

Skyworks Solutions (SWKS)

\$132.28 (As of 07/07/20)

Price Target (6-12 Months): **\$140.00**

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:B

Value: B

Growth: B

Momentum: C

Summary

Skyworks is banking on portfolio strength to capitalize on the rapid changes in the industry caused by COVID-19. Notably, the company's solutions are supporting telemedicine and emergency response applications as well as remote working, e-learning and video streaming, among others, which bode well for top-line growth in the near term. Additionally, Skyworks continues to win content at mobile and OEMs like Samsung, OPPO, VIVO and Xiaomi, which is a tailwind. Strong demand for Wi-Fi, Zigbee and LTE solutions also hold promise. Markedly, shares of the company have outperformed the industry on a year-to-date basis. Nevertheless, supply chain disruptions amid the coronavirus outbreak remains a headwind. Moreover, the company provided bleak fiscal third-quarter guidance owing to the COVID-19 induced business uncertainties prevailing in the market.

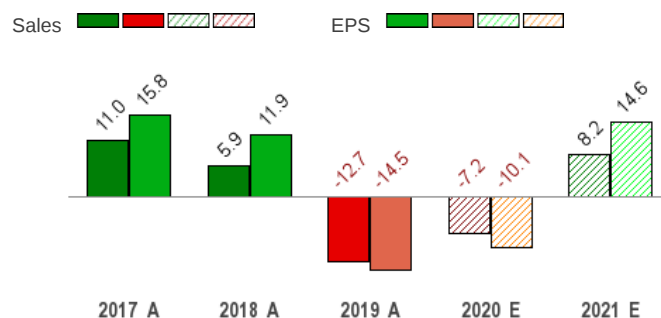
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$138.22 - \$67.90
20 Day Average Volume (sh)	1,938,208
Market Cap	\$22.1 B
YTD Price Change	9.4%
Beta	1.25
Dividend / Div Yld	\$1.76 / 1.3%
Industry	Semiconductors - Radio Frequency
Zacks Industry Rank	Bottom 25% (190 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/05/2020
Earnings ESP	0.0%
P/E TTM	22.5
P/E F1	23.8
PEG F1	2.1
P/S TTM	6.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	853 E	777 E	807 E	942 E	3,392 E
2020	896 A	766 A	690 E	781 E	3,134 E
2019	972 A	810 A	767 A	827 A	3,377 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.61 E	\$1.39 E	\$1.47 E	\$1.86 E	\$6.36 E
2020	\$1.68 A	\$1.34 A	\$1.13 E	\$1.39 E	\$5.55 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 07/07/2020. The reports text is as of 07/08/2020.

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.

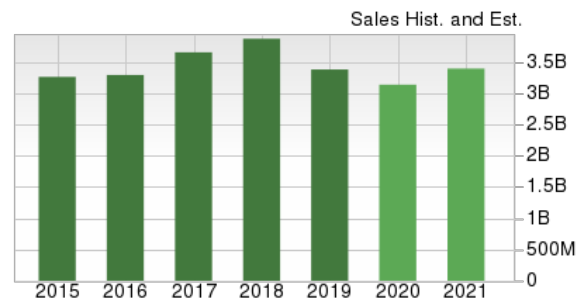
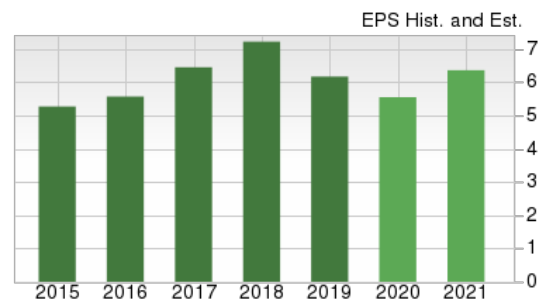
Moreover, the company's product portfolio is reinforced by approximately 3,000 global patents and other intellectual property. The company with industry-leading technology helps to offer highest levels of product performance and integration.

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.

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.

▲ 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 Mar 27, 2020, cash & cash equivalents were \$1.108 billion. 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. In the fiscal second quarter, Skyworks repurchased shares for \$284 million and paid out \$75 million as dividends. Markedly, the company reported free cash flow of \$220 million and free cash flow margin of 29% in second-quarter fiscal 2020. Solid liquidity along with strong free cash flow generating ability is expected to help Skyworks sustain current dividend payout (0.33) level at least in the near term.

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 25.01X. This level compares unfavorably with what the industry witnessed in the last year. This level compares unfavorably with what the industry witnessed in the last year. Additionally, the ratio is higher than the average level of 17.51X 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' Q2 Earnings Match Estimates

Skyworks Solutions, Inc. reported second-quarter fiscal 2020 non-GAAP earnings of \$1.34 per share, which is in line with the Zacks Consensus Estimate. However, the figure declined 8.8% from the year-ago quarter's reported figure.

Revenues of \$766.1 million marginally surpassed the Zacks Consensus Estimate of \$765.7 million. However, the top line declined 5.5% from the year-ago quarter's level.

Per management, sluggish performance stemming from COVID-19 related global supply chain disruptions have had a negative impact on demand.

Mobile contributed 70% to revenues, while the balance came from broad markets.

Operating Details

Non-GAAP gross margin contracted 50 basis points (bps) on a year-over-year basis to 50.2%.

Research & development expenses, as percentage of revenues, expanded 150 bps on a year-over-year basis to 14.8%. Moreover, selling, general & administrative expenses, as percentage of revenues, expanded 170 bps from the year-ago quarter's tally to 7.6%.

Non-GAAP operating margin contracted 160 bps on a year-over-year basis to 32.5% in the reported quarter.

