

Skyworks Solutions (SWKS)

\$147.20 (As of 08/03/20)

Price Target (6-12 Months): **\$155.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 08/05/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

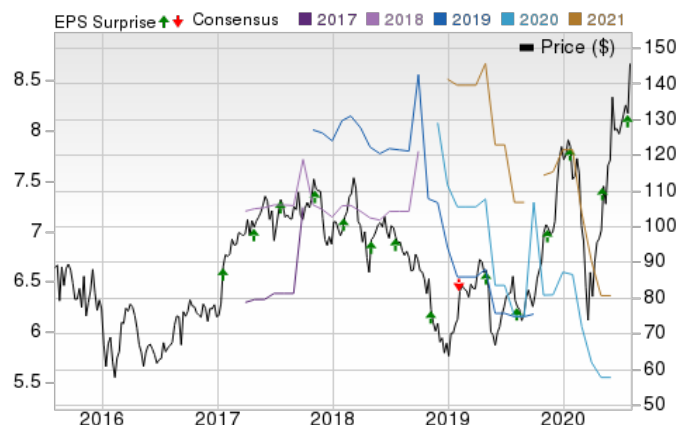
Growth: C

Momentum: B

Summary

Skyworks' fiscal third-quarter results reflect growing demand for 5G handsets. Its Sky5 product portfolio facilitated several 5G launches and its offerings were selected by Samsung, Motorola, VIVO, Xiaomi and OPPO, as well as other Tier-1 players for 5G mobile platforms. Moreover, Skyworks is witnessing strong momentum for BAW-enabled modules in both mobile and broad markets. It is banking on portfolio strength to capitalize on the rapid changes in the industry due to the coronavirus. Notably, its solutions are supporting telemedicine and emergency-response applications, as well as remote work, e-learning and video streaming, among others. Shares have outperformed the industry year to date. However, supply chain disruptions, as well as macroeconomic uncertainties stemming from the coronavirus pandemic are major headwinds, at least in the near term.

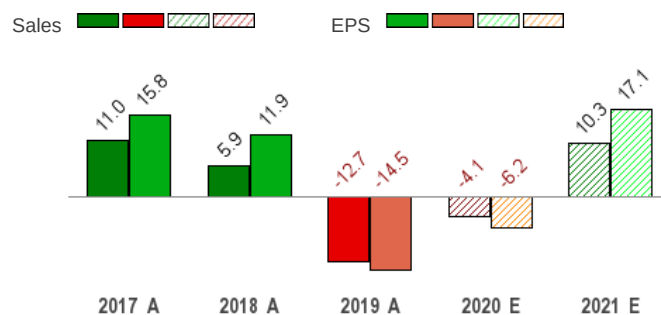
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$149.49 - \$67.90
20 Day Average Volume (sh)	1,969,278
Market Cap	\$24.6 B
YTD Price Change	21.8%
Beta	1.29
Dividend / Div Yld	\$2.00 / 1.2%
Industry	Semiconductors - Radio Frequency
Zacks Industry Rank	Top 48% (123 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.6%
Last Sales Surprise	6.8%
EPS F1 Est- 4 week change	4.1%
Expected Report Date	11/10/2020
Earnings ESP	0.0%
P/E TTM	25.4
P/E F1	25.4
PEG F1	2.2
P/S TTM	7.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	930 E	824 E	832 E	982 E	3,574 E
2020	896 A	766 A	737 A	840 E	3,240 E
2019	972 A	810 A	767 A	827 A	3,377 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.78 E	\$1.49 E	\$1.53 E	\$1.96 E	\$6.78 E
2020	\$1.68 A	\$1.34 A	\$1.25 A	\$1.51 E	\$5.79 E
2019	\$1.83 A	\$1.47 A	\$1.35 A	\$1.52 A	\$6.17 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 08/03/2020. The reports text is as of 08/04/2020.

Overview

Headquartered in Irvine, CA, Skyworks Solutions Inc. designs, manufactures, and markets a broad range of high-performance analog and mixed signal semiconductors that enable wireless connectivity.

The company's products include power amplifiers (PAs), front-end modules (FEMs), radio frequency (RF) sub-systems, and cellular systems. Leveraging its core analog technologies, the company also offers a diverse portfolio of linear integrated circuits (ICs) that support automotive, broadband, cellular infrastructure, industrial and medical applications.

