



Cirrus Logic Stock Seems Risky, but Rewarding

Description

Cirrus Logic ([NASDAQ: CRUS](#)) is enjoying a revival this year. Investors have been bidding the stock up since the beginning of 2019, which seemed a tad surprising earlier on, given that there wasn't [much of a turnaround](#) in its prospects and key customer **Apple** ([NASDAQ: AAPL](#)) [had given it the cold shoulder](#).

But investors have kept their faith in the audio-chip specialist as it managed to [show some improvements](#) last quarter. Cirrus' revenue erosion has been slowing, and now, the company seems to have stumbled upon one more catalyst that could ensure its [high-flying](#) market run continues.

The iPhone 11 could give Cirrus a boost

A year ago, Apple's decision to not include a headphone dongle with its iPhones sent Cirrus [into a tailspin](#), as the chipmaker was reportedly making \$1 from each dongle. That decision took a big toll on Cirrus' top line: Revenue for fiscal 2019 (which ended in March) fell more than 22% year over year.

But the iPhone 11 could be a tailwind for Cirrus for two reasons: more content and potentially stronger sales.

A teardown of the iPhone 11 shows that Cirrus continues to supply the audio codecs to Cupertino. A Stifel research report says the phone uses three Cirrus chips. What's more, KeyBanc Capital Markets estimates that the addition of the new audio playback feature is expected to bring more business for the chipmaker in the iPhone 11.

If Cirrus is indeed supplying additional content to Apple compared with last year, it should witness stronger sales in the second half of 2019 as the new devices seem to be in strong demand.

Wedbush Securities estimates that Apple could build between 75 million and 80 million iPhone 11 devices. That would be a slight improvement over last year's iPhone cycle. And don't be surprised to see Apple hit the higher end of that range as the iPhone 11 is now seeing longer delivery times, which could prompt the company to build more units.

Is the stock still a good bet?

A boost from Apple should be a big catalyst for Cirrus Logic's top and bottom lines since Apple is its largest customer, accounting for more than 60% of its revenue. It remains to be seen if the gains will be incremental or substantial, though Cirrus investors will probably be happy with any scenario since the iPhone 11 looks all set to accelerate the chipmaker's turnaround.

Moreover, Cirrus has been aggressively diversifying its customer base. CEO Jason Rhode pointed this out on the latest [earnings conference call](#), saying, "We are delighted to be shipping with seven out of the top 10 smartphone OEMs and expect more devices incorporating our solutions to be incorporated over the next 12 months."

More business from Apple and expansion of Cirrus' customer base could help the chipmaker deliver a better financial performance next fiscal year. Analyst estimates compiled by Yahoo! Finance indicate that revenue will increase 4.50% in fiscal 2021 after dropping 2.70% in the current one.

But the rally for Cirrus stock has made it expensive. Its trailing price-to-earnings ratio of 33 is substantially higher than the five-year average multiple of almost 23. A forward P/E of 22 indicates that the company's earnings are expected to increase. But if its recovery isn't as strong as Wall Street anticipates, then its stock could tank as investors will scramble to book profits.

So betting on Cirrus Logic stock based on strong sales of the iPhone seems risky, though it could be a rewarding one for those looking to take that risk given the new catalyst.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Syndicated

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1. NASDAQ:AAPL (Apple Inc.)
2. NASDAQ:CRUS (Cirrus Logic, Inc.)

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