

Qualcomm

Key takeaways from CES; robust growth opportunities outside of mobile

Reiterate Rating: BUY | PO: 220.00 USD | Price: 183.90 USD

Highlights from CES; focused on diversifying revenues

We virtually attended the Consumer Electronics Show (CES), where we heard from Qualcomm CEO Cristiano Amon at the company's press conference. Key themes of Cristiano's discussion included the migration to cloud, work from anywhere (WFA), 5G technologies, and digital transformation. The company announced new technologies and partnerships, and we came away positive on the growing traction of the Snapdragon portfolio across business segments. As the connected intelligent edge gains scale, Qualcomm expects to grow its TAM by 7x within the next 10 years to ~\$700bn, driven by cloud growth of 35% YoY and 64% of data being created outside of traditional data centers by 2025. We reiterate our Buy and \$220 PO based on the company's strength within handsets and continued focus on diversifying revenues outside of mobile.

New technologies tackle the metaverse opportunity

Qualcomm continues to discuss the metaverse opportunity as a key driver within the company's rapidly growing IoT business, up 67% YoY in 2021. Management announced a custom, augmented reality Snapdragon chip for next-generation AR glasses, which will function within the Microsoft ecosystem by combining Microsoft's Mesh platform and the Snapdragon Spaces XR development platform. Qualcomm highlighted the migration to cloud through the company's shift to PC on Arm architecture with Snapdragon, which is gaining momentum and is supported by 200 enterprise partners such as Cisco, Lenovo, and Verizon. On 5G, Cristiano reiterated the company's focus on mmWave for Wi-Fi connectivity, and Qualcomm is partnering with AT&T to improve broadband access across homes and enterprises through its 5G RAN technology.

Automotive offerings expand within the digital chassis

Within Automotive, Management highlighted potential growth opportunities for connected cars and the Snapdragon Ride platform. Qualcomm estimates the design win pipeline across global automakers at \$13bn and continues to build its multi-tier digital chassis platform with new wins across Tier 1s and OEMs like Volvo, Honda, Renault, and Alps Alpine. Cristiano highlighted the importance of C-V2X (cellular vehicle to everything) technology, which runs on 5.9GHz spectrum, and is critical to the company's immersive automotive portfolio for telematics, in-car connectivity, infotainment, and ADAS. Lastly, as part of Qualcomm's Snapdragon ride platform, the Arriver acquisition has contributed to new ADAS technology, dubbed Ride Vision System, which is a scalable platform for the next wave of automated driving and is expected to be in vehicles by 2024.

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Equity

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Stock Data

Price	183.90 USD
Price Objective	220.00 USD
Date Established	18-Nov-2021
Investment Opinion	B-1-7
52-Week Range	122.17 USD - 193.58 USD
Mkt Val (mn) / Shares Out (mn)	271,298 USD / 1,475.3
Average Daily Value (mn)	1706.58 USD
BofA Ticker / Exchange	QCOM / NAS
Bloomberg / Reuters	QCOM US / QCOM.OQ
ROE (2022E)	88.5%
Net Dbt to Eqty (Sep-2021A)	12.9%
ESGMeter™	High

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Timestamp: 06 January 2022 10:12AM EST

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Price objective basis & risk

Qualcomm (QCOM)

Our \$220 PO is based on roughly 21.5x our FY22E P/E, with FY22 reflecting the first full year of Apple contributions to QCT and QTL back in the model. Our multiple is a premium to mobile/large cap semiconductor peers (14x), which we believe is warranted given the stability of Qualcomm's high-margin royalty business now that Apple legal disputes have been resolved, as well as its high 5G baseband market share, and 5G RF front-end content market share.

Downside risks to our price objective are: 1) Worse than expected resolution terms with Huawei, 2) low adoption rate of smartphones worldwide due to global economic pressure, 3) pressure on semiconductor pricing or market share as the company grows presence in emerging markets, 4) increased semiconductor competition, 5) ability to maintain the royalty rate when the market expands to different types of devices, such as tablets and other mobile wireless devices, or different technology generations, 6) any future negative trade policies related to China

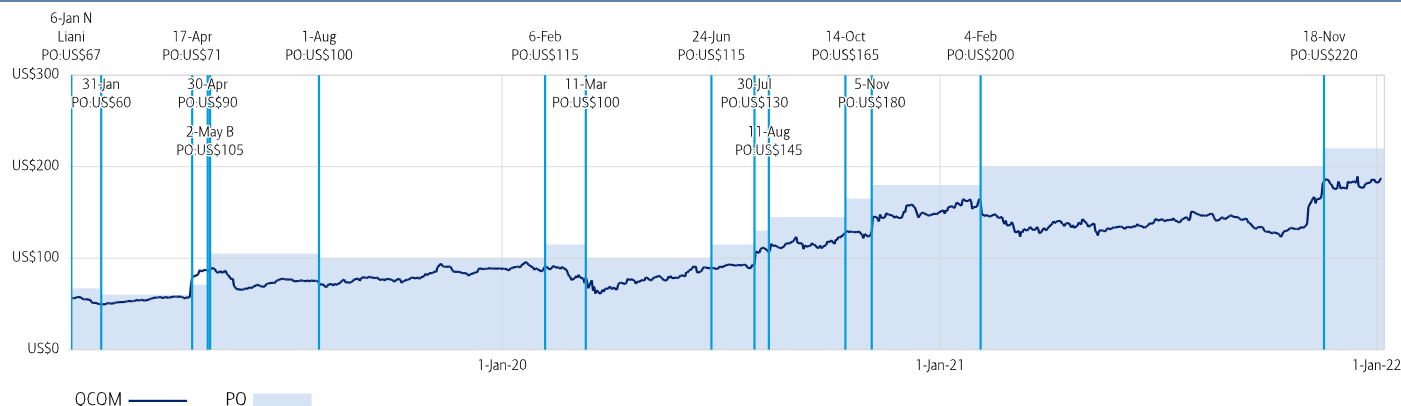
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Qualcomm (QCOM) Price Chart



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

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	79	65.83%	Buy	57	72.15%
Hold	18	15.00%	Hold	11	61.11%
Sell	23	19.17%	Sell	10	43.48%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1982	58.85%	Buy	1249	63.02%
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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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