

Dialog Semiconductor

Price EUR35.00

Dialog reports strong Q3 and announces a second tranche of share buyback programme

Fair Value EUR37 (+6%)

BUY

Bloomberg	DLG GR
Reuters	DLGS.DE
12-month High / Low (EUR)	39.9 / 24.4
Market Cap (EURm)	2,679
Ev (BG Estimates) (EURm)	1,982
Avg. 6m daily volume (000)	5.40
3y EPS CAGR	10.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.0%	19.5%	14.2%	12.1%
Semiconductors	-1.1%	3.1%	30.9%	23.0%
DJ Stoxx 600	-2.2%	-1.3%	-1.8%	-8.3%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	1,355	1,153	1,382	1,642
% change		-14.9%	19.8%	18.9%
EBITDA	360	276	373	457
EBIT	317.7	207.0	301.0	385.5
% change		-34.8%	45.4%	28.1%
Net income	238.4	162.0	234.7	309.0
% change		-32.0%	44.8%	31.7%

	2015	2016e	2017e	2018e
Operating margin	23.4	18.0	21.8	23.5
Net margin	17.6	14.0	17.0	18.8
ROE	17.3	21.1	13.0	14.7
ROCE	46.9	38.7	49.8	63.8
Gearing	-54.0	-62.6	-66.7	-70.8

(USD)	2015	2016e	2017e	2018e
EPS	3.02	2.08	3.06	4.03
% change		-31.2%	47.2%	31.7%
P/E	12.8x	18.6x	12.6x	9.6x
FCF yield (%)	8.1%	9.0%	5.9%	7.8%
Dividends (USD)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	1.8x	1.9x	1.5x	1.1x
EV/EBITDA	6.7x	7.9x	5.4x	3.9x
EV/EBIT	7.6x	10.6x	6.7x	4.7x

Today, Dialog has reported Q3 revenue of USD346m and underlying EBIT of USD73.4m (EBIT margin of 21.2%), yielding adjusted EPS of USD0.71, i.e. well above the Street's expectations (at USD0.64). However, for Q4 2016 the group sees revenue in the range of USD345-375m, broadly in line with consensus at mid-point, i.e. sales forecast by management to increase sequentially by 4.0% to USD360m (vs. cs at USD368m). As such, FY16 should be close to USD1,193m while GM is expected to remain at the current level (around 46.5%). In addition, the group also announced a second tranche of its share buyback programme for a total amount between EUR56.25 and EUR75m (or 2.1%/2.8% of capital).

ANALYSIS

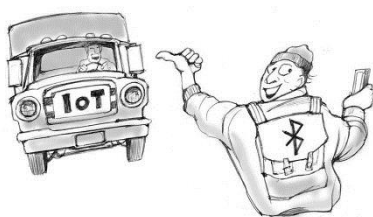
- Dialog has reported Q3 2016 EPS 11% above the expectations.** For Q3 2016, Dialog reported sales of USD346m, up 41% seq. (+4.7% yoy). Note that this data is not a surprise as the group had already reported unaudited Q3 sales in an ad-hoc announcement earlier in October. In addition, underlying gross margin came out at 46.6%, broadly in line with the company's guidance (marginally above H1 at 46.1%) and slightly above the street's forecasts of GM at 46.1% (BG ests. 46.5%). As such, underlying EBIT was well above expectations at USD73.4m (cons. USD65m/BG ests. USD69m) and underlying diluted EPS came out at USD0.71, also significantly above (11%) street's estimates at USD0.64 (BG ests. USD0.70). Free cash flow generation was USD40m during Q3 2016 and the gross cash position stood at USD649m, up compared to USD591m at the end of the previous quarter.
- Setting up basis to generate FY17 growth.** Thanks to stronger than expected demand for the iPhone 7, the group sees better momentum than what was described in July this year. The group continues to see strong traction for its rapid charge technology for China smartphone power adapters, a market segment for which the group also announced new GaN products. In addition, its BT LE business is dynamic thanks to new design in (Tile, Pokémon Go Plus...)
- Q4 2016 revenue guidance came out broadly in line with expectations.** Dialog sees Q4 2016 sales in the range of USD345-375m, i.e. to increase sequentially by 4.0% to about USD360m at the mid-range of the guidance. This is USD8m below the consensus forecasts for revenue of USD368m (BG ests. USD321m). As such, FY16e sales should be close to USD1,193m, down 12% compared to FY15 but 3% above the last group guidance for FY16 sales down 15%. Regarding gross margin, the group sees a stable level comparable to what has been achieved so far for the fourth quarter.
- Finally, Dialog also announced a second tranche of its share buyback programme.** To stay in the programme range, share buybacks are said to amount to between EUR56.25 and EUR75m (USD61.9m and USD82.5m). At the current share price, this represents about 2.1% and 2.8% of outstanding shares. The programme must be finished between the 18th January and 6th February 2017. Note that the first tranche had a range of EUR37.5m to EUR50m (with a maturity date between 15th July 2016 and 15th September 2016).

VALUATION

- Based on our estimates, Dialog' shares are trading on 2017e P/E and PEG ratios of 12.7x and 1.3x respectively.

NEXT CATALYSTS

- Today: Q3 results Conference call (10:00 CET)
- Late February/Early March 2017: Q4 and FY16 results (not confirmed yet)



Q3 Actual vs. consensus.

[USDm]	BG ests. 3Q16e	Consensus 3Q16e	3Q16 Actual	Actual vs. cons.
Net revenue	345	345	346	0.3%
% change (seq.)	40.5%	40.4%	40.8%	41bp
% change (yoy)	4.5%	4.4%	4.7%	30bp
Adj. Gross Margin	46.5%	46.1%	46.6%	50bp
Adj. EBIT	69.1	65.4	73.4	12.2%
% of revenue	20.0%	19.0%	21.2%	226bp
Dil. Adj. EPS (in USD)	0.70	0.64	0.71	10.9%

Source: Thomson Reuters I.B.E.S.; Bryan, Garnier & Co. ests.

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