

Bloomberg	UBXN SW
Reuters	UBXN.S
12-month High / Low (CHF)	246.4 / 164.0
Market Cap (CHFm)	1,525
Ev (BG Estimates) (CHFm)	1,450
Avg. 6m daily volume (000)	24.30
3y EPS CAGR	26.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.9%	6.8%	20.9%	4.4%
Semiconductors	3.3%	23.5%	26.2%	23.8%
DJ Stoxx 600	0.5%	-0.3%	1.5%	-5.6%

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%

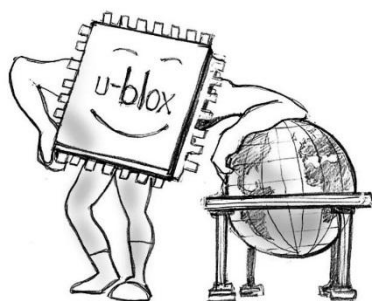
	2015	2016e	2017e	2018e
Operating margin	15.2	15.6	15.3	15.6
Net margin	11.0	11.8	12.2	12.8
ROE	14.9	15.9	17.7	20.0
ROCE	21.8	22.4	23.2	24.7
Gearing	-26.1	-26.3	-25.1	-22.0

(CHF)	2015	2016e	2017e	2018e
EPS	5.45	6.59	8.43	11.10
% change	-	20.9%	28.0%	31.8%
P/E	41.1x	34.0x	26.6x	20.2x
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	16.7x	13.6x	11.2x
EV/EBIT	28.5x	24.4x	20.1x	15.6x

On Friday, u-blox hosted an analysts' day during which the group did not spend much time on figures but was particularly talkative about technology and market opportunities. u-blox was particularly convincing about the advantages of maintaining its own proprietary LTE chip IP and investing in IoT dedicated chip designs. Discussions with management led us to believe that the group has the right position to benefit from 1/ autonomous driving and connected vehicles thanks to its leading position in this area, 2/ smart industries (professional drones, asset tracking...), 3/ smart cities with applications such as parking meters or road pricing. Overall, the presentation was convincing and perfectly in line with our main scenario. We reiterate our Buy recommendation and our FV of CHF255.

ANALYSIS

- Overview of the company's main focus: industry, smart cities and automotive markets.** Most of the day concerned three applications on which u-blox is focusing: automotive, smart-cities and industry. The group shared details about three product categories: Positioning, Cellular and Short Range Connectivity.
- Positioning: the group maintains its technology leadership.** In this field, the group maintains a leading position in GNSS for in-car navigation systems, asset tracking (fixed or moving) and high precision GNSS solutions for drones. While these markets remain dynamic, we also see the u-blox technology perfectly fitting other applications such as agriculture, machine control, high precision mapping or even professional sport applications. The group continues to outstrip the market with innovations such as cm-level precision (the industry's first low-power and cost-efficient product) or untethered dead-reckoning (also an industry first) that fits perfectly growing applications such as Autonomous driving. Beyond the official presentation, we are particularly positive regarding u-blox' product portfolio and strategy. In our view, the group is the only player that offers both automotive and industry dedicated chips (reliability, efficiency, form-factor...) that are cost-efficient (at a >USD100 price tag). As a result, the group has a product portfolio that serves as a reference in these two growing market segments. This is not particularly new, but it worth recalling while it is also interesting to see that the group continues to maintain a technology leadership here.
- Cellular connectivity: a right move into IoT dedicated network.** While most Cellular chip makers focus on the next moves by Apple and Samsung in the Cellular field, u-blox runs in another direction: the IoT dedicated network. 2G networks are being unplugged really soon in some avant-gardist countries (U., Finland...), we might expect other countries to follow in coming years. However, 2G networks were a good support for industry connected tools (gas/water meters, payment devices and vending machines, industrial automation,...) and also automotive. So the main point is what will come next to fill the empty room. Rather than focus on high-volume, low-price and low-margin markets such as consumer applications, u-blox has a similar strategy to its positioning segment, i.e. to focus on lower volumes, high quality and high-margin markets and this explains why the group now invests in the very specific field of cellular connectivity: narrowband (low bandwidth), low power chips. As a result, u-blox is highly involved in IoT dedicated LTE category: Cat 1, Cat M1 and Cat NB1. The group developed its own IP for these categories, which should provide a mid-term boost to margins (not to be expected before 2018 in our view). With this unique approach, u-blox 1/ responds to industrial clients' needs and 2/ stands out from peers such as Telit or Sierra, which use tweaked consumer chips and are dependent on technology choices of bigger cellular chip suppliers since they do not have capabilities to design and produce their own chipset, and ensure long-term support and production of each chipset (because of the dependence on their suppliers roadmap, focusing on consumer market). And, as for GNSS, the market offers multiple opportunities such as connected health, insurance, autonomous cars or asset tracking.
- Short-range connectivity: this product family comes under the spotlight.** Finally, the group spent some time on opportunities concerning short-range connectivity, namely Wi-Fi and Bluetooth. Currently, u-blox offers SR connectivity options using chips from another chip maker (we believe Nordic Semi.) but we understand that the group tries to develop its own SR connectivity IP. As for GNSS and LTE chips, u-blox will then be able to improve its margin but in the meantime, it must invest in R&D. Also, being able to integrate its own chip, the group is then able to offer a better



product (stability, reliability, scalability and flexibility). Again, the group will not compete with most of the BT and Wi-Fi giants, since it will not focus on the consumer market.

- **Overall, during the analysts' day, the group was particularly convincing regarding its strategy and market opportunities.** Focusing on the industry and automotive markets is really important in our view since the group manages to maintain a great stability in margins thanks to this specialisation. Following this day, we remain very confident in the group's outlook both in the short and long term. What we see in the current R&D pipeline and u-blox roadmap is really encouraging and we do not see any equivalent player in the industry. In addition, the group benefits from a unique proprietary IP, which allows it to control the evolution of the core devices used to build its modules and offers potential for margin improvement over the mid-term. Note that we expect a slight improvement in EBIT margin from 2018e (2018e EBIT margin: 16% vs. 15% in 2015).

VALUATION

- Based on our estimates, u-blox shares trade at a 2016e-2017e P/E ratio of 33.5x-26.2x respectively and a 2016e-2017e PEG ratio of 1.3x-1.0x.

NEXT CATALYSTS

- 16th March 2017: Annual Results 2016

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