

## Dialog Semiconductor

Price EUR30.02

Dialog slashes FY16 guidance and announces a share buyback programme

Fair Value EUR39 (+30%)

BUY

Bloomberg	DLG GR
Reuters	DLGS.DE
12-month High / Low (EUR)	53.3 / 24.4
Market Cap (EURm)	2,337
Ev (BG Estimates) (EURm)	1,698
Avg. 6m daily volume (000)	11.10
3y EPS CAGR	10.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-15.4%	10.5%	-16.5%	-3.8%
Semiconductors	-6.9%	-1.2%	-8.8%	-8.4%
DJ Stoxx 600	0.7%	1.9%	-11.3%	-8.3%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	1,355	1,381	1,619	1,754
% change		1.9%	17.2%	8.3%
EBITDA	360	359	438	477
EBIT	317.7	291.3	365.6	404.9
% change		-8.3%	25.5%	10.7%
Net income	238.4	214.8	282.0	312.3
% change		-9.9%	31.3%	10.7%

	2015	2016e	2017e	2018e
Operating margin	23.4	21.1	22.6	23.1
Net margin	17.6	15.6	17.4	17.8
ROE	17.3	14.9	16.3	16.0
ROCE	46.9	46.4	59.2	64.7
Gearing	-54.0	-61.1	-66.6	-71.4

(USD)	2015	2016e	2017e	2018e
EPS	3.02	2.80	3.67	4.07
% change	-	-7.3%	31.3%	10.7%
P/E	11.4x	12.4x	9.4x	8.5x
FCF yield (%)	9.0%	6.9%	8.4%	10.0%
Dividends (USD)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	1.6x	1.4x	1.1x	0.8x
EV/EBITDA	5.9x	5.4x	4.0x	3.1x
EV/EBIT	6.7x	6.7x	4.8x	3.6x

This morning, Dialog Semiconductor announced a significant downward adjustment to its FY16 guidance. The group now expects to see a high single digit sales decline vs. the slight growth expected previously (vs. current consensus expectation of 0.7% sales growth). In addition, the group has reported Q1 results below consensus estimates. Q1 sales fell 39% sequentially to USD241m (down 23% yoy). Q1 underlying EBIT came out at USD30m and EPS came out at USD0.28, i.e. 10% below consensus expectations for EPS at USD0.31. For Q2, the company sees revenue in the range of USD240m to USD260m, which at the mid-point is 5% below the current street expectation of USD264m and 2% below our estimate at USD254m. We are waiting for the conference call to be held today at 10:30am.

## ANALYSIS

- **Today, Dialog has slashed its FY16 guidance from "slight growth in sales" to "a high single digit decline".** The group explained that the current environment in the smartphone market remains very weak and that while revenue should be strongly weighted towards H2, the recovery is unlikely to be as strong as it expected before. As a result, FY16 gross margin is expected to be slightly below the level achieved in 2015 of 46.1%. At very first take, applying this new sales and gross margin guidance (FY16 sales down -9%) to our model while keeping operating expenses at the current level in FY16, points to a significant cut in FY16 EPS of about 30% and a c. 10% impact on our 3y EPS sequence (excl. share buyback impacts described below). We highlight that this scenario implies that the group does not benefit from any flexibility at the operating level in FY16 while the group expects the lower anticipated revenue for FY16 to be partially offset by strict control of opex in the period.
- **Dialog also reported Q1 results 10% below expectations.** The group reported sales of USD241m, down 39% sequentially. Gross margin of 45.4% and underlying EBIT of USD30m were broadly in line with the street's expectations at USD30m (BG ests. USD25m). However, underlying diluted EPS of USD0.28 was 10.0% below the street's estimates at USD0.31 (BG ests. USD0.26).
- **Q2 revenue guidance 5% below consensus expectations at mid-point.** For Q2, the company sees revenues in the range of USD240m to USD260m, which, at the mid-point (USD250m) points to a 4% sequential increase in sales but comes out 5% below the street's expectation of USD264m and 2% below our estimate at USD254m. Gross margin guidance for a similar level to that delivered in Q1 is broadly in line with consensus expectations. Note that the second quarter is usually flat (5y historical pattern).
- **Finally, the group announced the launch of its share buyback programme for a total amount comprised in the range of EUR37.5m to EUR50m.** At EUR30 per share, the share buyback programme would enable the company to acquire between 1.25m and 1.67m shares or between 1.7% and 2.3% of current number of shares (non diluted).

## VALUATION

- We have applied no changes to our model so far, pending further details from the conference call to be held later today (at 10:30am).
- Dialog's shares trade at a 2016e EV/Sales ratio of 1.4x and a 2016e P/E ratio of 12.4x.

## NEXT CATALYSTS

- July 28th 2016, Q2 results



### Q1-16: Actual vs. consensus' estimates

[USDm]	BG ests. Q1-16e	Consensus Q1-16e	Q1-16 Actual	Actual vs. cons.
Net revenue	242	241	241	0.2%
% change (seq.)	-39.0%	-39.4%	-39.2%	13bp
% change (yoy)	-22.1%	-22.6%	-22.4%	16bp
Gross Margin	45.2%	45.4%	45.5%	10bp
Adj. EBIT	25	30	30	-1.6%
% of revenue	10.5%	12.6%	12.4%	-23bp
Dil. Adj. EPS (in USD)	0.26	0.31	0.28	-9.7%

Sources: Thomson Reuters I.B.E.S.; Bryan Garnier & Co. ests.

### Q2-16 : Guidance vs. consensus' estimates

[USDm]	BG ests. Q2-16e	Consensus Q2-16e	Q2-16e Guidance	Guid. vs. cons.
Net revenue (mid-pt)	254	264	250	-5.3%
% change (seq.)	5.0%	9.6%	3.6%	-603bp
% change (yoy)	-19.6%	-16.6%	-21.0%	-442bp
Gross margin	45.5%	46.5%	45.5%	-100bp
Dil. Adj. EPS (in USD)	0.47	0.43	-	-

Sources: Thomson Reuters I.B.E.S.; Bryan, Garnier & Co ests.

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