

u-blox

Price CHF223.40

More a one-time effect than a change in long-term trends

Fair Value CHF255 vs. CHF265 (+14%)

BUY

Bloomberg	UBXN SW
Reuters	UBXN.S
12-month High / Low (CHF)	246.4 / 164.0
Market Cap (CHFm)	1,520
Ev (BG Estimates) (CHFm)	1,446
Avg. 6m daily volume (000)	23.20
3y EPS CAGR	26.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.0%	11.1%	13.4%	4.1%
Semiconductors	0.3%	20.7%	27.5%	20.4%
DJ Stoxx 600	0.8%	-1.5%	3.2%	-5.8%

YEnd Dec. (CHFm)	2015	2016e	2017e	2018e
Sales	338.3	380.9	469.1	591.3
% change		12.6%	23.1%	26.0%
EBITDA	76.0	86.9	106	129
EBIT	51.3	59.5	71.7	92.5
% change		16.0%	20.5%	29.0%
Net income	37.1	44.8	57.4	75.6
% change		20.9%	27.9%	31.8%

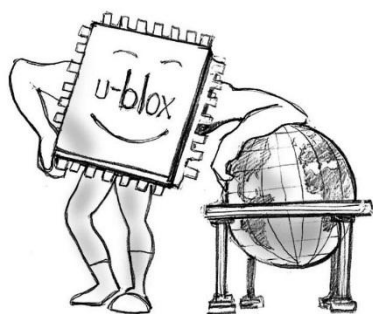
	2015	2016e	2017e	2018e
Operating margin	15.2	15.6	15.3	15.6
Net margin	11.0	11.8	12.2	12.8
ROE	14.9	15.9	17.7	20.0
ROCE	21.8	22.4	23.2	24.7
Gearing	-26.1	-26.3	-25.1	-22.0

(CHF)	2015	2016e	2017e	2018e
EPS	5.45	6.59	8.43	11.10
% change	-	20.9%	28.0%	31.8%
P/E	41.0x	33.9x	26.5x	20.1x
FCF yield (%)	2.1%	1.5%	1.4%	1.3%
Dividends (CHF)	1.57	1.90	2.11	2.78
Div yield (%)	0.7%	0.8%	0.9%	1.2%
EV/Sales	4.3x	3.8x	3.1x	2.4x
EV/EBITDA	19.2x	16.6x	13.6x	11.1x
EV/EBIT	28.4x	24.3x	20.1x	15.5x

Following H1 2016 results and a contact with management, we understand that the slower than expected growth was due to wait-and-see attitudes regarding the adoption of wireless modules. Nevertheless, the group has rapidly tuned its commercial strategy to focus on higher margin products and, hence, maintain its operating result target. The lesson we learnt from the H1 publication is that u-blox might be affected by volatility, however the group has the tools it needs to rapidly focus on higher margin products and temporarily offset the impact of lower volumes with higher margins. We have fine-tuned our model with a 4% average cut in our EPS. Our new FV is CHF255 pointing to upside of 15%.

