

Semtech Corporation (SMTC)

\$45.23 (As of 05/19/20)

Price Target (6-12 Months): **\$48.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/09/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: D

Summary

Semtech 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 company's weakening momentum in the consumer market and macro headwinds in China remain concerns. Also, intensifying competition in the semiconductor space is a headwind. Notably, the stock has underperformed the industry over a year.

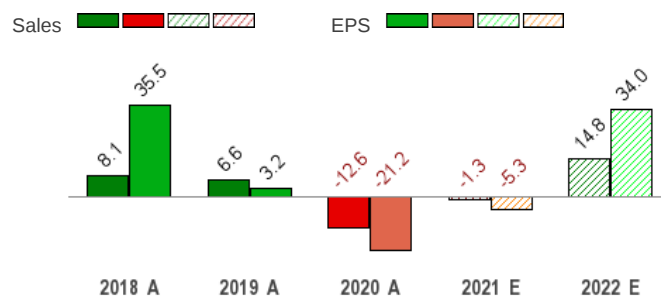
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$55.30 - \$26.03
20 Day Average Volume (sh)	374,496
Market Cap	\$2.9 B
YTD Price Change	-14.5%
Beta	1.65
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Semiconductor - Analog and Mixed
Zacks Industry Rank	Bottom 49% (129 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	14.3%
Last Sales Surprise	2.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/27/2020
Earnings ESP	0.0%
P/E TTM	29.6
P/E F1	31.4
PEG F1	2.6
P/S TTM	5.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	144 E	151 E	159 E	157 E	621 E
2021	129 E	130 E	139 E	143 E	541 E
2020	131 A	137 A	141 A	138 A	548 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.41 E	\$0.46 E	\$0.51 E	\$0.49 E	\$1.93 E
2021	\$0.31 E	\$0.32 E	\$0.38 E	\$0.41 E	\$1.44 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 05/19/2020. The reports text is as of 05/20/2020.

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.

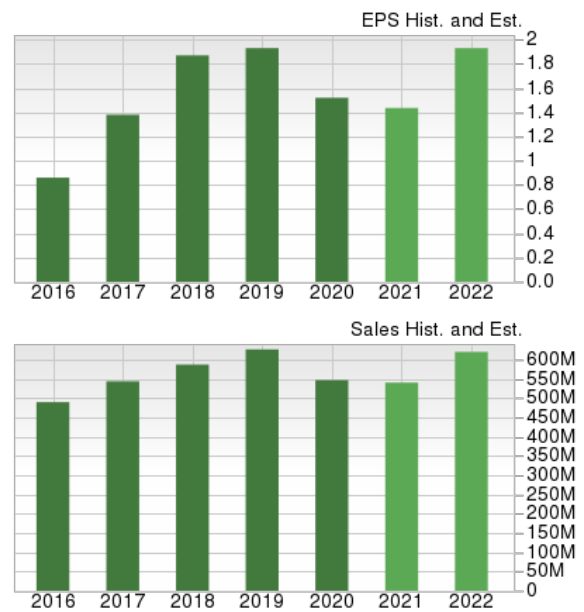
In fiscal 2020, the company generated \$547.5 billion in revenues, which was derived from four end markets—Enterprise Computing (31% of fiscal 2020 revenue), Industrial and Other (26%), High-End Consumer (26%), Communications (18%).

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. As of Jan 31, 2020, the company's net cash amounted to \$98 million compared with \$86 million as of Oct 31, 2019. 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 22.3% as of Jan 31, 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 Q4 Earnings & Revenues Surpass Estimates

Semtech Corporation's fiscal fourth-quarter 2020 non-GAAP earnings of 40 cents per share surpassed the Zacks Consensus Estimate by 5 cents. However, the reported earnings decreased 2.4% sequentially and 27.3% year over year.

Non-GAAP revenues of \$138 million decreased 2.1% sequentially and 13.8% from the prior-year quarter. The decrease was due to softer demand from industrial and consumer end markets, partially offset by stronger demand from enterprise computing and communications end markets.

Revenues surpassed the Zacks Consensus Estimate by 2.6% and came at the higher end of the guided range of \$130-\$140 million.