Skyworks Solutions reported revenues of \$3.38 billion in fiscal 2019.

The company has designed its product portfolio around two markets — cellular handsets and analog semiconductors. The handset portfolio includes highly customized power amplifiers and front-end solutions that are used in a variety of cellular devices from entry level to multimedia platforms and smartphones.

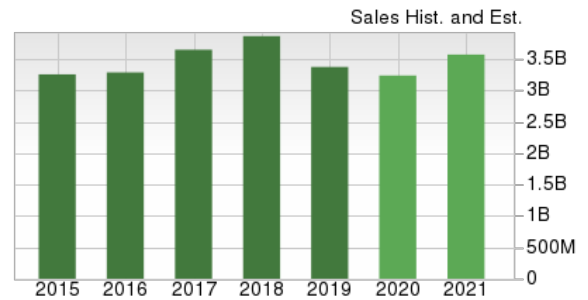
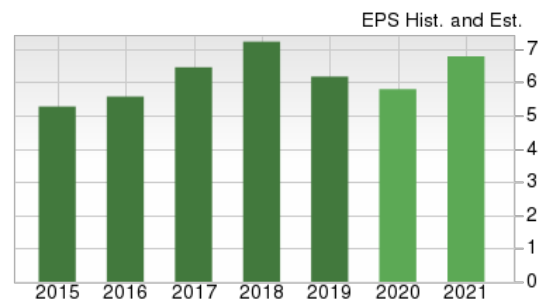
Moreover, the company's product portfolio is reinforced by approximately 3,000 global patents and other intellectual property. The company with industry-leading technology helps to offer highest levels of product performance and integration.

The company is engaged with key original equipment manufacturers ("OEMs"), smartphone providers and baseband reference design partners. Its chief customers includes Amazon, Apple, Arris, Bose, Cisco, DJI, Ericsson, Foxconn, Garmin, Gemalto, General Electric, Google, Honeywell, HTC, Huawei, Itron, Lenovo, LG Electronics, Microsoft, Motorola, to name few.

The company has a diversified business in three areas: addressed markets, customer base and product offerings.

The company has more than 2,500 customers and over 2,500 analog components in markets like automotive, home and factory automation, infrastructure, medical, smart energy and wireless networking.

Skyworks faces stiff competition from Analog Devices, Broadcom, Maxim Integrated Products, Qualcomm and Qorvo.



Reasons To Buy:

- ▲ Skyworks continues to capitalize on three business segments -- mobile Internet, vertical markets and analog components. As demand for mobile Internet applications is exploding with the broad proliferation of smartphones, net books, notebooks, caplets and other forms of embedded wireless devices, Skyworks continue to gain traction. Perfect quality, environment-friendly products and sustainable business practices have been the key differentiators for the company in this competitive environment. The company is aggressively expanding into new vertical markets. It is investing heavily to increase its footprint in traditional analog segments like automotive, medical, aerospace, defense and industrial. These are highly attractive markets with longer product life cycles, fewer competitors and higher margins. Skyworks participates in these markets by leveraging core analog and mixed-signal design capabilities and a broad-based product catalog.
- ▲ The market for smartphones is reportedly growing at four times the growth rate of the traditional cellular handset. The rising RF dollar content and increasing complexity associated with the proliferation of smartphones and an array of other mobile Internet devices are fueling the total available market (TAM) growth, providing a unique opportunity for Skyworks to expand. The company is engaged in media gateway design for a leading network operator which provides the functionality of a traditional set top box with enhanced capabilities to support home networking and streaming on-demand video. The company has mitigated operating risks through diversification of business verticals. Skyworks has multiple connectivity technologies in a growing array of non-mobile applications. Additionally, Skyworks is well-positioned to capitalize on the Internet of Things (IoT) with a rising demand for high-performance analog solutions in new markets. Skyworks expects to gain more businesses going forward, with continued investments in research and development to increase its IoT portfolio. As per market estimates, the growth within the IoT market is likely to exceed that of other connected devices over the next eight years with predictions of as many as 75 billion connected devices by the year 2025. Consequently, we expect Skyworks to have solid operating results in the imminent future.
- ▲ Based on order visibility, Skyworks expects continuous strength in the near future as the products continue to gain momentum. Expanding customer base that now include the likes of Foxconn, and Samsung is a key growth driver.
- ▲ Skyworks has a strong balance sheet with ample liquidity position. As of Jun 26, 2020, cash & cash equivalents were \$1.162 billion, up from \$1.108 billion as of Mar 27, 2020. Moreover, Skyworks' solid liquidity position makes it well-poised to pursue strategic acquisitions and invest in growth initiatives. Notably, total debt to total capital of 3.5% is much lower than industry's figure of 14.9%.
- ▲ Additionally, the company's strong cash flow generation ability helps it to continue shareholder friendly initiatives. Notably, in fiscal 2019, the company returned \$931.5 million to shareholders. Markedly, the company reported free cash flow of \$187 million and free cash flow margin of 32% in third-quarter fiscal 2020. Solid liquidity along with strong free cash flow generating ability is expected to help Skyworks sustain current dividend payout level at least in the near term.