ANALYSIS

- Last Friday, u-blox posted H1 2016 results below expectations however the group maintained its FY16 operating result guidance.** As a reminder, H1 2016 sales came out at CHF180m, up 11% yoy vs. consensus expectations for CHF191m. Nevertheless, thanks to a tight control on commercial strategy and then on the mix, the group delivered operating result of CHF27.8m in line with the street's expectations. This also means that margin improved significantly in H1 2016. Finally, net profit came out at CHF18.7m, up 24% yoy, below consensus mainly due to a negative FX impact on cash translation that we believe was triggered by Brexit (BG ests. about CHF2.4m in H1 2016). In addition, the group has updated its FY16 guidance at the sales level (CHF375/385m vs. CHF395/405m before), but surprisingly u-blox reiterated its FY16 guidance regarding operating result at CHF56/60m.
- As a result, following the publication of H1 2016 results, updated FY16 guidance and a contact with management we have fine-tuned our model.** Overall, we understand that the group was affected by a wait-and-see attitude in wireless modules. Some customers might have reported the adoption of wireless products in order to assess ongoing changes in the environment in view of the US 4G network before launching their own new products. As a result, the group incurred a temporary slowdown and has tuned its commercial strategy to focus on higher margin products. Thanks to its flexible business model, the group managed to generate higher operating margin as of H1 2016 (15.5% vs. 15.0% on previous semester). This positive impact on margin should also be seen in H2, such that FY16 operating profit should be in the guidance range of CHF56/60m.
- A word about 2017e and 2018e.** With H1 growth and margins proving to be very different to what has been observed previously, the main question is what impact H1 results could have on the mid and long term trends. On Friday, we highlighted that the group was reassuring regarding the achievement of LT growth similar to the one observed in the past (note that average sales growth over the last 3y was 23%). Following a contact with management, we are still convinced that this level of growth is achievable over the mid and long terms. The group is perfectly positioned to benefit from numerous growth drivers such as eCall, ADAS, smart industry (Gas metering for example), or some high growing customer applications such as the drones or sub-meter positioning. In addition, H1 results are an example of the flexibility available at u-blox to maintain operating result growth if top-line momentum slows down temporarily. Among companies we cover, this is clearly the highest level of flexibility observed so far. Finally, when thinking about 2017, and especially margins, we must take into account that the arbitrage between growth opportunities and margin will gradually disable margin gains achieved in 2016 and lead u-blox to post "normative" operating margin levels closer to 15%.



VALUATION

- Overall, we have adjusted our FV to CHF255 vs. CHF265 previously and reiterate our Buy recommendation.** After fine-tuning our model to take account of H1 2016 results and the adjustments to FY17 and FY18 described above, we have trimmed our EPS by 4% on average over the next three years. As such, 2015/2018e top line CAGR is 20.5% (vs. 23.4%) and our 3y EPS CAGR is now 26.8% (vs. 29.5%). **Our new FV of CHF255 now points to upside potential of 15%.**
- Based on our forecasts, u-blox' shares are trading on a 2016e P/E ratio of 32.7x and a 2016e PEG ratio of 1.3x.**

NEXT CATALYSTS

- 23rd September 2016: Investor and Analyst Day

Detailed P&L

[in CHFm]	2015	1H16	2H16e	2016e	2017e	2018e	CAGR 15/18e
Sales	338	180	201	381	469	591	20.5%
Seq. growth	25%	2%	12%	13%	23%	26%	
Gross profit	155	82	93	176	213	265	
Gross margin	46%	46%	46%	46%	45%	45%	
R&D	-65	-32	-37	-69	-85	-103	
% of sales	-19%	-18%	-18%	-18%	-18%	-18%	
G&A	-14	-8	-8	-16	-19	-24	
% of sales	-4%	-4%	-4%	-4%	-4%	-4%	
S&M	-28	-16	-18	-34	-40	-48	
% of sales	-8%	-9%	-9%	-9%	-9%	-8%	
EBIT	51	28	32	60	72	92	21.7%
Operating margin	15%	15%	16%	16%	15%	16%	
Financial result	-4	-3	1	-2	1	4	
% of sales	-1%	-2%	0%	-1%	0%	1%	
Income Tax	-11	-6	-6	-12	-16	-21	
Income tax rate	-22%	-26%	-18%	-21%	-22%	-22%	
Net Profit	37	18	26	45	57	76	26.8%
Net margin	11%	10%	13%	12%	12%	13%	
Dil. EPS	5.45	2.72	3.87	6.59	8.43	11.10	26.8%
EPS seq. growth	8%	-16%	42%	21%	28%	32%	

Source: Bryan Garnier & Co. ests.

P&L changes highlights

[CHFm]	Old			New			Old vs. New
	2016e	2017e	2018e	2016e	2017e	2018e	avg. Δ%
Net revenue	405	501	635	381	469	591	-6%
% change	19.6%	23.8%	26.9%	12.6%	23.1%	26.0%	
Adj. EBIT	60	73	98	60	72	92	-3%
Adj. operating margin	14.8%	14.6%	15.5%	15.6%	15.3%	15.6%	
Adj. net profit	47	59	81	45	57	76	-4%

Source: Bryan Garnier & Co. ests.

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