

Dialog Semiconductor

Price EUR31.20

The “transition year” hits again despite Q2 2016 results coming out 6% above ests.

Fair Value EUR37 (+19%)

BUY

Bloomberg	DLG GR
Reuters	DLGS.DE
12-month High / Low (EUR)	49.0 / 24.4
Market Cap (EURm)	2,429
Ev (BG Estimates) (EURm)	1,675
Avg. 6m daily volume (000)	6.70
3y EPS CAGR	9.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	23.0%	-0.6%	10.6%	-0.1%
Semiconductors	30.2%	25.9%	26.7%	21.1%
DJ Stoxx 600	11.0%	-1.6%	0.7%	-6.3%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	1,355	1,250	1,467	1,754
% change		-7.8%	17.4%	19.6%
EBITDA	360	312	386	456
EBIT	317.7	243.0	313.9	384.5
% change		-23.5%	29.1%	22.5%
Net income	238.4	185.4	239.5	304.1
% change		-22.2%	29.2%	27.0%

	2015	2016e	2017e	2018e
Operating margin	23.4	19.5	21.4	21.9
Net margin	17.6	14.8	16.3	17.3
ROE	17.3	20.3	13.5	15.3
ROCE	46.9	39.2	51.7	63.3
Gearing	-54.0	-62.0	-66.3	-70.6

(USD)	2015	2016e	2017e	2018e
EPS	3.02	2.38	3.12	3.96
% change		-21.3%	31.3%	27.0%
P/E	10.3x	13.1x	10.0x	7.9x
FCF yield (%)	10.0%	10.5%	7.5%	10.0%
Dividends (USD)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	1.4x	1.3x	1.0x	0.7x
EV/EBITDA	5.2x	5.4x	3.9x	2.8x
EV/EBIT	5.9x	6.9x	4.8x	3.3x

Today, Dialog announced a downward revision to its FY16 guidance. The group now expects a 15% decrease in FY16 sales compared to a high single digit decline previously (cs ests. -8.9%). In addition, the group has reported Q2 results above consensus estimates. Q2 sales increased by 1.8% sequentially to USD246m (down 22.4% yoy). Q2 underlying EBIT was at USD33.2m and EPS came out at USD0.34, i.e. 6.4% above consensus expectations for EPS at USD0.32. For Q3, the company sees revenue in the range of USD290m to USD320m, which at the mid-point is in line with the current street expectation of USD303m and our estimate at USD304m.

ANALYSIS

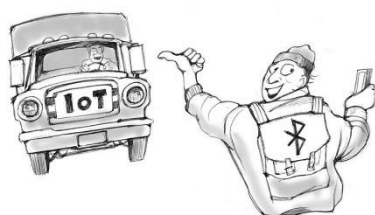
- **This morning, Dialog Semiconductor announced a downward revision to its FY16 guidance. The group now expects to full year 2016 sales to drop 15% (vs. “high single digit” previously) due to a sluggish smartphone market** and despite strong momentum in the Connectivity and Power conversion businesses. In addition, the group expects gross margin to narrow slightly compared with last year (vs. flat previously). For the full year, the consensus is forecasting sales down 8.9% to USD1.235bn and gross margin of 46.2% (vs. 46.7% in 2015). Given that Q3 2016 guidance is in line with the street’s expectations, we understand that the group expects a disappointing end of year. Finally, note that the group continues to see stronger momentum in 2017 and 2018 thanks to R&D investments that should generate new opportunities with Tier 1 OEMs and an increase in share of content in smartphones which confirms that 2016 is a transition year for the group.
- **Dialog Semiconductor also reported Q2 2016 results 6% above expectations.** The group reported sales of USD246m, up +1.9% seq. (-22.3% yoy), 2% below consensus estimates at USD251m. In addition, the group also reported a strong increase in its underlying gross margin of 47.1% and underlying EBIT of USD33.2m, which appears to be 4.4% above the street’s expectations at USD31.8m (BG ests. USD32.4m). Finally, underlying diluted EPS came out at USD0.34, 6.3% above the street’s estimates at USD0.32 (BG ests. USD0.32). At end Q2 2016, the gross cash position stood at USD660m or an increase of USD212m compared to a year ago.
- **In Q2 2016, the situation and momentum in the group’s division remained the same as in Q1 with the mobile business still impacted by the smartphone slowdown, whereas power conversion and Bluetooth continued to perform strongly.** While the mobile systems segment was impacted by the general slowdown in the smartphone market and showed a sequential decline of -5.7% (-31.4% yoy) in Q2 2016, power conversion was up +19.1% seq. (+46.1% yoy) thanks to the ramp-up of Dialog’s rapid charge solution. The connectivity segment, including bluetooth and DECT products, was also up by 38.2% seq. (-0.6% yoy).
- **Q3 2016 revenue guidance in line with consensus expectations.** For Q3 2016, the company sees revenue in the range of USD290m to USD320m, which, at the mid-point (USD305m) points to a 22% sequential increase in sales and in line with the street’s and our expectation of USD303m and USD304m respectively. The gross margin guidance of a marginally GM above than what has been achieved in H1 2016 (GM 46.3%) slightly below Street’s expectations.

VALUATION

- We have applied no changes to our model so far, pending further details from the conference call to be held later today (see details below).
- Dialog’s shares trade at a 2016e EV/Sales ratio of 1.3x and a 2016e P/E ratio of 13.1x.

NEXT CATALYSTS

- Today: Q2 2016 results conference call (at 10:30am CET, attendants must register for the call using [this link](#), the presentation will be available at [this link](#) from 10:00am).
- 3rd November 2016: Q3 2016 results



Q2 2016 Actual vs. Cons.

[USDm]	BG ests. 2Q16e	Consensus 2Q16e	2Q16 Actual	Actual vs. cons.
Net revenue	246	251	246	-2.0%
% change (seq.)	1.8%	3.9%	1.8%	-209bp
% change (yoy)	-22.4%	-20.8%	-22.4%	-160bp
Adj. Gross Margin	47.1%	45.7%	47.1%	140bp
Adj. EBIT	35.7	31.8	33.2	4.4%
% of revenue	14.5%	12.7%	13.5%	83bp
Dil. Adj. EPS (in USD)	0.35	0.32	0.34	6.3%

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

Q3 2016 guidance vs. estimates

[USDm]	BG ests. 3Q16e	Consensus 3Q16e	3Q16e Guidance	Guid. vs. cons.
Net revenue (mid-pt)	300	303	305	0.7%
% change (seq.)	22.0%	20.8%	24.1%	330bp
% change (yoy)	-9.3%	-4.3%	-3.6%	63bp
Gross margin	46.0%	46.3%	47.1%	80bp
Dil. Adj. EPS (in USD)	0.55	0.53	-	-

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

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