

NXP Semiconductors NV

Soft landing = robust takeoff, raise PO to \$300 for top auto semi pick

Reiterate Rating: BUY | PO: 300.00 USD | Price: 243.79 USD

Raise PO to \$300 for top auto/industrial semi pick

Alongside our diversified semis analysis (see [our Feb 26 report](#)), we raise PO for our top auto/industrial semi pick NXPI to \$300 (from \$270). Our revised 22x CY25E EV/FCF multiple (vs. 20x prior) is more in line with peer average, and justified in our view given profitability resilience, careful channel management, and formidable autos exposure. We review top reasons to reiterate Buy on NXPI.

Prudent inventory management limits near-term risks

Near-term, we expect NXPI to execute on its soft landing objective. Unlike peers, 1) NXPI maintains lean channel inventories, (1.6 months vs. ~2.5 month historical target), 2) NXPI de-risked mobile/IoT business earlier than peers (start of '23 brought sales down 30%-35%), and company "core" industrial exposure remains modest (we est. 10%-12% of sales), and 3) Diversified auto exposure reduces risk of inventory building related to specific vehicle types (such as EVs) or applications. We see peak-to-trough sales declines closer to 10% vs. 25%-40% for peers, which should keep profitability relatively elevated.

Autos market remains in position to accelerate long term

Despite possible short-term EV sales volatility, electrification is transforming autos, with EVs holding 2x greater content than ICE vehicles on avg (EVs >\$1000 semis content). In turn, we believe mix shift can drive auto semis CAGR closer to 9% (CY24-26), above the 6% CAGR seen the last decade, even if auto production continues to grow low-single digits. Leading autos exposure (60%+ of sales vs. 20%-40% for peers) should support NXPI in continuing to outperform auto/industrial peers. We also note NXPI can gain content in premium EVs/hybrids (such as battery management) without the need for capital intensity projects like silicon carbide (which could be commoditized long term).

Extremely defensible profitability profile

Transition to more variable cost model (only ~30% of costs fixed, internal overhead ~2/3rds auto/industrial focused) supports a strong margin profile. We expect NXPI gross margin declines of just 50bp in CY24 (peers closer to 300bp on avg). We see even more support from a cash generation perspective, as NXPI's operating model commands capex intensity below peers (less expansion on SiC/300mm front). While average peer capital intensity closer to low/mid-teens in CY24/25, NXPI should remain near 7%-8%.

Historical outperformance versus SOX through cycle

While auto semis overall have underperformed in downcycles (>80% rate of underperformance vs. SOX when SOX down >10%), over 1/3/5-yr time horizons, NXPI has consistently outperformed. Even executing well through a broad inventory digestion, we expect NXPI to maintain its historical outperformance through the next upcycle.

Valuation still remains attractive despite outperformance

Even with NXPI (+6% YTD) outpacing auto/industrial peers (-6% YTD) through '24, valuation still remains quite attractive versus peers. Indeed, NXPI trading just 19x CY25 EV/FCF, well below peers averaging closer to 22x. NXPI's '24/'25 FCF margin (24%/26%) also remain above peers (21%/23%) and seems more defensible.

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12664112

Timestamp: 26 February 2024 11:39PM EST

26 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	270.00	300.00

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Stock Data

Price	243.79 USD
Price Objective	300.00 USD
Date Established	26-Feb-2024
Investment Opinion	B-1-7
52-Week Range	155.31 USD - 245.00 USD
Mkt Val (mn) / Shares Out (mn)	70,023 USD / 287.2
Free Float	99.9%
Average Daily Value (mn)	590.29 USD
BofA Ticker / Exchange	NXPI / NAS
Bloomberg / Reuters	NXPI US / NXPI.OQ
ROE (2024E)	34.3%
Net Dbt to Eqty (Dec-2023A)	81.6%
ESGMeter™	High

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Glossary:

EV: Electric Vehicle, ICE: Internal Combustion Engine, IoT: Internet of Things, NXPI: NXP Semiconductor, SiC: Silicon Carbide, SOX: Semis Index.

Price objective basis & risk

NXP Semiconductors NV (NXPI)

Our PO of \$300 is based on 22x 2025E EV/FCF, in line with median diversified auto/industrial compares which trade in a range of 14x-37x 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.

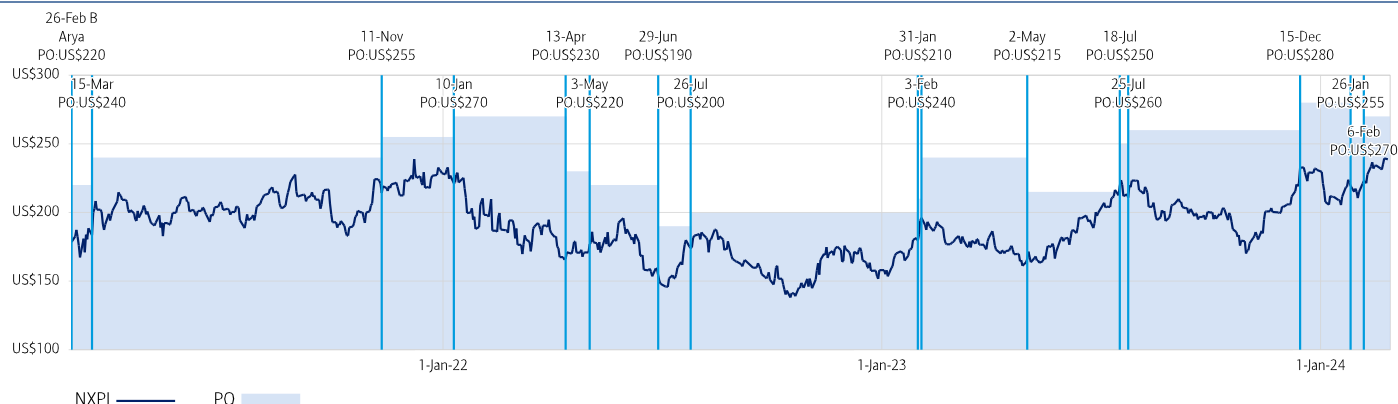
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NXP Semiconductors (NXPI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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%

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

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