

Semi

Broadcom: AI revenue to achieve 35% of semi revenue or US\$10bn+ run rate in FY24

Broadcom posted 1Q24 earnings. Revenue was US\$12.0bn, up 34% YoY and 29% sequentially, beating Bloomberg consensus (US\$11.8bn) slightly by 2%. GPM was 75.4%, up 110 bps QoQ, as a result of VMware consolidation. Mgmt. guided FY24 revenue to remain at around US\$50bn, implying 29% YoY growth. The guidance is in-line with Bloomberg consensus of US\$50.1bn.

Despite continuous weakness in traditional semiconductor business, Broadcom confirmed that the growth from AI business should remain solid. The revenue contribution from AI accelerators demand may remain the largest, while custom silicon will take longer to develop. The mix is 70/30.

We maintain BUY rating on Innolight (300308 CH) and maintain our positive view on the AI supply chain, such as TFC (300394 CH), Nvidia (NVDA US), AMD (AMD US), Broadcom (AVGO US), Marvell (MRVL US), Arista (ANET US), SMCI (SMCI US), SK Hynix (000660 KS) and TSMC (TSM US).

Key highlights from earnings call:

- **AI revenue increased significantly and mgmt. raised guidance.** As the market puts the major focus on AI development, Broadcom delivered strong results in AI growth. For FY1Q24, US\$2.3bn of total revenue was generated through AI demand, up 57% QoQ. The mgmt. guided the ARR of AI business to be US\$10bn this year, a meaningful upward revision from the prior US\$7.5bn figure.
- **The stellar AI revenue offset by continued weakness in traditional server storage and broadband business.** AI revenue accounted for 20% of semiconductor sales during last quarter and 31% this quarter. Mgmt. expects the contribution will be 35% for FY24, up from prior 25%. However, they guided down the growth of traditional server storage (from high-teens decline to mid-20s decline) and broadband segment (from mid-teens decline to down 30%), reflecting a prolonged weaker demand in 1H24. The inflection point may come in 2H, as the company is seeing bookings significantly up lately from a year ago.
- **Regarding potential competition in custom silicon market:** Mgmt. is confident in maintaining their leadership position in this market, with years of experience and technology moat. Custom silicon will take time to develop, an iterative process of creating software models and designing silicon, which is complex.
- **VMware business is the key revenue driver in software segment.** The traditional core software business grew 26% QoQ in FY1Q24. The mgmt. expects VMware to drive the growth at double-digit sequentially during the next three quarters, with accelerating bookings and accumulating backlog.

**OUTPERFORM
(Maintain)**

China Semi Sector

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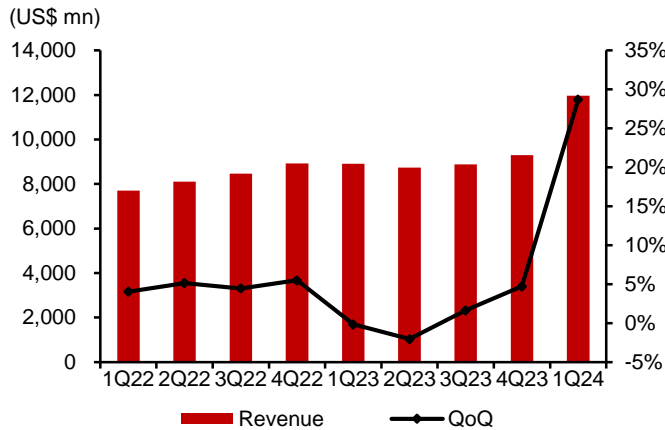
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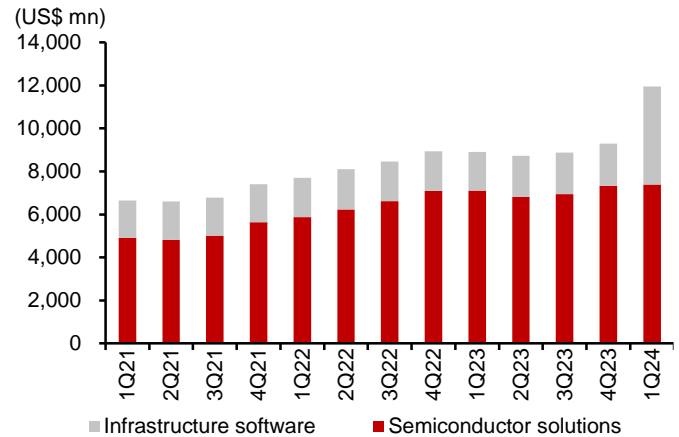
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Figure 1: Broadcom's quarterly revenue and QoQ growth

