

NXP Semiconductors NV

Q4 first take: Plush landing on impressive trough execution

Maintain Rating: BUY | PO: 255.00 USD | Price: 221.02 USD

Q4 slight beat and lower, soft landing in sight

Q4 slightly beat, with sales of \$3.42bn, 1% above Street estimate of \$3.39bn and \$3.71 EPS 2% above estimates. Q1 guide modestly missed, with sales of \$3.1bn 1% below Street expectations and EPS of \$3.17 in line. Automotive sales remained flat QoQ on continued customer engagement yet reflecting weaker demand environment. Industrial & IoT and Mobile grew +9%/+8% QoQ, showing industrial holding stronger vs TXN/MCHP/ON down QoQ. Comms infrastructure was the weakest segment in the qtr, declining 19% QoQ, in line with peer commentary around market weakness. Gross margin was also ahead of estimates at 58.7% vs Street/guide at 58.5%, showing disciplined profitability and pricing/mix benefits despite broader macro softness plaguing peers, and boosting confidence of reaching 60% levels from future capacity expansions. We highlight: 1) NXPI's soft landing vs peers with implied peak-trough down 9% vs peers down 30-40%; 2) Q1 guidance miss 1% below Street but +8% above our recent cuts, EPS +24% above; 3) Mgmt reiterated CY21-24E model, with autos on track but industrial & IoT and mobile about \$1.5-\$2bn below model; 4) GM guided to 58% already at high-end of I-t model, suggesting limited upside from these levels. We maintain our Buy rating on attractive valuation, with trough PE of 17x vs peers 30x-37x, and await tomorrow's call for further color (8 am ET).

Auto/industrial remain positive sequentially

DecQ sales/pf-EPS of \$3.4bn/\$3.71 finished 1%/2% ahead of Street, with weaker sequential growth seen across most segments: autos (flat QoQ/in line vs Street), Industrial & IoT (+9% QoQ/1% above Street), and Mobile (+8% QoQ/5% above Street) grew, while Comms (-19% QoQ/2% below Street) fell. Industrial sales accelerated in DecQ, (+9% QoQ vs +5% in SepQ), opposed to peers seeing extending weakness, after NXPI saw a trough in MarQ at \$504mn in sales. Autos resilience (flat YoY) signals continued demand for NXPI's ADAS/radar/BMS offerings, without lumpy SiC exposure.

Key questions for tomorrow's earnings call

1) How do you account for the resilience of your auto sales vs peers who saw sequential declines ending the year? Does your higher ADAS/radar exposure help soften any EV demand concerns?; 2) Given your relatively strong guide for MarQ, what do you expect auto/industrial to do in the quarter? With Industrial up nearly 10% QoQ in Dec quarter, can this positive growth be sustained moving forward?; 3) Where do you see gross margins going through the year after already reaching the high-end of your I-t guide?; 4) How do you see auto sales performing in the face of -1% YoY auto production assumptions from S&P?; 5) Can you comment on your autos content in EVs vs hybrids, which the market seems to be favoring in the face of recent EV customer demand deterioration?; 6) What is your visibility like into CY24E? Do you have line of sight to a 2H recovery?; 7) Do you see FCF margin falling below this high-mid 20% range you have been maintaining the last couple of quarters?; 8) Where do you see distribution inventory trending in CY24E (distribution sales increased 7% QoQ in Q4)?

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Equity

Vivek Arya
Research Analyst
BofAS
+1 646 855 1755
vivek.arya@bofa.com

Blake Friedman
Research Analyst
BofAS
+1 646 556 1850
blake.friedman@bofa.com

Duksan Jang
Research Analyst
BofAS
+1 646 556 4825
duksan.jang@bofa.com

Lauren Guy
Research Analyst
BofAS
+1 646 855 4273
lauren.guy2@bofa.com

Stock Data

Price	221.02 USD
Price Objective	255.00 USD
Date Established	26-Jan-2024
Investment Opinion	B-1-7
52-Week Range	155.31 USD - 238.27 USD
Mkt Val (mn) / Shares Out (mn)	63,483 USD / 287.2
Free Float	99.9%
Average Daily Value (mn)	461.64 USD
BofA Ticker / Exchange	NXPI / NAS
Bloomberg / Reuters	NXPI US / NXPLQ
ROE (2023E)	42.5%
Net Dbt to Eqty (Dec-2022A)	94.6%
ESGMeter™	High

