

## Dialog Semiconductor

Price EUR26.92

Apple engine stalls. We see no catalyst until the end of H1-16.

Fair Value EUR34 vs. EUR37 (+26%)

NEUTRAL

|                            |             |
|----------------------------|-------------|
| Bloomberg                  | DLG GR      |
| Reuters                    | DLGS.DE     |
| 12-month High / Low (EUR)  | 53.3 / 26.6 |
| Market Cap (EUR)           | 2,096       |
| Ev (BG Estimates) (EUR)    | 1,638       |
| Avg. 6m daily volume (000) | 18.20       |
| 3y EPS CAGR                | 18.4%       |

Following yesterday preliminary announcement of FY15 revenue of USD1,335m and FY16 preliminary guidance of an expected single-digit growth in revenue terms, we update our model with lower shipment estimates, sales and margin for the coming years. Overall, we apply a downward revision on adjusted EPS of -7% on average over the next three years. Our FV is down to EUR34 from EUR37. We maintain our Neutral recommendation since we see no catalyst until the end of H1-16 so far.

## ANALYSIS

|                | 1 M    | 3 M    | 6 M    | 31/12/14 |
|----------------|--------|--------|--------|----------|
| Absolute perf. | -20.0% | -29.4% | -43.5% | -8.2%    |
| Semiconductors | -14.0% | -5.4%  | -13.5% | -18.4%   |
| DJ Stoxx 600   | -6.7%  | -5.6%  | -8.5%  | -0.3%    |

| YEnd Dec. (USDm) | 2014  | 2015e | 2016e | 2017e |
|------------------|-------|-------|-------|-------|
| Sales            | 1,156 | 1,355 | 1,468 | 1,693 |
| % change         |       | 17.2% | 8.4%  | 15.3% |
| EBITDA           | 286   | 359   | 387   | 455   |
| EBIT             | 230.3 | 301.9 | 319.1 | 383.0 |
| % change         |       | 31.1% | 5.7%  | 20.0% |
| Net income       | 172.2 | 213.7 | 233.6 | 294.5 |
| % change         |       | 24.1% | 9.3%  | 26.1% |

|                  | 2014  | 2015e | 2016e | 2017e |
|------------------|-------|-------|-------|-------|
| Operating margin | 19.9  | 22.3  | 21.7  | 22.6  |
| Net margin       | 14.9  | 15.8  | 15.9  | 17.4  |
| ROE              | 22.1  | 18.2  | 16.9  | 18.0  |
| ROCE             | 36.8  | 41.7  | 45.5  | 55.0  |
| Gearing          | -18.3 | -46.9 | -55.6 | -62.3 |

| (USD)           | 2014  | 2015e | 2016e | 2017e |
|-----------------|-------|-------|-------|-------|
| EPS             | 2.27  | 2.74  | 2.99  | 3.77  |
| % change        |       | 20.5% | 9.3%  | 26.1% |
| P/E             | 11.9x | 9.8x  | 9.0x  | 7.1x  |
| FCF yield (%)   | 11.0% | 8.1%  | 9.3%  | 11.4% |
| Dividends (USD) | 0.00  | 0.00  | 0.00  | 0.00  |
| Div yield (%)   | NM    | NM    | NM    | NM    |
| EV/Sales        | 1.7x  | 1.2x  | 1.0x  | 0.7x  |
| EV/EBITDA       | 6.9x  | 4.6x  | 3.7x  | 2.6x  |
| EV/EBIT         | 8.6x  | 5.4x  | 4.5x  | 3.1x  |