Source: Company data, Bloomberg, CMBIGM
 Note: 1Q24 ended on 02/04/2024

Figure 2: Broadcom's quarterly revenue breakdown by segment

Source: Company data, Bloomberg, CMBIGM

Figure 3: Broadcom's quarterly results

US\$mn	FY21	FY22	1Q23	2Q23	3Q23	4Q23	FY23	1Q24
Revenue	27,450	33,203	8,915	8,733	8,876	9,295	35,819	11,961
... YoY	15%	21%	16%	8%	5%	4%	8%	34%
... QoQ			0%	-2%	2%	5%		29%
Seasonality			26%	22%	23%	24%		
Cost of sales	(10,606)	(8,256)	(2,374)	(2,177)	(2,272)	(2,449)	(9,272)	(2,947)
Gross profit	16,844	24,947	6,541	6,556	6,604	6,846	26,547	9,014
... YoY	25%	48%	13%	7%	3%	3%	6%	38%
GPM (%)	61%	75%	73%	75%	74%	74%	74%	75%
SG&A	(1,347)	(1,382)	(348)	(438)	(388)	(418)	(1,592)	(1,572)
% of revenue	5%	4%	4%	5%	4%	4%	4%	13%
R&D	(4,854)	(4,919)	(1,195)	(1,312)	(1,358)	(1,388)	(5,253)	(2,308)
% of revenue	18%	15%	13%	15%	15%	15%	15%	19%
Other exp.	(2,124)	(4,421)	(895)	(798)	(1,002)	(800)	(3,495)	(3,051)
% of revenue	8%	13%	10%	9%	11%	9%	10%	26%
Operating profit	8,519	14,225	4,103	4,008	3,856	4,240	16,207	2,083
... YoY	12%	67%	32%	18%	3%	6%	14%	-49%
OPM (%)	31%	43%	46%	46%	43%	46%	45%	17%
Net profit	6,736	11,495	3,774	3,481	3,303	3,524	14,082	1,325
YoY	28%	71%	53%	34%	7%	5%	23%	-65%
QoQ			12%	-8%	-5%	7%		-62%
NPM(%)	25%	35%	42%	40%	37%	38%	39%	11%

Source: Company data, Bloomberg, CMBIGM

Figure 4: Broadcom's quarterly segment revenue

US\$mn	FY21	FY22	1Q23	2Q23	3Q23	4Q23	FY23	1Q24
Semiconductor solutions	20,383	25,818	7,107	6,808	6,941	7,326	28,182	7,390
...YoY%		27%	21%	9%	5%	3%	9%	4%
...%	74%	78%	80%	78%	78%	79%	79%	62%
Infrastructure software	7,067	7,385	1,808	1,925	1,935	1,969	7,637	4,571
...YoY%		4%	-1%	3%	5%	7%	3%	153%
...%	26%	22%	20%	22%	22%	21%	21%	38%
Total	27,450	33,203	8,915	8,733	8,876	9,295	35,819	11,961
...YoY		21%	16%	8%	5%	4%	8%	34%

Source: Company data, Bloomberg, CMBIGM

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