

Semtech Corporation (SMTC)

\$52.72 (As of 05/29/20)

Price Target (6-12 Months): **\$56.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/09/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: F

Summary

Semtech reported decent fiscal first-quarter results on diversification strategy. The company continues to benefit from its diversification strategy. Further, product differentiation, operational flexibility, and specific focus on fast-growing segments and regions continue to be its key growth drivers. Additionally, Semtech's solid momentum across industrial and communications markets continues to drive its top-line growth. Moreover, well-performing LoRa business of the company is a major positive. Also, the company is gaining traction across data center, Internet of Things and mobile markets. However, overall global demand environment in key end-markets is a major negative. Also, the weakening momentum in the consumer market and macro headwinds in China remain concerns.

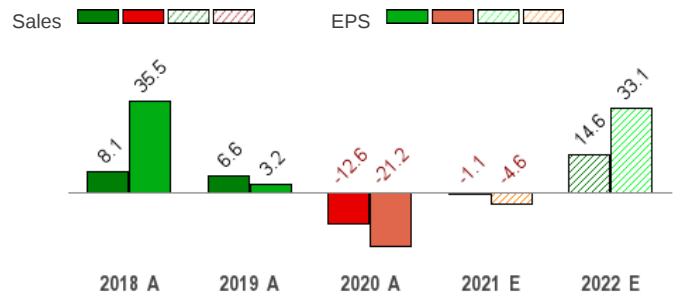
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$57.00 - \$26.03
20 Day Average Volume (sh)	408,400
Market Cap	\$3.5 B
YTD Price Change	0.5%
Beta	1.65
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Semiconductor - Analog and Mixed
Zacks Industry Rank	Bottom 44% (142 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.4%
Last Sales Surprise	3.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	NA
Earnings ESP	1.3%
P/E TTM	34.5
P/E F1	36.4
PEG F1	3.0
P/S TTM	6.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	146 E	154 E	162 E	159 E	621 E
2021	133 A	132 E	139 E	144 E	542 E
2020	131 A	137 A	141 A	138 A	548 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.42 E	\$0.48 E	\$0.53 E	\$0.51 E	\$1.93 E
2021	\$0.35 A	\$0.33 E	\$0.39 E	\$0.42 E	\$1.45 E
2020	\$0.34 A	\$0.38 A	\$0.41 A	\$0.40 A	\$1.52 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 05/29/2020. The reports text is as of 06/01/2020.

Overview

Headquartered in Flynn Road Camarillo, CA, Semtech Corporation designs, manufactures and markets a wide range of analog and mixed-signal semiconductors for commercial applications.

The product line comprises Signal Integrity Products, Protection Products, Power and High-Reliability Products, Wireless and Sensing Products, and Systems Innovation Group.

The company's devices are used in a variety of applications including computer, communications, industrial, military-aerospace and automotive. The company also provides a limited amount of wafer foundry services to other electronic component manufacturers.

Semtech has manufacturing facilities in Irvine, Camarillo and San Diego in California, Reynosa in Mexico and Neuchâtel in Switzerland.

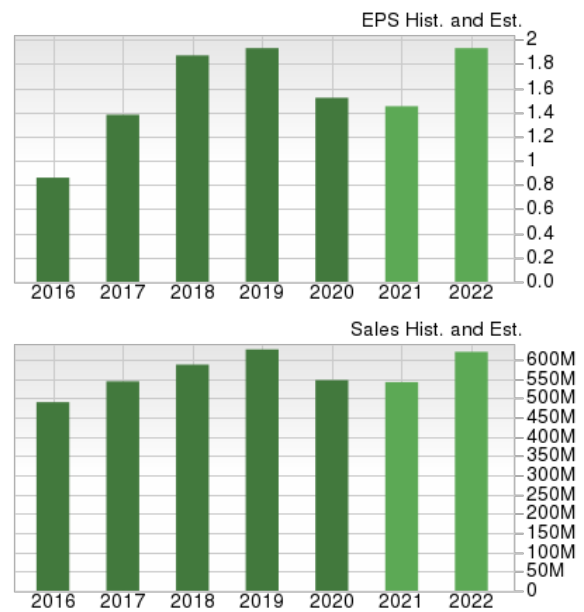
In fiscal 2020, the company generated \$547.5 billion in revenues, which was derived from four end markets—Enterprise Computing (31% of fiscal 2020 revenue), Industrial and Other (26%), High-End Consumer (26%), Communications (18%).

In Enterprise Computing market, the company caters to the demand for products needed in data centers, monitors, desktops, notebook, passive optical networks, servers and other computer peripherals.

In Communications market, Semtech takes care of the needs of wireless LAN, base stations, cable modems, optical networks, carrier networks, switches and routers. It also caters to the demand for equipment required in other communication infrastructures.

