



ANALYST QUICK NOTES

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Qualcomm Inc. (NGS: QCOM: BUY)

Target Price: \$75

Jim Kelleher, CFA

4/19/2017

Thesis

- The counter-suit filed against Apple has dominated headlines, but also obscured multiple positives:
 - NXP deal moving forward.
 - Recent dividend hike.
 - Snapdragon in Galaxy S8.
 - Steady additions to Chinese licensees.
- Qualcomm now positioned for positive comps.
- Valuation still attractive as skepticism runs deep.

Despite challenges, environment is more favorable

- Qualcomm has counter-sued Apple, saying Apple did not want to pay for its leading technology and encouraged regulatory attacks against QCOM around the world.
- While that is the headline, we still think AAPL will use QCOM chips, which reportedly perform better than INTC chips; also INTC seemingly cannot produce sufficient volumes.
- The NXP deal has cleared Hart-Scott-Rodino, and Qualcomm has extended the period for its cash tender offer to 5/2/17.
- Qualcomm has raised its quarterly dividend by 7.5%, to \$0.57 per common share. The hike is consistent with Qualcomm's commitment to shareholder returns, which includes a history of above-market dividend growth and a vigorous share-repurchase program.
- Qualcomm's Snapdragon is serving as the apps processor within Samsung's Galaxy S8. Qualcomm regained this socket in Galaxy S7. Given the battery fire issue in S7, we expect Samsung to aggressively promote this device.

QCOM to report fiscal 2Q17 tonight 4/19/17

- Street expects:
 - Revenue of \$5.91 billion, EPS of \$1.20.
- Argus expects:
 - Revenue of 6.01 billion, EPS of \$1.20.
- Guidance was:
 - Revenue of \$5.5-\$6.3 billion.
 - Non-GAAP EPS of \$1.15-\$1.25.
- At the guidance midpoints, revenue would be up year-over-year in high single digits.
- EPS would be up in mid-teen percentages.

Fiscal 3Q17 outlook and what the Street wants to hear

- Street is looking for topline guidance midpoint of about \$5.96 billion, which would be about flat year over year.
- Street looking for EPS guidance midpoint around \$1.11, which would be up low single digits from a year earlier.
- Argus modeling:
 - Revenue of \$6.04 billion.
 - Non GAAP EPS of \$1.24.
 - We are looking for a volume & margin surprise on strong trend across the board.

Valuation & Financial

- Based on our conservative forward EPS estimates, QCOM stock is trading at 10.7-times FY17 and 10.3-times FY18; also at 0.60-times relative P/E.
- This represents discounts to five-year trailing P/E of 14.0 and at significant discounts to its historical relative P/E of 0.94.
- QCOM is even more deeply discounted based on our two- and three-stage discounted free cash flow model.
- Mid-March '17 dividend hike (the 15th consecutive year) lifts yield to 4.3%.

Conclusion

- We believe fiscal 2017 will be a solid year for Qualcomm's QCT business.
 - Our outlook fails to discount positives from license signings with formerly non-complying handset vendors.
 - The pending NXP deal should be transformative.
 - We see EPS surprises ahead and potential resolution of the AAPL suit.
 - BUY to \$75.
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