

CMP:\$117

Exchange:NYSE

Recommendation: Buy

TP:\$117

“Qualcomm’s Mixed Financial Results: QTL and QCT Decline, QSI Rises”?

According to Qualcomm's most recent financial report, QTL revenue for the quarter ending March 31, 2023 was \$1.29 billion, a decrease of 18.35% from the prior quarter. The QCT revenue, on the other hand, was \$7.94 billion for the same time period, a decrease of 16.82% from the previous quarter. The QSI's revenue for the three months ending March 31, 2023, was \$7.00 million, up 16.67% from the prior three months.

Weak handset sales and fewer modem sales to Apple were to blame for the decline in QCT revenue. The timing of purchases by "a modem-only handset customer," which is likely Apple, will result in a bigger than usual decrease in revenue for the QCT division serving the phone and mobile network sectors, according to the company.

Market Capitalization,	\$132.61 billion
Shares Outstanding,	1,114M
Annual Sales,	\$44,200 M
Annual Income,	\$12,936 M
60-Month Beta	1.24
Price/Sales	2.98
Price/Cash Flow	9.15
Price/Book	6.68

Weighted Alpha **-8.90**
52-Week Range 101.47 - 156.66

Price/Earnings (ttm)	13.19
Earnings Per Share (ttm)	8.95
Most Recent Earnings	2.15 on 05/03/23
Next Earnings Date	07/26/23
Annual Dividend & Yield	3.20 (2.69%)
Most Recent Dividend	0.800 on 05/31/23

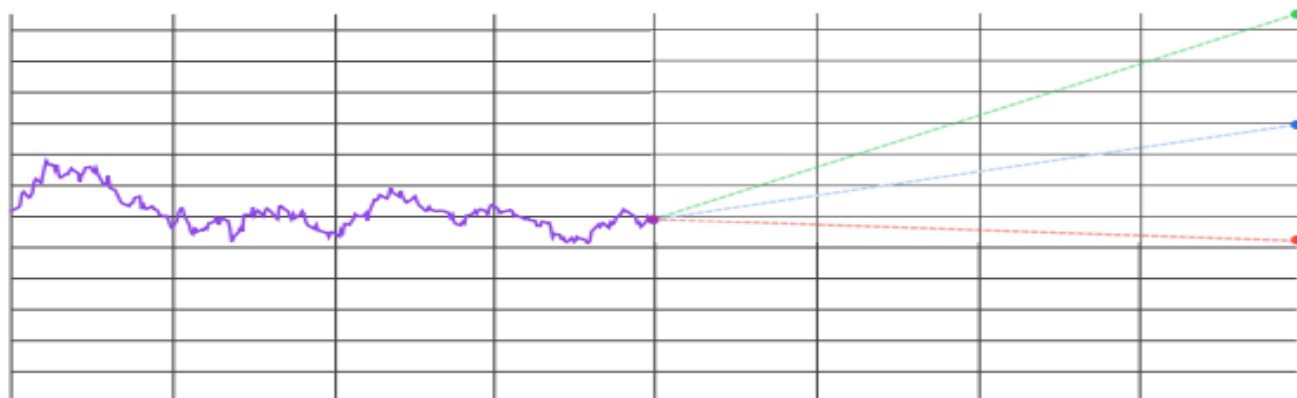
Analyst Expected price target

QCOM Analyst Price Targets

Lowest Wall Street Target
105.00 USD
-11.06% Downside

Consensus Wall Street Target
179.00 USD
51.62% Upside

Highest Wall Street Target
250.00 USD
111.76% Upside



Qualcomm Corporation is a leading provider of semiconductor chips with growth opportunities in AI-enabled devices.

Despite facing challenges, industry experts predict a recovery in demand for wireless chips in 2024, making it an attractive investment opportunity.

Qualcomm is an American multinational corporation that creates wireless technology products and holds significant market shares in processors for smartphones and tablets.

