.44 B
# of Analysts	5	2	13	12	7	11
Dividend Yield	3.02%	0.00%	1.77%	0.99%	0.00%	0.00%
Value Score	D	-	-	D	B	B
Cash/Price	0.18	0.18	0.04	0.03	0.12	0.11
EV/EBITDA	10.80	8.08	13.89	29.74	4.87	7.36
PEG Ratio	2.89	2.00	2.05	3.42	NA	1.93
Price/Book (P/B)	3.01	2.57	3.27	2.26	1.74	2.60
Price/Cash Flow (P/CF)	12.02	12.09	13.60	14.96	5.04	6.33
P/E (F1)	14.44	22.38	19.00	25.97	23.59	14.79
Price/Sales (P/S)	3.64	3.08	2.66	5.94	3.08	1.53
Earnings Yield	6.93%	2.62%	5.26%	3.85%	4.24%	6.77%
Debt/Equity	0.00	0.08	0.71	0.28	0.16	0.89
Cash Flow (\$/share)	3.83	0.75	6.89	1.61	11.36	3.25
Growth Score	D	-	-	F	D	D
Hist. EPS Growth (3-5 yrs)	5.64%	3.58%	10.85%	7.93%	68.56%	24.74%
Proj. EPS Growth (F1/F0)	22.62%	24.03%	7.22%	43.26%	-61.73%	-6.77%
Curr. Cash Flow Growth	56.89%	-0.41%	8.88%	70.60%	-35.35%	20.30%
Hist. Cash Flow Growth (3-5 yrs)	33.74%	12.49%	8.36%	14.93%	15.84%	24.07%
Current Ratio	6.50	3.02	1.22	2.88	2.56	1.54
Debt/Capital	0.00%	8.06%	42.90%	22.13%	13.70%	47.05%
Net Margin	14.08%	1.81%	11.81%	-16.47%	17.01%	3.84%
Return on Equity	12.22%	4.78%	16.98%	3.59%	11.36%	18.85%
Sales/Assets	0.67	0.70	0.54	0.27	0.43	0.67
Proj. Sales Growth (F1/F0)	18.46%	6.80%	4.06%	13.68%	-12.66%	5.43%
Momentum Score	B	-	-	D	A	F
Daily Price Chg	-2.10%	0.30%	0.45%	0.54%	0.79%	0.44%
1 Week Price Chg	2.51%	2.51%	2.47%	-0.08%	7.14%	-11.66%
4 Week Price Chg	-12.39%	0.92%	0.95%	-12.25%	-0.21%	-18.88%
12 Week Price Chg	7.97%	8.36%	5.05%	-7.54%	19.89%	-2.82%
52 Week Price Chg	14.49%	17.29%	16.18%	26.77%	48.60%	-7.64%
20 Day Average Volume	289,045	193,770	1,999,386	11,233,253	21,924,154	9,181,029
(F1) EPS Est 1 week change	0.19%	0.00%	0.00%	-1.15%	2.87%	-5.44%
(F1) EPS Est 4 week change	0.19%	0.00%	0.00%	-1.15%	2.87%	-12.53%
(F1) EPS Est 12 week change	5.77%	0.52%	-0.18%	-23.12%	-2.07%	-12.75%
(Q1) EPS Est Mthly Chg	-11.79%	0.00%	0.00%	0.00%	0.56%	-25.53%

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	D
Growth Score	D
Momentum Score	B
VGM Score	D

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.

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