The company serves the requirements needed in tablets, wearables, digital video recorders, handheld products, wireless charging, set-top boxes, smartphones, digital televisions, monitors and displays in high-end Consumer market.

Further, equipment requirements in smart grid, wireless charging, military and aerospace, medical, security systems, automotive, industrial and home automation analog and digital video broadcast equipment, video-over-IP solutions, automated meter reading and Internet of Things are taken care of by Semtech in its Industrial end-market.



Reasons To Buy:

- ▲ Semtech has a **specific focus on fast-growing segments and regions**. The company has been targeting analog/mixed signal sub-segments of some of the most potential and fast growing end markets. The enterprise computing, industrial, communications and high-end consumer markets are characterized by a number of trends such as increasing bandwidth over high-speed networks, growing need for more efficient energy management in home and industrial settings, increasing electronic system requirements for mobile devices, rising demand for Internet connectivity to low power sensors and propagation of green standards. All these trends are driving demand for Semtech's products.
- ▲ Semtech **acquired AptoVision**, a privately held company that provides algorithms for transporting video over Internet protocol (IP). The acquisition is expected to strengthen Semtech's position in the video over IP Pro AV space in the long-term. This market is expected to expand significantly over the years to come driven by an increase in video consumption and distribution across a large number of industrial applications including education, transport, medical and retail.
- ▲ The company carries on **product differentiation and price competition** simultaneously. While there is continuous focus on creating new, unique and proprietary products that add performance and value, they are priced competitively. Semtech continues to attain design wins with new and existing customers, which in turn underscores its strong growth potential. Further, outsourcing provides operational flexibility to Semtech. The company outsources the major part of its manufacturing so that it can better focus on designing, developing and marketing functions. The company's primary wafer foundries are located in the U.S. China and Israel. Outsourcing leads to capital efficiency and technological flexibility and at the same time reduces investment risk.
- ▲ Semtech has a solid balance sheet. At the end of fiscal first quarter 2021, the company's net cash amounted to \$78 million compared with \$98 million in the prior quarter. The strong net cash balance will not only help it pursue strategic acquisitions but will also enable it repurchase shares aggressively in the long haul. Moreover, debt-to-total capital was 22.4% as of Apr 30, 2020 which is lower than the industry average of 43.3%.

Key growth drivers for Semtech are product differentiation, operational flexibility and a specific focus on fast-growing segments and regions.

Reasons To Sell:

- ▼ Semtech's end markets, especially the high-end consumer and industrial, experience **seasonality**. These end markets experience weaker demand in the first and fourth quarters, relative to second and third quarters. The seasonality causes considerable fluctuations in revenues and profits and makes forecasting difficult.
- ▼ Semtech operates in an intensely **competitive market** where its success depends on new product development capacity, capacity to recruit and retain industry experts and marketing efficiency. Some of the major competitors of the company include ON Semiconductor, Texas Instruments, Maxim Integrated Products, Broadcom Limited, Microsemi Corporation, Cypress Semiconductor Corp and Monolithic Power Systems. The market is characterized by lower entry barriers and frequent technological improvements that increase the chances of price competition. Pricing pressure makes Semtech susceptible to reduced sales and lower margins.
- ▼ The nature of business makes Semtech vulnerable to **foreign exchange risk**. A significant part of the company's assets exist in non-U.S. dollar-denominated currencies such as the Swiss franc, euro, British pound sterling, Canadian dollars, Mexican peso and Japanese yen. Thus, appreciation or depreciation of the U.S. dollar versus these foreign currencies could impact the company's financial results.

Major headwinds for Semtech are seasonality, a competitive market and foreign exchange risk.

Last Earnings Report

Semtech Q1 Earnings & Revenues Surpass Estimates

Semtech Corporation's fiscal first-quarter 2021 non-GAAP earnings of 35 cents per share surpassed the Zacks Consensus Estimate by 3 cents. The reported earnings decreased 12.5% sequentially but increased 2.9% year over year.

Non-GAAP revenues of \$132.7 million decreased 3.8% sequentially but increased 1% from the prior-year quarter. Stronger demand from the infrastructure end market was offset by softer demand, and some temporary supply constraints in high-end consumer and industrial end markets.

Revenues surpassed the Zacks Consensus Estimate by 3.1%.

Its key growth drivers are product differentiation, operational flexibility, and specific focus on fast-growing segments and regions.

Management remains optimistic about the LoRa business amid the COVID-19 pandemic. As LoRa is ideally suited for applications such as contact tracing, distance tracking, hygiene and health monitoring, as well as occupancy management, the company expects to see further growth in the LoRa business.

