

Skyworks Solutions (SWKS)

\$124.17 (As of 01/20/20)

Price Target (6-12 Months): **\$130.00**

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:D

Value: C

Growth: D

Momentum: D

Summary

Skyworks is banking on portfolio strength to capitalize on the broad-based utilization of 5G infrastructure solutions across automotive, industrial IoT and advanced medical applications, among others. Further, Skyworks continues to win content at mobile and OEMs like Samsung, OPPO and Xiaomi, which is a tailwind. The emergence of connected homes, autonomous vehicles, AI, AR, wearables and network infrastructure also holds promise. Strong demand for Wi-Fi, Zigbee and LTE solutions are other catalysts. Notably, shares of the company have outperformed the industry in the past year. However, Huawei headwinds remain a concern. Overall macroeconomic uncertainty and high tariffs induced by the U.S.-China trade war remains a woe. Estimates have been stable lately ahead of the company's first-quarter fiscal 2020 earnings release.

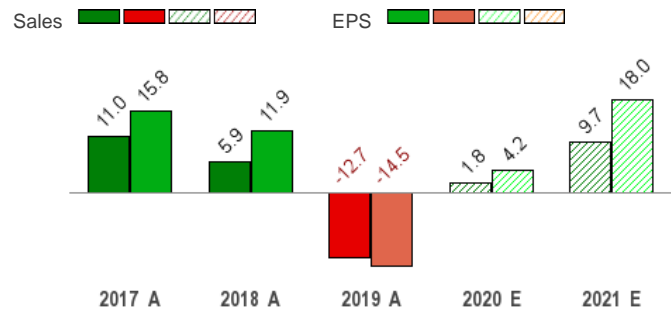
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$125.75 - \$66.29
20 Day Average Volume (sh)	1,876,054
Market Cap	\$21.2 B
YTD Price Change	2.7%
Beta	1.12
Dividend / Div Yld	\$1.76 / 1.4%
Industry	Semiconductors - Radio Frequency
Zacks Industry Rank	Top 24% (61 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.3%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/23/2020
Earnings ESP	0.0%
P/E TTM	20.1
P/E F1	19.3
PEG F1	1.7
P/S TTM	6.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	984 E	887 E	915 E	1,016 E	3,770 E
2020	880 E	788 E	825 E	939 E	3,437 E
2019	972 A	810 A	767 A	827 A	3,377 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.98 E	\$1.71 E	\$1.80 E	\$2.09 E	\$7.59 E
2020	\$1.65 E	\$1.40 E	\$1.53 E	\$1.85 E	\$6.43 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 01/20/2020. The reports text is as of 01/21/2020.

Overview

Headquartered in Woburn, MA, 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, down 12.6% from fiscal 2018.

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.

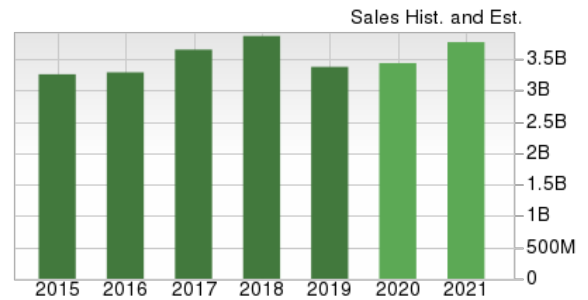
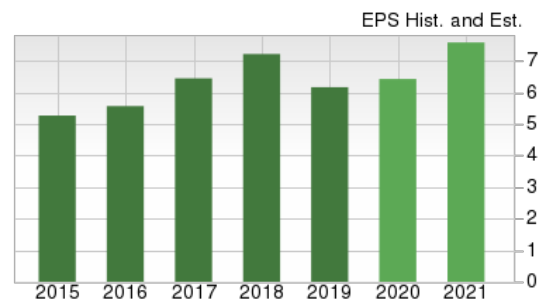
Moreover, the company's product portfolio is reinforced by approximately 3,000 global patents and other intellectual property. The company with industry-leading technology helps to offer highest levels of product performance and integration.

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, note books, 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 and generates significant cash flow. In fiscal 2019, the company returned \$931.5 million to shareholders. The company repurchased 8.9 million shares worth \$657.6 million and paid out \$273.9 million as dividends. Due to strong and relatively stable cash flow, we believe that the dividend payout appears sustainable and makes the stock quite attractive.

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. 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.
- ▼ Skyworks currently has a trailing 12-month Price/Book (P/B) ratio of 4.91. This level compares unfavorably with what the industry witnessed in the last year. Additionally, the ratio is higher than the average level of 3.45 and is near the high end of the valuation range in this period. Consequently, the valuation looks slightly stretched from P/B perspective.

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

Last Earnings Report

Skyworks Beats on Earnings & Revenues in Q4

Skyworks Solutions, Inc. (SWKS) reported fourth-quarter fiscal 2019 non-GAAP earnings of \$1.52 per share, beating the Zacks Consensus Estimate by 1.33%. The bottom line compares favorably with management's guidance of \$1.50 per share at mid-point. However, the figure declined 21.6% from the year-ago quarter.

