

Sector View

Semiconductors

Consolidation continues with Qualcomm rumoured to acquire NXP for USD30bn

	1 M	3 M	6 M	31/12/15
Semiconductors	2.2%	25.3%	24.4%	21.7%
DJ Stoxx 600	-0.1%	5.0%	1.8%	-6.3%

*Stoxx Sector Indices

Companies covered

ams	NEUTRAL	CHF29
ASML	SELL	EUR81
DIALOG	BUY	EUR37
INFINEON	BUY	EUR17.5
MELEXIS	SELL	EUR48
SOITEC	NEUTRAL	EUR0.5
STMICROELECTRONICS	NEUTRAL	EUR6.5
u-blox	BUY	CHF255

ANALYSIS

- **Last night, the WSJ reported that a deal between Qualcomm and NXP could be struck during the next few months.** The deal could be worth more than USD30bn, however following the WSJ article, the NXP market capitalisation is now closer to USD33bn or USD96.12 per share. This now points to FY16e EV/sales of 4.3x and a FY16e P/E ratio of 16.9x. Qualcomm currently has a net cash position close to USD20bn meaning that the deal could be financed with cash but also stock or debt.
- **From a Qualcomm perspective, the acquisition of NXP makes sense.** With smartphone units having slowed, and Qualcomm being mainly exposed to this sector, it might now look for a diversification in other segments. NXP has a stronger exposure to Automotive, Industrial and Security with a group profile close to Infineon (Buy, FV EUR17.5). NXP's network in the Automotive and Industrial sectors might be seen as an opportunity to expand the addressable market for Qualcomm products.
- **In our coverage, we believe this newsflow will lead investors to look closer to similar European stocks and potential targets.** Infineon (Buy, FV EUR17.5) is definitively the one that has a similar profile to NXP with an even stronger footprint in Automotive and Industrial sector. STMicroelectronics (Neutral, FV EUR6.5) also has a similar profile, note however that while Infineon's free float is close to 100%, the French and Italian states are shareholders of STMicroelectronics (c. 14.25% each) making an acquisition of STM more complex. Other players active in the Automotive and Industrial sectors are Melexis (Sell, FV EUR48) and u-blox (Buy, FV CHF255).

VALUATION

- Based on our estimates, **Infineon's** shares trade at a **2016e/2017e P/E ratios of 19.0x/17.5x** respectively and a 2016e/2017e PEG ratios of 1.1x/1.0x.
- Based on our estimates, **STMicroelectronics'** shares trade at a **2016e/2017e P/E ratios of 39.5x/23.4x** respectively and a 2016e/2017e PEG ratios of 1.2x/0.7x.

NEXT CATALYSTS

- Samsung's Q3 2016 results on 7th October. TSMC's Q3 2016 results on 13th October. Intel's Q3 2016 results on 18th October. Q3 2016 results for European companies start on 19th October with ASML, followed by ams (24th October, after market close), Melexis (26th October), STMicroelectronics (27th October), Dialog (3rd November) and Infineon (23rd November, FY16 results).

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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