Balance Sheet & Cash Flow

As of Mar 27, 2020, cash & cash equivalents were \$1.108 billion, down from \$1.23 billion as of Dec 27, 2019.

Cash generated by operating activities was \$280.4 million compared with \$398.4 million in the prior quarter.

The company reported free cash flow of \$220 million and free cash flow margin of 29% compared with \$287 million and 32% in the previous quarter, respectively.

Capital expenditure came in at \$60 million in the reported quarter compared with \$111.2 million in the prior quarter.

Skyworks repurchased 3.2 million shares for a total of \$284 million and paid out \$75 million as dividends.

Guidance

Uncertainty pertaining to the coronavirus pandemic compelled the company to widen guidance range compared with previous quarters. For third-quarter fiscal 2020, revenues are expected in the range of \$670-\$710 million.

Non-GAAP earnings are anticipated to be \$1.13 per share.

Quarter Ending 03/2020

Report Date	May 04, 2020
Sales Surprise	0.05%
EPS Surprise	0.00%
Quarterly EPS	1.34
Annual EPS (TTM)	5.89

Recent News

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 9.5% in the year-to-date period and 65.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Computer & Technology sector are up 2.4% and 15% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 49.2% and 27.4%, respectively.

The S&P 500 index is down 1.1% in the year-to-date period but up 7.2% in the past year.

The stock is currently trading at 21.42X forward 12-month earnings, which compares to 23.57X for the Zacks sub-industry, 26.29X for the Zacks sector and 22.72X 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 \$140 price target reflects 22.67X 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	21.42	23.57	26.29	22.72
	5-Year High	25.8	23.57	26.29	22.72
	5-Year Low	8.74	10.01	16.86	15.15
	5-Year Median	13.88	12.67	19.37	17.42
P/S F12M	Current	6.62	4.38	3.94	3.54
	5-Year High	6.87	4.38	3.94	3.54
	5-Year Low	2.72	2.15	2.29	2.54
	5-Year Median	4.22	2.87	3.07	3.01
EV/Sales TTM	Current	6.49	4.19	4.85	3.16
	5-Year High	6.69	4.92	4.85	3.29
	5-Year Low	2.5	1.98	2.62	2.14
	5-Year Median	4.17	3.14	3.64	2.82

As of 07/07/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (190 out of 252)



Top Peers

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

Industry Comparison Industry: Semiconductors - Radio Frequency				Industry Peers		
	SWKS	X Industry	S&P 500	AVGO	MXIM	QRVO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	B	C	B
Market Cap	22.07 B	86.82 M	21.64 B	125.93 B	16.40 B	12.93 B
# of Analysts	9	3	14	13	10	7
Dividend Yield	1.33%	0.00%	1.92%	4.15%	3.12%	0.00%
Value Score	B	-	-	B	C	C
Cash/Price	0.05	0.09	0.07	0.07	0.10	0.06
EV/EBITDA	15.87	1.17	12.68	17.07	18.16	14.91
PEG Ratio	2.11	1.94	2.88	1.21	2.78	1.97
Price/Book (P/B)	5.33	4.37	3.01	5.26	10.12	3.05
Price/Cash Flow (P/CF)	16.60	11.36	11.66	9.22	21.34	11.36
P/E (F1)	23.99	23.83	21.31	14.55	27.83	20.27
Price/Sales (P/S)	6.78	59.83	2.30	5.50	7.45	3.99
Earnings Yield	4.20%	0.88%	4.43%	6.87%	3.59%	4.93%
Debt/Equity	0.04	0.05	0.76	1.88	0.61	0.37
Cash Flow (\$/share)	7.97	-0.24	6.94	33.97	2.88	9.95
Growth Score	B	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	5.50%	10.82%	10.90%	22.21%	12.23%	10.82%
Proj. EPS Growth (F1/F0)	-10.03%	-12.24%	-9.72%	1.08%	1.10%	-11.94%
Curr. Cash Flow Growth	-9.68%	-13.56%	5.51%	8.07%	-14.31%	-13.56%
Hist. Cash Flow Growth (3-5 yrs)	15.70%	15.70%	8.55%	48.32%	2.00%	22.73%
Current Ratio	6.13	5.32	1.30	2.15	5.95	3.14
Debt/Capital	3.54%	6.03%	44.46%	65.31%	38.02%	26.75%
Net Margin	24.35%	-796.45%	10.62%	10.97%	37.00%	10.32%
Return on Equity	21.89%	5.42%	15.75%	32.00%	35.31%	15.74%
Sales/Assets	0.66	0.28	0.55	0.31	0.60	0.52
Proj. Sales Growth (F1/F0)	-7.18%	-1.26%	-2.57%	4.38%	-0.47%	-2.52%
Momentum Score	C	-	-	B	C	F
Daily Price Chg	0.63%	-1.34%	-1.54%	-1.78%	-0.76%	-0.54%
1 Week Price Chg	2.04%	0.42%	3.66%	2.62%	2.03%	2.73%
4 Week Price Chg	-1.66%	-1.07%	-6.66%	-0.70%	1.40%	-2.17%
12 Week Price Chg	38.24%	32.03%	7.04%	17.00%	15.62%	25.82%
52 Week Price Chg	65.85%	52.44%	-6.88%	13.64%	1.55%	62.31%
20 Day Average Volume	1,938,208	402,124	2,385,506	2,519,360	2,172,242	1,099,319
(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%	0.00%	0.00%	0.09%	0.00%	0.00%
(F1) EPS Est 12 week change	-14.60%	-14.60%	-8.21%	-2.27%	-0.60%	-14.35%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.14%	0.00%	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	B
Growth Score	B
Momentum Score	C
VGM Score	B

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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