

u-blox

Price CHF238.30

H1 results below expectations but FY16 EBIT guidance and long term view unchanged

Fair Value CHF265 (+11%)

BUY

Bloomberg	UBXN SW
Reuters	UBXN.S
12-month High / Low (CHF)	246.4 / 164.0
Market Cap (CHFm)	1,622
Ev (BG Estimates) (CHFm)	1,551
Avg. 6m daily volume (000)	21.30
3y EPS CAGR	29.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.2%	18.7%	23.5%	11.1%
Semiconductors	0.6%	20.3%	31.7%	18.7%
DJ Stoxx 600	0.3%	-1.9%	4.7%	-6.5%

YEnd Dec. (CHFm)	2015	2016e	2017e	2018e
Sales	338.3	404.5	500.6	635.1
% change		19.6%	23.8%	26.9%
EBITDA	76.0	89.0	110	138
EBIT	51.3	59.9	73.1	98.4
% change		16.7%	22.1%	34.7%
Net income	37.1	46.7	58.6	80.5
% change		25.9%	25.4%	37.5%

	2015	2016e	2017e	2018e
Operating margin	15.2	14.8	14.6	15.5
Net margin	11.0	11.5	11.7	12.7
ROE	14.9	16.5	18.0	21.1
ROCE	21.8	21.8	23.0	25.3
Gearing	-26.1	-24.9	-23.2	-20.0

(CHF)	2015	2016e	2017e	2018e
EPS	5.45	6.86	8.60	11.82
% change	-	25.9%	25.4%	37.5%
P/E	43.7x	34.7x	27.7x	20.2x
FCF yield (%)	2.0%	1.1%	1.2%	1.3%
Dividends (CHF)	1.57	1.71	2.15	2.96
Div yield (%)	0.7%	0.7%	0.9%	1.2%
EV/Sales	4.6x	3.8x	3.1x	2.4x
EV/EBITDA	20.5x	17.4x	14.1x	11.2x
EV/EBIT	30.4x	25.9x	21.2x	15.7x

u-blox has reported H1 2016 results slightly below consensus expectations, although it is maintaining its FY16 operating result guidance. H1 2016 sales came out at CHF180m, up 1.9% on a sequential basis and up 11% year on year. This was below consensus forecasts for CHF191m. H1 2016 net result stood at CHF18.7m, also below consensus expectations of CHF21.6 mainly due to higher financial costs than expected in H1. Beyond H1, the group's comments regarding mid and long term growth are reassuring and despite reducing its FY16 sales estimate, it has made no change to its FY16 operating profit figure. Overall, we maintain our view on the case and reiterate our Buy recommendation.

ANALYSIS

- **u-blox has reported H1 results below consensus expectations.** The company reported H1 sales of CHF180m, up 11% yoy (up 1.9% seq.), below consensus expectations at CHF191m (BG ests. CHF194m). The gross margin increased by 100bp compared to the first half of 2015 and stood at 45.9% in H1 2016 (vs. 44.9% in H1 2015). Operating result came in at CHF27.8m or a 15.5% margin compared with the 14.8% achieved a year before. The slight improvement was mainly due to higher volumes. Net profit of CHF18.5m was also below consensus expectations at CHF21.6m. We understand that the net profit defers from expectations due to higher financial expenses than expected by the consensus. Finally, cash generation remained strong with net cash generated from operating activities of CHF26.3m (up 23.6% yoy).
- **Both divisions "Positioning and Wireless products" and "Wireless services" showed a good performance.** Revenue of the main division "Positioning and Wireless products" was CHF180m for the first half of 2016, i.e. 11% above the H1 2015 level. In addition, revenue for "wireless services" was CHF15.1m (including intra-group revenue) or 17.8% above the level achieved a year ago.
- **FY16 Guidance fine-tuned but with no impact on EBIT forecasts, LT view unchanged.** For the current year, u-blox was previously targeting revenues in the range of CHF395-405m or growth between 16.7% and 19.7% compared to FY15 sales. Today, the group has adjusted its expectations and now foresees FY16 sales in the range of CHF375-385m. The group nevertheless added that it remains confident for the future given supportive u-blox product traction and strong customer pipelines. U-blox also stated that numerous customers are scheduling ramp-ups for major projects in the short and long term. **Overall, despite adjusting its top-line expectations, the group is maintaining its EBIT guidance of CHF56-60m in the context of an improving margin thanks to a positive change in the mix.**

H1 2016 Actual vs. estimates

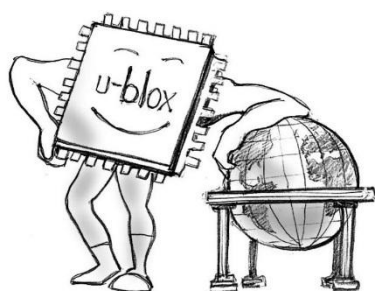
[CHFm]	BG ests. 1H16e	Consensus 1H16e	1H16 Actual	Actual vs. Cons.
Net revenue	194	191	180	-6.1%
% change (seq)	10.0%	8.5%	1.9%	-663bp
% change (yoy)	19.9%	18.2%	11.0%	-723bp
Gross Margin	44.8%	45.1%	45.0%	-10bp
Adj. EBIT	28.7	27.9	27.8	-0.4%
% of revenue	14.8%	14.6%	15.5%	89bp
Adj. Net result	22.41	21.6	18.7	-13.4%

Sources: Bloomberg; Bryan, Garnier & Co ests.

FY16 Guidance vs. estimates

[CHFm]	BG ests. 2016e	Consensus 2016e	2H16 Guidance	Guid. vs. Cons.
Net revenue	405	404	375 to 385	-5.9%
% change (seq)	+19.6%	+19.4%	10.8% to 13.8%	
Adj. EBIT	59.9	60.0	56 to 60	-3.3%
% of revenue	14.8%	14.9%		

Sources: Bloomberg; Bryan, Garnier & Co ests.



VALUATION

- We are making no change to our estimates at this point. Based on our forecasts, u-blox' shares trade at a 2016e P/E ratio of 34.7x and a 2016e PEG ratio of 1.2x.

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