

Investment ideas. Stocks.

Cirrus Logic Inc. (CRUS US) is a U.S. company operating in semiconductors sector. It is so called “fabless” business, i.e. a company without own production facilities. Cirrus develops audio and voice IC and software solutions for mobile communications, automotive entertainment, and consumer audio applications. It is the biggest chipmaker producing audio chips of all types.

Company	CIRRUS LOGIC
Ticker	CRUS US
Sector	Semiconductors
Capitalization, \$ million	4,398
EV, \$ million	3,845
Dividend yield	-
Entry level, \$	76.26
Current price, \$	75.77
Result	-0.6%

Source: Bloomberg

Key investment attractiveness factors.

- 1) **Excellent performance in the last reporting quarter.** According to FY 2021 Q3 (ended 26/12/2020) results, Cirrus increased its revenue by 29.7% year-on-year to \$485.8 million. Quarter’s EBITDA grew by 48.92% to \$141.3 million, with EBITDA margin growing by 4 percentage points to 29.1%, which is a quite good indicator. Quarter-end results show 64.4% increase in net profit to \$114.4 million. There is a minor growth in cash flow year-on-year. Free cash flow grew by 3.85% to \$129.4 million.
- 2) **Hand in hand with Apple.** Cirrus is in close cooperation with Apple. Apple accounts for around 80% of its total chip sales. Success of the latest iPhone and impending increase in number of produced models above plans may have positive effect in the shorter term. Furthermore, the rumor goes that presentation of the new iPhone may occur earlier than usually, which is in September, and this may cause sales to rise.
- 3) **Modern electronics can’t do without audio chips.** Growing demand for consumer electronics has favorable effect on Cirrus Logic’s performance. Based on FY 2021 results, revenue is expected to grow by 8%, and net profit by 73%. The company holds a number of key patents and offers a broad product range, while modern consumer electronics are generally equipped with top-level audio interfaces.
- 4) **There is a discount for all multipliers.** Benchmarking reveals that Cirrus stock is somewhat undervalued as compared to equivalents. Discounts are available for all multipliers, though not too high. So, there is some potential for growth in stock price.

Key risks. The key risk is significant reliance on Apple. Today, this has favorable effect on Cirrus as Apple is the biggest client with stable situation. However, recently Apple has increasingly sought to implement an independent business model whereby it is going to produce all components itself. This has already happened before, e.g. in the case of Intel. Further, possible failure of Apple's new product can considerably impact Cirrus performance. This has already happened in 2015 causing 15% drop in stock price.

Financial highlights, \$ million	2019	2020	2021P*	Change, %
Revenue	1,186	1,281	1,378	8%
Gross profit	597	674	714	6%
EBITDA	173	276	351	27%
Net profit	94	160	278	73%
EPS	1.57	2.75	4.63	68%
<i>Gross margin</i>	50%	53%	52%	-1%
<i>EBITDA margin</i>	15%	22%	25%	4%
<i>Net margin</i>	8%	13%	20%	8%
Debt burden, \$ million	2019	2020	2021P*	Change, %
Gross debt	0	143	144	-
Cash	445	598	697	-
Net debt	-445	-455	-553	22%
Net debt/EBITDA	-0.5	-2.6	-2.0	-24%
Benchmarking against similar companies, 2021P*	Country	P/S	EV/EBITDA	P/E
TEXAS INSTRUMENTS	USA	9.4	19.1	24.5
MICRON	USA	3.7	8.0	18.3
ANALOG DEVICES	USA	8.4	20.0	24.2
NXP	Netherlands	4.8	15.1	19.2
SKYWORKS	USA	5.6	12.2	16.3
ON SEMICONDUCTOR	USA	2.6	13.7	22.6
QORVO	USA	4.7	14.8	17.1
MICROCHIP	USA	7.0	20.6	21.8
Weighted average		5.8	15.4	20.5
CIRRUS LOGIC	USA	3.2	11.0	15.8
<i>Discount/(premium)</i>		<i>81%</i>	<i>41%</i>	<i>29%</i>

*P – Projection

Source: Bloomberg

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