

6th October 2016

TMT

Dialog Semiconductor

Price EUR34.36

Preliminary Q3 revenue well above the Street's expectations

Fair Value EUR37 (+8%)

BUY

Bloomberg	DLG GR
Reuters	DLGS.DE
12-month High / Low (EUR)	40.7 / 24.4
Market Cap (EURm)	2,630
Avg. 6m daily volume (000)	5.50

	1 M	3 M	6 M	31/12/15
Absolute perf.	11.9%	33.2%	-1.8%	10.1%
Semiconductors	4.1%	28.8%	28.1%	24.6%
DJ Stoxx 600	-1.8%	6.2%	4.9%	-5.9%

	2015	2016e	2017e	2018e
P/E	12.7x	18.5x	12.6x	9.6x
Div yield (%)	NM	NM	NM	NM

ANALYSIS

- **Late yesterday, Dialog published a short press release to announce preliminary Q3 2016 revenue of USD345m, i.e. 13% above consensus expectations at USD305m** (BG ests. Q3 2016 revenue of USD304.7m). This revenue level is also 13% above the mid-range of Dialog's July guidance for Q3 revenue in the range of USD290m and USD320m, and represents a sequential revenue increase of 40.5% (+4.5% yoy). The group explained that the higher than expected revenue in Q3 was partially the result of a delivery date pulled forward to Q3 but originally expected to be shipped in Q4. This was to accommodate a customer ordering Mobile Systems (we immediately think "Apple") as there is a public holiday in China during the first week of October.
- **The group adds it will review its Q4 2016 and full year guidance** (Dialog expects FY16 revenue to be down 15% compared to FY15) **during the coming weeks. With no further details, we understand that Q4 expectations** (BG ests. Q4 2016 revenue of USD361.4m) **should be adjusted lower to take into account the order that moved into Q3.** As a result, there should be no impact on FY16 expectations, nevertheless a positive surprise might come given the supportive environment. Better than expected iPhone 7 traction (note that Apple represents about 80% of Dialog's revenue) and the cautious approach adopted by management during the Q2 results conference call lead us to believe that FY16 results could be higher than the latest July guidance for FY revenue down about 15% (i.e. about USD1,150m).

VALUATION

- **We believe the stock is poised to react positively today. However, note also that over a 3-month period, the stock performance was up 33% leading us to believe that part of the positive newsflow has been priced in already.** Based on our estimates, Dialog's shares trade at 2016e/2017e P/E ratios of 18.5x/12.6x respectively and 2016e/2017e PEG ratios of 1.8x/1.2x.

NEXT CATALYSTS

- 3rd November 2016: Q3 2016 results

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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