Investment case for Qualcomm Corporation:

- Qualcomm is a leading provider of semiconductor chips for smartphones and other devices. The company has a lot of opportunity to build AI-enabled devices, which will help drive growth in the future. Qualcomm Ventures, the investment arm of Qualcomm, makes strategic investments in early-stage companies in a variety of industries and applications, including artificial intelligence, automotive, digital healthcare, enterprise, Internet of Things and mobile networking.
- The company has faced several challenges in the past, including shortages of critical components and reduced demand for wireless chips due to the economic slowdown and ongoing Covid-19 restrictions in China. However, industry experts predict that demand for wireless chips will begin to recover in 2024.
- Qualcomm's stock has underperformed the overall market over the past year. However, this may be a good time for long-term investors to start considering Qualcomm shares. The company's strong position in the semiconductor industry and its potential to grow into AI-enabled devices make it an attractive investment opportunity.

Key Point

Company Overview: Qualcomm is an American multinational corporation headquartered in San Diego, California, and incorporated in Delaware. It creates semiconductors, software, and services related to wireless technology. It owns patents critical to the 5G, 4G, CDMA2000, TD-SCDMA and WCDMA mobile communications standards.

The company was founded in 1985 by Irwin Jacobs and six other co-founders. Its early research into CDMA wireless cell phone technology was funded by selling a two-way mobile digital satellite communications system known as Omnitrac.

Over the years, Qualcomm has expanded into selling semiconductor products in a predominantly fabless manufacturing model. It also developed semiconductor components or software for vehicles, watches, laptops, wi-fi, smartphones, and other devices.

Industry analysis: Qualcomm holds a 39% market share for baseband processors and a 50% market share for application processors for smartphones. It holds an 18% market share for tablet application processors.

The company is made up of three business units:

- 1) **Qualcomm Strategic Initiatives (QSI), which makes strategic investments.**
- 2) **Qualcomm Technology Licensing (QTL), which offers licenses to use some of Qualcomm's intellectual property.**
- 3) **Qualcomm CDMA Technologies (QCT), which creates and distributes integrated circuits and system software.**

Company Background

Qualcomm is a multinational technology corporation that develops, produces, and sells digital wireless telecommunications goods and services. San Diego, California serves as the company's headquarters. It was established in 1985. The three business units that make up Qualcomm are Qualcomm Strategic Initiatives (QSI), Qualcomm Technology Licencing (QTL), and Qualcomm CDMA Technologies (QCT).

Qualcomm Strategic Initiatives (QSI): It is a reportable segment of Qualcomm that makes strategic investments in early-stage companies within a variety of industries and applications, including artificial intelligence, automotive, digital healthcare, enterprise, internet of things, and mobile networking.

Qualcomm Technology Licensing (QTL): It is a Qualcomm business that offers licenses or other rights to use some of Qualcomm's intellectual property, including some patents that are necessary for and/or helpful in the production, sale, or use of specific wireless products. Qualcomm makes its innovations available to licensees through its licensing program so they can use them to create products.

Qualcomm CDMA Technologies (QCT): It is a Qualcomm subsidiary that creates and distributes integrated circuits and system software for use in mobile devices, wireless networks, internet of things (IoT) devices, broadband gateway equipment, consumer electronics devices, and automotive systems for telematics and infotainment.

Key Drivers for Revenue

Qualcomm's two principal companies, Qualcomm Technology Licencing (QTL) and Qualcomm CDMA Technologies (QCT), both produce revenue for the company. QCT makes money through selling goods and services, primarily chips for use in automobiles, mobile devices, and Internet of Things (IoT) applications. With almost all of Qualcomm's patents under its hands, QTL dominates the patent licencing industry.

The transition to 5G technology is also a significant source of revenue for the business. The industrial sector is also experiencing revenue growth thanks to the continued use of Wi-Fi 6/6E, Wi-Fi 7, mesh networks, smart utility metres, trackers, e-mobility, parking metres, home automation and security, and other location-based products.

Qualcomm's biggest expense is cost of sales, but growth in revenue and decreased operating expenses have increased earnings per share, while R&D expense has remained stagnant.



