

onsemi

Q4 take: in line/guidance miss, although better than expected

Maintain Rating: BUY | PO: 85.00 USD | Price: 70.83 USD

DecQ sales/EPS in line while MarQ guidance misses

Q4 sales of \$2.0bn (-8.3% QoQ/-4.9% YoY) finished about in-line with Street estimates, with EPS of \$1.25 (-10.0% QoQ/-5.5% YoY) +3% above Street estimates. MarQ outlook of \$1.85bn sales at the midpt, -5.1% vs Street estimates as broad weakness worsens, yet still better than comps seeing -10% to -25% QoQ declines in MarQ. On this morning's call we will focus on: 1) Is Q1 the trough?; 2) What are Q1 and CY24E trends in SiC and drivers of prior guide of 60-70% growth as well as share gains?; 3) What is ON's sales trajectory excl SiC, and how does this compare to the 30-40% peak to trough correction at analog peers?; 4) What is the trough for utilization and gross margin?; 5) Most gains in DecQ seem to have come from non-core segments, with industrial especially weak in the Q (-19.3% QoQ). How long can this continue and how should we model non-core business for CY24E/25E given planned exits? We maintain our Buy rating and plan to review model following earnings call at 9:00am ET this morning (02/05).

Q4 results: Autos down QoQ but better than expected

DecQ sales of \$2.0bn in line with consensus, down -7.5% QoQ. By end market, 1) Autos sales of \$1.1bn (2% above Street expectations) down ~4% QoQ, in line with other auto peers. We note autos still grew a solid 13% on an annual basis, 2) Industrial sales of \$497mn (11% below Street expectations) down a material -19% QoQ as end market corrections persist; 3) Other sales of \$407mn (15% above Street expectations) flattish QoQ (though still down more than 25% YoY as ON continues to exit low margin businesses). Net-net, mix contributed to 46.7% gross margin (in line with Street), and EPS of \$1.25 slightly above consensus outlook of \$1.21.

Key questions for the conference call this morning

Q1 topline guide of \$1.8-\$1.9bn below consensus outlook of \$1.93bn, though likely better than feared (we note guide at mdpt above our \$1.8bn outlook). Gross margin guide of 45.5% at mdpt (down 120bp QoQ) could suggest incremental utilization headwinds amid macro weakness, but we wait for further details on the call. EPS guide (98c-\$1.10) below consensus outlook at mdpt (\$1.10). Like peers, ON could be seeing inventory digestion persist in its industrial markets (and accelerate in autos markets) but could partially benefit from silicon carbide (SiC) demand. We note ON's topline growth outlook is down <10% QoQ, at the lower end of peers ranging from down ~10%-20% QoQ. If MarQ marks the cycle bottom, ON would see peak-trough declines of down 15%-16% (vs. peers ranging from 20%-35%).

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Stock Data

Price	70.83 USD
Price Objective	85.00 USD
Date Established	26-Jan-2024
Investment Opinion	C-1-9
52-Week Range	61.47 USD - 111.35 USD
Mkt Val (mn) / Shares Out	30,506 USD / 430.7 (mn)
Free Float	99.6%
Average Daily Value (mn)	536.78 USD
BofA Ticker / Exchange	ON / NAS
Bloomberg / Reuters	ON US / ON.OQ
ROE (2023E)	31.9%
Net Dbt to Eqty (Dec-2022A)	4.4%
ESGMeter™	High

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Glossary

ADI: Analog Devices
EV: Electric Vehicle
GFS: GlobalFoundries
GM: Gross Margin
GTAT: GT Advanced Technology
ON: onsemi
SiC: Silicon Carbide
TSMC: Taiwan Semi
TXN: Texas Instruments
WOLF: Wolfspeed

Price objective basis & risk

onsemi (ON)

Our PO of \$85 PO is based on 16x 2025E P/E, in line with ON's 7x-27x trading range, in our view justified given improving profitability, though partially offset by the heavier capex required for SiC ramp.

Downside risks to our PO are: 1) Macro/cyclical risks, given high exposure to automotive and industrial markets, make ON susceptible to any potential global trade tensions/tariffs, 2) Prolonged COVID-19 headwinds limiting pace of automotive/industrial recovery, impacting utilization levels, 3) Difficulty in ramping 300mm fabrication facility limiting gross margin improvement, 4) sustained elevated capex levels relative to peers.

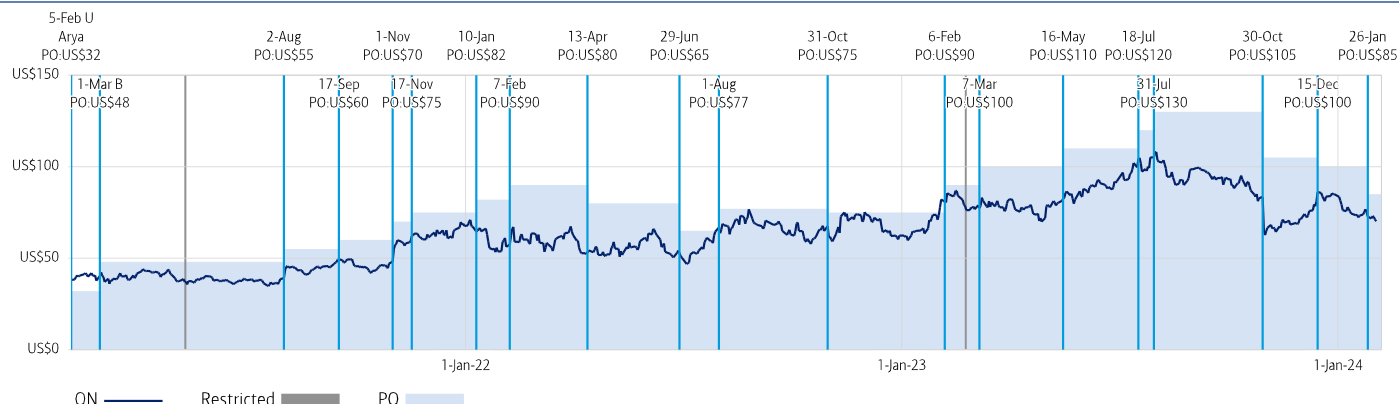
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ON Semiconductor (ON) Price Chart



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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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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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