

## Broadcom Inc

## Q1 Preview: raise PO to \$1500 on resilient FY24, AI upside

Reiterate Rating: BUY | PO: 1,500.00 USD | Price: 1,298.71 USD

## Reiterate Buy, raise PO to \$1500 on AI, analyst day

AVGO reports FQ1'24 (JanQ) post-close on Thursday, 7-March. Expectations are modestly elevated with stock now up 17% YTD (vs. SOX up 12%) following many of its AI peers. Management shifted to annual rather than quarterly outlook from the past eps call, so there is an unusually wide variance among consensus Q1 expectations (consensus sales at \$11.8bn, ranging from \$11bn-\$12.6bn). While AI datapoints have been strong, they only account for ~25% of semi and 15% of total sales, with remainder exposed to muted enterprise/telco capex and to risk of some customer inventory adjustments. So, it's possible we see stock volatility if FY24 estimates are broadly unchanged. However, we expect any stock pullback to be likely short lived as investors look forward to AVGO's Mar-20 AI Investor Day, and as investors continue to appreciate AVGO's unique combination of capital appreciation, dividend yield/growth and its position as a "low beta" AI beneficiary. Overall, we leave our estimates unchanged, but raise PO to \$1500 from \$1250 on higher 24x CY25 PE (vs. 22x prior), still within 7x-26x historical range and lower-end of growthier AI peers trading 26x-40x.

## Potential upside drivers to FY24 sales outlook

AVGO previously guided to FY24 total sales of \$50bn, inc. \$30bn semis, \$20bn infra software, along with ~60% EBITDA margin. The \$30bn in semi sales (+6% YoY) includes \$22-\$23bn in legacy, non AI chips (-6% YoY), and remaining \$7-\$8bn in AI semis (up 80% YoY, and includes ~\$2bn in high-end Ethernet switch, rest \$5-\$6bn in custom ASIC for AI computing). Conceptually we see upside in both metrics: 1) AI chips could track higher towards \$8-\$9bn if Google decides to accelerate capex on TPU chips, and if AVGO starts to ramp on its second hyperscaler (likely Meta) AI ASIC program (more material in FY25E), while 2) Next-gen 51T Ethernet switches could also fetch higher prices. We note Google capex trends remains strong (Q4 spend +\$3bn QoQ, expectations for ~20% spending uplift in CY24). Second, AVGO has maintained it can hold \$5.5-\$6bn quarterly level on non-AI semis, annualizing to \$21-\$24bn, suggesting a scenario above implied \$22-\$23bn range from current FY24 outlook. Last, the \$20bn in infra software includes \$8bn in legacy software and \$12bn in (11 months of) VMWare contribution.

## But cyclical headwinds could keep FY24E unchanged

While we are optimistic about upside drivers discussed before, we also flag headwinds in weak enterprise (esp. server storage) and telco spending. We highlight Cisco's guidance miss (Q3/Q4 roughly 16%/19% below), and muted expectations around smartphone growth (QRVO/QCOM expecting flat to slightly up growth YoY in CY24). Telecom digestion also continues to have a notable impact on semis, with some AVGO peers seeing CQ1 comms sales down upwards of 50% YoY. AVGO has simply not had the kind of 25%-35% peak-trough sales reset in (non-AI) sales that many of its peers have suffered from. Separately, in infra software AVGO has promised to grow VMWare by double digit annually which also seems quite optimistic and quite unlike AVGO to promise double digit growth with any acquisition especially in software. All-in we expect AVGO to largely maintain FY24 to give it enough cyclical and VMWare integration cushion

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12658664

Timestamp: 29 February 2024 04:13PM EST

29 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	1,250.00	1,500.00

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## Stock Data

Price	1,298.71 USD
Price Objective	1,500.00 USD
Date Established	28-Feb-2024
Investment Opinion	B-1-7
52-Week Range	582.18 USD - 1,319.62 USD
Mrkt Val (mn) / Shares Out (mn)	641,563 USD / 494.0
Free Float	98.0%
Average Daily Value (mn)	3336.30 USD
BofA Ticker / Exchange	AVGO / NAS
Bloomberg / Reuters	AVGO US / AVGO.OQ
ROE (2024E)	77.7%
Net Dbt to Eqty (Oct-2023A)	104.4%
ESGMeter™	Medium

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AI: Artificial Intelligence  
ASIC: Application Specific Integrated Circuit  
AVGO: Broadcom  
GPU: Graphics Processor  
NVIDIA: Nvidia  
TPU: Tensor processing unit

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## Price objective basis & risk

### Broadcom Inc (AVGO)

Our \$1500 price objective for Broadcom is based on 24x CY25E P/E, the upper end of its 7x-26x historical range, though justified given double-digit EPS growth and best-in-semis profitability, FCF generation, and returns.

Downside risks to our price objective are 1) semiconductor cycle risks, including sensitivity to US/China trade relations, 2) high exposure to Apple and Google with potential design out risks, 3) competitive risks in networking, smartphone, storage, enterprise software markets, 4) frequent acquirer of assets, which increases financial and integration risks, and 5) recent strategy towards moving into non-core software businesses creates execution risks.

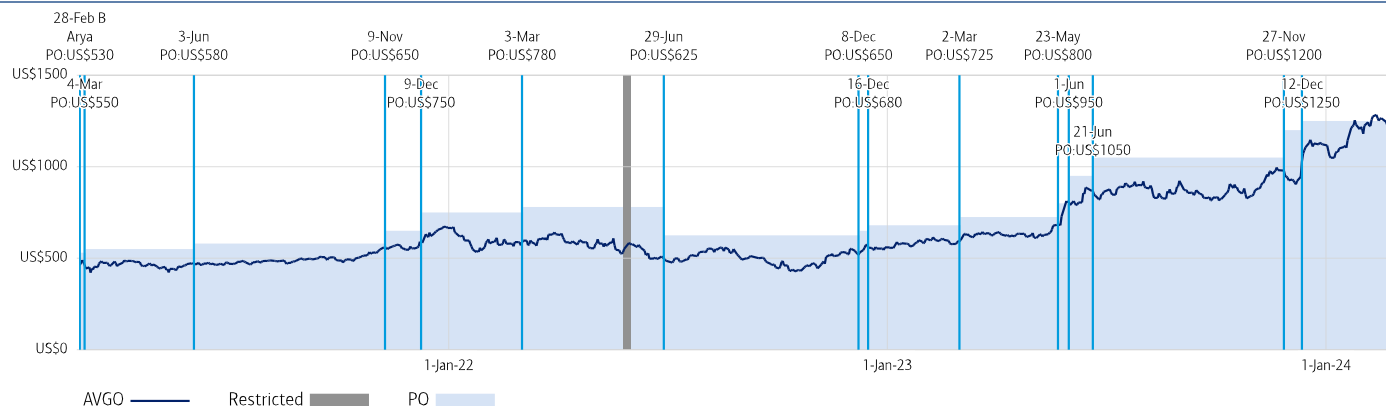
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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

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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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