Skyworks expects continuous strength in the near future as the products continue to gain momentum. Sustainable business practices is a key differentiator for the company.

Reasons To Sell:

- ▼ Skyworks operates in a fiercely competitive market. The wireless handset market is intensely competitive and exposed to pricing pressures. The competitors in the mobile platforms market include Broadcom and Qorvo, while the competitors in the linear products market include Analog Devices, and Maxim Integrated Products. As other handset players such as Qorvo gear up to capitalize on the increasing demand for smartphones, we expect pricing pressure to intensify in the market leading to a decline in margins.
- ▼ We are concerned about concentration risks as a significant portion of Skyworks' revenue comes from a handful of customers. Apple contributed 51% of its revenues, in fiscal 2019. Skyworks' top-line growth is significantly dependent on iPhone's growth trajectory. We also note that due to the significant exposure, Skyworks' share price movement depends heavily on Apple's results, which doesn't bode well for the investors. Furthermore, the US government's banning of Huawei remains a headwind. Huawei's addition to entity list, which was the company's "second largest customer," is negatively impacting financials. During fiscal 2019, the company had to incur \$70.4 million in inventory-related charges, majorly comprising inventory write-downs related to Huawei.
- ▼ Moreover, the company has to continually introduce new products to fend off competition and remain updated on technological advancements. We remain concerned about profitability as heavy investments in R&D escalate operating expenses, often without any significant contribution to its top line. Further, sluggish performance stemming from COVID-19 related global supply chain disruptions is likely to have a negative impact on demand and is a headwind.
- ▼ Skyworks currently has a trailing 12-month Price/Earnings (P/E) ratio of 27.01X. This level compares unfavorably with what the industry witnessed in the last year. Additionally, the ratio is higher than the average level of 18.03X and is near the high end of the valuation range in this period. Consequently, the valuation looks slightly stretched from P/E perspective.

Skyworks has to continually introduce new products to fend off competition and remain updated on technological advancements.

Last Earnings Report

Skyworks' Q3 Earnings and Revenues Beat Estimates

Skyworks reported third-quarter fiscal 2020 non-GAAP earnings of \$1.25 per share that beat the Zacks Consensus Estimate by 10.6%. However, the figure declined 7.4% year over year.

Revenues of \$736.8 million surpassed the Zacks Consensus Estimate by 6.8%. However, the top line declined 3.9% year over year.

Per management, export restrictions on Huawei had a negative impact on revenues. Notably, after excluding Huawei-related revenues in both the fiscal third quarter and the year-ago quarter, revenues rose 2.5% year over year.

Broad markets accounted for 31% of revenues, flat sequentially.

Deal Wins: Key Growth Factor

During the reported quarter, Skyworks' Sky5 product portfolio facilitated several 5G launches. The company's offerings were selected by Samsung, Motorola, VIVO, Xiaomi and OPPO as well as other Tier-1 players for 5G mobile platforms.

Skyworks stated that 5G subscriptions, globally, are continuing to grow with estimates set to hit \$3 billion over the next five years.

The company is benefiting from accelerating demand for 5G handset. Markedly, in China (23% of Skyworks' revenues), during the month of June, approximately 60% of all smartphones sold were 5G-enabled.

Moreover, Skyworks has shipped more than 150 million BAW-enabled modules. The company is witnessing strong momentum for this technology in both mobile and broad markets.

In the fiscal third quarter, the company's Wi-Fi 6 solutions were adopted by AT&T to power its tri-band home gateways.

