

Dialog Semiconductor

Price EUR33.15

Q4-15 beats, but Q1-16 revenue outlook disappointing. Looking to set up a share buy-back.

Fair Value EUR38 (+15%)

NEUTRAL

Bloomberg	DLG GR
Reuters	DLGS.DE
12-month High / Low (EUR)	53.3 / 24.4
Market Cap (EURm)	2,581
Ev (BG Estimates) (EURm)	2,123
Avg. 6m daily volume (000)	15.00
3y EPS CAGR	18.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	22.1%	-4.3%	-23.0%	6.2%
Semiconductors	4.6%	-8.4%	2.6%	-3.2%
DJ Stoxx 600	4.0%	-7.8%	-3.2%	-6.6%

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	14.6x	12.1x	11.1x	8.8x
FCF yield (%)	8.9%	6.5%	7.5%	9.3%
Dividends (USD)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	2.1x	1.6x	1.3x	1.0x
EV/EBITDA	8.6x	5.9x	5.0x	3.7x
EV/EBIT	10.7x	7.0x	6.0x	4.4x

This morning, Dialog Semiconductor reports Q4-15 results above consensus estimates. Q4-15 sales at USD397m (up +20.1% seq.) were already known as the data was pre-released in January. For Q4-15, Underlying EBIT, which is the one comparable to consensus data, is USD105m and EPS came out at USD0.97, i.e. 9% above consensus expectations of EBIT at USD96.6m and EPS at USD0.89. However, for Q1-16, the company sees revenue in the range of USD230m to USD245m, which, at the mid-point (USD238m) is 7% below the current Street expectation of USD257m and 6% below our estimate at USD254m. Finally, the group adds that it is looking to put in place a share buy-back program. We keep our Neutral recommendation, waiting for the conference call to be held today at 10:30am.

ANALYSIS

- This morning, Dialog Semiconductor reports Q4-15 results 9% above expectations.** The group reported sales of USD397 m, up +20.1% seq., which is not a surprise since the group pre-released the Q4-15 sales data in January ([see our comment](#)). Today, the group also reports Gross Margin of 46.1% and Underlying EBIT of USD105m which appears to be 8.7% above the Street's expectations at USD96.6m (BG ests. USD88.6m) and Underlying diluted EPS of USD0.97 is 9.0% above the Street's estimates at USD0.89 (BG ests. USD0.68). On a FY basis, revenue came out at USD1,355m, underlying operating profit is USD318m and FY15 underlying diluted EPS is USD3.02. At end Q4-15, the gross cash position was USD567m, thanks to operational cash generation of USD110m.
- As expected, Mobile business has been impacted by the smartphone slowdown, but Power conversion and Bluetooth continued to perform strongly.** While the Mobile Systems segment had been impacted by the general slowdown in the smartphone market and showed a sequential decline of -11% (+25% yoy) in Q4, the Power Conversion was up +15% seq. (+16% seq.) thanks to the ramp of Dialog's rapid charge solution. The Connectivity segment, including Bluetooth and DECT products, was slightly down by -3.4% seq. (+9% yoy).
- A Q1-16 revenue guidance 7% below consensus expectations.** For Q1-16, the company sees revenue in the range of USD230m to USD245m, which, at the mid-point (USD238m) points to a -40% decrease in sales and is 7% below the Street's expectation of USD257m and 6% below our estimate at USD254m. The gross margin guidance of a similar GM than what has been achieved in 2015 (2015 underlying GM 46.7%) is broadly in line with Street's expectations. In our view, the new group's guidance points to a continuous slowdown in volume, but no particular price pressure. Note that the first quarter is usually known to have a strong negative seasonal effect at Dialog, it has been down -33% sequentially on average over the last 3 years. The group did not change its previous FY16e guidance of a single digit growth (cons. at USD1,4bn, up +3.6%).
- The group has announced the appointment of Wissam Jabre as CFO.** In July 2015, Jean Michel Richard announced his departure for personal reasons after nine years as CFO at Dialog. Wissam Jabre will now have responsibility for the company's financial function. Previously, Jabre was Corporate Vice President of Finance at AMD since 2014 and held various executive positions at Freescale between 2003 and 2014. We also note that Dialog highlights its experience in various domain including Merger and Acquisition.
- In addition, the management also says it will seek permission at the next AGM to put in place a general framework for a share buyback program.** We note that the group has always refused to set up a dividend distribution explaining it was inconsistent for a group achieving a double-digit growth figure. However, the current slowdown could change CEO's opinion on dividend distribution.

VALUATION

- We maintain our Neutral recommendation, waiting for the conference call to be held later today (at 10:30am).
- Dialog's shares trade at a 2016e EV/Sales ratio of 1.8x and a 2016e P/E ratio of 16.2x.

NEXT CATALYSTS

- May 4th 2016, Q3 results



Fig. 1: Q4-15 Actual vs. Cons.

[USDm]	BG ests. Q4	Consensus Q4	Q4 Actual	Actual vs. Cons.
Net revenue	397	397	397	0.0%
% change (seq)	20.1%	20.1%	20.2%	6bp
Gross Margin	46.3%	46.9%	46.1%	-80bp
Adj. EBIT	89	97	105	8.7%
% of revenue	22.3%	24.3%	26.4%	212bp
Dil. EPS	0.68	0.89	0.97	9.0%

Sources: Company data; Bryan, Garnier & Co ests.

Fig. 2: Q1-16 guidance vs. estimates

[USDm]	BG ests. Q1	Consensus Q1	Q1 Guidance	Guid. vs. Cons.
Net revenue (mid-pt)	254	257	238	-7.4%
% change (seq vs. ests.)	-36.0%	-35.3%	-40.1%	-479bp
Gross margin	46.0%	46.5%	-	-
Dil. EPS	0.47	0.43	-	-

Sources: Company data; Bryan, Garnier & Co ests.

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

Sector Team :
Richard-Maxime Beaudoux
Thomas Coudry
Gregory Ramirez

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London	Paris	New York	Geneva	New Delhi
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
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