

Skyworks Solutions (SWKS)

\$111.19 (As of 02/24/20)

Price Target (6-12 Months): **\$119.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/05/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: C

Growth: D

Momentum: B

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, VIVO and Xiaomi, which is a tailwind. The emergence of connected homes, autonomous vehicles, AI, AR, wearables and network infrastructure hold promise. Strong demand for Wi-Fi, Zigbee and LTE solutions are other catalysts. Notably, shares of Skyworks have outperformed the industry in the past year. However, Huawei headwinds remain a concern. Overall macroeconomic uncertainty and high tariffs owing to the U.S.-China trade war remains a woe. Further, stiff competition and pricing pressure might impact profitability.

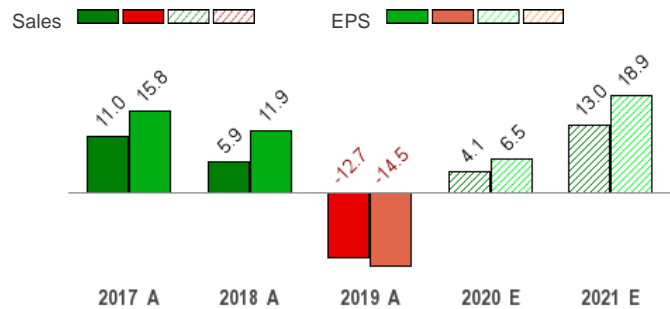
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$128.48 - \$66.29
20 Day Average Volume (sh)	1,905,505
Market Cap	\$18.9 B
YTD Price Change	-8.0%
Beta	1.23
Dividend / Div Yld	\$1.76 / 1.6%
Industry	Semiconductors - Radio Frequency
Zacks Industry Rank	Top 8% (21 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.8%
Last Sales Surprise	1.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/07/2020
Earnings ESP	-1.3%
P/E TTM	18.5
P/E F1	16.9
PEG F1	1.5
P/S TTM	5.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,021 E	912 E	946 E	1,056 E	3,973 E
2020	896 A	810 E	832 E	961 E	3,515 E
2019	972 A	810 A	767 A	827 A	3,377 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.06 E	\$1.74 E	\$1.84 E	\$2.17 E	\$7.81 E
2020	\$1.68 A	\$1.46 E	\$1.54 E	\$1.90 E	\$6.57 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 02/24/2020. The reports text is as of 02/25/2020.

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.

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.

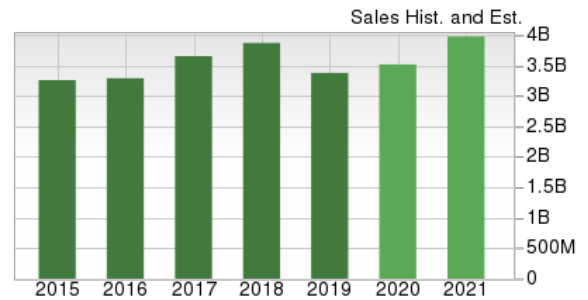
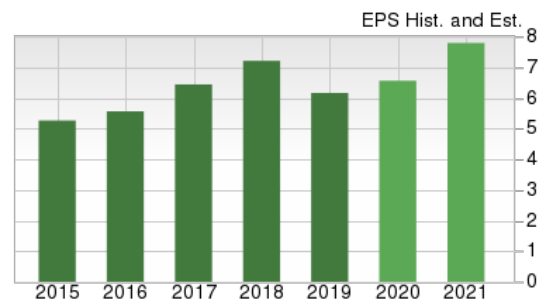
Moreover, the company's product portfolio is reinforced by approximately 3,000 global patents and other intellectual property. The company with industry-leading technology helps to offer highest levels of product performance and integration.