Cristiano R. Amon

President and CEO



Mark D. McLaughlin

Chair of the Board



Sylvia Acevedo

Member of Governance Committee

Key Drivers for Expenses

Cost of sales is the biggest expense head for Qualcomm, with it being 56% of revenue in 2017, before rising to around 64.6% of revenue in 2019. Despite this, a growth in revenue and a simultaneous drop in operating expenses has helped in bringing in almost an additional \$2 in earnings per share between 2017 and 2019.

Research and Development (R&D) expense has remained more or less stagnant, going from \$5.49 billion in 2017 to \$5.4 billion in 2019.

However, as a percentage of revenue, R&D expense dropped from 24.6% to 22.2% over the same period.

Senior Management of Qualcomm Corporation

The current President and Chief Executive Officer of Qualcomm is Cristiano R. Amon who has served as a director since June 2021. The Chair of the Board of Directors is Mark D. McLaughlin who has served as a director of the Company since July 2015.

Cristiano R. Amon is the current President and Chief Executive Officer of Qualcomm Incorporated. He assumed the role of CEO on June 30, 2021. Amon began his Qualcomm career in 1995 as an engineer and during his tenure, has helped shape the strategic direction for the Company in several leadership roles.

Amon was born in Brazil where he earned a degree in electrical engineering. He began his career working on wireless technology for early cell phone networks. Prior to becoming CEO, Amon served as president of Qualcomm. In that role, he steered development of a leading and differentiated product roadmap, spearheaded Qualcomm's 5G strategy – as well as its acceleration and global roll out – and drove the expansion and diversification of the business to serve multiple industries.

Mark D. McLaughlin has served as the Chair of the Board of Directors for Qualcomm since August 2019 and as a director of the Company since July 2015. Prior to joining Qualcomm, Mr. McLaughlin served as Vice Chairman of the Board of Palo Alto Networks, Inc., a global cybersecurity company, from June 2018 to December 2022. He served as Chairman of the Board and Chief Executive Officer of Palo Alto Networks from August 2016 to June 2018 and as Chairman of the Board, President and Chief Executive Officer from April 2012 to August 2016.

Sylvia Acevedo is an American engineer and businesswoman. She has served as a director of Qualcomm since November 2020 and is a member of the Governance Committee. Prior to joining Qualcomm, Ms. Acevedo served as Chief Executive Officer of the Girl Scouts of the USA from May 2017 to August 2020, and as interim Chief Executive Officer from June 2016 to May 2017.

Ms. Acevedo has had an impressive career, beginning as an engineer at NASA's Jet Propulsion Laboratory where she was on the Voyager 2 team. She has also held senior positions at IBM, Apple, and Dell.

Qualcomm's competitive advantages include its dominant share of the premium smartphone market, 5G technological leadership, geographical supplier diversification, and high profitability compared to peers.

Potential catalysts for Qualcomm Corporation include continued growth in the 5G market, expansion into new markets such as automotive, IOT, and edge computing, and strong financial performance.

Qualcomm competitive advantage

Dominant share of the premium smartphone market:

Qualcomm's Snapdragon processors are used in many high-end smartphones, giving the company a dominant share of this market. This is due to the company's focus on developing high-performance, power-efficient processors that are well-suited for use in mobile devices.

5G technological leadership: Qualcomm is a leader in the development of 5G technology, which is expected to drive significant growth in the wireless industry. The company has invested heavily in research and development to create cutting-edge 5G products and solutions, and its technology is widely used in 5G networks and devices.

Geographical supplier diversification: Qualcomm has diversified its manufacturing locations, which helps insulate it from risks inherent to an industry heavily concentrated in Asia. This diversification allows the company to maintain a stable supply chain and reduce its exposure to regional disruptions.

High profitability compared to peers: Qualcomm's profitability is higher than many of its peers in the wireless industry. This is due to the company's strong market position, efficient operations, and focus on high-margin products and services.

Some potential catalysts for Qualcomm Corporation include:

Continued growth in the 5G market: Qualcomm is a leader in the development of 5G technology, and the continued growth of the 5G market is expected to drive significant revenue growth for the company. As more and more devices and networks adopt 5G technology, demand for Qualcomm's 5G products and solutions is likely to increase, providing a strong catalyst for growth.

