

GlobalFoundries

Q4 first take: weak guide, but cash flows improving

Maintain Rating: NEUTRAL | PO: 65.00 USD | Price: 55.82 USD

Key takeaways

- Q4 sales in-line, EPS modest beat on ITC grant benefits. Q1 substantially below likely on ongoing mobile inventory correction
- Margins pressured into Q1 on lower volume/utilization, but cash flows improving on lower capex run-rate

Q4 in-line, Q1 substantially below

Q4 sales of \$1.84bn in-line and pf-EPS of \$0.64 modestly beat \$0.58 consensus on GM strengths (29.0% vs. 28.3% consensus) and lower opex (one-time ITC grant benefit). However, Q1 sales guide of \$1.52bn missed consensus by -14%, with GM of 24.0% also below by -320bps likely on lower volume/utilization, and opex increasing back to prior Q3 run-rate of ~\$200mn+. Overall, pf-EPS guide of \$0.23 is -50% below our/consensus of \$0.46. We point to the ongoing handset inventory digestion (QCOM inventory days 136 days in DecQ, down -19 days QoQ but still elevated vs. normal <100 days) and a potential overbuild in PCs/IoT/comms as likely culprits. Maintain Neutral.

Margins not improving but cash flows improving

Q1 GM guide of 24.0% and OpM guide of 9.9% are down -500bps/-1080bps QoQ (below the Street's 27.2%/15.7%) and suggest no material improvement in CY24E off a low Q1 base, despite a potential upcoming normalization. On the other hand, we highlight cash flows are improving, at \$321mn for CY23 including \$456mn for Q4 as full year capex has declined by nearly 40% YoY. On last call, management also guided CY24E capex to decline by another 50% YoY, suggesting ~\$900mn for the year, vs. \$3bn+ run-rate in CY22. Separately, inventory days remain high at 102 days in Q4 (vs. ~80 days normally), though GFS doesn't hold finished goods and these are rather substrates with long shelf lives.

Questions for the conference call

1) Is Q1 the bottom in wafer sales? 2) ASP outlook for CY24E, following flattish YoY CY23 despite demand slowdown. 3) Can Autos strengths persist in CY24E following a +180% YoY gain in CY23, or will IoT share gains drive the recovery? 4) Opex outlook in the current weaker sales/volume/utilization environment. 5) Impact of rising competition from Asia based mature node fabs.

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Stock Data

Price	55.82 USD
Price Objective	65.00 USD
Date Established	15-Dec-2023
Investment Opinion	C-2-9
52-Week Range	48.12 USD - 72.50 USD
Mkt Val (mn) / Shares Out (mn)	30,880 USD / 553.2
Free Float	15.1%
Average Daily Value (mn)	81.68 USD
BofA Ticker / Exchange	GFS / NAS
Bloomberg / Reuters	GFS US / GFS.QQ
ROE (2023E)	11.4%
Net Dbt to Eqty (Dec-2022A)	1.6%
ESGMeter™	NLA

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GFS: GlobalFoundries
ASP: Average Selling Price
PC: Personal Computer
IoT: Internet of Things
QCOM: Qualcomm
ITC: Investment Tax Credit

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Price objective basis & risk

GlobalFoundries (GFS)

Our PO of \$65 is based on 12x our CY25E EV/EBITDA , which is above Asian pure-play foundry peers at 4-8x but in line with US-based integrated design/manufacturing peers at 8-14x.

Downside risks to our PO are: (1) semi industry cyclicality where foundries are more impacted in down-cycle given high fixed cost structure, (2) execution on strategic repositioning which is critical to gross margin expansion and EPS growth, (3) large ownership concentration with Mubadala, which is wholly owned by the government of Abu Dhabi adds geopolitical and investor concentration risk.

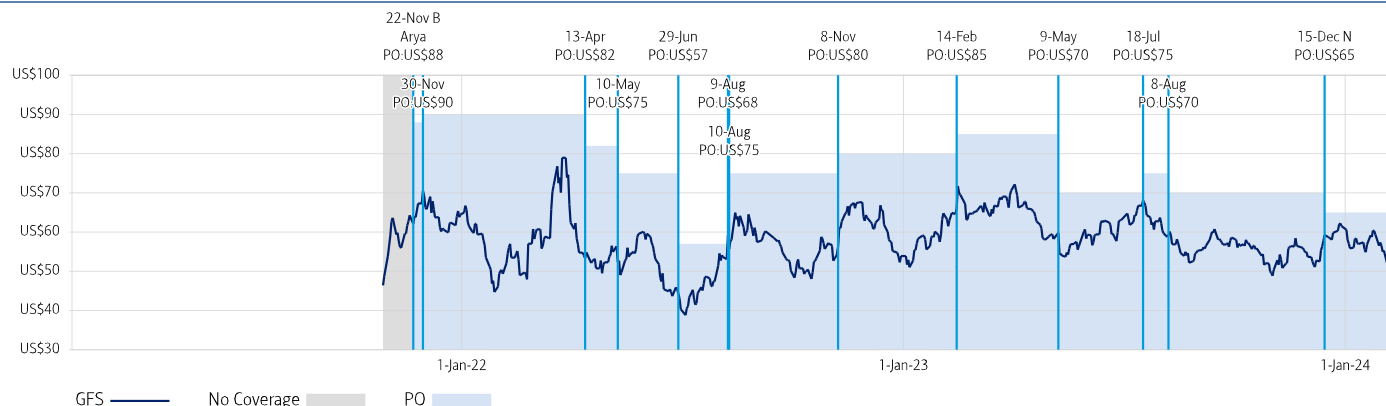
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GlobalFoundries (GFS) Price Chart



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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%

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Sell	807	22.84%	Sell	383	47.46%

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