Deutsche Bank
Markets Research

Rating
Buy

North America
United States

TMT
Wireless Equipment

Company
Qualcomm Alert

Reuters	Bloomberg	Exchange	Ticker
QCOM.OQ	QCOM US	NSM	QCOM

Date
18 March 2013

Company Update

Price at 19 Mar 2013 (USD)	64.75
Price target	78.00
52-week range	68.59 - 53.55

Brian Modoff
Research Analyst
(+1) 415 617-4237
brian.modoff@db.com

Kip Clifton
Research Associate
(+1) 415 617-4247
kip.clifton@db.com

A day with management

We met with Qualcomm's CEO, CFO and COO in San Diego today.

Confident tone struck around execution and roadmap

When discussing LTE and the roadmap thereafter, management sounded optimistic. Specifically, they expect to continue to build on the technology lead they have with LTE and made a point to note the challenges others could face with LTE-A and carrier aggregation. While they do not expect to hold their current market share position in LTE forever, they do expect to be on their third generation LTE baseband before competitors are able to gain a meaningful foothold with their first. Additionally, they think their RF360 front end - a complete front end solution that furthers their aim of continued integration - will be difficult for other merchant vendors to match and could be a requirement to stay competitive. We argued this point in our MWC note and management agreed with our contention that directing an early focus towards the Chinese market would pressure Mediatek given the lower BOM cost offered to the OEMs. Overall, we think the company remains well-positioned to leverage gains made in LTE, both in terms of technology and execution. We reiterate our Buy rating and $78 price target.

QRD doing well; TD-LTE could be easier to collect royalties than TDS-CDMA

Management was constructive about their ability to compete in the Chinese chipset market against Mediatek. Specifically, they feel they are converting more 2G Mediatek customers to 3G than Mediatek. Additionally, they are leveraging the important channels, like distributors, more effectively than they have in the past. In terms of licensing, the company feels that TD-LTE will prove easier in terms of royalty collections than TDS-CDMA and believe that some operators in China could light up LTE within the year.

Management sees smartphone unit volumes continuing to grow

While some bears forecast a near-term deceleration in smartphone volumes and an overall decline in ASPs, management disputed this view, saying that they are seeing no slowdown smartphone sales, especially given the 2G to 3G upgrade cycle and that ASPs could be helped by the continued introduction of new features at the high-end. In terms of QCT operating margins, management noted that they remain comfortable with their guidance of at least 17% for the current quarter, versus our forecast of 16.3%, and are confident in their ability to push margins above 20% over the long term.

Maintain our Buy rating and $78 price target

Our $78 PT is derived from DCF with a discount rate of 11%. Our 11% discount rate is based on a risk-free rate of 5%, beta of 2.0, growth rate of 5%, and equity risk premium of 3%. Downside risks to our PT include macro conditions, consumer spending and wireless capex trends, and 3G/4G adoption trends.

Stock & option liquidity data	
Market Cap (USDm)	80,863.7
Shares outstanding (m)	1,248.9
Free float (%)	100
Volume (19 Mar 2013)	2,453,961
Option volume (und. shrs., 1M avg.)	3,676,995

Key data			
FYE 9/30	2011A	2012E	2013E
1Q EPS	–	–	–
2Q EPS	–	–	–
3Q EPS	–	–	–
4Q EPS	–	–	–
FY EPS (USD)	2.52	3.51	3.90
P/E (x)	20.8	18.5	16.6

* Includes the impact of FAS123R requiring the expensing of stock options.