IOT (Internet of things): Qualcomm expects its addressable opportunity to grow from approximately \$100 billion today to \$700 billion in the next decade, as more devices become intelligently connected. The company provided new three-year financial targets, including IOT revenues to grow up to \$9 billion in fiscal 2024.

Expansion into new markets: Qualcomm is entering new areas such as automotive, IOT, and edge computing, which might offer the business with new revenue sources. These areas are expanding quickly and provide Qualcomm great potential to use its knowledge of wireless technology to develop new goods and services.

Strong financial performance: Qualcomm has a history of strong financial performance, with high profitability compared to its peers. Continued strong financial performance could drive further growth for the company by providing the resources necessary to invest in research and development, expand into new markets, and pursue strategic acquisitions.

Risks associated with investment in Qualcomm include dependence on the handset market and key customers, regulatory and competitive risks, global and macroeconomic factors, and potential loss of market dominance and competitive edge.

Some risks associated with Investment in Qualcomm include:

Risk associated with the handset market: Qualcomm now receives more than 80% of its income from the handset industry. This implies that any modifications or disruptions to the handset market could have a considerable effect on Qualcomm's earnings.

Customer risk: Nearly 40% of Qualcomm's income comes from Apple and Samsung together. This implies that any modifications to the relationship with these clients, such as a loss of business or a reduction in orders, could have a major effect on Qualcomm's earnings.

Regulatory risks: Today, 20% to 30% of Qualcomm's income come from licencing and royalties. As a result, Qualcomm's revenues and profitability may be adversely impacted by any changes to rules or legal issues pertaining to licencing and royalties.

Competition: Qualcomm competes with other businesses in the creation and marketing of its goods and services in a highly competitive market. Price pressure, decreased profitability, and a loss of market share could be the effects of increased competition.

Background information: Global and macroeconomic factors may have an impact on Qualcomm's operations and financial performance.

Interest from the FTC in reducing Qualcomm's market dominance: The Federal Trade Commission (FTC) has expressed interest in reducing Qualcomm's market dominance, which might lead to legal disputes and regulatory actions that could have an effect on Qualcomm's operations.

As Huawei shifts its focus towards Samsung, Qualcomm may be losing ground: Qualcomm runs the risk of losing its competitive edge as Huawei, one of its main rivals, switches to Samsung for its chipsets.