Let's delve into the numbers in detail:

Revenues by End Market

Sales to the infrastructure end market (including enterprise computing and communications end markets) — which represented 43% of its total revenues — increased 1% on a sequential basis and 24% year over year, driven by a strong rebound in PON demand.

However, revenues from the industrial market decreased 9% sequentially and represented 30% of total net revenues.

Also, sales to the high-end consumer market represented 27% of total revenues and decreased 5% sequentially. Roughly 16% of high-end consumer revenues were attributed to mobile devices and 11% to other consumer systems.

Revenues by Product Group

Signal Integrity Product Group revenues contributed 45% to total sales. The reported figure increased 2% sequentially and 19% from the prior year. The increase was driven by persistently strong hyperscale data center customer addition, and solid demand for 10 gig PON and 5G PMD products.

Revenues from Protection Product Group represented 30% of the total revenues. The figure was up 5% sequentially.

Management expects encouraging prospects for protection platforms in mobile devices, displays and accessories in the near term as 5G smartphones integrate higher performance interfaces and more advanced photography devices.

Revenues from Wireless and Sensing Product Group, which contributed 25% to total revenues, decreased 20% sequentially. The decrease was due to several regional shutdowns associated with COVID-19, which impacted both demand and supply.

Bookings

Net bookings grew 22% sequentially on the back of strength in LoRa-enabled, 100G data center CDRs and broad-based Protection devices.

The book-to-bill ratio was above 1.

Margins and Net Income

Non-GAAP gross margin was 61.3%, down 20 basis points (bps) sequentially and 90 bps from the year-ago quarter. The decrease was due to lower absorption associated with the shutdowns.

Semtech's adjusted selling, general and administrative expenses decreased 1.1% year over year to \$28.4 million. However, product development and engineering expenses increased 1.8% from the year-ago quarter to \$24.8 million.

As a result, its operating margin of 21.2% was down 130 bps sequentially and 60 bps year over year.

Balance Sheet & Cash Flow

Semtech ended the quarter with cash and cash equivalents of \$268.9 million versus \$293.3 million in the fiscal fourth quarter. Accounts receivables were \$49.5 million, down from \$61.9 million in the fiscal fourth quarter. Long-term debt was \$190.8 million, down from \$194.7 million in the fiscal fourth quarter.

During the quarter, cash flow from operations was \$26.1 million, capital expenditure amounted to \$7.7 million and free cash flow totaled \$18.4 million.

During the quarter, the company repurchased 855,000 shares for \$30 million.

Guidance

Quarter Ending 04/2020

Report Date	May 27, 2020
Sales Surprise	3.05%
EPS Surprise	9.38%
Quarterly EPS	0.35
Annual EPS (TTM)	0.97

For fiscal second-quarter 2021, management expects revenues in the range of \$138-\$146 million.

Non-GAAP gross profit margin is expected within 61.2-62%. Management projects SG&A expenses within \$28.5-\$29.5 million, and research and development costs in the range of \$24.5-\$25.5 million. Non-GAAP earnings per share are expected in the range of 40-44 cents.

Recent News

On **Apr 8, 2020**, Semtech announced that Polysense Technologies Inc. has unveiled a series of smart human body temperature monitoring products based on Semtech's LoRa devices. These products are expected to help public health officials to efficiently monitor the temperature of the public in places like airports, railway stations, schools, shopping centers and large building entrances.

On **March 11, 2020**, Semtech announced the availability of FiberEdge driver, namely GN1840. Further, GN1840 is a low power, linear 26GBaud, packaged DML driver, which delivers high bandwidth. It is also best suited to the 5G wireless applications. Additionally, the latest driver can be used ideally in 50GBASE-LR and 200GBASE-LR4 applications, courtesy of its high bias and modulation current driving abilities.

Valuation

Semtech shares are up 0.5% in the year-to-date period and 33% over the trailing 12-month period. Stocks in the Zacks sub-industry is down 9.2% but the Zacks Computer & Technology sector is up 4.4% in the year-to-date period. Over the past year, the Zacks sub-industry is up 17.4% and the sector is up 27.4%, respectively.

The S&P 500 index is down 5.4% in the year-to-date period but up 11.1% in the past year.

The stock is currently trading at 33.02X forward 12-month earnings, which compares to 25.54X for the Zacks sub-industry, 24.36X for the Zacks sector and 22.09X for the S&P 500 index.

Over the past five years, the stock has traded as high as 71.22X and as low as 12.91X, with a 5-year median of 25.98X. Our Neutral recommendation indicates that the stock will perform inline with the market. Our \$56 price target reflects 28.61X forward 12-month earnings.

