

Qualcomm Inc (QCOM)

Earnings Update

Hold | Market Perform

William Errett | February 16, 2024



Overview

Summary

Qualcomm's moat is largely comprised of intangible assets. They produce many computer chips and other components that are necessary for many electronic devices, mainly phones. When they produce these components they patent them, not allowing competitors to come and offer the same product as Qualcomm at a lower price.

Qualcomm's most recent quarter came in above investor expectations. Revenue was beaten by 4.26% and earnings per share beat by almost 16.10%. The beat was mostly due to low guidance that was given prior. Revenues for the quarter came in at \$9.9 Bn, up 5% from \$9.5 Bn in the same quarter a year prior. Net income increased 24% to \$2.8 Bn. Earnings per share also increased 24% as no shares were repurchased in the last year.

Qualcomm has 2 segments. QCT which is the main business that involves selling their products, and QTL which is licensing royalties that they collect on certain products. QCT revenues finished at \$8.4 Bn for the quarter, which was up 7%. QTL had \$1.5 Bn in the quarter, which was down 4%. QCT has an operating margin of around 31% and QTL around 70%.

In terms of revenue streams Handsets, which are phones, was \$6.7 Bn in revenue for the quarter, up 16%. Automotive, which has significant growth opportunities, but is only 5% of revenue, had \$598 Mn in revenue for the quarter and was up 31%. Finally, IoT (Internet of Things) had \$1.1Bn, down 32%.

Qualcomm provided guidance for Q2 of FY24. They expect revenues between \$8.9Bn and \$9.7Bn split similarly between segments as the year prior. This should lead to GAAP EPS of around \$1.90 to \$2.10 which would represent between a 26% increase and a 40% increase from Q2 FY23.

The growth story for Qualcomm going forward is solely their capability to execute on a basic level, and lap quarters in which they had poor performance during the year. If Qualcomm hits their Q2 guidance and does not improve at all for the entire year they would achieve a yearly EPS growth rate between 12% and 25%. This is less of a guidance for strong growth, and more of a reversion to what this business has been able to achieve in the past.

I believe that this business could be predictable and consistent... if it were understandable. This business at times can just be too hard to get a grasp on, causing us to enter a time like this where the business is not performing well without being ready. I recommend that we HOLD and continue to evaluate for a good time to SELL this business.

IOFS

Qualcomm performs well from an IOFS thresholds standpoint. All our most important metrics, Gross Margin, Obligation ratio, and Return on Equity are all significantly above our thresholds. Gross margin is 56% compared to our 40% threshold. Their obligation ratio is 1.0x, as they have \$8.4Bn on their balance sheet in cash to offset \$14.4Bn in debt. And they have a Return on Equity and Return on Capital of 36.6% and 20.0% respectively even during times in which their business is declining significantly.