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OpMs: Operating Margins

EV: Electric Vehicle

ADAS: Advanced Driver Assist System

LTSA: Long-term Supply Agreement

ADL: Analog Devices

MCHP: Microchip

TXN: Texas Instruments

ON: On Semiconductor

IoT: Internet of Things

RF: Radio Frequency

BMS: Battery Management System

UAW: United Automobile Workers

MCU: Microcontroller

NXPI summary of results and guidance

Exhibit 2: Summary of Dec qtr results and Mar qtr guide

NXPI delivered a slight beat and Mar qtr guide-down during its Q4 report

	Dec-22	Sep-23	Dec-23							Mar-24E		
			Guidance	Cons	BofAe	Reported	Delta	QoQ	YoY	BofAe	Cons	Guidance
Sales (\$mn)	\$3,312	\$3,434	\$3,400 (\$3,300 - \$3,500)	\$3,389	\$3,338	\$3,422	1.0%	-0.3%	3.3%	\$2,907	\$3,165	\$3,125 (\$3,025 - \$3,225)
QoQ%	-3.9%	4.1%		-1.3%	-2.8%	-0.3%				-12.9%	-6.6%	
Automotive	1,805	1,891		1,893	1,853	1,899	0.3%	0.4%	5.2%	1,668	1,838	
Industrial & IoT	605	607		656	631	662	0.9%	9.1%	9.4%	537	611	
Mobile	408	377		387	389	406	4.9%	7.7%	-0.5%	331	305	
Communications Infrastructure & Other	494	559		465	464	455	-2.1%	-18.6%	-7.9%	371	430	
Gross Margin %	58.0%	58.5%	58.5% (58% - 59%)	58.5%	58.5%	58.7%	24	21	72	57.5%	58.1%	58% (57.5% - 58.5%)
Gross Profit	1,922	2,010			1,953	2,010		0.0%	4.6%	1,671		
R&D	490	550			536	546		-0.7%	11.4%	550		
SG&A	223	253			245	245		-3.2%	9.9%	245		
Opex Total	713	803		778	782	791	1.6%	-1.5%	10.9%	795	773	
Operating Income	1,208	1,203		1,205	1,167	1,219	1.2%	1.3%	1.0%	872	\$1,067	
Operating Margin %	36.5%	35.0%	35.4% (34.5% - 36.3%)	35.5%	35.0%	35.6%	8	59	(84)	30.0%	33.7%	33.9% (32.9% - 34.8%)
Financial Income	(95)	(65)	(69)		(69)	(69)				(69)		(66)
Pretax Income	1,113	1,138			1,098	1,150		1.1%	3.4%	803		
Tax expense	126	168			175	178				137		
Net Income	975	965			917	966		0.1%	-0.9%	657		
EPS (diluted, ex-options)	\$3.73	\$3.70	\$3.65 (\$3.44 - \$3.86)	\$3.65	\$3.53	\$3.71	1.8%	0.4%	-0.4%	\$2.55	\$3.17	\$3.17 (\$2.97 - \$3.38)
EPS (diluted, w/ options)	\$3.36	\$3.31			\$3.14	\$3.32		0.3%	-1.1%	\$2.15		
Diluted Shares	261	261	260		260	260		-0.3%	-0.4%	258		259

Source: BofA Global Research estimates, company report, Bloomberg

BofA GLOBAL RESEARCH

Price objective basis & risk

NXP Semiconductors NV (NXPI)

Our PO of \$255 is based on 20x 2025E EV/FCF, in line with median diversified auto/industrial compares which trade in a range of 16x-32x CY24E EV/FCF.

Downside risks: 1) Semiconductor cycle risks, 2) Lumpy nature of projects in key identification segment, 3) Some exposure to and growth driven by Apple, which could add volatility, 4) Execution risk surrounding management's capability to reengage following two-year hiatus, 5) Macroeconomic supply/demand disruption.

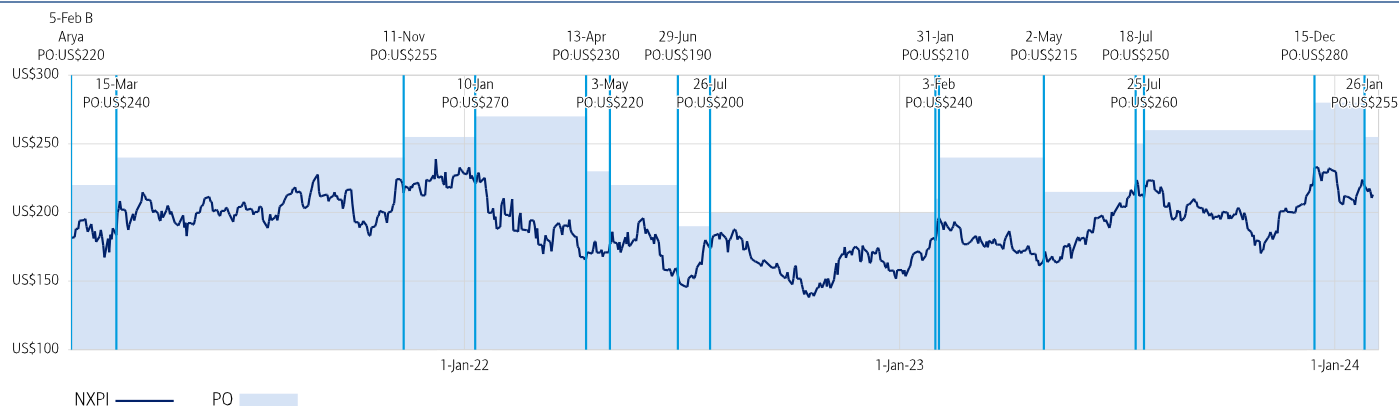
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NXP Semiconductors (NXPI) Price Chart



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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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