- **The Apple value chain is struggling to maintain growth.** In a brief press release published yesterday (see our yesterday's [Morning Mail](#)), the group announced Q4-15 preliminary revenue of USD397m in line with the company's guidance of USD390-400m updated in December 2015 (cut by 11%). As a result, FY15 sales are up 17% to USD1,355m. Finally, the main point of yesterday's publication was the FY16 revenue growth guidance expected to be in the single-digit range due to weak momentum on the smartphone market anticipated in H1-16.
- **We adjust downward our Apple shipments estimates, again!** During December 2015, we lowered our iPhone shipment estimates for Q4-15e and FY16e to 73m (from 75m) and 227m (from 237m) respectively. However, the recent and particularly poor newsflow from diverse Apple suppliers, including Qorvo and Cirrus Logic's profit warnings, leads us to apply a new adjustment in Apple shipments for the coming years. Indeed, like Dialog Semiconductor, Qorvo published on 6 January 2016 a revenue guidance update with sales cut by 14% vs. the previous guidance (at mid-pt, USD620m vs. USD720-730m). The company attributed the revenue decline to weaker than forecast demand in the Mobile Products segment which we believe is linked to softer demand for the iPhone 6S. On January 7, Cirrus Logic also announced preliminary Q3 revenue at USD347m vs. consensus expectations at USD386m (i.e. -10% vs. cons.), blaming weaker than anticipated demand for certain portable audio products. The US group also added that the weakness had escalated over the last few weeks of December. It looks like we have been too kind in the previous shipment adjustments we made in December, which leads us to apply a new cut in our estimates. We now expect FY16e iPhone shipments to be close to 210m, i.e. down c. 20m units compared to FY15e shipments (-9% yoy), of which 48m to be shipped during the first calendar quarter to be compared to 61m iPhones shipped in Q1-15. We continue to foresee a recovery starting in September 2016 thanks to the iPhone 7 while iPhone 6S sales should provide an easier comparable basis than iPhone 6 sales.
- **A 7% cut on average on EPS for the next three years.** Despite the flexibility provided by the fabless model, we anticipate that lower volumes will have an impact on margins. As a result, we lower our FY16 estimates to USD1,468m vs. USD1,574m previously (see change in shipment estimates above), and we apply a 21.7% current operating margin (vs. 23.1% previously). FY17 estimates are also lowered and our sales estimates are down to USD1,693m (vs. USD1,797m previously) and the current operating margin is down to 22.6% (vs. 23.2% previously). As a result, changes in our model lead to a 6.8% cut in adj. EPS on average for the next three years (USD2.74/2.99/3.77 for FY15e/FY16e/FY17e respectively vs. USD2.73/3.41/4.11).

## VALUATION

- **While our updated FV of EUR34 points to a 26% upside, we believe that the stock is capped until the end of the iPhone 6 cycle and the Atmel deal.** As a result, there is no hurry in investing in Dialog, we keep our Neutral recommendation waiting for a better momentum that is expected by the end of H1-16.
- Dialog's shares are trading at a 2016e P/E ratio of 9.0x and a 2016e EV/EBIT ratio of 4.5x.

## NEXT CATALYSTS

- FY15 results to be published during the week commencing 7 March 2016.

[Click here to download document](#)



**Analyst :**  
Dorian Terral  
33(0) 1.56.68.75.92  
dterral@bryangarnier.com

**Sector Team :**  
Richard-Maxime Beaudoux  
Thomas Coudry  
Gregory Ramirez

# Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

## Stock rating

|         |  |
|---------|--|
| BUY     | Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements including a SWOT analysis, positive momentum, technical aspects and the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.      |
| NEUTRAL | Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.                      |
| SELL    | Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements including a SWOT analysis, positive momentum, technical aspects and the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion. |

## Distribution of stock ratings

BUY ratings 58.5%

NEUTRAL ratings 32.3%

SELL ratings 9.2%

# Research Disclosure Legend

|    |   |  |     |
|----|---|--|-----|
| 1  | Bryan Garnier shareholding in Issuer            | Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").   | No  |
| 2  | Issuer shareholding in Bryan Garnier            | The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.   | No  |
| 3  | Financial interest                              | A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report   | No  |
| 4  | Market maker or liquidity provider              | A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.   | No  |
| 5  | Lead/co-lead manager                            | In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.  | No  |
| 6  | Investment banking agreement                    | A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.  | No  |
| 7  | Research agreement                              | A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.  | No  |
| 8  | Analyst receipt or purchase of shares in Issuer | The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.   | No  |
| 9  | Remuneration of analyst                         | The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.  | No  |
| 10 | Corporate finance client                        | In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.   | No  |
| 11 | Analyst has short position                      | The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.   | No  |
| 12 | Analyst has long position                       | The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.  | No  |
| 13 | Bryan Garnier executive is an officer           | A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.   | No  |
| 14 | Analyst disclosure                              | The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report. | Yes |
| 15 | Other disclosures                               | Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).   | No  |

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at [www.bryangarnier.com](http://www.bryangarnier.com)

| <b>London</b>                   | <b>Paris</b>                              | <b>New York</b>          | <b>Geneva</b>      | <b>New Delhi</b>     |
|---------------------------------|---|--------------------------|--------------------|----------------------|
| Beaufort House                  | 26 Avenue des Champs Elysées              | 750 Lexington Avenue     | rue de Grenus 7    | The Imperial Hotel   |
| 15 St. Botolph Street           | 75008 Paris                               | New York, NY 10022       | CP 2113            | Janpath              |
| London EC3A 7BB                 | Tel: +33 (0) 1 56 68 75 00                | Tel: +1 (0) 212 337 7000 | Genève 1, CH 1211  | New Delhi 110 001    |
| Tel: +44 (0) 207 332 2500       | Fax: +33 (0) 1 56 68 75 01                | Fax: +1 (0) 212 337 7002 | Tel +4122 731 3263 | Tel +91 11 4132 6062 |
| Fax: +44 (0) 207 332 2559       | Regulated by the                          | FINRA and SIPC member    | Fax+4122731 3243   | +91 98 1111 5119     |
| Authorised and regulated by the | Financial Conduct Authority (FCA) and     |                          | Regulated by the   | Fax +91 11 2621 9062 |
| Financial Conduct Authority     | the Autorité de Contrôle prudentiel et de |                          | FINMA              |                      |
| (FCA)                           | resolution (ACPR)                         |                          |                    |                      |

#### **Important information**

This document is classified under the FCA Handbook as being investment research (independent research). Bryan Garnier & Co Limited has in place the measures and arrangements required for investment research as set out in the FCA's Conduct of Business Sourcebook.