Moreover, Skyworks is supporting home security solutions at Amazon's Ring Security Systems by delivering highly integrated connectivity. Additionally, it is ramping indoor and outdoor access points at Juniper, Linksys and Aruba.

The company also rolled out mesh router and voice assistant solutions to Google in the third-quarter fiscal 2020.

In the industrial space, Skyworks is powering IoT platforms at Gemalto and Bosch, while the company's GPS, circulator and advanced filter solutions witnessed design wins at leading aerospace and defense companies.

Moreover, the Sky5 platform was adopted by leading automobile manufacturers like Ford and BMW in the fiscal third quarter.

Notably, the company is also diversifying in the infrastructure space based on deals with Ericsson, Nokia and Fujitsu.

Operating Details

Non-GAAP gross margin contracted 30 basis points (bps) on a year-over-year basis to 50.1%. However, this beat management's expectation by 10 bps.

Research & development expenses, as percentage of revenues, expanded 280 bps on a year-over-year basis to 15.9%. Moreover, selling, general & administrative expenses, as percentage of revenues, expanded 140 bps from the year-ago quarter's tally to 7.5%.

Non-GAAP operating margin contracted 160 bps on a year-over-year basis to 31.3% in the reported quarter.

Balance Sheet & Cash Flow

As of Jun 26, 2020, cash & cash equivalents were \$1.162 billion, up from \$1.108 billion as of Mar 27, 2020.

Cash generated by operating activities was \$258.7 million compared with \$280.4 million in the prior quarter.

The company reported free cash flow of \$187 million and free cash flow margin of 32% compared with \$220 million and 29% in the previous quarter, respectively.

Capital expenditure came in at \$72 million in the reported quarter compared with \$60 million in the prior quarter.

Skyworks repurchased 670K shares for a total of \$59 million and paid out \$73 million as dividends.

On Jul 23, the company declared a quarterly dividend of 50 cents per share, up 14% from the prior quarter's dividend of 44 cents and payable on Sep 1, to shareholders as on Aug 11.

Guidance

For fourth-quarter fiscal 2020, revenues are expected in the range of \$830-\$850 million.

The company expects broad markets to increase at a double-digit rate sequentially in fourth-quarter.

Skyworks expects expect gross margin in the range of 50-50.5% and operating expenses of roughly \$142.5 million. Favorable product mix due to

Quarter Ending 06/2020

Report Date	Jul 23, 2020
Sales Surprise	6.77%
EPS Surprise	10.62%
Quarterly EPS	1.25
Annual EPS (TTM)	5.79

more 5G products is expected to aid gross margin growth.

Non-GAAP earnings are anticipated to be \$1.51 per share at the mid-point of the revenue range.

Recent News

On Jul 21, Skyworks announced that it has reached a milestone with the shipment of more than 150 million bulk acoustic wave (BAW) filter-enabled modules for 5G mobile solutions.

On Jun 10, Skyworks announced that its Milpitas, CA facility has achieved AS9100D certification, which provides manufacturing suppliers such as Skyworks with a comprehensive quality system for providing safe and reliable products to the aerospace and defense industries.

On May 4, Skyworks declared a quarterly dividend of 44 cents per share payable on Jun 11, to shareholders as on May 21.

Valuation

Skyworks' shares are up 21.8% in the year-to-date period and 94.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 7.7% and 18.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 70.2% and 36.7%, respectively.

The S&P 500 index is up 1.7% in the year-to-date period and 15.4% in the past year.

The stock is currently trading at 21.53X forward 12-month earnings, which compares to 22.79X for the Zacks sub-industry, 25.4X for the Zacks sector and 22.49X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.8X and as low as 8.74X, with a 5-year median of 13.88X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$155 price target reflects 23.33X forward 12-month earnings.

The table below shows summary valuation data for SWKS

Valuation Multiples - SWKS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	22.22	24.91	26.26	22.62
	5-Year High	25.8	24.91	26.26	22.62
	5-Year Low	8.74	10.01	16.72	15.25
	5-Year Median	13.88	12.94	19.47	17.55
P/S F12M	Current	6.98	4.65	4.01	3.59
	5-Year High	7.00	4.65	4.01	3.59
	5-Year Low	2.72	2.15	2.32	2.53
	5-Year Median	4.22	3.12	3.14	3.04
EV/Sales TTM	Current	7.32	4.42	4.7	3.24
	5-Year High	7.32	4.56	4.7	3.43
	5-Year Low	2.5	1.99	2.59	2.1
	5-Year Median	4.17	3.20	3.62	2.82