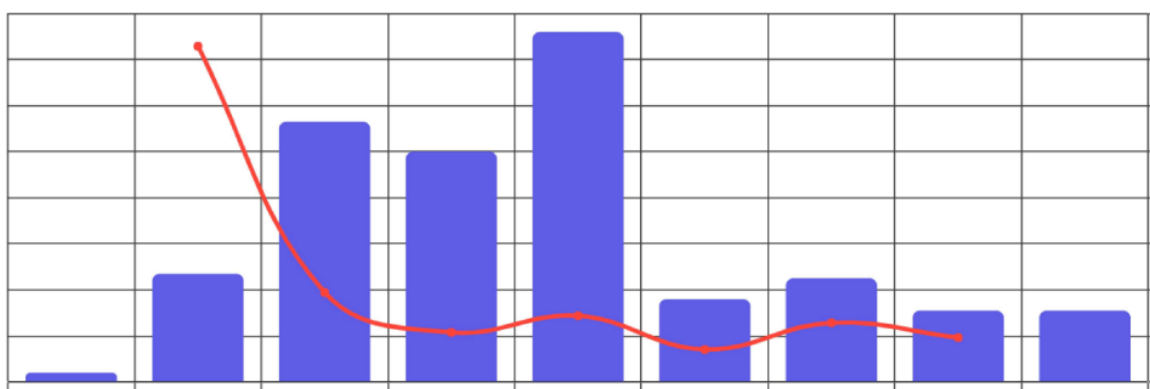
Financials

Qualcomm Strategic Initiatives (QSI) Revenue

Q QCOM QSI Revenue

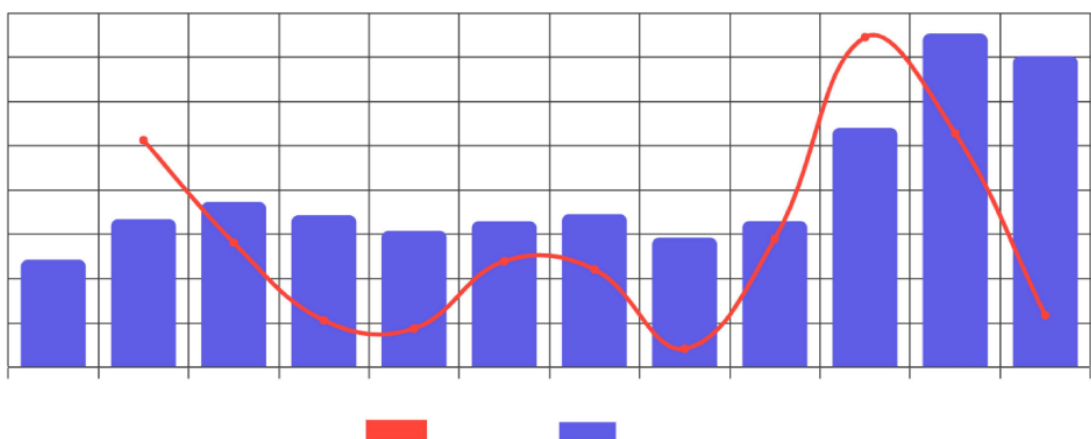
Annual Quarterly K M B

Metric	TTM	Sep '22	Sep '21	Sep '20	Sep '19	Sep '18	Sep '17	Sep '16	Sep '15
QSI Revenue	31	31	45	36	152	100	113	47	4
% Chg. (YoY)	—	-31.11%	25%	-76.32%	52%	-11.5%	140.43%	1075%	—



Qualcomm CDMA Technologies (QCT) Revenue

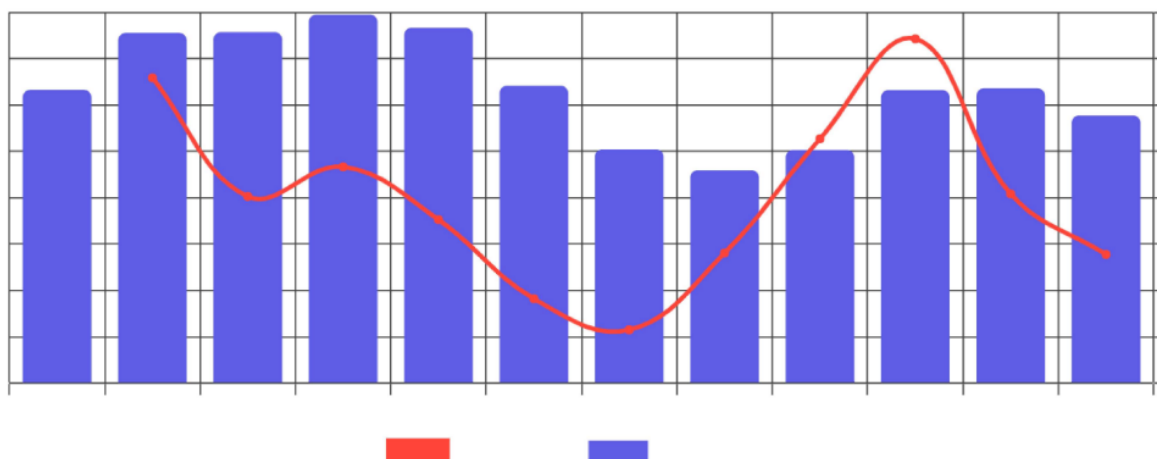
Metric	TTM	Sep '22	Sep '21	Sep '20	Sep '19	Sep '18	Sep '17	Sep '16	Sep '15
QCT Revenue	35,116	37,677	27,019	16,493	14,639	17,282	16,479	15,409	17,154
% Chg. (YoY)	-6.8%	39.45%	63.82%	12.66%	-15.29%	4.87%	6.94%	-10.17%	-8.1%



Qualcomm Technology Licensing (QTL)