This report is prepared by Bryan Garnier & Co Limited, registered in England Number 03034095 and its MIFID branch registered in France Number 452 605 512. Bryan Garnier & Co Limited is authorised and regulated by the Financial Conduct Authority (Firm Reference Number 178733) and is a member of the London Stock Exchange. Registered address: Beaufort House 15 St. Botolph Street, London EC3A 7BB, United Kingdom

This Report is provided for information purposes only and does not constitute an offer, or a solicitation of an offer, to buy or sell relevant securities, including securities mentioned in this Report and options, warrants or rights to or interests in any such securities. This Report is for general circulation to clients of the Firm and as such is not, and should not be construed as, investment advice or a personal recommendation. No account is taken of the investment objectives, financial situation or particular needs of any person.

The information and opinions contained in this Report have been compiled from and are based upon generally available information which the Firm believes to be reliable but the accuracy of which cannot be guaranteed. All components and estimates given are statements of the Firm, or an associated company's, opinion only and no express representation or warranty is given or should be implied from such statements. All opinions expressed in this Report are subject to change without notice. To the fullest extent permitted by law neither the Firm nor any associated company accept any liability whatsoever for any direct or consequential loss arising from the use of this Report. Information may be available to the Firm and/or associated companies which are not reflected in this Report. The Firm or an associated company may have a consulting relationship with a company which is the subject of this Report.

This Report may not be reproduced, distributed or published by you for any purpose except with the Firm's prior written permission. The Firm reserves all rights in relation to this Report.

Past performance information contained in this Report is not an indication of future performance. The information in this report has not been audited or verified by an independent party and should not be seen as an indication of returns which might be received by investors. Similarly, where projections, forecasts, targeted or illustrative returns or related statements or expressions of opinion are given ("Forward Looking Information") they should not be regarded as a guarantee, prediction or definitive statement of fact or probability. Actual events and circumstances are difficult or impossible to predict and will differ from assumptions. A number of factors, in addition to the risk factors stated in this Report, could cause actual results to differ materially from those in any Forward Looking Information.

Disclosures specific to clients in the United Kingdom

This Report has not been approved by Bryan Garnier & Co Limited for the purposes of section 21 of the Financial Services and Markets Act 2000 because it is being distributed in the United Kingdom only to persons who have been classified by Bryan Garnier & Co Limited as professional clients or eligible counterparties. Any recipient who is not such a person should return the Report to Bryan Garnier & Co Limited immediately and should not rely on it for any purposes whatsoever.

Notice to US investors

This research report (the "Report") was prepared by Bryan Garnier & Co Limited for information purposes only. The Report is intended for distribution in the United States to "Major US Institutional Investors" as defined in SEC Rule 15a-6 and may not be furnished to any other person in the United States. Each Major US Institutional Investor which receives a copy of this Report by its acceptance hereof represents and agrees that it shall not distribute or provide this Report to any other person. Any US person that desires to effect transactions in any security discussed in this Report should call or write to our US affiliated broker, Bryan Garnier Securities, LLC, 750 Lexington Avenue, New York NY 10022. Telephone: 1-212-337-7000.

This Report is based on information obtained from sources that Bryan Garnier & Co Limited believes to be reliable and, to the best of its knowledge, contains no misleading, untrue or false statements but which it has not independently verified. Neither Bryan Garnier & Co Limited and/or Bryan Garnier Securities LLC make no guarantee, representation or warranty as to its accuracy or completeness. Expressions of opinion herein are subject to change without notice. This Report is not an offer to buy or sell any security.

Bryan Garnier Securities, LLC and/or its affiliate, Bryan Garnier & Co Limited may own more than 1% of the securities of the company(ies) which is (are) the subject matter of this Report, may act as a market maker in the securities of the company(ies) discussed herein, may manage or co-manage a public offering of securities for the subject company(ies), may sell such securities to or buy them from customers on a principal basis and may also perform or seek to perform investment banking services for the company(ies).

Bryan Garnier Securities, LLC and/or Bryan Garnier & Co Limited are unaware of any actual, material conflict of interest of the research analyst who prepared this Report and are also not aware that the research analyst knew or had reason to know of any actual, material conflict of interest at the time this Report is distributed or made available..