Is NXP Semiconductors a Buy?

Description

Dutch microchip maker **NXP Semiconductors** (NASDAQ: NXPI) had a rough time in 2018, but the company is roaring back to life this year. The stock has gained a market-crushing 47% year-to-date. Investors are faced with a difficult question at this juncture: is NXP a good investment after these massive gains, or is it better to take a step back until the red-hot stock cools down a bit?

Let's talk about that.

default watermark

What's the big idea behind this company?

The proposed blockbuster merger with **Qualcomm** (NASDAQ: QCOM) was called off at the last minute, hamstrung by simmering trade tensions of the highest order. The reason Qualcomm wanted to invest $44 billion in this company remains unchanged.

NXP is the gold standard for automotive computing, leading that high-growth sector in several sub-categories. From traffic sensors and radar systems to self-driving controller packages and infotainment systems, NXP is the player to beat. Autonomous driving keeps moving deeper into the mainstream and even perfectly normal cars are growing their computer-controlled systems. This was the standards-setting position that Qualcomm wanted to acquire above all else.

Furthermore, NXP is firing on all cylinders at the moment. Operating margins are running at a multi-year high of 28%, carrying over to a 23% bottom-line profit margin. Inventories sit at a lean 5.4% of NXP's total assets, the company is paying down its debt balances, and there's even room for a modest dividend with a 1% yield in the current financial plan.

What's not to love?

What about the valuation?

This stock might have been expensive after this year's huge gains, but that's not how things worked out at all.

NXP shares are currently trading at 16 times trailing earnings, 12 times forward estimates, and 10 times its free cash flows. Those valuation ratios range from bargain-bin discounts to modest middle-of-the-road readings. I can't find a single metric that would indicate and overbought, overvalued market darling. This is actually one of the best bargains to be found among large semiconductor stocks today. For example, NXP is far more affordable than erstwhile suitor Qualcomm, which trades at 28 times trailing earnings and 19 times forward estimates.

NXP trades nearly 20% below Qualcomm's proposed buyout price, and for no good reason.

Yep, that's a buy

NXP gives you a vibrant company at the very heart of one of the most explosive growth industries on the market today, married to deeply discounted share prices. It's a no-brainer buy today because this exciting market leader clearly deserves a richer valuation.

CATEGORY

1. Investing
2. Tech Stocks

default watermark

POST TAG

1. Syndicated

TICKERS GLOBAL

1. NASDAQ:QCOM (QUALCOMM Incorporated)

Category

1. Investing
2. Tech Stocks

Tags

1. Syndicated

Date
2025/08/15
Date Created
2019/09/20
Author
anders-bylund

default watermark