Revenues of \$827.4 million outpaced the Zacks Consensus Estimate of \$827 million. The figure came within management's guidance of \$815 million to \$835 million. However, the top line declined 17.9% from the year-ago quarter. This can be attributed to blacklisting of Huawei, which was the company's "second largest customer."

Per management, Mobile contributed 67% to revenues, while the rest 33% came from broad markets.

Deal Wins Remain Noteworthy

During the reported quarter, Skyworks' Sky5 product portfolio facilitated several 5G launches.

The company's offerings were selected by Samsung to power its first foldable 5G premium smartphone, and other 4G mobile devices, and LG for its flagship 5G smartphone with dual screens and an OLED display, V50ThinQ.

Moreover, Skyworks' LTE-based IoT engines have been deployed by Sierra Wireless across transportation platforms and industrial gateways. The company's offerings have been implemented by Sonos for indoor/outdoor portable smart speakers.

Further, Netgear is leveraging Skyworks' Wi-Fi 6 connectivity offerings to bolster performance of its Nighthawk and Orbi platforms.

Skyworks shipped its Zigbee solutions with ultra-low power capabilities to a tier-one home security customer.

Skyworks also introduced cognitive chipsets with robust features to enable advanced wireless gaming headsets with ultra-low latency capabilities. In the fiscal fourth quarter, the company initiated volume production of mesh network connectivity modules with high-performance capabilities for Juniper, Amazon and Ruckus.

The company's fully integrated LTE offerings have been implemented by major automotive manufacturers. Skyworks is also enabling notable infrastructure customers to enhance 5G small cell architecture.

The company is benefiting from strong demand of its wireless communications engines. Its expanding product portfolio, growing clout in the IoT solutions and 5G markets are key catalysts.

Operating Details

Non-GAAP gross margin contracted 90 basis points (bps) on a year-over-year basis to 50.3%.

Huawei's addition to entity list negatively impacted gross margin. During the reported quarter, the company had to incur \$12.8 million in nonrecurring charge (GAAP), majorly comprising inventory write-downs related to Huawei.

Research & development (R&D) expenses as percentage of revenues expanded 270 bps on a year-over-year basis to 12.9%. Moreover, selling, general & administrative (SG&A) expenses expanded 130 bps from the year-ago quarter to 6.7%.

Consequently, non-GAAP operating margin contracted 360 bps on a year-over-year basis to 34% in the reported quarter.

Balance Sheet & Cash Flow

As of Sep 27, 2019, cash & cash equivalents were \$1.08 billion, up from \$970.1 million reported in the previous quarter.

Cash generated by operating activities was \$417 million, up from \$209.3 million in the previous quarter. The company reported free cash flow \$333 million, and free cash flow margin of 40%. Capital expenditure was \$84.4 million in the reported quarter.

Skyworks repurchased 1.9 million shares for a total of \$146.3 million and paid out \$75.1 million as dividends.

The company declared a quarterly dividend of 44 cents per share payable on Dec 24, 2019, to shareholders as on Dec 3, 2019.

Fiscal 2019 at a Glance

Skyworks reported revenues of \$3.38 billion in fiscal 2019, down 12.6% from fiscal 2018 tally. The Zacks Consensus Estimate was pegged at \$3.37 billion.

Non-GAAP earnings of \$6.17 per share declined 14.5%. The Zacks Consensus Estimate was pegged at \$6.15.

In fiscal 2019, the company returned \$931.5 million to shareholders. The company repurchased 8.9 million shares worth \$657.6 million and paid out \$273.9 million as dividends. Free cash flow came in at around \$1 billion with free cash flow margin of 30%.

Guidance

Quarter Ending **09/2019**

Report Date	Nov 12, 2019
Sales Surprise	0.24%
EPS Surprise	1.33%
Quarterly EPS	1.52
Annual EPS (TTM)	6.17

Uncertainty pertaining to Huawei is keeping management cautious. For first-quarter fiscal 2020, revenues are expected to be in the range of \$870 million to \$890 million. The Zacks Consensus Estimate is pegged at \$863.2 million.

Non-GAAP earnings are anticipated to be \$1.65 per share at the mid-point. The Zacks Consensus Estimate is pegged at \$1.57.

Recent News

On **Jan 8, 2020**, Skyworks announced that its audio processing and cognitive wireless solutions are supporting the development of high-performance sound bars from market leaders.

On **Jan 7, 2020**, Skyworks announced that its connectivity modules are powering the growth of 5G Massive Internet of Things (Massive IoT) market.

On **Jan 7, 2020**, Skyworks announced that its solutions are playing an important role in smart home security. Companies such as Amazon, Google and Honeywell have adopted Skyworks' integrated architectures for their latest surveillance systems and video doorbells.

On **Nov 12, 2019**, Skyworks declared a quarterly dividend of 44 cents per share payable on Dec 24, 2019, to shareholders as on Dec 3, 2019.

