

27th April 2016

TMT

## Dialog Semiconductor

Price EUR30.95

Apple is heading for further softness before benefiting from the iPhone 7 cycle

Fair Value EUR39 (+26%)

BUY

Bloomberg	DLG GR
Reuters	DLGS.DE
12-month High / Low (EUR)	53.3 / 24.4
Market Cap (EURm)	2,410
Avg. 6m daily volume (000)	13.30

	1 M	3 M	6 M	31/12/15
Absolute perf. Semiconductor	-5.1%	8.7%	-4.8%	-0.9%
s	-2.0%	-1.5%	-6.0%	-5.4%
DJ Stoxx 600	3.6%	2.4%	-7.6%	-5.1%

  

	2015	2016e	2017e	2018e
P/E	11.6x	12.5x	9.5x	8.6x
Div yield (%)	NM	NM	NM	NM

### ANALYSIS

- **During the night, Apple published disappointing FQ2 results although volumes were in line.** The group posted FQ2 sales at USD50.6bn compared with the Street's forecast of USD52bn. iPhone shipments came out at 51.2M units vs. expectations for about 50M. Shipments of iPads were also slightly higher with 10.3M compared with the consensus at 10.1M. Disappointment stemmed from EPS at USD1.90, which was below consensus expectations at USD2.00. As a result, **Calendar-Q1 (FQ2) iPhone and iPad sales were broadly in line with the street's expectations.**
- **However, further disappointment and a more significant impact stemmed from Calendar-Q2 (FQ3) guidance.** The group foresees FQ3 revenue in the range of USD41bn/USD43bn while the consensus was forecasting USD47bn. We estimate that this implies iPhone shipments of about 40M units while we currently have 43M in our model for Dialog. This adjustment has no impact on our FV.
- We remind that our base case scenario foresees a CAGR16/18e in iPhone shipments of +0.5%, plugging a worst case scenario with a CAGR of -3.0% would lead to an EPS cut of about 5% on Dialog. However, in our view, Apple's FQ3 outlook is a tailing impact of late-2015/early-2016 softness and we continue to believe that both, Apple and Dialog should benefit from the iPhone 7 cycle. We believe the performance is due to 1/ inventory cleaning before iPhone 7, 2/ Chinese market softness that should remain temporary and 3/ a negative FX impact at Apple with a strong USD.

### VALUATION

- We think the stock is set to come under pressure in the short-term. Nevertheless, we are maintaining our Buy recommendation as we continue to believe in improving momentum over the next six months, especially taking into account the particularly weak environment seen at the moment.
- Dialog's shares trade at a low 2016e P/E ratio of 12.6x to be compared to peers' 2016e P/E ratio of 19.8x.

### NEXT CATALYSTS

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## Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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