Q QCOM QTL Revenue

	Annual	Quarterly	K	M	B				
Metric	TTM	Sep '22	Sep '21	Sep '20	Sep '19	Sep '18	Sep '17	Sep '16	Sep '15
QTL Revenue	5,774	6,358	6,320	5,028	4,591	5,042	6,412	7,664	7,947
% Chg. (YoY)	-9.19%	0.6%	25.7%	9.52%	-8.94%	-21.37%	-16.34%	-3.56%	4.99%



Income Statement

	2022	2021	2020	2019
Revenue	44200	33566	23531	24273
Cost & Expenses	28340	23777	17276	16606
Operating Income	15860	9789	6255	7667
Interest Expense	(490)	(559)	(602)	(627)
Investment & other Expense (Income)	(372)	1044	66	441
Income tax expense	(2012)	(1231)	(521)	(3095)
Discontinued operation	(50)	-	-	-
Net Income	12936	9043	5198	4386

Balancesheet

Assets	2022	2021	2020	2019
Cash and cash equivalents	2773	7116	6,707	11,839
Marketable securities	3609	5298	4,507	421
Accounts receivable, net	5643	3579	4,003	2,471
Inventories	6341	3228	2,598	1,400
Held for sale assets	733	-	-	-
Other current assets	1625	854	704	634
Total current assets	20724	20075	18,519	16,765
Deferred tax assets	1803	1591	1,351	1,196
Property, plant and equipment, net	5168	4559	3,711	3,081
Goodwill	10508	7246	6,323	6,282
Other intangible assets, net	1882	1458	1,653	2,172
Held for sale assets	1200	-	-	-
Other assets	7729	6311	4,037	3,461
Total assets	49014	41240	35,594	32,957

Liability	2022	2021	2020	2019
Total Current Liability	11866	11951	8672	8935
Unearned revenue	144	364	761	1160
Income Tax payable	1472	1713	1872	2088
Long term debt	13537	13701	15226	13437
Other Liabilities	119	-	2986	2428
Total liability	31001	31290	29517	28048
Total stockholder equity	18013	9950	6077	4909
Total liability & Total stockholder equity	49014	41240	35594	32957

Cash Flow

	2022	2021	2020	2019
Net Income	12986	9043	5198	4386
Net cash provided by operating activities	9096	10536	5814	7286
Net cash used by investing activities	(5,804)	(3,356)	(5,263)	(806)
Net cash used by financing activities	(7,196)	(6,798)	(5,707)	(6,386)
Effect of exchange rate changes on cash and cash equivalents	(113)	27	24	(32)
Net increase (decrease) in total cash and cash equivalents	(4,017)	409	(5,132)	62
Total cash and cash equivalents at beginning of period	7,116	6707	11,839	11,777
Total cash and cash equivalents at end of period	3099	7116	6,707	11,839

Valuation

Our valuation of Qualcomm Incorporated Company is based on a discounted cash flow (DCF) model and relative valuation using price-to-earnings (P/E) and enterprise value-to-EBITDA (EV/EBITDA) multiples.

Our DCF model assumes a weighted average cost of capital (WACC) of 9.9% and a terminal growth rate of 2.5%. Based on our projections of free cash flow, we derive an intrinsic value of \$117.69 per share for current scenario & \$175 for forecasting period.

In terms of relative valuation, Qualcomm Incorporated Company is currently trading at a P/E multiple of 13.19x, which is in line with its peers in the industry. However, its EV/EBITDA multiple of 9x is slightly below the industry average. Based on these multiples, we derive a relative value of \$117 per share & giving strong buy signal.

Disclosure: This report is for informational purposes only and is not intended to be investment advice. The information contained in this report is based on a financial DCF model and is subject to change without notice. The author of this report does not hold any positions in Qualcomm and has not received any compensation from the company for the production of this report. The opinions expressed in this report are those of the author and do not necessarily reflect the views of any other person or entity. Investors should conduct their own due diligence and consult with a financial advisor before making any investment decisions. Past performance is not indicative of future results, and there can be no assurance that any investment will achieve its objectives or that any investment strategy will be successful. Investing involves risk, including the potential loss of principal.

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