On **Oct 9, 2019**, Skyworks announced that its latest connectivity solutions that support Wi-Fi 6 (802.11ax) devices are gaining traction. Skyworks Wi-Fi 6 solutions are enabling notable companies to offer mesh network and connected home devices. The solutions have facilitated Asus, Arris, Netgear, Ruckus, D-Link, and TP-Link to launch new products and reduce time-to-market.

Valuation

Skyworks' shares are up 50.6% in the past six-month period and 84% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 48.4% and 17.2% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and sector are up 76.8% and 37.1%, respectively.

The S&P 500 index is up 13.3% in the past six-month period and 28.4% in the past year.

The stock is currently trading at 18.3X forward 12-month earnings, which compares to 20.59X for the Zacks sub-industry, 23.12X for the Zacks sector and 19.19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.05X and as low as 8.74X, with a 5-year median of 13.92X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$130 price target reflects 19.16X 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	18.3	20.59	23.12	19.19
	5-Year High	21.05	20.29	23.12	19.34
	5-Year Low	8.74	10.01	16.87	15.17
	5-Year Median	13.92	12.94	19.24	17.44
P/S F12M	Current	5.98	4.41	3.74	3.57
	5-Year High	6.07	4.92	3.74	3.57
	5-Year Low	2.72	2.15	2.3	2.54
	5-Year Median	4.24	2.93	3.01	3
EV/Sales TTM	Current	5.95	4.33	4.4	3.34
	5-Year High	7.1	6.23	4.4	3.34
	5-Year Low	2.5	1.99	2.56	2.16
	5-Year Median	4.2	3.23	3.45	2.8

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Top 24% (61 out of 254)



Top Peers

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

Industry Comparison Industry: Semiconductors - Radio Frequency				Industry Peers		
	SWKS Neutral	X Industry	S&P 500	AVGO Neutral	MXIM Neutral	QRVO Neutral
VGM Score	D	-	-	C	D	C
Market Cap	21.16 B	91.75 M	24.65 B	122.83 B	16.61 B	13.33 B
# of Analysts	9	5.5	13	13	10	7
Dividend Yield	1.42%	0.00%	1.73%	4.21%	3.13%	0.00%
Value Score	C	-	-	C	D	C
Cash/Price	0.05	0.06	0.04	0.04	0.11	0.04
EV/EBITDA	15.08	3.98	14.11	18.24	18.27	17.22
PEG Ratio	1.71	1.52	2.08	1.25	2.37	1.69
Price/Book (P/B)	5.17	5.17	3.39	NA	9.32	3.13
Price/Cash Flow (P/CF)	15.58	15.52	13.81	9.09	21.29	10.58
P/E (F1)	19.43	19.73	19.19	13.36	27.69	20.15
Price/Sales (P/S)	6.26	6.26	2.69	5.44	7.52	4.31
Earnings Yield	5.18%	-3.16%	5.21%	7.48%	3.62%	4.96%
Debt/Equity	0.00	0.07	0.72	-214.36	0.56	0.24
Cash Flow (\$/share)	7.97	-0.49	6.94	33.97	2.88	10.84
Growth Score	D	-	-	B	F	C
Hist. EPS Growth (3-5 yrs)	11.50%	11.50%	10.56%	28.58%	15.13%	8.60%
Proj. EPS Growth (F1/F0)	4.20%	5.82%	7.57%	8.55%	-8.81%	-1.14%
Curr. Cash Flow Growth	-9.68%	-9.68%	14.73%	8.07%	-14.31%	0.78%
Hist. Cash Flow Growth (3-5 yrs)	15.70%	15.70%	9.00%	48.32%	2.00%	68.42%
Current Ratio	5.97	4.50	1.24	1.44	7.08	3.45
Debt/Capital	0.00%	12.18%	42.99%	54.64%	35.79%	19.24%
Net Margin	25.28%	-918.71%	11.14%	12.06%	34.87%	8.19%
Return on Equity	24.41%	11.69%	17.16%	46.16%	34.55%	15.10%
Sales/Assets	0.70	0.28	0.55	0.32	0.58	0.53
Proj. Sales Growth (F1/F0)	1.79%	2.15%	4.16%	10.72%	-4.20%	2.15%
Momentum Score	D	-	-	C	A	C
Daily Price Chg	0.88%	0.83%	0.27%	0.57%	-0.95%	0.83%
1 Week Price Chg	1.21%	0.00%	0.39%	-4.76%	0.16%	0.96%
4 Week Price Chg	5.36%	14.60%	2.95%	-4.72%	0.13%	-2.17%
12 Week Price Chg	38.44%	28.77%	7.76%	9.38%	7.42%	44.49%
52 Week Price Chg	79.88%	44.70%	22.29%	20.94%	16.43%	84.32%
20 Day Average Volume	1,876,054	139,427	1,536,375	2,130,897	1,554,698	1,424,074
(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%	0.00%	-0.31%	0.00%
(F1) EPS Est 12 week change	0.50%	1.38%	-0.40%	-1.83%	1.70%	14.00%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-0.67%	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	C
Growth Score	D
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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