	2014-09	2015-09	2016-09	2017-09	2018-09	2019-09	2020-09	2021-09	2022-09	2023-09
IOFS										
Revenue	\$ 26,487	\$ 25,281	\$ 23,554	\$ 22,258	\$ 22,611	\$ 24,273	\$ 23,531	\$ 33,566	\$ 44,200	\$ 35,820
Gross profit	\$ 15,801	\$ 14,903	\$ 13,805	\$ 12,466	\$ 12,367	\$ 15,674	\$ 14,276	\$ 19,304	\$ 25,565	\$ 19,951
Operating Income	\$ 7,550	\$ 5,776	\$ 6,495	\$ 2,581	\$ 621	\$ 7,667	\$ 6,255	\$ 9,789	\$ 15,860	\$ 7,788
Net Income	\$ 7,967	\$ 5,271	\$ 5,705	\$ 2,445	\$ (4,964)	\$ 4,386	\$ 5,198	\$ 9,043	\$ 12,936	\$ 7,232
Free Cash Flow	\$ 7,702	\$ 4,512	\$ 7,093	\$ 4,311	\$ 3,124	\$ 6,399	\$ 4,407	\$ 8,648	\$ 6,834	\$ 9,849
EBIT	\$ 8,783	\$ 6,591	\$ 7,130	\$ 3,481	\$ 1,160	\$ 8,108	\$ 6,321	\$ 10,833	\$ 15,488	\$ 8,137
EBITDA	\$ 9,933	\$ 7,805	\$ 8,558	\$ 4,942	\$ 2,721	\$ 9,509	\$ 7,714	\$ 12,415	\$ 17,250	\$ 9,946
Dividend Yield %	2.06	3.35	2.95	4.25	3.3	3.25	2.16	2.06	2.53	2.79
Gross Margin	59.7%	58.9%	58.6%	56.0%	54.7%	64.6%	60.7%	57.5%	57.8%	55.7%
Operating Margin	28.5%	22.8%	27.6%	11.6%	2.7%	31.6%	26.6%	29.2%	35.9%	21.7%
Net Margin	30.1%	20.8%	24.2%	11.0%	-22.0%	18.1%	22.1%	26.9%	29.3%	20.2%
FCF Margin	29.1%	17.8%	30.1%	19.4%	13.8%	26.4%	18.7%	25.8%	15.5%	27.5%
D&A/ Gross Profit	7.3%	8.1%	10.3%	11.7%	12.6%	8.9%	9.8%	8.2%	6.9%	9.1%
R&D/ Gross Profit	34.7%	34.7%	32.6%	34.7%	35.6%	34.2%	37.8%	45.4%	51.9%	55.8%
SG&A/ Gross Profit	14.5%	15.7%	17.3%	21.3%	24.1%	14.0%	14.5%	12.1%	10.1%	12.4%
SBC/ Revenue	4.0%	4.1%	4.0%	4.1%	3.9%	4.3%	5.2%	5.0%	4.6%	6.9%
Capex/ Net Income	14.9%	18.9%	9.4%	28.2%	-15.8%	20.2%	27.1%	20.9%	17.5%	20.0%
Dividend Payout ratio	301.9%	178.9%	53.0%	134.1%	-70.2%	69.1%	56.2%	33.8%	25.2%	48.3%
Shares Outstanding	1714.0	1639.0	1498.0	1490.0	1463.0	1220.0	1149.0	1149.0	1137.0	1126.0
Returns %										
ROE	21.2	14.9	18.1	7.8	-31.5	153.5	94.6	112.8	92.5	36.5
ROTE	25.8	19.4	25.5	11.4	-84.6	Negative Tangil	Negative Tangil	Negative Tangil	376.6	95.4
ROIC	22.4	15.2	16.3	6.8	-31.0	20.9	27.6	36.8	43.5	21.6
ROCE	21.2	15.1	15.9	7.0	3.1	35.8	24.8	38.5	46.6	20.7
ROA	16.9	10.6	11.1	4.1	-10.1	13.4	15.2	23.5	28.7	14.5
ROC	320.4	262.5	294.6	126.1	37.5	267.8	186.1	262.0	244.3	113.6
Leverage & Liquidity										
LT Debt	0	9969	10008	19398	15365	13437	15226	13701	13537	14484
ST Debt	0	1000	1749	2495	1005	2496	500	2044	1945	914
PF Stock	0	0	0	0	0	0	0	0	0	0
Leases*7	0	0	0	0	0	0	0	0	0	0
Pension SF										
Cash	\$ 7,907	\$ 7,560	\$ 5,946	\$ 35,029	\$ 11,777	\$ 11,839	\$ 6,707	\$ 7,116	\$ 2,773	\$ 8,450
Obligation Ratio ⁽¹⁾	(1.0)x	0.6x	1.0x	(5.4)x	(0.9)x	0.9x	1.7x	1.0x	1.0x	1.0x
Cash/ Revenue	29.9%	29.9%	25.2%	157.4%	52.1%	48.8%	28.5%	21.2%	6.3%	23.6%
Per Share Data										
Revenue	\$ 15.45	\$ 15.43	\$ 15.72	\$ 14.94	\$ 15.46	\$ 19.90	\$ 20.48	\$ 29.21	\$ 38.87	\$ 31.81
Owners Earnings	\$ 4.59	\$ 2.35	\$ 4.10	\$ 2.43	\$ 1.48	\$ 4.83	\$ 3.40	\$ 7.77	\$ 4.81	\$ 6.62
Earnings	\$ 4.65	\$ 3.22	\$ 3.81	\$ 1.64	\$ (3.39)	\$ 3.59	\$ 4.52	\$ 7.87	\$ 11.37	\$ 6.42
Operating Cash Flow	\$ 5.19	\$ 3.36	\$ 5.10	\$ 3.36	\$ 2.67	\$ 5.97	\$ 5.06	\$ 9.17	\$ 8.00	\$ 10.04
Free Cash Flow	\$ 4.49	\$ 2.75	\$ 4.74	\$ 2.89	\$ 2.14	\$ 5.25	\$ 3.84	\$ 7.53	\$ 6.01	\$ 8.75
Dividends	\$ 1.54	\$ 1.80	\$ 2.02	\$ 2.20	\$ 2.38	\$ 2.48	\$ 2.54	\$ 2.66	\$ 2.86	\$ 3.10
Book Value	\$ 23.47	\$ 20.62	\$ 21.53	\$ 20.86	\$ 0.66	\$ 4.29	\$ 5.37	\$ 8.84	\$ 16.07	\$ 19.37
Tangible Book Value	\$ 19.23	\$ 14.57	\$ 15.31	\$ 13.83	\$ (7.09)	\$ (3.10)	\$ (1.68)	\$ 1.11	\$ 5.02	\$ 8.56

To be updated when Guru Subscription is updated

Valuation

Value bands to be inserted when Guru Subscription is updated

Qualcomm is currently nearing either 75th percentile for price to earnings. They do have significant growth opportunities going forward as they are lapping quarters where customers did not submit many new orders but rather drew upon their current inventory levels. As they reach lower inventory levels and orders pick up from prior quarters Qualcomm can achieve large growth in the next year. However, as this moves closer to where they could be growing my fair value comes into line with the current market price.

5 Year EPS Model												
Ticker: QCOM												
Price: \$155.98												
								P/E	Total Return Price	PV	5 YR Return	Annual Return
Bear	EPS	Current	2024	2025	2026	2027	2028	15.0x	\$193.98	\$122.48	24.4%	4.5%
		\$6.90	\$8.76	\$10.25	\$10.97	\$11.52	\$11.86	17.0x	\$217.71	\$137.21	39.6%	6.9%
		27%	17%	7%	5%	3%	19.0x	\$241.44	\$151.95	54.8%	9.1%	
Base	EPS	Current	2024	2025	2026	2027	2028	15.0x	\$220.70	\$137.04	41.5%	7.2%
		\$6.90	\$8.97	\$10.76	\$11.84	\$12.79	\$13.55	17.0x	\$247.81	\$153.87	58.9%	9.7%
		30%	20%	10%	8%	6%	19.0x	\$274.92	\$170.70	76.3%	12.0%	
Bull	EPS	Current	2024	2025	2026	2027	2028	15.0x	\$250.33	\$155.43	60.5%	9.9%
		\$6.90	\$9.18	\$11.29	\$12.76	\$14.16	\$15.43	17.0x	\$281.19	\$174.60	80.3%	12.5%
		33%	23%	13%	11%	9%	19.0x	\$312.06	\$193.76	100.1%	14.9%	