The table below shows summary valuation data for SMTC

Valuation Multiples - SMTC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	33.02	25.54	24.36	22.09
	5-Year High	71.22	25.54	24.36	22.09
	5-Year Low	12.91	13.42	16.72	15.23
	5-Year Median	25.98	18.09	19.26	17.49
P/S F12M	Current	5.21	4.41	3.61	3.34
	5-Year High	6.34	4.52	3.61	3.44
	5-Year Low	1.9	2.81	2.32	2.53
	5-Year Median	3.8	3.7	3.1	3.01
EV/EBITDA TTM	Current	23.15	11.58	11.62	10.91
	5-Year High	27.03	14.24	12.71	12.86
	5-Year Low	6.8	8.14	7.56	8.26
	5-Year Median	15.64	11.61	10.68	10.78

As of 05/29/2019

Industry Analysis Zacks Industry Rank: Bottom 44% (142 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
MACOM Technology Solutions Holdings, Inc. (MTSI)	Outperform	2
Analog Devices, Inc. (ADI)	Neutral	3
Broadcom Inc. (AVGO)	Neutral	3
Inphi Corporation (IPHI)	Neutral	2
Monolithic Power Systems, Inc. (MPWR)	Neutral	3
Maxim Integrated Products, Inc. (MXIM)	Neutral	3
ON Semiconductor Corporation (ON)	Neutral	3
Texas Instruments Incorporated (TXN)	Neutral	3

Industry Comparison Industry: Semiconductor - Analog And Mixed				Industry Peers		
	SMTC	X Industry	S&P 500	ADI	MTSI	TXN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	2	-	-	3	2	3
VGM Score	F	-	-	C	C	D
Market Cap	3.46 B	6.41 B	21.48 B	41.61 B	2.12 B	108.98 B
# of Analysts	7	9	14	12	7	12
Dividend Yield	0.00%	0.00%	1.96%	2.20%	0.00%	3.03%
Value Score	D	-	-	C	D	D
Cash/Price	0.10	0.09	0.06	0.02	0.11	0.05
EV/EBITDA	35.85	18.28	12.56	18.20	-9.22	15.79
PEG Ratio	3.03	2.05	2.87	2.12	NA	3.17
Price/Book (P/B)	5.23	4.12	2.92	3.59	7.41	14.09
Price/Cash Flow (P/CF)	34.66	17.62	11.74	15.22	30.75	18.29
P/E (F1)	36.36	37.02	21.35	26.45	46.89	29.62
Price/Sales (P/S)	6.31	4.64	2.27	7.51	4.54	7.72
Earnings Yield	2.73%	2.70%	4.52%	3.78%	2.14%	3.38%
Debt/Equity	0.29	0.57	0.76	0.44	2.39	0.71
Cash Flow (\$/share)	1.53	2.91	6.96	7.42	1.03	6.49
Growth Score	D	-	-	D	A	C
Hist. EPS Growth (3-5 yrs)	11.89%	14.19%	10.87%	16.81%	-44.85%	19.56%
Proj. EPS Growth (F1/F0)	-4.61%	-14.02%	-10.48%	-17.07%	333.50%	-23.51%
Curr. Cash Flow Growth	-28.03%	-12.47%	5.39%	-9.88%	-30.98%	-4.66%
Hist. Cash Flow Growth (3-5 yrs)	-5.21%	22.53%	8.55%	24.75%	-8.89%	8.82%
Current Ratio	4.72	2.56	1.29	1.30	4.50	3.49
Debt/Capital	22.38%	38.02%	44.54%	30.73%	70.52%	41.56%
Net Margin	6.47%	2.31%	10.59%	20.05%	-76.21%	35.17%
Return on Equity	9.48%	12.00%	16.26%	14.51%	-12.55%	57.45%
Sales/Assets	0.53	0.47	0.55	0.26	0.42	0.80
Proj. Sales Growth (F1/F0)	-0.93%	-6.28%	-2.53%	-12.17%	3.56%	-14.91%
Momentum Score	F	-	-	A	C	C
Daily Price Chg	3.38%	2.15%	-0.11%	1.79%	3.32%	2.48%
1 Week Price Chg	11.16%	8.48%	4.99%	9.10%	9.69%	4.79%
4 Week Price Chg	17.55%	4.23%	4.40%	3.06%	3.56%	2.30%
12 Week Price Chg	36.08%	6.01%	-2.75%	3.75%	26.44%	3.50%
52 Week Price Chg	29.71%	16.62%	0.07%	15.18%	116.58%	12.61%
20 Day Average Volume	408,400	1,049,248	2,425,602	2,251,237	578,866	4,324,883
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-0.56%	-1.70%	-1.12%	496.55%	-0.66%
(F1) EPS Est 12 week change	-47.27%	-31.66%	-16.00%	-10.06%	1,050.00%	-21.50%
(Q1) EPS Est Mthly Chg	0.00%	0.65%	-3.25%	0.35%	2,808.33%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	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.

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