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

Let's delve into the numbers in detail:

Revenues by End Market

Sales to the enterprise computing end market—which represented 32% of its total revenues—increased on a sequential basis, driven by a strong rebound in PON demand. Also, communications end market increased sequentially, representing 10% of the total revenues.

However, revenues from the industrial market decreased from the prior-year quarter and represented 31% of total net revenues.

Also, sales to the high-end consumer market represented 26% of total revenues and decreased sequentially due to lower smartphone demand. Roughly 18% of high-end consumer revenues were attributable to mobile devices and 8% to other consumer systems.

Revenues by Product Group

Signal Integrity Product Group revenues contributed 43% to total sales. The reported figure increased 1% sequentially. The sequential increase was driven by stronger demand from data center and base station segments.

Revenues from Protection Product Group represented 27% of the total revenues. The figure was down 6% sequentially due to weak smartphone demand.

However, management expects prospects for protection platforms in mobile devices, displays and accessories to remain positive 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 30% to total revenues, decreased 2% sequentially.

Bookings

Bookings, which accounted for roughly 37% of shipments, decreased on a sequential basis during the quarter. The book-to-bill ratio was above 1.

Margins and Net Income

Non-GAAP gross margin was 61.5%, down 10 basis points (bps) sequentially and 60 bps from the year-ago quarter.

Semtech's adjusted selling, general and administrative expenses increased 4.6% year over year to \$29.8 million. However, product development and engineering expenses decreased 1% from the year-ago quarter to \$24.1 million.

As a result, its operating margin of 22.5% was down 150 bps sequentially and 640 bps year over year.

Balance Sheet & Cash Flow

Semtech ended the quarter with cash and cash equivalents of \$293.3 million versus \$283.1 million in the fiscal third quarter. Accounts receivables were \$61.9 million, up from \$61.4 million in the fiscal third quarter. Long-term debt was \$194.7 million, up from \$179.1 million in the fiscal third quarter.

During the quarter, cash flow from operations was \$45.3 million, capital expenditure amounted to \$2.6 million and free cash flow totaled \$42.6 million. During the quarter, the company repurchased 0.5 million shares for \$27.6 million.

Guidance

For fiscal first-quarter 2021, management expects revenues in the range of \$125-\$135 million. Non-GAAP gross profit margin is expected within 61-62%. Management projects SG&A expenses within \$28-\$29 million, and research and development costs in the range of \$24-\$25 million. Non-GAAP earnings per share are expected in the range of 30-36 cents.

Quarter Ending 01/2020

Report Date	Mar 11, 2020
Sales Surprise	2.56%
EPS Surprise	14.29%
Quarterly EPS	0.40
Annual EPS (TTM)	1.53

Recent News

On **Nov 14, 2019**, Semtech rolled out new BlueRiver audio visual processor (AVP) chipset which enables a new generation of lower cost peripherals and integration directly into end-products. Further, the new chipset is capable of driving growth of SDVoE-enabled products.

Valuation

Semtech shares are down 14.5% in the year-to-date period but up 1.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are down 11.9% and 1.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 15.2% and the sector is up 9.4%, respectively.

The S&P 500 index is down 8.2% in the year-to-date period but up 3% in the past year.

The stock is currently trading at 28.63X forward 12-month earnings, which compares to 24.91X for the Zacks sub-industry, 23.79X for the Zacks sector and 21.52X for the S&P 500 index.

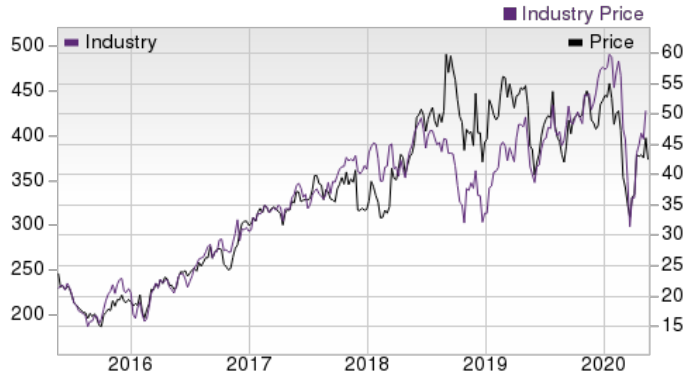
Over the past five years, the stock has traded as high as 69.75X and as low as 12.91X, with a 5-year median of 25.94X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$48 price target reflects 28.61X forward 12-month earnings.

