

China Technology

Implications of Texas Instruments 3Q23: weaker industrial, destocking and slower China recovery

Texas Instruments (TI) reported in-line 3Q23 results but weaker 4Q23 guidance. 3Q revenue declined 14% YoY to US\$4.5bn and EPS dropped 25% YoY, mainly due to weakness across segments except auto business. Looking into 4Q23E, mgmt. expects industrial segment weakness to broaden and post-pandemic recovery in China is weaker-than-expected, while automotive growth will continue. Overall, we expect inventory destocking and margin pressure for global analog semi will persist into 4Q23E, while automotive segment is the only bright spot driven by EV/ADAS demand. For stocks, we believe rising inventory and pricing pressure for non-auto analog will continue to weigh on domestic analog names in the near term, such as SG Micro (300661 CH) and 3Peak (688536 CH), while we expect resilient auto demand in 2H23E will benefit component names with rising auto exposure, such as BYDE (285 HK), FIT Hon Teng (6088 HK), and BOEVx (710 HK).

■ **3Q23 mostly in-line; broad weakness ex-auto.** By segment, industrial/comm. segments were down MSD/upper-teens QoQ, while PE/automotive/enterprise segments were up 20%/MSD/upper-SD QoQ. 3Q GPM came in at 62.1%, down 690bps YoY, below consensus, dragged by lower utilization, higher costs from fab expansion and reduced factory loadings. Inventory value was up US\$ 179mn QoQ to US\$ 3.9bn with inventory days down 2 days QoQ to 205 days, given better production control and inventory destocking.

■ **4Q23E guidance miss; industrial weakness broadening and weaker China recovery.** Mgmt. guided 4Q23E revenue range of US\$ 3.93-4.27bn and EPS range of US\$ 1.35-1.57, both of which missed market consensus of US\$4.42bn/US\$1.79. Mgmt. expected lower utilization due to weaker demand (especially industrials) and elevated inventory levels into 4Q23E. We believe lower utilization and higher depreciation for new fabs will continue to put pressure on TI's revenue and margins. Mgmt. maintained US\$ 5bn annual CapEx guidance for FY23-26E despite industry headwinds.

■ **Weaker recovery and pricing pressure to weigh on domestic analog names; Resilient auto demand is positive to component players.** Walking into analog industry downturn for five consecutive quarters, we see little sign of sales recovery in the near term given inventory destocking and weakening demand. Yet, the pace of recovery for different downstream industries (industrial/PE/comm./auto) varied and led to a mixed sales outlook. We stay selective on stocks and we believe domestic analog names may remain under pressure in near term, while we prefer component names with share gain, auto exposure and domestic substitution trends, such as BYDE (285 HK), FIT Hon Teng (6088 HK), and BOEVx (710 HK).

Valuation Table

Name	Ticker	Rating	Mkt Cap (USD mn)	Price (LC)	TP (LC)	P/E (x) FY23E	P/E (x) FY24E	P/B (x) FY23E	P/B (x) FY24E
BYDE	285 HK	BUY	10,428	36.20	45.30	20.0	15.9	2.7	2.4
FIT Hon Teng	6088 HK	BUY	997	1.07	2.06	7.1	5.7	0.4	0.4
BOEVx	710 HK	BUY	633	6.26	21.53	7.2	5.8	0.5	0.4
Texas Instruments	TXN US	NR	128,484	141.47	NA	19.5	19.8	7.8	7.2
Analog Devices	ADI US	NR	80,199	160.94	NA	16.0	19.0	2.3	2.3
SG Micro	300661 CH	NR	5,263	82.40	NA	73.0	47.0	10.0	8.3
3Peak	688536 CH	NR	2,436	148.32	NA	61.2	35.8	4.4	3.9