As of 08/03/2020

Industry Analysis Zacks Industry Rank: Top 48% (123 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Analog Devices, Inc. (ADI)	Outperform	2
Maxim Integrated Products, Inc. (MXIM)	Outperform	2
Synaptics Incorporated (SYNA)	Outperform	2
Broadcom Inc. (AVGO)	Neutral	3
Cirrus Logic, Inc. (CRUS)	Neutral	3
ON Semiconductor Corporation (ON)	Neutral	3
QUALCOMM Incorporated (QCOM)	Neutral	2
Qorvo, Inc. (QRVO)	Neutral	2

Industry Comparison Industry: Semiconductors - Radio Frequency				Industry Peers		
	SWKS	X Industry	S&P 500	AVGO	MXIM	QRVO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	2
VGM Score	C	-	-	B	D	B
Market Cap	24.59 B	96.49 M	22.67 B	129.19 B	18.37 B	15.23 B
# of Analysts	9	3	13.5	13	10	7
Dividend Yield	1.20%	0.00%	1.77%	4.05%	2.79%	0.00%
Value Score	C	-	-	B	D	C
Cash/Price	0.05	0.13	0.07	0.07	0.09	0.08
EV/EBITDA	17.71	0.63	13.08	17.41	20.51	17.27
PEG Ratio	2.20	1.83	2.94	1.24	2.77	1.77
Price/Book (P/B)	5.88	4.30	3.10	5.40	11.08	3.50
Price/Cash Flow (P/CF)	18.47	13.40	12.34	9.46	25.36	13.40
P/E (F1)	24.94	25.42	21.71	14.93	27.74	20.21
Price/Sales (P/S)	7.62	7.62	2.46	5.64	8.38	4.68
Earnings Yield	3.93%	0.92%	4.38%	6.70%	3.60%	4.95%
Debt/Equity	0.04	0.06	0.75	1.88	0.60	0.43
Cash Flow (\$/share)	7.97	-0.12	6.94	33.97	2.72	9.95
Growth Score	C	-	-	B	D	B
Hist. EPS Growth (3-5 yrs)	3.12%	12.35%	10.46%	22.21%	10.54%	12.35%
Proj. EPS Growth (F1/F0)	-6.14%	6.63%	-7.08%	1.08%	9.87%	4.20%
Curr. Cash Flow Growth	-9.68%	-25.18%	5.47%	8.07%	-8.10%	-13.56%
Hist. Cash Flow Growth (3-5 yrs)	15.70%	15.70%	8.55%	48.32%	0.62%	22.73%
Current Ratio	5.83	5.10	1.32	2.15	5.11	4.08
Debt/Capital	3.59%	18.04%	44.21%	65.31%	37.49%	30.05%
Net Margin	24.13%	-7.99%	10.25%	10.97%	29.88%	12.05%
Return on Equity	20.73%	-0.06%	14.72%	32.00%	36.29%	16.10%
Sales/Assets	0.65	0.25	0.52	0.31	0.61	0.50
Proj. Sales Growth (F1/F0)	-4.06%	2.31%	-1.79%	4.35%	3.86%	4.62%
Momentum Score	B	-	-	B	A	A
Daily Price Chg	1.11%	0.90%	0.27%	1.41%	1.16%	4.04%
1 Week Price Chg	10.61%	0.72%	0.14%	3.58%	1.43%	14.50%
4 Week Price Chg	11.98%	0.22%	2.96%	0.77%	11.13%	17.33%
12 Week Price Chg	33.32%	3.19%	10.90%	16.64%	26.15%	30.84%
52 Week Price Chg	94.14%	45.36%	2.35%	20.01%	28.51%	95.64%
20 Day Average Volume	1,969,278	259,175	2,043,624	1,751,152	5,223,491	1,557,784
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	1.60%	21.51%
(F1) EPS Est 4 week change	4.12%	0.00%	0.82%	0.00%	12.35%	21.51%
(F1) EPS Est 12 week change	4.12%	0.00%	0.59%	1.53%	12.35%	21.19%
(Q1) EPS Est Mthly Chg	7.58%	0.00%	0.25%	0.00%	15.73%	44.24%

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	C
Growth Score	C
Momentum Score	B
VGM Score	C

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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