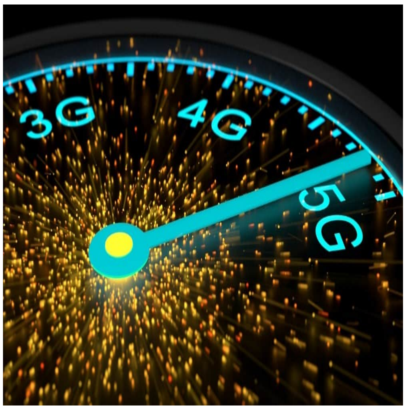

Qorvo and Skyworks Stocks Upgraded: 2 Great Ways to Play 5G

Description

Every day, Wall Street analysts upgrade some stocks, downgrade others, and "initiate coverage" on a few more. But do these analysts even know what they're talking about? Today, we're taking one high-profile Wall Street pick and putting it under the microscope….

iPhones are selling like hotcakes — well, lukewarm cakes — and **Apple** (NASDAQ: AAPL) stock is on a tear, up 32% since its lows of early June.

But that's not what I'm here to talk about today.

Today, I'm talking about two of Apple's suppliers, the companies that make the innards of the iPhone: **Skyworks Solutions** (NASDAQ: SWKS) and **Qorvo** (NASDAQ: QRVO), both of which were upgraded by analysts this morning.

Citing a raft of factors, of which Apple's iPhone success is just one, this morning analysts at investment bank Cowen announced upgrades on both Skyworks stock and Qorvo stock.

Upgrading Skyworks

Skyworks' "content continues to ramp this iPhone cycle," wrote Cowen today in a note covered on StreetInsider.com. The analysts see a positive risk/reward scenario and earnings per share of $8 to $8.50 possible in 2021. When applied to Skyworks' current share price of $84 and change, that works out to a forward price-to-earnings ratio of about 10 — two years out.

Why focus on what Skyworks might earn in 2021? The answer comes in two parts.

First is 5G mobile internet, and its implications for tech stocks. Apple, you see, isn't expected to sell a whole lot of iPhone 11s this year or next, as consumers are expected to husband their cash in anticipation of the arrival of a 5G-capable iPhone in the next upgrade cycle. Once that happens, though (toward the end of 2020 and into 2021), Cowen says it sees upside for Skyworks.

But this isn't the only factor getting Cowen excited about this stock. Looking forward to the eventual end of President Trump's trade war with China, Cowen notes that with restrictions on sales of U.S. technology to Chinese tech companies now mostly priced into Skyworks stock, any early resolution to the trade spat will be a boon. Should Skyworks be allowed to sell its chips to Huawei sometime in 2020, for example, Cowen sees the potential for Skyworks' sales to surge as much as $350 million higher than most analysts are modeling right now — adding a potential "$0.60 EPS upside" to next year's earnings.

Upgrading Qorvo, too

The situation with Qorvo is similar.

Here again, Cowen argues that good news is more likely to drive Qorvo stock up, than bad news will drag it down. Focusing on the potential for 5G to drive sales of iPhones (and other phones), Cowen estimates that in 2021, Qorvo could earn as much as $7.50 to $8 per share.

If the final number turns out to be, say, $7.60, then, at a price of $76 and change, this means that Qorvo, too, is selling for a multiple of about 10 times 2021 earnings.

Admittedly, the risk is a little higher with Qorvo than with Skyworks. Cowen notes, for example, that Qorvo's "content is lower this iPhone cycle." Qorvo stock also hasn't been as badly hurt by the Huawei mess, with only 75% of the sales that Qorvo would otherwise have made to the Chinese tech company (absent the restrictions) "discounted into 2020."

On the other hand, Cowen says that "we see [iPhone] unit upside ahead of higher RF content in a 5G-enabled phone in [calendar year] 2020." And a 2020 resolution to the trade war could still give a sizable lift to Qorvo's prospects — as much as $500 million in extra revenue next year, and perhaps $1 per share more in earnings.

Additionally, Cowen notes the potential for the increasing acceptance of Wi-Fi 6 smart-home technology to boost Qorvo's business — and Skyworks', too, for that matter.

What it means for investors

According to data from S&P Global Market Intelligence, Wall Street analysts see 15% earnings growth for both Skyworks and Qorvo over the next five years. At 10 times earnings, that obviously makes both stocks look pretty attractive — although that earnings multiple is based on what Cowen thinks these stocks will earn *two years from now.*

So how do they look today, based on what they've already earned?

At $9 billion in market cap and with just $203 million in trailing earnings reported under generally accepted accounting principles (GAAP), Qorvo at first seems the less likely stock pick, costing more than 44 times trailing earnings. The good news is that Qorvo's robust free cash flow — $765 million over the last 12 months — gives the stock a price-to-free-cash-flow ratio of less than 12. With only moderate debt on its balance sheet to mess up the math, I have to say that, whether or not Cowen is right about 2021, Qorvo stock looks attractive right now.

Skyworks, too: Here we’ve got a bigger tech player, weighing in at $14.6 billion market cap — with *no* debt, and nearly $1 billion in cash on its balance sheet. Given the cash surplus, I think the stock looks at least fairly valued right now at 15.7 times trailing earnings.

Granted, I have some reservations about free cash flow at Skyworks, but the catalysts are enticing.

While I prefer Qorvo over Skyworks right now, I think Cowen is basically right: Both of these stocks are good candidates for investors focusing on “growth at a reasonable price.”

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2. NASDAQ:QRVO (Qorvo, Inc.)
3. NASDAQ:SWKS (Skyworks Solutions, Inc.)

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