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. As of Dec 27, 2019, cash & cash equivalents were \$1.23 billion, up from \$1.08 billion reported in the previous quarter. 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 4.43. This level compares unfavorably with what the industry witnessed in the last year. Additionally, the ratio is higher than the average level of 3.56 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 Q1

Skyworks Solutions reported first-quarter fiscal 2020 non-GAAP earnings of \$1.68 per share, beating the Zacks Consensus Estimate by 1.82%. The bottom line compares favorably with management's guidance of \$1.65 per share. However, the figure declined 8.2% from the year-ago quarter.

Revenues of \$896.1 million outpaced the Zacks Consensus Estimate of \$880 million. The figure outpaced the higher-end of the management's guided range of \$870 million to \$890 million. However, the top line declined 7.8% from the year-ago quarter.

Management attributes better-than-expected performance to rapid roll out of 5G phones and growing clout of Sky5 product portfolio.

Per management, Mobile contributed 73% to revenues, while the balance 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 VIVO, Xiaomi and OPPO for 5G mobile platforms.

In the fiscal first quarter, the company initiated volume production of Wi-Fi 6 connectivity offerings for Belkin/Linksys and ZTE.

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.

Skyworks also rolled out Bluetooth Low Energy modules to power Proctor & Gamble's infant monitoring solution.

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

Skyworks is also enabling notable infrastructure customers to enhance 5G small cell architecture.

Operating Details

Non-GAAP gross margin contracted 90 bps on a year-over-year basis to 50.1%.

Huawei's addition to entity list is likely to have negatively impacted gross margin. During the reported quarter, the company had to incur \$5.6 million in non-recurring charge (GAAP), primarily comprising inventory write-downs related to Huawei.

Research & development expenses as percentage of revenues expanded 80 bps on a year-over-year basis to 12%. Moreover, selling, general & administrative expenses expanded 130 bps from the year-ago quarter to 6.2%.

Consequently, non-GAAP operating margin contracted 150 bps on a year-over-year basis to 35.2% in the reported quarter.

Balance Sheet & Cash Flow

As of Dec 27, 2019, cash & cash equivalents were \$1.23 billion, up from \$1.08 billion reported in the previous quarter.

Cash generated by operating activities was \$398.4 million, compared with \$417 million in the prior quarter. The company reported free cash flow \$287 million, and free cash flow margin of 32%. Capital expenditure was \$111.2 million in the reported quarter.

Skyworks repurchased 742,000 shares for a total of \$74.2 million and paid out \$75.1 million as dividends.

The company declared a quarterly dividend of 44 cents per share payable on Mar 3, 2020, to shareholders as on Feb 11, 2020.

Guidance

Uncertainty pertaining to Huawei is keeping management cautious. For second-quarter fiscal 2020, revenues are expected to be in the range of \$800 million to \$820 million.

Non-GAAP earnings are anticipated to be \$1.46 per share at the mid-point.

Quarter Ending 12/2019

Report Date	Jan 23, 2020
Sales Surprise	1.80%
EPS Surprise	1.82%
Quarterly EPS	1.68
Annual EPS (TTM)	6.02

Recent News

On **Jan 23, 2020**, Skyworks declared a quarterly dividend of 44 cents per share payable on Mar 3, 2020, to shareholders as on Feb 11, 2020.

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 **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 52% in the past six-month period and 38.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 40.3% and 17.7% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and sector are up 32.9% and 21.4%, respectively.

The S&P 500 index is up 13.5% in the past six-month period and 17.1% in the past year.

The stock is currently trading at 15.73X forward 12-month earnings, which compares to 17.1X for the Zacks sub-industry, 21.38X for the Zacks sector and 18.44X 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 \$119 price target reflects 16.83X 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	15.73	17.1	21.38	18.44
	5-Year High	21.05	20.56	22.04	19.34
	5-Year Low	8.74	10.01	16.87	15.18
	5-Year Median	13.92	12.94	19.32	17.47
P/S F12M	Current	5.11	3.76	3.56	3.39
	5-Year High	6.17	4.92	3.58	3.43
	5-Year Low	2.72	2.15	2.3	2.54
	5-Year Median	4.24	2.93	3.02	3
EV/Sales TTM	Current	5.42	3.73	4.09	3.16
	5-Year High	7.1	6.23	4.2	3.33
	5-Year Low	2.5	1.99	2.56	2.16
	5-Year Median	4.2	3.24	3.48	2.82