The table below shows summary valuation data for SMTC

Valuation Multiples - SMTC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	28.63	24.91	23.79	21.52
	5-Year High	69.75	24.91	23.79	21.52
	5-Year Low	12.91	13.42	16.71	15.23
	5-Year Median	25.94	18.12	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 05/19/2019

Industry Analysis Zacks Industry Rank: Bottom 49% (129 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)	3	-	-	3	2	3
VGM Score	D	-	-	D	B	D
Market Cap	2.95 B	5.81 B	19.91 B	39.15 B	2.03 B	103.41 B
# of Analysts	7	9	14	12	7	12
Dividend Yield	0.00%	0.00%	2.14%	2.33%	0.00%	3.19%
Value Score	D	-	-	D	D	D
Cash/Price	0.11	0.10	0.07	0.02	0.12	0.05
EV/EBITDA	30.37	17.19	12.09	17.12	-8.90	14.99
PEG Ratio	2.78	1.98	2.68	1.98	NA	2.99
Price/Book (P/B)	4.42	3.79	2.75	3.35	7.10	13.37
Price/Cash Flow (P/CF)	29.48	16.71	10.68	14.33	29.45	17.36
P/E (F1)	33.32	34.78	19.96	24.75	44.91	27.93
Price/Sales (P/S)	5.38	4.59	2.01	6.81	4.35	7.33
Earnings Yield	3.18%	2.91%	4.83%	4.04%	2.24%	3.58%
Debt/Equity	0.29	0.57	0.76	0.41	2.39	0.71
Cash Flow (\$/share)	1.53	2.91	7.01	7.42	1.03	6.49
Growth Score	C	-	-	D	A	C
Hist. EPS Growth (3-5 yrs)	11.89%	14.19%	10.87%	19.53%	-44.85%	19.56%
Proj. EPS Growth (F1/F0)	-5.55%	-13.77%	-10.48%	-16.57%	333.50%	-23.00%
Curr. Cash Flow Growth	-28.03%	-12.47%	5.51%	-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	4.67	2.56	1.28	1.08	4.50	3.49
Debt/Capital	22.33%	38.02%	44.46%	28.87%	70.52%	41.56%
Net Margin	7.16%	2.31%	10.59%	21.06%	-76.21%	35.17%
Return on Equity	9.30%	11.96%	16.27%	15.38%	-12.55%	57.45%
Sales/Assets	0.52	0.47	0.55	0.27	0.42	0.80
Proj. Sales Growth (F1/F0)	-1.18%	-6.28%	-2.49%	-10.26%	3.56%	-14.91%
Momentum Score	D	-	-	B	B	B
Daily Price Chg	-2.58%	-1.23%	-1.38%	-1.86%	-0.39%	-1.52%
1 Week Price Chg	-7.81%	-8.23%	-4.56%	-7.31%	-9.53%	-5.88%
4 Week Price Chg	16.27%	15.23%	6.08%	10.22%	32.33%	5.47%
12 Week Price Chg	7.38%	-1.75%	-13.96%	-7.27%	13.77%	-4.82%
52 Week Price Chg	1.05%	4.52%	-7.85%	6.46%	123.60%	5.31%
20 Day Average Volume	374,496	1,112,057	2,586,392	2,321,319	655,641	5,225,345
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.64%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-1.69%	-4.62%	-0.52%	496.55%	-10.76%
(F1) EPS Est 12 week change	-48.28%	-31.66%	-16.58%	-9.24%	1,050.00%	-20.97%
(Q1) EPS Est Mthly Chg	0.00%	-0.65%	-10.10%	-1.30%	2,808.33%	-19.29%

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	C
Momentum Score	D
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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