Source: Company data, CMBIGM estimates

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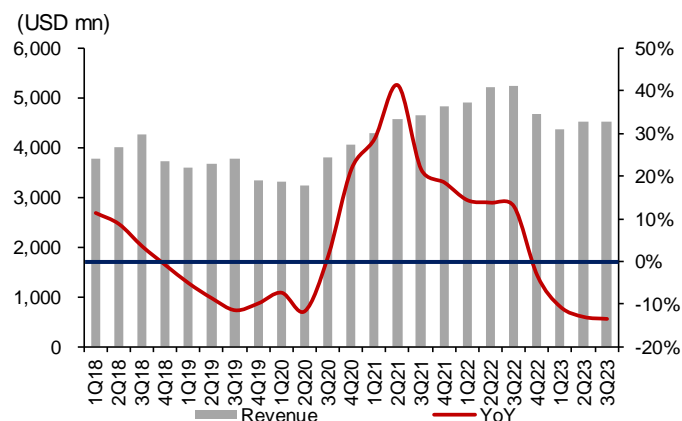
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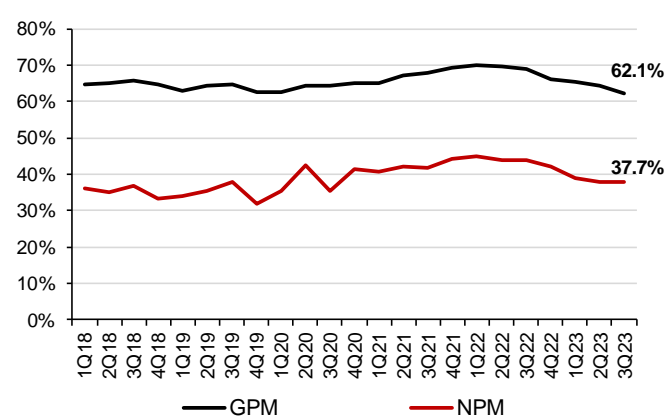
Figure 1: Texas Instruments' 3Q23 results review

TI (TXN US)	Actual			Consensus	
US\$ mn	FY3Q23	FY3Q22	YoY (%)	FY3Q23E	Diff (%)
Revenue	4,532	5,241	-14%	4,553	0%
Gross Profit	2,815	3,617	-22%	2,864	-2%
Operating Profit	1,892	2,678	-29%	1,923	-2%
Net Profit	1,709	2,295	-26%	1,687	1%
EPS (cent US\$)	1.85	2.47	-25%	1.84	1%
GPM	62.1%	69.0%	-6.9 ppt	62.9%	-0.8 ppt
OPM	41.7%	51.1%	-9.4 ppt	42.2%	-0.5 ppt
NPM	37.7%	43.8%	-6.1ppt	37.0%	0.7 ppt

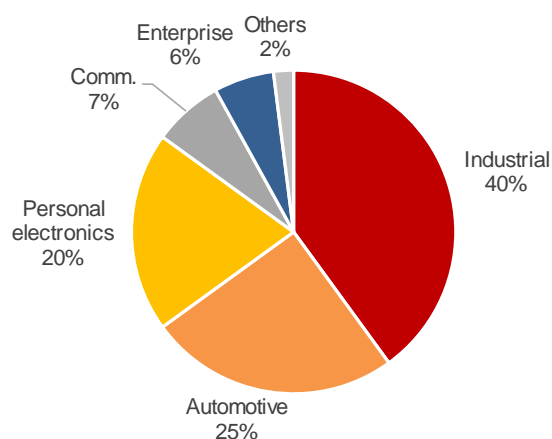
Source: Bloomberg, Company data, CMBIGM

Figure 2: TI's revenue trend and YoY growth

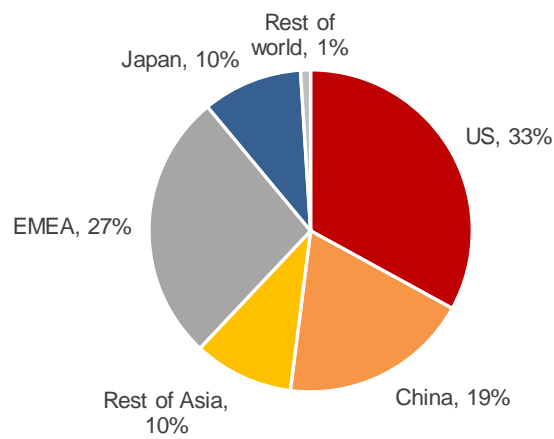
Source: Bloomberg, CMBIGM estimates

Figure 3: TI's GPM and NPM trends

Source: Bloomberg, CMBIGM estimates

Figure 4: TI revenue by segment (2022)

Source: Bloomberg, CMBIGM estimates

Figure 5: TI revenue by region (9M23)

Source: Bloomberg, CMBIGM estimates

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