As of 02/24/2020

Industry Analysis Zacks Industry Rank: Top 8% (21 out of 255)



Top Peers

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

Industry Comparison Industry: Semiconductors - Radio Frequency				Industry Peers		
	SWKS Neutral	X Industry	S&P 500	AVGO Neutral	MXIM Neutral	QRVO Outperform
VGM Score	C	-	-	C	C	B
Market Cap	18.92 B	87.36 M	23.50 B	116.48 B	15.89 B	11.15 B
# of Analysts	9	3	13	13	10	7
Dividend Yield	1.58%	0.00%	1.83%	4.46%	3.25%	0.00%
Value Score	C	-	-	C	C	C
Cash/Price	0.06	0.13	0.04	0.04	0.11	0.10
EV/EBITDA	13.42	3.63	13.56	17.57	17.46	14.54
PEG Ratio	1.49	1.24	2.02	1.15	2.53	1.30
Price/Book (P/B)	4.43	3.56	3.20	NA	9.20	2.57
Price/Cash Flow (P/CF)	13.95	13.95	13.05	8.58	20.47	8.89
P/E (F1)	16.92	15.32	18.56	12.59	25.34	15.32
Price/Sales (P/S)	5.73	5.73	2.60	5.15	7.28	3.56
Earnings Yield	5.91%	5.91%	5.38%	7.94%	3.95%	6.53%
Debt/Equity	0.04	0.09	0.70	-214.36	0.58	0.36
Cash Flow (\$/share)	7.97	-0.49	7.03	33.97	2.88	10.84
Growth Score	D	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	8.28%	9.18%	10.85%	28.58%	13.72%	9.18%
Proj. EPS Growth (F1/F0)	6.48%	17.35%	6.90%	8.80%	-4.20%	9.20%
Curr. Cash Flow Growth	-9.68%	-9.68%	6.78%	8.07%	-14.31%	0.78%
Hist. Cash Flow Growth (3-5 yrs)	15.70%	15.70%	8.38%	48.32%	2.00%	68.42%
Current Ratio	7.04	4.88	1.22	1.44	6.60	4.21
Debt/Capital	3.42%	12.18%	42.37%	54.64%	36.52%	26.55%
Net Margin	25.02%	-892.60%	11.57%	12.06%	35.93%	11.03%
Return on Equity	23.03%	11.69%	16.80%	46.16%	33.82%	14.97%
Sales/Assets	0.68	0.28	0.55	0.32	0.59	0.52
Proj. Sales Growth (F1/F0)	4.10%	21.21%	4.03%	10.72%	-2.60%	5.82%
Momentum Score	B	-	-	C	B	A
Daily Price Chg	-3.00%	-5.32%	-2.98%	-4.24%	-3.56%	-1.88%
1 Week Price Chg	-3.66%	0.43%	-0.94%	-4.18%	-3.76%	-7.39%
4 Week Price Chg	-4.87%	-4.87%	-0.94%	-5.64%	-2.16%	-12.40%
12 Week Price Chg	13.04%	8.33%	1.75%	-6.15%	4.48%	-6.44%
52 Week Price Chg	34.96%	7.68%	10.97%	4.67%	4.44%	40.23%
20 Day Average Volume	1,905,505	369,822	2,001,782	2,072,411	1,731,062	2,140,375
(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%	4.10%	-0.05%	0.00%	5.10%	14.61%
(F1) EPS Est 12 week change	2.15%	6.20%	-0.21%	-1.41%	4.63%	14.80%
(Q1) EPS Est Mthly Chg	0.00%	12.06%	-0.49%	0.00%	9.60%	45.80%

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	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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